

Company No. 918091 - T

BNP PARIBAS MALAYSIA BERHAD

(Company No. 918091 - T)

(Incorporated in Malaysia)

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(In Ringgit Malaysia)

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

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Company No. 918091 - T

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS

The Directors of **BNP PARIBAS MALAYSIA BERHAD** have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

There have been no significant changes in the nature of the principal activities of the Bank during the financial year.

RESULTS OF OPERATIONS

The results of operations of the Bank for the financial year are as follows:

	RM'000
Profit before tax	18,301
Income tax expense	<u>(5,523)</u>
Profit for the year	<u><u>12,778</u></u>

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year. The Directors do not recommend any dividend payment in respect of the current financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

Pursuant to a Director's Circular Resolution dated 7 March 2016, the Bank increased its issued and paid-up share capital from RM601,920,000 to RM650,000,000 comprising 650,000,000 ordinary shares of RM1 each through the issuance of 48,080,000 new ordinary shares of RM1 each for total cash consideration of RM48,080,000 for working capital purposes.

The new ordinary shares issued rank pari passu with the then existing ordinary shares of the Bank.

The Bank has not issued any new debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As of the end of the financial year, there were no unissued shares of the Bank under options.

DIRECTORS' INTERESTS

None of the Directors at the end of the financial year held shares or had beneficial interest in the shares of the Bank. Under the Bank's Articles of Association the Directors are not required to hold any shares in the Bank.

The shareholdings in the ultimate holding company of those who were Directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Bank under Section 59 of the Companies Act, 2016 are as follows:

	No. of ordinary shares of EUR2 each			Balance as of 31.12.2016
	Balance as of 1.1.2016	Definitive allotment	Sold	
Shares in the ultimate holding company, BNP Paribas S.A.				
<u>Direct interest:</u>				
Jean-Pierre Roger Beno Bernard	12,196	-	-	12,196
Yves Maurice Guy Marie Drieux	325	1,100	-	1,425
Chia Seng Leng	3,450	-	-	3,450
Pierre Veyres	1,817	1,300	-	3,117

	No. of employee share options of EUR2 each			
	Balance			Balance
	as of	Granted	Lapsed	as of
	1.1.2016			31.12.2016
Share options in the ultimate holding company, BNP Paribas S.A.				
Jean-Pierre Roger Beno Bernard	8,674	-	(4,614)	4,060
Yves Maurice Guy Marie Drieux	4,429	-	(1,333)	3,096
Pierre Veyres	9,572	-	(821)	8,751
	Balance			Balance
	as of	Granted	Lapsed	as of
	1.1.2016			31.12.2016

Rights to shares in the ultimate holding company, BNP Paribas S.A.

Jean-Pierre Roger Beno Bernard	1,100	-	(1,100)	-
Yves Maurice Guy Marie Drieux	1,100	140	-	1,240
Pierre Veyres	1,300	-	(1,300)	-
	Balance			Balance
	as of	Granted	Lapsed	as of
	1.1.2016			31.12.2016

Units in Corporate Mutual Fund in the ultimate holding company, BNP Paribas S.A.

Chia Seng Leng	1,020	-	-	1,020
Pierre Veyres	275	13	-	288

By virtue of the above Directors' interest in the ultimate holding company as detailed in the table above, they are deemed to have an interest in the Bank and of its related companies to the extent the ultimate holding company has interest.

Other than as disclosed above, none of the other Directors have any interest in the shares of related companies during and as at the end of the financial year.

DIRECTORS' FEES AND BENEFITS

Since the end of the previous financial year, none of the Directors of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emolument received or due and receivable by the Director as disclosed in Note 24 to the financial statements or the fixed salary of a full time employee of the Bank) 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.

During and at the end of the financial year, no arrangement subsisted to which the Company is a party whereby Directors of the Bank might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than the options to purchase shares of the ultimate holding company as disclosed above.

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

The Bank maintains directors' liability insurance for purposes of Section 289 of the Companies Act, 2016 throughout the year, which provides appropriate insurance cover for the Directors of the Bank.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with including those as set out in policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts to be written off and that adequate allowance had been made for bad and doubtful debts.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

STATEMENT ON CORPORATE GOVERNANCE

The statement forms an Appendix in the Directors' Report and is in a separate document.

BUSINESS PLAN AND OUTLOOK FOR THE NEXT FINANCIAL YEAR

Business strategy for financial year ended 31 December 2016

With Malaysia's near-term economic outlook remaining overall favourable, even if the environment became more challenging given the continuous pressure on the Ringgit, the Bank remained focused on its customers. It continued providing suitable solutions through offering of its suite of products and expertise, combined with superior client service. Client portfolio continued to grow selectively on the back of the development of the local platform. The Bank supported by its strong risk and control culture, which are critical to set a strong foundation, pursued the roll-out of its growth plans. Apart from advisory, financing and capital market activities, the Bank continued to grow its market share in the flow business and transactional banking activities.

Against the backdrop of moderate expansion in the global and Malaysian economy, the Bank recorded a profit for the year of RM12.8 million supported by a strong growth of its top line and good control over costs. The evolution of the markets post US presidential elections has however put strong pressure on the performance of Global Markets and Assets Liabilities Management ("ALM") Treasury which until then, there were delivering above budget results. Nevertheless, revenue rose in all business lines barring ALM Treasury while expenses were contained. As a result, the Bank has posted a significantly higher profit in 2016 as compared to the previous year. The Bank's share capital has also increased by RM48 million from the previous financial year. Worth noting that, having finally obtained approvals in most of the Islamic finance products in 2015, Najmah brought a significant contribution having the Bank selected as joint lead arranger and joint lead manager for the Tenaga Nasional Berhad sukuk; the first Islamic financing was also disbursed in 2016.

The Bank's total assets position as at 31 December 2016 stood at RM4.2 billion, a growth of 14% as compared to the position as at 31 December 2015. Cash and short term funds, and loans and advances, have increased considerably, compensated with a decrease in financial assets available for sale and reverse repurchase agreements. The growth in balance sheet size is funded by an increase in deposits and placements of banks and other financial institutions, partially offset by a decrease in deposits from customers which however more than to cover total loans and advances.

Outlook for 2017

The year 2017 is expected to be another challenging year for the Malaysian economy, as downside risks on the external front continue to remain at elevated levels. This is driven by the uncertainty in the global economy following the outcome of the US Presidential elections, expectation of a start in Federal Reserve's tightening cycle and China's slowing down economy. Export-oriented economies, encompassing both developing as well as developed countries, will be adversely affected not just by the potential change in the US trade policy under the Trump administration, but also by rising borrowing costs and debt servicing charges. This may support a cycle of strong USD which would put pressure on all currencies including RM.

The Malaysian economy remains resilient and continues to diversify away from reliance on commodities. This was made possible by the Malaysian Government's continuous effort to broaden the revenue base, particularly with the introduction of Good and Services Tax in 2015. Whilst the oil price has stabilised since December 2016 post the Organisation of the Petroleum Exporting Countries ("OPEC") agreement, the risk of non-compliance by the OPEC members coupled with the increased oil output from the US shale producers could weigh on the oil price. Other risks are related to the volatility in capital flows from the evolution of the US monetary policy. The longer-term overall favourable prospects for Malaysia's well diversified and competitive economy hinges on structural reforms to strengthen medium-term fiscal planning, and to boost capabilities such as in terms of enhancing the quality of human capital in the country and to create more competition within the economy.

Attractiveness of the Malaysian economy would remain an asset for the Bank well positioned to support and accompany multinational corporations.

The Bank would not compromise on selectivity and risk profile, remaining focused on Malaysian champions both from Corporate and Financial Institutions spheres. Global Market will keep on servicing the customers with suitable products and services while flow banking would remain a strategic component to finance the real economy. Investment Banking will contribute to anchoring and developing the franchise of the Bank.

In an even more challenging environment, the Bank is aiming at delivering higher value addition to all stakeholders, contributing to the development of the Malaysian financial sector and economy through value propositions and is budgeting a significantly higher profit for the year for 2017.

Islamic Banking is gaining popularity in emerging markets with increasing interest in Islamic Banking beyond Islamic investors. Governments and regulators in various countries have started to recognise the importance of Islamic Banking as an attractive complement to conventional banking.

The Bank operates through its' Islamic Banking Window, as an Islamic Banking Hub for Asia Pacific with dedicated specialist team offering Islamic tailor-made products and solutions. Najmah is well positioned to tap into this increased interest in Islamic Banking and continues to expand on the backbone of key milestones achieved in 2016

RATINGS BY AN EXTERNAL RATING AGENCY

Details of the Bank's rating are as follows:

Name of rating agency	Date of the rating	Rating received
RAM Rating Services Berhad ("RAM Ratings")	November 2016	Long term - AA2 Short term - P1 Outlook - Stable

Rating classification description

RAM Ratings has reaffirmed BNP Paribas Malaysia Berhad's AA2/Stable/P1 financial institution ratings. The Bank's ratings reflects the ready support derived from its parent, BNP Paribas SA, in terms of financial flexibility, as well as its ability to leverage on the Group's global franchise, international network and technical knowledge. BNP Paribas is one of the world's largest global financial institutions with €2 trillion in assets.

HOLDING COMPANY

The Bank is a wholly-owned subsidiary of BNP Paribas S.A., a financial institution incorporated in France, which is also regarded by the Directors as the ultimate holding company of the Bank.

AUDITORS' REMUNERATION

The total amount paid to or receivable by the auditors as remuneration for their services as auditors, inclusive of all fees, percentages or other payments or consideration given by or from the Bank is as disclosed in Note 24 to the financial statements.

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AUDITORS

The auditors, Messrs. Deloitte PLT, have indicated their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution of the Directors,

PIERRE VEYRES

HALIM BIN HAJI DIN

Kuala Lumpur,
28 March 2017

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful

Shariah Committee's Responsibility

Our responsibility is to express an opinion on the state of Shariah compliance of BNP Paribas Malaysia Berhad ("the Bank") based on our deliberation of the evidences and information obtained from the Board and management during the reporting period. The Shariah Committee is an independent oversight function and performs an executive role as required by Bank Negara Malaysia and the Islamic Financial Services Act 2013. We are responsible to endorse such internal control necessary to ensure the operation of the Bank is free from Shariah non-compliance incidences, whether due to fraud or error.

We have conducted our deliberation in accordance with the regulations issued by Bank Negara Malaysia and Securities Commission of Malaysia. Those standards require that we comply with ethical requirements, plan and perform the deliberation to obtain reasonable assurance about the state of Shariah compliance of the Bank. We are responsible to review the components of the financial statements which require determination by Shariah such as zakat and disposal of prohibited income. For avoidance of doubt, we acknowledged that the Bank is not eligible to pay zakat since the establishment of its Islamic Banking Window.

Shariah Compliance

In compliance with the letter of appointment, we are required to submit the following report:

During the year ended 31 December 2016, we have:

1. reviewed the principles and contracts relating to the transactions and applications introduced by the Bank; and
2. reviewed the products, processes, activities, transactional documents and contracts entered into and/or offered by the Bank.

We have assessed the works carried out by the Shariah Compliance Review, Internal Audit and Operational Permanent Control, which were conducted by way of examining on test basis, each type of transactions, the relevant documentations and procedures adopted by the Bank. We note that the reviews and audit were planned and performed so as to obtain relevant information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariah principles.

(Forward)

In our opinion, for the year ended 31 December 2016,

1. the products and processes of the Bank that we have reviewed and endorsed during the year ended 31 December 2016 are in compliance with Shariah principles; and
2. the transactions and dealings entered into by the Bank are in compliance with Shariah principles.

We, the members of Shariah Committee of the Bank, to the best of our knowledge, have obtained sufficient and appropriate evidence to form Shariah compliant opinion that all Shariah advice issued by us and the ruling of the Shariah Advisory Council of Bank Negara Malaysia and Securities Commission of Malaysia have been complied with during the financial year. We also acknowledge that the Board and management have taken robust measures to strengthen the existing compliance environment to mitigate future non-compliances.

Dr Zaharuddin Bin Abdul Rahman
(Chairman)

Prof Dato' Dr Abdul Monir Bin Yaacob
(Deputy Chairman)

Datuk Fazlur Rahman Bin Ebrahim
(Member)

Muhammad Ali Jinnah Bin Ahmad
(Member)

Mazrul Shahir Bin Md Zuki
(Member)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
BNP PARIBAS MALAYSIA BERHAD**
(Incorporated in Malaysia)

Report on the Financial Statements

Opinion

We have audited the financial statements of **BNP PARIBAS MALAYSIA BERHAD**, which comprise the statement of financial position of the Bank as of 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 114.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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 Company 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.

(Forward)

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprise the information included in the Report of the Directors and the Shariah Committee's Report but do not include the financial statements of the Bank and our auditors' report thereon.

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

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Report of the Directors and the Shariah Committee's Report and, in doing so, consider whether the Report of the Directors and the Shariah Committee's Report are 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 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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements 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 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.

(Forward)

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, 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

(Forward)

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Other Matter

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 towards any other person for the contents of this report.

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF0080)

SITI HAJAR BINTI OSMAN
Partner - 3061/04/17 (J)
Chartered Accountant

28 March 2017

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000 (Restated)*
ASSETS			
Cash and short-term funds	5	2,077,547	1,283,074
Reverse repurchase agreements	6	-	203,907
Financial assets held-for-trading	7	118,413	45,182
Financial assets available-for-sale	8	81,608	479,672
Loans and advances	9	849,848	584,765
Derivative financial assets	10	799,074	948,973
Statutory deposits with Bank Negara Malaysia	11	-	-
Other assets	12	235,795	97,271
Property, plant and equipment	13	1,518	2,499
Intangible assets	14	2,735	2,600
Tax recoverable		1,484	3,940
Deferred tax assets	15	378	-
TOTAL ASSETS		<u>4,168,400</u>	<u>3,651,883</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	16&31*	1,008,106	1,052,755
Deposits and placements of banks and other financial institutions	17	1,488,959	1,022,385
Derivative financial liabilities	10	448,808	328,339
Other liabilities	18&31*	543,048	626,848
Deferred tax liabilities	15	-	527
Total liabilities		<u>3,488,921</u>	<u>3,030,854</u>
Share capital	19	650,000	601,920
Accumulated losses		(11,989)	(15,480)
Reserves	20	41,468	34,589
Shareholder's equity		<u>679,479</u>	<u>621,029</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>4,168,400</u>	<u>3,651,883</u>
COMMITMENTS AND CONTINGENCIES	30	<u>34,376,513</u>	<u>35,054,742</u>

The accompanying Notes form an integral part of the Financial Statements.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Operating revenue		<u>108,609</u>	<u>111,041</u>
Interest income	21	82,988	82,516
Interest expense	22	<u>(25,795)</u>	<u>(36,476)</u>
Net interest income		57,193	46,040
Net income from Islamic banking business	35	<u>1,329</u>	<u>731</u>
		58,522	46,771
Other operating income	23	25,621	28,525
Other operating expenses	24	(65,527)	(71,565)
(Allowance made)/Write back for impairment on loans and advances	25	(287)	16
(Allowance made)/Write back for doubtful debt on other receivables	12	<u>(28)</u>	<u>738</u>
Profit before tax		18,301	4,485
Income tax expense	26	<u>(5,523)</u>	<u>(1,685)</u>
Profit for the year		<u><u>12,778</u></u>	<u><u>2,800</u></u>
Other comprehensive (loss)/income, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Net fair value (loss)/gain on available-for-sale financial assets		(738)	1,953
Realised gain transferred to statement of profit and loss on disposal of available-for-sale		<u>(1,670)</u>	<u>(23)</u>
Other comprehensive (loss)/income, net of tax		<u>(2,408)</u>	<u>1,930</u>
Total comprehensive income for the year		<u><u>10,370</u></u>	<u><u>4,730</u></u>

The accompanying Notes form an integral part of the Financial Statements.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Issued capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Revaluation reserve- available- for- sale securities RM'000	Accumulated losses RM'000	Total RM'000
Balance as of 1 January 2015		601,920	24,366	6,597	155	(16,739)	616,299
Profit for the year		-	-	-	-	2,800	2,800
Transfer to statutory reserve		-	1,400	-	-	(1,400)	-
Transfer to regulatory reserve		-	-	141	-	(141)	-
Other comprehensive income		-	-	-	1,930	-	1,930
Balance as of 31 December 2015		<u>601,920</u>	<u>25,766</u>	<u>6,738</u>	<u>2,085</u>	<u>(15,480)</u>	<u>621,029</u>
Balance as of 1 January 2016		601,920	25,766	6,738	2,085	(15,480)	621,029
Issuance of shares	19	48,080	-	-	-	-	48,080
Profit for the year		-	-	-	-	12,778	12,778
Transfer to statutory reserve		-	6,389	-	-	(6,389)	-
Transfer to regulatory reserve		-	-	2,898	-	(2,898)	-
Other comprehensive loss		-	-	-	(2,408)	-	(2,408)
Balance as of 31 December 2016		<u>650,000</u>	<u>32,155</u>	<u>9,636</u>	<u>(323)</u>	<u>(11,989)</u>	<u>679,479</u>

The accompanying Notes form an integral part of the Financial Statements.

BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000 (Restated)
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Profit before tax	18,301	4,485
Adjustments for:		
Unrealised (gain)/loss on derivative financial instruments	(42,211)	7,529
Depreciation of property, plant and equipment	1,271	1,711
Amortisation of intangible assets	50	-
Property, plant and equipment written off	-	6
Loss/(Gain) arising from sales of securities:		
Financial assets available-for-sale	3,424	23
Financial assets held-for-trading	382	(8,820)
Unrealised (gain)/loss on foreign exchange	355,971	(267,722)
Unrealised gain on revaluation of:		
Financial assets held-for-trading	(151)	(1,094)
Allowance made/(Write back of allowance) for doubtful debt on other receivables	28	(738)
Allowance/(Write back) for impairment on loans and advances	287	(16)
	<hr/>	<hr/>
Operating Profit/(Loss) Before Working Capital Changes	337,352	(264,636)
(Increase)/Decrease in:		
Reverse repurchase agreements	203,907	(184,922)
Financial assets held-for-trading	(73,462)	834,200
Financial assets available-for-sale	391,472	174,715
Loans and advances	(265,370)	(10,358)
Other assets	(138,552)	61,914
Increase/(Decrease) in:		
Deposits from customers	(44,649)	(389,521)
Deposits and placements of banks and other financial institution	466,574	(263,906)
Derivative financial assets/liabilities	(43,392)	(195,309)
Other liabilities	(83,678)	604,408
	<hr/>	<hr/>
Cash Generated From Operations	750,202	366,585
Income tax paid	(3,212)	(8,908)
	<hr/>	<hr/>
Net Cash From Operating Activities	746,990	357,677

(Forward)

	Note	2016 RM'000	2015 RM'000 (Restated)
CASH FLOWS USED IN INVESTING ACTIVITY			
Purchase of property, plant and equipment		<u>(597)</u>	<u>(947)</u>
Net Cash Used In Investing Activity		<u>(597)</u>	<u>(947)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from issuance of shares		<u>48,080</u>	<u>-</u>
Net Cash From Financing Activity		<u>48,080</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		794,473	356,730
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>1,283,074</u>	<u>926,344</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,077,547</u>	<u>1,283,074</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and short-term funds	5	<u>2,077,547</u>	<u>1,283,074</u>

The accompanying Notes form an integral part of the Financial Statements.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. GENERAL INFORMATION

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

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

There have been no significant changes in the nature of the principal activities of the Bank during the financial year.

The registered office is located at Level 48A, Vista Tower, The Intermark, 348 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

The principal place of business of the Bank is located at Vista Tower, Level 48A, The Intermark, 348 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

The financial statements of the Bank have been authorised by the Board of Directors for issuance in accordance with a resolution of the Directors on 28 March 2017.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements also incorporate all activities relating to the Islamic banking business. Islamic banking business refers to banking business based on Shariah principles.

Adoption of New and Revised MFRSs and Amendments

In the current year, the Bank has applied a number of new and revised Standards and Amendments issued by the Malaysian Accounting Standards Board (MASB) that are relevant to its operations and effective for accounting period that begins on or after 1 January 2016.

Amendments to MFRS 101	Disclosure Initiative
MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRSs	Annual Improvements to MFRSs 2012-2014 Cycle

The application of the amendments has had no impact on the disclosures or amounts recognised in the Bank's financial statements.

New and Revised Standards, Amendments and Issues Committee Interpretations ("IC Interpretations") In Issue But Not Effective

At the date of authorisation for issue of these financial statements, the new and revised Standards, Amendments and IC Interpretations relevant to the operations of the Bank which were in issue but not yet effective and not early adopted by the Bank are as listed below:

MFRS 9	Financial Instruments ²
MFRS 15	Revenue from Contracts with Customers ²
MFRS 16	Leases ³
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to MFRS 107	Disclosures Initiative ¹
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Loss ¹
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration ²
Amendments to MFRSs	Annual Improvements to MFRSs 2014 - 2016 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

The Directors anticipate that the abovementioned Standards, Amendments and IC Interpretations will be adopted in the annual financial statements of the Bank when they become effective and that the adoption of these Standards, Amendments and IC Interpretations will have no material impact on the financial statements of the Bank in the period of initial application except as discussed below.

MFRS 9 Financial Instruments

In November 2015, Malaysian Accounting Standards Board (“MASB”) issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Key requirements of MFRS 9:

- All recognised financial assets that are within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of equity instrument (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced

The Directors anticipate that the application of MFRS 9 in the future may have significant impact on amounts reported in respect of the Bank’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until a detailed review has been completed.

MFRS 16 Leases

MFRS 16 specifies how an MFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with MFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, MFRS 117.

At lease commencement, a lessee will recognise a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessees shall use their incremental borrowing rate.

The Directors anticipate that the application of MFRS 16 in the future may have an impact on the amounts reported and disclosures made in the Bank’s financial statements. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 16 until the Bank performs a detailed review.

Amendments to MFRS 107 Disclosure Initiative

The amendments to MFRS 107 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from both cash flows and non-cash changes.

The amendments should be applied prospectively and comparative information is not required for earlier periods presented. Except for providing the requisite disclosures, the Directors do not anticipate that the application of the amendments will have a material impact on the Bank’s financial statements.

Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to MFRS 112 provide clarification on the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. In addition, the amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences.

The amendments should be applied retrospectively with specific transitional relief. The Directors do not anticipate that the application of the amendments will have a material impact on the Bank's financial statements.

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation addresses the diversity in practice as to the exchange rate used when reporting transactions that are denominated in a foreign currency in accordance with MFRS 121 The Effects of Changes in Foreign Exchange Rates in circumstances in which consideration is received or paid in advance of the recognition of the related asset, expense or income.

The clarification provided is that in such circumstances (i.e. when an entity pays or receives consideration in advance in a foreign currency), the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration (i.e. when the prepayment or income received in advance liability was recognised). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. A choice is available as to whether the amendments are to be applied either retrospectively or prospectively. The Directors do not anticipate that the application of these amendments will have a material impact on the Bank's financial statements.

Annual Improvements to MFRSs 2014 - 2016 Cycle

The Annual Improvements to MFRSs 2014 - 2016 Cycle include amendments to three MFRSs, as summarised below.

The amendments to MFRS 1 resulted in the deletion of short-term exemptions for first-time adopters that relate to Disclosures about financial instruments (MFRS 107), Employee Benefits (MFRS 119) and Investment Entities (MFRS 12 and MFRS 127) as these exemptions have served their intended purpose.

The amendments to MFRS 12 clarify that the only concession from the disclosure requirements of MFRS 12 is that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified, or included in a disposal group that is classified, as held for sale in accordance with MFRS 5.

The amendments to MFRS 128 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

These amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. However, the amendment to MFRS 12 is effective for annual periods beginning on or after 1 January 2017. The Directors do not anticipate that the application of these amendments will have a material impact on the Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Bank have been prepared on the historical cost basis, unless otherwise indicated in the significant accounting policies stated below.

Historical cost is generally based on the fair value of consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value in use in MFRS 136.

Loans and receivables

Loans and receivables include credits provided by the Bank and the Bank's share in syndicated loans, unless they are held for trading purposes.

Loans and receivables are initially measured at fair value or equivalent, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate on the loan.

Loans and receivables are subsequently measured at amortised cost. The income from the loan, representing interest plus transaction costs and fees/commission included in the initial value of the loan, is calculated using the effective interest method and taken to profit or loss over the life of the loan.

Commission earned on financing commitments prior to the inception of a loan is deferred and included in the value of the loan when the loan is made.

Commission earned on financing commitments when the probability of drawdown is low, or when there is uncertainty as to the timing and amount of drawdowns, is recognised on a straight-line basis over the life of the commitment.

Securities

Categories of securities

Securities held by the Bank are classified into one of four categories.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of:

- financial assets held for trading purposes;
- financial assets that the Bank has designated, on initial recognition, at fair value through profit or loss using the fair value option available under MFRS 139.

Securities in this category are measured at fair value at the end of the reporting period. Transaction costs are directly posted in profit or loss. Changes in fair value (excluding accrued interest on fixed-income securities) are included in other operating income under "Net gain/loss on financial instruments at fair value through profit or loss", along with dividends from variable-income securities and realised gains and losses on disposal.

Income earned on fixed-income securities classified into this category is shown under "Interest income" in profit or loss. Fair value incorporates an assessment of the counterparty risk on these securities.

(ii) Loans and receivables

Securities with fixed or determinable payments that are not traded on an active market, apart from securities for which the owner may not recover almost all of its initial investment due to reasons other than credit deterioration, are classified as “Loans and receivables” if they do not meet the criteria to be classified as “Financial assets at fair value through profit or loss.”

These securities are measured and recognised as described in the accounting policy for loan and receivable’s above.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are investments with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold until maturity. Hedges contracted to cover assets in this category against interest rate risk do not qualify for hedge accounting as defined in MFRS 139.

Assets in this category are accounted for at amortised cost using the effective interest method, which builds in amortisation of premium and discount (corresponding to the difference between the purchase price and redemption value of the asset) and acquisition costs (where material). Income earned from this category of assets is included in “Interest income” in profit or loss.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are fixed-income and variable-income securities other than those classified as “fair value through profit or loss” or “held-to-maturity” or “loans and receivables”.

Assets included in the available-for-sale category are initially recorded at fair value plus transaction costs where material. At the reporting date, they are remeasured at fair value, with changes in fair value (excluding accrued interest) shown on a separate line in shareholder’s equity, revaluation reserve - available for sale securities. Upon disposal, these unrealised gains and losses are transferred from shareholders’ equity to profit or loss, where they are included in other operating income under “Net gain/loss on available-for-sale financial assets”.

Income recognised using the effective interest method for fixed-income available-for-sale securities is recorded under “Interest income” in profit or loss. Dividend income from variable-income securities is recognised under “Net gain/loss on available-for-sale financial assets” when the Bank’s right to receive payment is established.

Date of recognition for securities transactions

Securities classified as at fair value through profit or loss, held-to-maturity or available-for-sale financial assets are recognised at the trade date.

Regardless of their classification (at fair value through profit or loss, loans and receivable or debt), temporary sales of securities as well as sales of borrowed securities are initially recognised at the settlement date. For reverse repurchase agreements and repurchase agreements, a financing commitment, respectively given and received, is recognised between the trade date and the settlement date when the transactions are recognised, respectively, as “Loans and receivables” and “Liabilities”.

Securities transactions are carried on the statement of financial position until the Bank’s rights to receive the related cash flows expire, or until the Bank has substantially transferred all the risks and rewards related to ownership of the securities.

Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Ringgit Malaysia (RM), which is also the Bank’s functional currency.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM’000) except where otherwise indicated.

Foreign currency transactions

The methods used to account for assets and liabilities relating to foreign currency transactions entered into by the Bank, and to measure the foreign exchange risk arising on such transactions, depend on whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities expressed in foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into the functional currency of the Bank at the closing rate. Translation differences are recognised in profit or loss, except for those arising from financial instruments designated as a cash flow hedge or a net foreign investment hedge, which are recognised in shareholder’s equity.

Non-monetary assets and liabilities expressed in foreign currencies

Non-monetary assets may be measured either at historical cost or at fair value. Non-monetary assets expressed in foreign currencies are translated using the exchange rate at the date of the transaction if they are measured at historical cost, and at the closing rate if they are measured at fair value.

Translation differences on non-monetary assets expressed in foreign currencies and measured at fair value (variable-income securities) are recognised in profit and loss if the asset is classified under “Financial assets at fair value through profit or loss”, and in shareholders’ equity if the asset is classified under “Available-for-sale financial assets”, unless the financial asset in question is designated as an item hedged against foreign exchange risk in a fair value hedging relationship, in which case the translation difference is recognised in profit or loss.

Impairment of financial assets

Impairment of loans and receivables and held-to-maturity financial assets, provisions for financing and guarantee commitments

An impairment loss is recognised against loans and held-to-maturity financial assets where (i) there is objective evidence of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset; (ii) the event affects the amount or timing of future cash flows; and (iii) the consequences of the event can be reliably measured. Loans are initially assessed for evidence of impairment on an individual basis, and subsequently on a portfolio basis. Similar principles are applied to financing and guarantee commitments given by the Bank, with the probability of drawdown taken into account in any assessment of financing commitments.

At an individual level, objective evidence that a financial asset is impaired includes observable data regarding the following events:

- the existence of accounts that are more than three months past due;
- knowledge or indications that the borrower meets significant financial difficulty, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments;
- concessions with respect to the credit terms granted to the borrower that the lender would not have considered had the borrower not been meeting financial difficulty.

The amount of the impairment is the difference between the carrying amount before impairment and the present value, discounted at the original effective interest rate of the asset, of those components (principal, interest, collateral, etc.) regarded as recoverable. Changes in the amount of impairment losses are recognised in profit or loss under “Allowance for impairment on loans, advances and financing”. Any subsequent decrease in an impairment loss that can be related objectively to an event occurring after the impairment loss was recognised is credited to profit or loss, also under “Allowance for impairment on loans, advances and financing”. Once an asset has been impaired, income earned on the carrying amount of the asset calculated at the original effective interest rate used to discount the estimated recoverable cash flows is recognised under “Interest income” in profit or loss.

Impairment losses on loans and receivables are usually recorded in a separate provision account which reduces the amount for which the loan or receivable was recorded in assets upon initial recognition. Provisions relating to off-balance sheet financial instruments, financing and guarantee commitments or disputes are recognised in liabilities. Impaired receivables are written off in whole or in part and the corresponding provision is reversed for the amount of the loss when all other means available to the Bank for recovering the receivables or guarantees have failed, or when all or part of the receivables have been waived.

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon an internal rating system mapped to the local rating categories by RAM as indicated in Bank Negara Malaysia's Capital Adequacy Framework. It enables the Bank to identify groups of counterparties which, as a result of events occurring since inception of the loans, have collectively acquired a probability of default at maturity that provides objective evidence of impairment of the entire portfolio, but without it being possible at that stage to allocate the impairment to individual counterparties. Changes in the amount of portfolio impairments are recognised in profit or loss.

Based on the experienced judgement of the Bank's divisions or Risk Management, the Bank may recognise additional collective impairment provisions with respect to a given economic sector or geographic area affected by exceptional economic events. This may be the case when the consequences of these events cannot be measured with sufficient accuracy to adjust the parameters used to determine the collective provision recognised against affected portfolios of loans with similar characteristics.

Impairment of available-for-sale financial assets

Impairment of available-for-sale financial assets (which mainly comprise securities) is recognised on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since acquisition.

In the case of variable-income securities quoted in an active market, the control system identifies securities that may be impaired on a long-term basis and is based on criteria such as a significant decline in quoted price below the acquisition cost or a prolonged decline, which prompts the Bank to carry out an additional individual qualitative analysis. This may lead to the recognition of an impairment loss calculated on the basis of the quoted price.

In the case of fixed-income securities, impairment is assessed based on the same criteria applied to individually impaired loans and receivables.

Impairment losses taken against variable-income securities are recognised on the line "Net gain/loss on available-for-sale financial assets", and may not be reversed through profit or loss until these securities are sold. Any subsequent decline in fair value constitutes an additional impairment loss, recognised in profit or loss.

Impairment losses taken against fixed-income securities are recognised under “Allowances for impairment on loans, advances and financing”, and may be reversed through profit or loss in the event of an increase in fair value that relates objectively to an event occurring after the last impairment was recognised.

Derivative instruments and hedge accounting

All derivative instruments are recognised in the statement of financial position on the trade date at the transaction price, and are remeasured to fair value at the end of the reporting period.

Derivatives held for trading purposes

Derivatives held for trading purposes are recognised in the statement of financial position in “Derivative financial asset” when their fair value is positive, and in “Derivative financial liability” when their fair value is negative. Realised and unrealised gains and losses are recognised in profit or loss.

Derivatives and hedge accounting

Derivatives contracted as part of a hedging relationship are designated according to the purpose of the hedge.

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (securities, debt issues, loans, borrowings) and for portfolios of financial instruments (in particular, demand deposits and fixed rate loans).

Cash flow hedges are particularly used to hedge interest rate risk on floating-rate assets and liabilities, including rollovers, and foreign exchange risks on highly probable forecast foreign currency revenues.

At the inception of the hedge, the Bank prepares formal documentation which details the hedging relationship, identifying the instrument, or portion of the instrument, or portion of risk that is being hedged, the hedging strategy and the type of risk hedged, the hedging instrument, and the methods used to assess the effectiveness of the hedging relationship. On inception and at least quarterly, the Bank assesses, in consistency with the original documentation, the actual (retrospective) and expected (prospective) effectiveness of the hedging relationship. Retrospective effectiveness tests are designed to assess whether actual changes in the fair value or cash flows of the hedging instrument and the hedged item are within a range of 80% to 125%. Prospective effectiveness tests are designed to ensure that expected changes in the fair value or cash flows of the derivative over the residual life of the hedge adequately offset those of the hedged item. For highly probable forecast transactions, effectiveness is assessed largely on the basis of historical data for similar transactions.

The accounting treatment of derivative and hedged items depends on the hedging strategy.

In a fair value hedging relationship, the derivative is remeasured at fair value in the statement of financial position, with changes in fair value recognised in profit or loss, symmetrically with the remeasurement of the hedged item to reflect the hedged risk. In the statement of financial position, the fair value remeasurement of the hedged component is recognised in accordance with the classification of the hedged item in the case of a hedge of identified assets and liabilities, or under “Remeasurement adjustment on interest rate risk hedged portfolios” in the case of a portfolio hedging relationship.

If a hedging relationship ceases or no longer fulfils the effectiveness criteria, the hedging instrument is transferred to the trading book and accounted for using the treatment applied to this category. In the case of identified fixed-income instruments, the remeasurement adjustment recognised in the statement of financial position is amortised at the effective interest rate over the remaining life of the instrument. In the case of interest rate risk hedged fixed-income portfolios, the adjustment is amortised on a straight-line basis over the remainder of the original term of the hedge. If the hedged item no longer appears in the statement of financial position, in particular due to prepayments, the adjustment is taken to profit or loss immediately.

In a cash flow hedging relationship, the derivative is measured at fair value in the statement of financial position, with changes in fair value taken to shareholders’ equity on a separate line, “Cash flow hedge reserve”. The amounts taken to shareholder’s equity over the life of the hedge are transferred to profit or loss as and when the cash flows from the hedged item impact profit or loss. The hedged items continue to be accounted for using the treatment specific to the category to which they belong.

If the hedging relationship ceases or no longer fulfils the effectiveness criteria, the cumulative amounts recognised in shareholder’s equity as a result of the remeasurement of the hedging instrument remain in equity until the hedged transaction itself impacts profit or loss, or until it becomes clear that the transaction will not occur, at which point they are transferred to profit or loss. If the hedged item ceases to exist, the cumulative amounts recognised in shareholder’s equity are immediately taken to profit or loss.

Whatever the hedging strategy used, any ineffective portion of the hedge is recognised in profit or loss under “other operating income”.

Hedges of net foreign currency investments in subsidiaries and branches are accounted for in the same way as cash flow hedges. Hedging instruments may be currency derivatives or any other non-derivative financial instrument.

Embedded derivatives

Derivatives embedded in hybrid financial instruments are separated from the value of the host contract and accounted for separately as a derivative if the hybrid instrument is not recorded as a financial asset or liability at fair value through profit or loss, and if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

Forward exchange contracts

Unmatured forward exchange contracts are valued at forward rates at the end of the reporting period, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in profit or loss.

Interest rates swap, futures, forward and option contracts

The Bank acts as an intermediary with counterparties who wish to swap its interest obligations. The Bank also uses interest rate swaps, futures, forward and option contracts in its trading account activities and in its overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges are recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rates futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in profit or loss.

Determination of fair value

Financial assets and liabilities classified as fair value through profit or loss, and financial assets classified as available-for-sale, are measured and accounted for at fair value upon initial recognition and at subsequent dates. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. On initial recognition, the value of a financial instrument is generally the transaction price (i.e. the value of the consideration paid or received).

Fair value is determined:

- based on quoted prices in an active market; or
- using valuation techniques involving:
- mathematical calculation methods based on accepted financial theories; and
- parameters derived in some cases from the prices of instruments traded in active markets, and in others from statistical estimates or other quantitative methods resulting from the absence of an active market.

Whether or not a market is active is determined on the basis of a variety of factors. Characteristics of an inactive market include a significant decline in the volume and level of trading activity in identical or similar instruments, the available prices vary significantly over time or among market participants or observed transaction prices are not current.

- Use of quoted prices in an active market

If quoted prices in an active market are available, they are used to determine fair value. These represent directly quoted prices for identical instruments.

- Use of models to value unquoted financial instruments

The majority of over-the-counter derivatives are traded in active markets. Valuations are determined using generally accepted models (discounted cash flows, Black & Scholes model, interpolation techniques) based on quoted market prices for similar instruments or underlying.

Some financial instruments, although not traded in an active market, are valued using methods based on observable market data.

These models use market parameters calibrated on the basis of observable data such as yield curves, implicit volatility layers of options, default rates, and loss assumptions.

The valuation derived from models is adjusted for liquidity and credit risk. Starting from valuations derived from median market prices, price adjustments are used to value the net position in each financial instrument at bid price in the case of short positions, or at asking price in the case of long positions. Bid price is the price at which a counterparty would buy the instrument, and asking price is the price at which a seller would sell the same instrument.

Similarly, a counterparty risk adjustment is included in the valuation derived from the model in order to reflect the credit quality of the derivative instrument.

The margin generated when these financial instruments are traded is taken to profit or loss immediately.

Other illiquid complex financial instruments are valued using internally-developed techniques that are entirely based on data or on partially non-observable active markets.

In the absence of observable inputs, these instruments are measured on initial recognition in a way that reflects the transaction price, regarded as the best indication of fair value. Valuations derived from these models are adjusted for liquidity risk and credit risk.

The margin generated when these complex financial instruments are traded (day one profit) is deferred and taken to profit or loss over the period during which the valuation parameters are expected to remain non-observable. When parameters that were originally non-observable become observable, or when the valuation can be substantiated in comparison with recent similar transactions in an active market, the unrecognised portion of the day one profit is released to profit or loss.

Lastly, the fair value of unlisted equity securities is measured in comparison with recent transactions in the equity of the company in question carried out with an independent third party on an arm's length basis. If no such points of reference are available, the valuation is determined either on the basis of generally accepted practices (EBIT or EBITDA multiples) or of the Bank's share of net assets calculated using the most recent information available.

Reclassification of financial assets

The Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short-term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold the financial asset for the foreseeable further or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in profit or loss is not reversed.

During the financial year, the Bank has not made any such reclassification of financial assets.

Income and expenses arising from financial assets and financial liabilities

Income and expenses arising from financial instruments measured at amortised cost and from fixed income securities classified in "Available-for-sale financial assets" and "Held-for-trading financial assets" are recognised in profit or loss using the effective interest method.

Net income from Islamic banking business are recognised using effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or liability in the statement of financial position. The effective interest rate calculation takes account of all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs, and premiums and discounts.

The method used by the Bank to recognise service-related commission income and expenses depends on the nature of the service. Commission treated as an additional component of interest is included in the effective interest rate, and is recognised in the profit or loss in “Net interest income”. Commission payable or receivable on execution of a significant transaction is recognised in profit or loss in full on execution of the transaction. Commission payable or receivable for recurring services is recognised over the term of the service.

Commission received in respect of financial guarantee commitments is regarded as representing the fair value of the commitment. The resulting liability is subsequently amortised over the term of the commitment, under commission income in “Other operating income”.

External costs that are directly attributable to an issue of new shares are deducted from equity net of all related taxes.

Allowance for losses on loans and advances

Allowance for losses on loans and advances includes movements in provisions for impairment of fixed-income securities and loans and receivables due from customers and credit institutions, movements in financing and guarantee commitments given, losses on irrecoverable loans and amounts recovered on loans written off. This caption also includes impairment losses recorded with respect to default risk incurred on counterparties for over-the-counter financial instruments, as well as expenses relating to fraud and to disputes inherent to the financing business.

Derecognition of financial assets and financial liabilities

The Bank derecognises all or part of a financial asset either when the contractual rights to the cash flows from the asset expire or when the Bank transfers the contractual rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset. Unless these conditions are fulfilled, the Bank retains the asset in the statement of financial position and recognises a liability for the obligation created as a result of the transfer of the asset.

The Bank derecognises all or part of a financial liability when the liability is extinguished in full or in part.

Offsetting financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position if, and only if, the Bank has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase agreements and derivatives traded with clearing houses that meet the two criteria set out in the accounting standard are offset in the statement of financial position.

Property, plant equipment and intangible assets

Property, plant and equipment and intangible assets shown on the statement of financial position comprise assets used in operations. Assets used in operations are those used in the provision of services or for administrative purposes, and include non-property assets leased by the Bank as lessor under operating leases.

Software developed internally by the Bank that fulfils the criteria for capitalisation is capitalised at direct development cost, which includes external costs and the labour costs of employees directly attributable to the project.

Subsequent to initial recognition, property, plant and equipment and intangible assets are measured at cost less accumulated depreciation or amortisation and any impairment losses.

The depreciable amount of property, plant and equipment and intangible assets is calculated after deducting the residual value of the asset. Only assets leased by the Bank as lessor under operating leases are presumed to have a residual value, as the useful life of property, plant and equipment and intangible assets used in operations is generally the same as their economic life.

Property, plant and equipment and intangible assets are depreciated or amortised using the straightline method over the useful life of the asset. Depreciation and amortisation expense is recognised in profit or loss. An intangible asset with an indefinite useful life shall not be amortised.

Renovation work-in-progress is not depreciated until they have been completed and ready for commercial operation.

Where an asset consists of a number of components that may require replacement at regular intervals, or that have different uses or different patterns of consumption of economic benefits, each component is recognised separately and depreciated using a method appropriate to that component.

The depreciation is made at the following rates:

Office equipment	20%
Renovation and installation	12.47%
Furniture, fixtures and fittings	20%
Computer equipment and hardware	20% - 33.33%

Software maintenance costs are expensed as incurred. However, expenditure that is regarded as upgrading the software or extending its useful life is included in the initial acquisition or production cost.

Depreciable property, plant and equipment and intangible assets are tested for impairment if there is an indication of potential impairment at the end of the reporting period. Non-depreciable assets are tested for impairment at least annually, using the same method as for goodwill allocated to cash-generating units.

If there is an indication of impairment, the new recoverable amount of the asset is compared with the carrying amount. If the asset is found to be impaired, an impairment loss is recognised in profit or loss. This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment. Impairment losses are taken to profit or loss.

Gains and losses on disposals of property, plant and equipment and intangible assets used in operations are recognised in profit or loss.

Lessee accounting

Leases contracted by the Bank as lessee are categorised as either finance leases or operating leases.

- **Finance leases**

A finance lease is treated as an acquisition of an asset by the lessee, financed by a loan. The leased asset is recognised in the statement of financial position of the lessee at the lower of its fair value or the present value of the minimum lease payments calculated at the interest rate implicit in the lease. A matching liability, equal to the fair value of the leased asset or the present value of the minimum lease payments, is also recognised in the statement of financial position of the lessee. The asset is depreciated using the same method as that applied to owned assets, after deducting the residual value from the amount initially recognised, over the useful life of the asset. The lease obligation is accounted for at amortised cost.

- **Operating leases**

The asset is not recognised in the statement of financial position of the lessee. Lease payments made under operating leases are taken to profit or loss of the lessee on a straight-line basis over the lease term.

Employee benefits

- **Short-term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

- Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Bank pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (“EPF”).

- Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

- Shared-based compensation

BNP Paribas has set out share-based payment compensation for certain employees, including stock option and share award plans implemented as part of loyalty schemes and a Global Share-based Incentive Plan. As part of the Group’s variable remuneration policy, certain high-performing and newly recruited employees are offered a loyalty bonus scheme, entitling them to specific share-based remuneration, payable over the several years, and subject to the condition that the employees remain within the Group.

Under MFRS 2: “Share-based payment”, the Company makes a charge to profit or loss in connection with expenses relating to share-based payments from grant date to vesting date.

Provisions recorded under liabilities

Provisions recorded under liabilities (other than those relating to financial instruments, employee benefits and insurance contracts) mainly relate to restructuring, claims and litigation, fines and penalties, and tax risks.

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation arising from a past event, and a reliable estimate can be made of the amount of the obligation. The amount of such obligations is discounted, where the impact of discounting is material, in order to determine the amount of the provision.

Current 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the asset is realised or the liabilities settled.

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 they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Statement of cash flows

The Bank adopts the indirect method in the preparation of the statement of cash flows.

The cash and cash equivalents balance is composed of the net balance of cash accounts and accounts with central banks, and the net balance of interbank demand loans and deposits.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Bank's operations, including cash flows related to investment property, held-to-maturity financial assets and negotiable certificates of deposit.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of property, plant and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders, cash flows related to bonds and debt securities (excluding negotiable certificates of deposit).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the financial statements involves making judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. There are no significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following:

(i) Fair value of financial instruments

The fair values of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the end of the reporting period, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(ii) Allowance for impairment on loans, advances and financing

The Bank makes allowance for impairment on loans, advances and financing based on assessment of recoverability. Management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other payable claims.

5. **CASH AND SHORT-TERM FUNDS**

	2016 RM'000	2015 RM'000
At Amortised Cost:		
Cash and balances with banks and other financial institutions	54,853	47,582
Money at call and deposit placements maturing within one month	<u>2,022,694</u>	<u>1,235,492</u>
	<u><u>2,077,547</u></u>	<u><u>1,283,074</u></u>

6. **REVERSE REPURCHASE AGREEMENTS**

	2016 RM'000	2015 RM'000
At Amortised Cost:		
Government securities:		
Malaysian Government Securities	<u>-</u>	<u>203,907</u>

7. **FINANCIAL ASSETS HELD-FOR-TRADING**

	2016 RM'000	2015 RM'000
At Fair Value:		
Government securities:		
Malaysian Government Securities	112,682	25,832
Government Investment Issues	<u>5,731</u>	<u>19,350</u>
	<u><u>118,413</u></u>	<u><u>45,182</u></u>

8. **FINANCIAL ASSETS AVAILABLE-FOR-SALE**

	2016 RM'000	2015 RM'000
At Fair Value:		
Government securities:		
Malaysian Government Investment Issues	30,262	253,807
Malaysian Government Securities	<u>51,346</u>	<u>225,865</u>
	<u><u>81,608</u></u>	<u><u>479,672</u></u>

9. **LOANS AND ADVANCES**

	2016 RM'000	2015 RM'000
At Amortised Cost:		
(i) By type		
Revolving credits	618,526	459,782
Term loans	130,984	46,011
Trust receipts	50,315	40,902
Bills discounting	19,316	21,616
Other trade bills discounted	22,848	12,298
Overdrafts	8,429	4,439
	<hr/>	<hr/>
Gross loans and advances	850,418	585,048
Less: Allowance for impaired loans and advances:		
Collective assessment allowance	(570)	(283)
	<hr/>	<hr/>
Net loans and advances	<u>849,848</u>	<u>584,765</u>
(ii) By type of customer		
Domestic business enterprises	822,102	570,970
Financial institutions	28,316	14,078
	<hr/>	<hr/>
	<u>850,418</u>	<u>585,048</u>
(iii) By interest rate sensitivity		
Variable rate:		
BLR-minus	1,491	-
BLR-plus	19	-
Cost plus	848,908	585,048
	<hr/>	<hr/>
	<u>850,418</u>	<u>585,048</u>
(iv) By residual contractual maturity		
Maturity within one year	719,434	539,037
More than one year to five years	117,828	32,325
More than five years	13,156	13,686
	<hr/>	<hr/>
	<u>850,418</u>	<u>585,048</u>

	2016 RM'000	2015 RM'000
(v) By geographical distribution		
In Malaysia	<u>850,418</u>	<u>585,048</u>
(vi) By Sector		
Manufacturing	602,252	351,012
Transport, storage and communication	3,616	2,886
Construction	36,625	24,523
Wholesale and retail	-	3,524
Financial services	28,316	14,078
Other business services	166,453	175,339
Real estate activities	<u>13,156</u>	<u>13,686</u>
	<u>850,418</u>	<u>585,048</u>

(vii) **Movements in allowance for impaired loans and advances are as follows:**

The Bank has not identified any impaired loans for the current financial year.

	2016 RM'000	2015 RM'000
Collective Assessment Allowance		
Balance as of 1 January	283	299
Add/(Less): Allowance made/(Write back) during the financial year (Note 25)	<u>287</u>	<u>(16)</u>
Balance as of 31 December	<u>570</u>	<u>283</u>
Collective impairment (inclusive of regulatory reserve) as % of gross loans and advances after deduction of individual assessment allowance	<u>1.20%</u>	<u>1.20%</u>

10. **DERIVATIVE FINANCIAL ASSETS/LIABILITIES**

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments allow the Bank to transfer, modify or reduce its foreign exchange and interest rate risks via hedge relationships. Most of the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Bank may also take positions with the expectation to gain from favourable movements in prices, rates or indices.

At the end of the reporting period, the Bank has positions in the following types of derivatives:

	Notional RM'000	2016 Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss			
Foreign exchange contracts:			
Currency forwards	2,779,404	27,373	(44,580)
Currency swaps	16,776,635	742,643	(377,091)
Currency options	241,846	3,794	(549)
Currency spot	50,185	7	(68)
Interest rate contracts:			
Interest rate swaps	13,765,360	18,687	(23,635)
Credit derivatives:			
Credit default swaps	413,357	6,570	(2,885)
Total derivative assets/(liabilities)	<u>34,026,787</u>	<u>799,074</u>	<u>(448,808)</u>
	Notional RM'000	2015 Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss			
Foreign exchange contracts:			
Currency forwards	1,355,400	162,196	(10,581)
Currency swaps	15,540,213	721,323	(260,721)
Currency options	403,397	12,595	(4,553)
Currency spot	13,987	-	(9)
Interest rate contracts:			
Interest rate swaps	15,722,489	25,436	(36,532)
Credit derivatives:			
Credit default swaps	1,872,149	27,423	(15,943)
Total derivative assets/(liabilities)	<u>34,907,635</u>	<u>948,973</u>	<u>(328,339)</u>

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded at gross, is the amount of a derivative's underlying variable or reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are indicative of neither the market risk nor the credit risk.

The fair values of the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used when no market prices are available.

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (“BNM”) in compliance with Section 37(1)(C) of the Central Bank of Malaysia Act, 1958 (revised 1994) to satisfy the Statutory Reserve Requirement (“SRR”), the amounts of which are determined at set percentages of total eligible liabilities.

As of 31 December 2016 and 2015, the Bank has not placed any statutory deposit with BNM as the Bank’s eligible assets are in excess of eligible liabilities.

12. OTHER ASSETS

	2016 RM’000	2015 RM’000
Other receivables	62,309	12,212
Less: Allowance for doubtful debt on other receivables	(1,510)	(1,482)
	60,799	10,730
Collateral assets	173,553	84,542
Deposits	985	1,010
Prepayments	458	989
	<u>235,795</u>	<u>97,271</u>

Collateral assets represent cash collateral pledged to other banks and financial institutions for derivative transactions.

Included in other receivables is as following:

- (a) Receivable from the sales of financial assets held-for-trading amounting to RM39,372,804 (2015: RMNil); and
- (b) Fees receivables from related companies amounting to RM16,645,875 (2015: RM5,350,381).

Movements of allowance for doubtful debt on other receivables are as follows:

	2016	2015
	RM'000	RM'000
Individual impairment allowance		
Balance as of 1 January	1,482	2,220
Add: Allowance made/(Write back) during the financial year	<u>28</u>	<u>(738)</u>
Balance as of 31 December	<u>1,510</u>	<u>1,482</u>

The other receivables of RM1,510,000 (2015: RM1,482,000) represent amount outstanding which are past due and impaired at the end of the reporting period.

13. **PROPERTY, PLANT AND EQUIPMENT**

	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture, fixtures and fittings RM'000	Computer equipment and hardware RM'000	Motor vehicle RM'000	Renovation work-in progress RM'000	Total RM'000
2016							
Cost							
At beginning of year	195	4,126	1,450	3,921	15	387	10,094
Additions	17	-	6	305	-	269	597
Write-off	-	-	-	-	-	(122)	(122)
Reclassification	-	-	-	80	-	(80)	-
Transfer to intangible assets	-	-	-	-	-	(185)	(185)
At end of year	<u>212</u>	<u>4,126</u>	<u>1,456</u>	<u>4,306</u>	<u>15</u>	<u>269</u>	<u>10,384</u>
2015							
Cost							
At beginning of year	154	3,715	1,435	3,746	15	252	9,317
Additions	41	159	82	278	-	387	947
Write-off	-	-	(67)	(103)	-	-	(170)
Reclassification	-	252	-	-	-	(252)	-
At end of year	<u>195</u>	<u>4,126</u>	<u>1,450</u>	<u>3,921</u>	<u>15</u>	<u>387</u>	<u>10,094</u>

(Forward)

	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture, fixtures and fittings RM'000	Computer equipment and hardware RM'000	Motor vehicle RM'000	Renovation work-in progress RM'000	Total RM'000
2016							
Accumulated Depreciation							
At beginning of year	114	2,900	1,237	3,339	5	-	7,595
Charge for the year	31	688	107	442	3	-	1,271
At end of year	145	3,588	1,344	3,781	8	-	8,866
2015							
Accumulated Depreciation							
At beginning of year	76	2,219	1,000	2,751	2	-	6,048
Charge for the year	38	681	300	689	3	-	1,711
Write-offs	-	-	(63)	(101)	-	-	(164)
At end of year	114	2,900	1,237	3,339	5	-	7,595
Net Book Value							
As of 31 December 2016	67	538	112	525	7	269	1,518
As of 31 December 2015	81	1,226	213	582	10	387	2,499

14. **INTANGIBLE ASSETS**

	2016	2015
	RM'000	RM'000
<u>Computer Software:</u>		
Cost		
At 1 January	247	247
Transfer from property, plant and equipment	185	-
	<hr/>	<hr/>
At 31 December	432	247
	<hr/>	<hr/>
Accumulated Amortisation		
At 1 January	247	247
Amortisation for the year	50	-
	<hr/>	<hr/>
At 31 December	297	247
	<hr/>	<hr/>
Net Book Value	<hr/> 135 <hr/>	<hr/> - <hr/>
 <u>Interbank Giro License Fees</u>		
Cost		
At 1 January/31 December	2,600	2,600
	<hr/>	<hr/>
Accumulated Amortisation		
At 1 January/31 December	-	-
	<hr/>	<hr/>
Net Book Value	<hr/> 2,600 <hr/>	<hr/> 2,600 <hr/>
Total Net Book Value	<hr/> 2,735 <hr/>	<hr/> 2,600 <hr/>

15. **DEFERRED TAX ASSETS/(LIABILITIES)**

	2016	2015
	RM'000	RM'000
At 1 January	(527)	384
Recognised in profit or loss (Note 26)	145	(304)
Recognised in other comprehensive income	760	(607)
	<hr/>	<hr/>
At 31 December	378	(527)
	<hr/>	<hr/>

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 income taxes relate to the same fiscal authority.

The components and movements of deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets of the Bank:

	Loans and advances RM'000	Property, plant and equipment RM'000	Financial assets available- for-sale RM'000	Provisions RM'000	Total RM'000
2016					
At 1 January	-	(181)	(658)	312	(527)
Recognised in profit or loss	-	84	-	61	145
Recognised in equity	-	-	760	-	760
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	-	(97)	102	373	378
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
2015					
At 1 January	75	(150)	(51)	510	384
Recognised in profit or loss	(75)	(31)	-	(198)	(304)
Recognised in equity	-	-	(607)	-	(607)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	-	(181)	(658)	312	(527)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. **DEPOSITS FROM CUSTOMERS**

Type	2016 RM'000	2015 RM'000 (Restated)
At Amortised Cost:		
Demand deposits	519,040	329,388
Fixed deposits	488,913	444,441
Structured deposits	-	258,197
Commodity Murabahah	153	20,729
	<u>1,008,106</u>	<u>1,052,755</u>

- (i) Maturity structure of fixed deposits from customers and other long-term deposits are as follows:

	2016 RM'000	2015 RM'000 (Restated)
Due within six months	484,820	683,029
Six months to one year	4,246	40,338
	<u>489,066</u>	<u>723,367</u>

- (ii) The deposits are sourced from the following types of customers:

	2016 RM'000	2015 RM'000 (Restated)
Business enterprises	967,718	726,215
Non-bank financial institutions	40,388	326,540
	<u>1,008,106</u>	<u>1,052,755</u>

17. **DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	2016 RM'000	2015 RM'000
At Amortised Cost:		
Other financial institutions (Note 27)	<u>1,488,959</u>	<u>1,022,385</u>
	<u>1,488,959</u>	<u>1,022,385</u>

18. **OTHER LIABILITIES**

	2016 RM'000	2015 RM'000 (Restated)
Other payables	58,426	31,248
Accruals and charges	10,051	7,345
Collateral deposits	<u>474,571</u>	<u>588,255</u>
	<u>543,048</u>	<u>626,848</u>

Collateral deposits represent cash collateral pledged from other banks and financial institutions for derivative transactions.

Included in other payables is an amount of RM15,631,518 (2015: RM22,094,296) representing fees payable to a related company.

19. **ISSUED CAPITAL**

	2016 RM'000	2015 RM'000
Authorised:		
Ordinary shares of RM1 each:		
At beginning/end of the year	<u>650,000</u>	<u>650,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each:		
At beginning of the year	601,920	601,920
Issued during the year	<u>48,080</u>	<u>-</u>
At end of the year	<u>650,000</u>	<u>601,920</u>

20. **RESERVES**

	2016 RM'000	2015 RM'000
Non-distributable:		
Revaluation reserve-available-for-sale securities (Note a)	(323)	2,085
Statutory reserve (Note b)	32,155	25,766
Regulatory reserve (Note c)	<u>9,636</u>	<u>6,738</u>
	<u>41,468</u>	<u>34,589</u>

(a) **Revaluation reserve-available-for-sale securities**

The revaluation reserve-available-for-sale securities represent cumulative fair value changes on securities available-for-sale.

(b) **Statutory reserve**

The statutory reserves of the Bank are maintained mainly in compliance with Section 47(2)(f) of the Financial Services Act 2013 and Section 57(2)(f) of the Islamic Financial Services Act 2013 and are not distributable as dividends.

(c) **Regulatory reserve**

The reserve is maintained as an additional credit risk absorbent to ensure the robustness of the financing impairment assessment methodology in excess of the requirements of accounting standards. The reserve is in line with the requirements of BNM in which the Bank early adopted in prior years.

21. **INTEREST INCOME**

	2016 RM'000	2015 RM'000
Loans and advances	29,907	23,677
Money at call and deposit placements with financial institutions	28,540	33,439
Financial assets - Available-for-sale	11,755	21,522
Financial assets - Held-for-trading	7,794	2,716
Other interest income	<u>6,044</u>	<u>1,848</u>
	84,040	83,202
Amortisation of premium less accretion of discount	<u>(1,052)</u>	<u>(686)</u>
	<u>82,988</u>	<u>82,516</u>

22. **INTEREST EXPENSE**

	2016 RM'000	2015 RM'000
Deposits from customers	18,760	32,577
Deposits and placements from banks and other financial institutions	7,027	3,885
Other interest expense	8	14
	<u>25,795</u>	<u>36,476</u>

23. **OTHER OPERATING INCOME**

	2016 RM'000	2015 RM'000
Fee income:		
Commissions	967	309
Guarantee fees	921	877
Other fee income:		
Unwinding fees	3,437	8,810
Advisory fees	4,127	3,574
Arrangement fees	1,290	1,150
Other fees	(4,734)	(2,087)
	<u>6,008</u>	<u>12,633</u>
(Loss)/Gain arising from sale of securities:		
Financial assets held-for-trading	(382)	8,820
Financial assets available-for-sale	(3,424)	(23)
Gain/(Loss) on derivatives trading:		
Realised	(21,162)	(47,744)
Unrealised	42,211	(7,529)
Unrealised gain on revaluation of financial assets held-for-trading	151	1,094
Other income:		
Foreign exchange:		
Realised gain/(loss)	344,625	(218,378)
Unrealised (loss)/gain	(355,971)	267,722
Recharges received from related companies (Note 27)	7,496	6,673
Others	6,069	5,257
	<u>25,621</u>	<u>28,525</u>

24. **OTHER OPERATING EXPENSES**

	2016 RM'000	2015 RM'000
Personnel costs (Note a)	36,413	35,652
Establishment costs (Note b)	13,891	14,349
Marketing expenses (Note c)	918	1,097
Administration and general expenses (Note d)	14,305	20,467
	<u>65,527</u>	<u>71,565</u>
(a) Personnel costs		
Wages, salaries and bonuses	25,556	23,958
Defined contribution retirement plan	3,353	3,403
Social security cost	772	607
Other staff related expenses	6,732	7,684
	<u>36,413</u>	<u>35,652</u>
(b) Establishment costs		
Share of information technology costs (Note 27)	5,743	6,439
Depreciation of property, plant and equipment (Note 13)	1,271	1,711
Amortisation of intangible asset (Note 14)	50	-
Property, plant and equipment written off	-	6
Rental of premises	2,413	2,312
Others	4,414	3,881
	<u>13,891</u>	<u>14,349</u>
(c) Marketing expenses		
Advertising	56	65
Others	862	1,032
	<u>918</u>	<u>1,097</u>
(d) Administration and general expenses		
Legal and professional fees	1,945	2,261
Communication and transportation	246	339
Other general expenses	12,114	17,867
	<u>14,305</u>	<u>20,467</u>

Included in the above expenditure are the following statutory disclosures:

	2016 RM'000	2015 RM'000
Directors' remuneration	956	883
Auditors' remuneration:		
Statutory audit	248	243
Others	30	30
	<u> </u>	<u> </u>

Details of Directors' remuneration of the Bank during the year are as follows:

	Fees RM'000	Other allowances RM'000	Bonuses RM'000	Benefits -in-kind RM'000	Total RM'000
2016					
Non-executive Directors	<u>935</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>956</u>
2015					
Non-executive Directors	<u>883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>883</u>

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

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

	2016 RM'000	2015 RM'000
<u>Non - Executive Directors</u>		
Above RM100,000	2	2
RM50,000 - RM100,000	1	1
RM1 - RM49,999	1	-
	<u>4</u>	<u>3</u>

25. **ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING**

	2016 RM'000	2015 RM'000
Allowance for impairment on loans, advances and financing:		
Collective assessment allowance:		
Allowance made/(Written back) during the financial year (Note 9)	<u>287</u>	<u>(16)</u>

26. **INCOME TAX EXPENSE**

	2016 RM'000	2015 RM'000
Estimated tax payable:		
Current tax	5,330	1,727
Under/(Over) provision in prior years	338	(346)
	<u>5,668</u>	<u>1,381</u>
Deferred tax (Note 15)		
Current year	(82)	40
(Over)/Under provision in prior years	(63)	264
	<u>(145)</u>	<u>304</u>
	<u><u>5,523</u></u>	<u><u>1,685</u></u>

A numerical reconciliation of income tax expense to profit before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2016 RM'000	2015 RM'000
Profit before tax	<u>18,301</u>	<u>4,485</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	4,392	1,121
Tax effects of:		
Expenses not deductible for tax purposes	856	645
Income not taxable for tax purposes	-	(4)
Effect on deferred tax due to reduction in tax rate	-	5
(Over)/Under provision in prior years:		
Current tax	338	(346)
Deferred tax	<u>(63)</u>	<u>264</u>
Income tax expense for the year	<u><u>5,523</u></u>	<u><u>1,685</u></u>

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The Bank is a wholly-owned subsidiary of BNP Paribas S.A., a financial institution incorporated in France, which is also regarded by the Directors as ultimate holding company of the Bank.

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

Name of related parties	Relationship
BNP Paribas S.A., Paris	Ultimate holding company
BNP Paribas, Doha	Fellow subsidiary
BNP Paribas, Tokyo	Fellow subsidiary
BNP Paribas, Canada	Fellow subsidiary
BNP Paribas, New York	Fellow subsidiary
BNP Paribas, Hong Kong	Fellow subsidiary
BNP Paribas, London	Fellow subsidiary
BNP Paribas, Abu Dhabi	Fellow subsidiary
BNP Paribas, Singapore	Fellow subsidiary
BNP Paribas, Geneva	Fellow subsidiary
BNP Paribas, Mumbai	Fellow subsidiary
BNP Paribas, Labuan	Fellow subsidiary
BNP Paribas Investment Partners, Malaysia	Fellow subsidiary
BNP Paribas Investment Partners Najmah, Malaysia	Fellow subsidiary
BNP Paribas Capital, Malaysia	Fellow subsidiary

Significant transactions undertaken by the Bank with related companies which are determined on a basis negotiated with the said parties are as follows:

	2016	2015
	RM'000	RM'000
Income:		
Recharges from intercompany	7,496	6,673
Other intercompany fees	5,811	4,715
Interest on cash and short-term funds	176	91
Interest from deposit and placements with banks and other financial institutions	10	-
Other interest	<u>257</u>	<u>111</u>
Expense:		
Interest on deposits and placements of banks and other financial institutions	6,722	3,368
Other intercompany charges	7,587	13,189
Share of group and information technology costs	5,743	6,439
Interest on Murabahah deposits	132	166
Interest on current deposits	64	349
Interest on fixed deposits	268	175
Other interest	<u>5</u>	<u>14</u>

	Ultimate holding company RM'000	Related parties RM'000
2016		
<u>Assets</u>		
Cash and short-term funds	916	11,186
Collateral assets	114,770	-
Derivative financial assets	21,524	828
Other assets	8,803	7,843
	<u>146,013</u>	<u>19,857</u>
<u>Liabilities</u>		
Demand deposits	-	30,166
Fixed deposits	-	9,519
Deposits and placements of banks and other financial institutions	-	1,488,959
Derivative financial liabilities	98,336	26,545
Other liabilities	9,887	5,745
	<u>108,223</u>	<u>1,560,934</u>
2015		
<u>Assets</u>		
Cash and short-term funds	11,830	6,454
Collateral assets	67,112	-
Derivative financial assets	17,120	4,965
Other assets	2,991	2,359
	<u>99,053</u>	<u>13,778</u>
<u>Liabilities</u>		
Demand deposits	-	7,386
Fixed deposits	-	8,503
Deposits and placements of banks and other financial institutions	-	1,022,385
Commodity Murabahah	-	6,001
Derivative financial liabilities	81,754	15,472
Other liabilities	11,393	10,701
	<u>93,147</u>	<u>1,070,448</u>

Compensation of key management personnel:

The remuneration of key management during the year are as follows:

	2016 RM'000	2015 RM'000
Salaries and other short-term employee benefits	4,985	4,966
Post-employment benefits:		
Defined contribution plan	<u>65</u>	<u>73</u>
	<u><u>5,050</u></u>	<u><u>5,039</u></u>

28. OPERATING LEASE ARRANGEMENTS

The Bank has entered into non-cancellable operating lease agreements for the use of buildings. These leases have an average life of 3 years. There are no restrictions placed upon the Bank by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as of the end of the reporting period but not recognised as liabilities are as follows:

	2016 RM'000	2015 RM'000
Future minimum rental payments:		
Not later than 1 year	1,981	1,744
Later than 1 year and not later than 5 years	<u>5,645</u>	<u>291</u>
	<u><u>7,626</u></u>	<u><u>2,035</u></u>

29. **CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES**

	2016 RM'000	2015 RM'000
Outstanding credit exposures with connected parties	239,758	173,451
Total credit exposures	<u>2,558,628</u>	<u>2,455,878</u>
Percentage of outstanding credit exposures to connected parties:		
as a proportion of total credit exposures	9.38%	7.06%
as a proportion of capital base	<u>35.28%</u>	<u>27.97%</u>
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<u>-</u>	<u>-</u>

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and their close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning and directing and/or controlling the activities of the Bank, and their close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a Director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

Credit transactions and exposure to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposure such as guarantees, trade-related facilities and loan commitments. It also includes holding of equities and private debt securities issued by the connected parties.

30. **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 are not secured against the Bank's assets.

Risk Weighted Exposures of the Bank as of 31 December are as follows:

	Principal amount RM'000	2016 Credit equivalent amount * RM'000	Risk- weighted amount RM'000	Principal amount RM'000	2015 Credit equivalent amount * RM'000	Risk- weighted amount RM'000
Direct credit substitutes	250,145	250,145	222,513	147,107	147,107	133,535
Short-term self-liquidating trade-related contingencies	1,474	295	295	-	-	-
Irrevocable commitments to extend credit:						
Maturity up to one year	-	-	-	-	-	-
Maturity more than one year	98,107	49,053	49,053	-	-	-
Foreign exchange related contracts:						
One year or less	18,052,648	1,048,227	389,704	15,237,185	982,810	407,097
Over one year to five years	1,795,422	164,933	101,493	2,075,812	280,392	146,597

(Forward)

	Principal amount RM'000	2016 Credit equivalent amount * RM'000	Risk- Weighted Amount RM'000	Principal amount RM'000	2015 Credit equivalent amount * RM'000	Risk- Weighted Amount RM'000
Interest rate related contracts:						
One year or less	6,301,900	12,982	5,036	7,331,439	14,267	4,918
Over one year to five years	7,413,460	158,888	38,135	8,205,050	211,113	51,649
Over five years	50,000	2,500	500	186,000	9,800	1,960
Credit Derivative Contracts:						
One year or less	178,686	4,630	926	1,282,849	89,295	17,859
Over one year to five years	234,671	13,558	2,712	589,300	20,133	4,027
	<u>34,376,513</u>	<u>1,705,211</u>	<u>810,367</u>	<u>35,054,742</u>	<u>1,754,917</u>	<u>767,642</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per BNM guidelines.

31. **COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to current year's presentation.

	As previously reported RM'000	Reclassification RM'000	As reclassified RM'000
Statement of financial position for the year ended 31 December 2015			
Deposits from customers	1,641,010	(588,255)	1,052,755
Other liabilities	<u>38,593</u>	<u>588,255</u>	<u>626,848</u>
Statement of cash flows for the year ended 31 December 2015			
Deposits from customers	198,734	(588,255)	(389,521)
Other liabilities	<u>16,153</u>	<u>588,255</u>	<u>604,408</u>

32. **FINANCIAL RISK MANAGEMENT POLICIES**

The Bank has developed and implemented comprehensive policies and procedures to identify, mitigate and monitor risk across the entity which are based on BNP Paribas S.A. Group 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.

(a) **Operational Risk**

Operational risk is the risk of incurring a loss due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. Management of operational risk is based on an analysis of the “cause – event – effect” chain.

Internal processes giving rise to operational risk may involve employees and/or IT systems. External events include, but are not limited to floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, misprocessing risks, risks related to published financial information and the financial implications resulting from reputation and compliance risks.

The Bank has implemented an Internal Operational Risk Self Assessment system, identifying areas and probability of risk. The actual occurrence of operational loss is entered into a Corporate Loss Database and reconciled against the financial statements. The Bank also has the Operational Risk Assessment Process and a Business Continuity Plan in place.

(b) **Credit Risk**

Credit risk is the risk of incurring a loss on loans and receivables (existing or potential due to commitments given) resulting from a change in the credit quality of the Bank’s receivables, which can ultimately result in default. The probability of default and the expected recovery on the loan or receivable in the event of default are key components of the credit quality assessment.

Credit risk is measured at portfolio level, taking into account correlations between the values of the loans and receivables making up the portfolio concerned.

Counterparty risk is the manifestation of credit risk in market, investment and/or payment transactions that potentially expose the Bank to the risk of default by the counterparty. It is a bilateral risk on a counterparty with whom one or more market transactions have been concluded. The amount of this risk may vary over time in line with market parameters that impact the value of the relevant market instrument.

Maximum exposure to credit risk

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

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

	Note	2016 RM'000	2015 RM'000
Assets			
Cash and short-term funds	5	2,077,547	1,283,074
Reverse repurchase agreements	6	-	203,907
Financial assets held-for-trading	7	118,413	45,182
Financial assets available-for-sale	8	81,608	479,672
Loans and advances	9	850,418	585,048
Derivative financial assets	10	799,074	948,973
Other assets	12	<u>237,305</u>	<u>98,753</u>
Total assets		<u>4,164,365</u>	<u>3,644,609</u>
Commitments and contingencies	30	<u>1,705,211</u>	<u>1,754,917</u>
Total credit exposure		<u>5,869,576</u>	<u>5,399,526</u>

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

Where financial instruments are recorded at 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.

The following tables represent the Bank's credit risk concentrations as of 31 December 2016:

	Cash and short-term funds RM'000	Reverse repurchase agreement RM'000	Financial assets held- for-trading RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
<u>Concentration risk by industry sectors</u>									
Government and central banks	2,033,669	-	118,413	81,608	-	-	-	2,233,690	-
Manufacturing	-	-	-	-	602,252	14,126	-	616,378	157,438
Mining and quarrying	-	-	-	-	-	15	-	15	12,867
Finance, insurance and business services	43,878	-	-	-	28,316	706,455	237,305	1,015,954	1,337,337
Construction	-	-	-	-	36,625	64,818	-	101,443	112,688
Wholesale and retail	-	-	-	-	-	-	-	-	457
Real estate	-	-	-	-	13,156	-	-	13,156	-
Transport, storage and communication	-	-	-	-	3,616	8	-	3,624	11,207
Other business services	-	-	-	-	166,453	13,652	-	180,105	73,217
	<u>2,077,547</u>	<u>-</u>	<u>118,413</u>	<u>81,608</u>	<u>850,418</u>	<u>799,074</u>	<u>237,305</u>	<u>4,164,365</u>	<u>1,705,211</u>

	Cash and short-term funds RM'000	Reverse repurchase agreement RM'000	Financial assets held-for- trading RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
<u>Concentration</u>									
<u>risk by</u>									
<u>geographical</u>									
<u>sectors</u>									
Malaysia	2,034,119	-	118,413	81,608	850,418	773,776	237,305	4,095,639	1,461,526
United Kingdom	486	-	-	-	-	777	-	1,263	777
France	916	-	-	-	-	21,524	-	22,440	118,471
Hong Kong	586	-	-	-	-	-	-	586	1,821
Singapore	5,464	-	-	-	-	1,758	-	7,222	2,131
Thailand	24,995	-	-	-	-	51	-	25,046	33,201
Others	10,981	-	-	-	-	1,188	-	12,169	87,284
	<u>2,077,547</u>	<u>-</u>	<u>118,413</u>	<u>81,608</u>	<u>850,418</u>	<u>799,074</u>	<u>237,305</u>	<u>4,164,365</u>	<u>1,705,211</u>

* Excludes collective assessment allowance amounting to RM569,514.

** Other assets exclude allowance for impairment on other assets amounting to RM1,510,000, deferred tax assets and property, plant and equipment.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

The following tables represent the Bank's credit risk concentrations as of 31 December 2015:

	Cash and short-term funds RM'000	Reverse repurchase agreement RM'000	Financial assets held- for-trading RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
<u>Concentration risk</u>									
<u>by industry sectors</u>									
Government and central banks	1,142,601	203,907	45,182	479,672	-	-	-	1,871,362	-
Manufacturing	-	-	-	-	351,012	16,909	-	367,921	49,515
Mining and quarrying	-	-	-	-	-	-	-	-	4,479
Finance, insurance and business services	140,473	-	-	-	14,078	795,496	98,753	1,048,800	1,452,869
Construction	-	-	-	-	24,523	120,177	-	144,700	172,808
Wholesale and retail	-	-	-	-	3,524	-	-	3,524	248
Real estate	-	-	-	-	13,686	-	-	13,686	-
Transport, storage and communication	-	-	-	-	2,886	159	-	3,045	10,663
Other business services	-	-	-	-	175,339	16,232	-	191,571	64,335
	<u>1,283,074</u>	<u>203,907</u>	<u>45,182</u>	<u>479,672</u>	<u>585,048</u>	<u>948,973</u>	<u>98,753</u>	<u>3,644,609</u>	<u>1,754,917</u>

	Cash and short-term funds RM'000	Reverse repurchase agreement RM'000	Financial assets held-for- trading RM'000	Financial assets available- for-sale RM'000	Loans and advances* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
<u>Concentration</u>									
<u>risk by</u>									
<u>geographical</u>									
<u>sectors</u>									
Malaysia	1,260,887	203,907	45,182	479,672	585,048	926,876	98,753	3,600,325	1,557,388
United Kingdom	63	-	-	-	-	4,965	-	5,028	28,576
France	11,830	-	-	-	-	17,120	-	28,950	127,190
Hong Kong	1,944	-	-	-	-	-	-	1,944	-
Singapore	607	-	-	-	-	12	-	619	14
Thailand	19	-	-	-	-	-	-	19	-
Others	7,724	-	-	-	-	-	-	7,724	41,749
	<u>1,283,074</u>	<u>203,907</u>	<u>45,182</u>	<u>479,672</u>	<u>585,048</u>	<u>948,973</u>	<u>98,753</u>	<u>3,644,609</u>	<u>1,754,917</u>

* Excludes collective assessment allowance amounting to RM282,608.

** Other assets exclude allowance for impairment on other assets amounting to RM1,482,000, deferred tax assets and property, plant and equipment.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

Gross loans and advances are analysed as follows:

	2016	2015
	RM'000	RM'000
Neither past due nor impaired	850,418	585,048
Less: Allowance for impaired loans and advances		
- Collective assessment allowance	(570)	(283)
	<u>849,848</u>	<u>584,765</u>

Loans and advances neither past due nor impaired

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

	2016	2015
	RM'000	RM'000
BNP Paribas Ratings		
2- Very Good	28,316	14,078
3- Good	-	145,113
4+ Above Average	75,501	103,456
4 Above Average	77,757	38,370
4- Above Average	157,086	24,523
5+ Average	67,460	6,886
5 Average	48,933	12,298
5- Average	44,347	21,888
6+ Below Average	85,432	84,169
6 Below Average	20,563	23,817
6- Below Average	-	78,847
7+ Poor	174,645	15,088
7 Poor	6,015	16,515
8+ Weak	64,363	-
	<u>850,418</u>	<u>585,048</u>

Loans and advances that are rated as 7+, 7 and 8+, in accordance to BNP Paribas Global ratings are categorised as medium risk to the Bank.

Credit quality of financial assets

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

	Available-For-Sale		
	Malaysian government securities RM'000	Malaysian government investment issues RM'000	Total RM'000
2016			
A-	51,346	30,262	81,608

	Held-For-Trading		
	Government investment issues RM'000	Malaysian government securities RM'000	Total RM'000
2016			
A-	5,731	112,682	118,413

	Available-For-Sale		
	Malaysian government securities RM'000	Malaysian government investment issues RM'000	Total RM'000
2015			
A-	225,865	253,807	479,672

	Held-For-Trading		
	Government investment issues RM'000	Malaysian government securities RM'000	Total RM'000
2015			
A-	19,350	25,832	45,182

Financial effects of collaterals

There are no collateral and other credit enhancements that mitigate credit risk held for loans and advances and other financial assets.

(c) **Market Risk**

Market risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not.

Observable market parameters include, but are not limited to, exchange rates, interest rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, prices of other goods, and other parameters that can be directly inferred from them, such as credit spreads, volatilities and implied correlations or other similar parameters.

Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analysis, as confirmed by market information.

Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

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

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

The VaR of the Bank at the end of the reporting period, based on one-day time horizon and at 99% confidence level, is RM1,600,220 (2015: RM3,219,030). It represents the correlation and consequent diversification effects between risk types and portfolio types across trading and non-trading businesses. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

	2016 RM'mil	2015 RM'mil
Aggregate VaR	<u>1.60</u>	<u>3.22</u>

The aggregate VaR includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate VaR can be lower than the sum of individual risk types on the same day (e.g. year end).

The maximum VaR of the Bank during the year is RM3,456,876 (2015: RM5,007,226) while the minimum VaR during the year is RM1,455,043 (2015: RM1,369,163).

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profit or loss in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

(d) **Interest Rate Risk**

Interest rate risk is the potential change in interest rate levels including changes in interest rate differentials that arises mainly from the differing yields and maturity profiles between assets and liabilities.

Interest rate is monitored through the market risk management systems as part of the overall market risk management of the Bank. The following tables represents the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at the end of the reporting period.

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2016:

The Bank	← Non-Trading Book →					Trading book	Non-interest sensitive	SPI-related business	Total
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years				
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets									
Cash and short-term funds	2,043,556	-	-	-	-	-	-	33,991	2,077,547
Reverse repurchase agreement	-	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	118,413	-	-	118,413
Financial assets available-for-sale	-	-	51,346	30,262	-	-	-	-	81,608
Loans and advances	587,621	114,367	17,446	117,828	13,156	-	(570)	-	849,848
Derivatives financial assets	-	-	-	-	-	799,074	-	-	799,074
Other assets	-	-	-	-	-	-	230,438	5,357	235,795
Total Assets	2,631,177	114,367	68,792	148,090	13,156	917,487	229,868	39,348	4,162,285

(Forward)

The Bank	←————— Non-Trading Book —————→					Trading book	Non- interest sensitive	SPI-related business	Total
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
2016									
Liabilities									
Deposits from customers	860,477	126,606	4,280	-	-	-	-	16,743	1,008,106
Deposits and placements of banks and other financial institutions	591,007	897,952	-	-	-	-	-	-	1,488,959
Derivative financial liabilities	-	-	-	-	-	448,808	-	-	448,808
Other liabilities	-	-	-	-	-	-	542,383	665	543,048
Total Liabilities	1,451,484	1,024,558	4,280	-	-	448,808	542,383	17,408	3,488,921
Net interest rate gap	1,179,693	(910,191)	64,512	148,090	13,156	468,679	(312,515)	21,940	673,364

The Bank 2015	← Non-Trading Book →					Trading book RM'000	Non-interest sensitive RM'000	SPI-related business RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
Assets									
Cash and short-term funds	1,239,767	-	-	-	-	-	-	43,307	1,283,074
Reverse repurchase agreement	203,907	-	-	-	-	-	-	-	203,907
Financial assets held-for-trading	-	-	-	-	-	45,182	-	-	45,182
Financial assets available-for-sale	-	101,358	312,378	31,436	-	-	-	34,500	479,672
Loans and advances	462,709	63,184	13,144	32,325	13,686	-	(283)	-	584,765
Derivative financial assets	-	-	-	-	-	948,973	-	-	948,973
Other assets	-	-	-	-	-	-	95,164	2,107	97,271
Total Assets	1,906,383	164,542	325,522	63,761	13,686	994,155	94,881	79,914	3,642,844

(Forward)

The Bank 2015	← Non-Trading Book →					Trading book RM'000	Non-interest sensitive RM'000	SPI-related business RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
Liabilities									
Deposits from customers	629,411	271,029	94,036	-	-	-	-	58,279	1,052,755
Deposits and placements of banks and other financial institutions	161,460	645,349	215,576	-	-	-	-	-	1,022,385
Derivative financial liabilities	-	-	-	-	-	328,339	-	-	328,339
Other liabilities	-	-	-	-	-	-	628,816	32	626,848
Total Liabilities	<u>790,871</u>	<u>916,378</u>	<u>309,612</u>	<u>-</u>	<u>-</u>	<u>328,339</u>	<u>628,816</u>	<u>58,311</u>	<u>3,030,327</u>
Net interest rate gap	1,115,512	(751,836)	15,910	63,761	13,686	665,816	(533,935)	21,603	612,517

Included in the tables below are the Bank's assets and liabilities categorised by their average effective interest rates per annum at the end of the reporting period:

	2016						
	MYR	USD	EUR	AUD	THB	GBP	JPY
	%	%	%	%	%		%
Financial Assets							
Cash and short-term funds	3.0601	-	-	-	-	-	-
Reverse repurchase agreement	-	-	-	-	-	-	-
Financial assets available-for-sale	3.4577	-	-	-	-	-	-
Financial assets held-for trading	3.5508	-	-	-	-	-	-
Loans and advances	4.0749	1.6908	2.2838	-	-	-	-
Financial Liabilities							
Deposits from customers	3.0902	0.8669	-	2.1958	-	-	-
Deposits and placements of banks and other financial institutions	-	0.9387	0.3800	-	-	-	0.0500

	2015						
	MYR	USD	EUR	AUD	THB	GBP	JPY
	%	%	%	%	%		%
Financial Assets							
Cash and short-term funds	3.1516	0.3889	-	-	-	-	-
Reverse repurchase agreement	3.2357	-	-	-	-	-	-
Financial assets available-for-sale	3.5471	-	-	-	-	-	-
Financial assets held-for trading	3.9616	-	-	-	-	-	-
Loans and advances	4.3025	1.1588	0.6380	-	-	-	-
Financial Liabilities							
Deposits from customers	3.2181	0.2988	-	2.2200	-	-	-
Deposits and placements of banks and other financial institutions	-	0.5609	-	-	2.000	0.4300	-

(e) **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 drawdowns.

The Assets and Liabilities Committee (“ALCO”) is primarily responsible for the strategic management of the Bank’s liquidity, the daily operations of which are carried out by the ALM Desk of the Treasury Department.

ALCO monitors at its monthly meeting, adherence to the liquidity and mismatch limits, and compliance with BNP Paribas Group worldwide, ALCO guidelines and Bank Negara Malaysia’s Liquidity Coverage Ratio.

The table below analyses the Bank’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date.

The financial assets and liabilities disclosed in the tables below will not agree to the carrying amounts reported in the statement of financial position as the amounts incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit payments.

The Bank 2016	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	2,077,547	-	-	-	-	-	2,077,547
Reverse repurchase agreement	-	-	-	-	-	-	-
Financial assets held-for-trading	-	22,438	-	45,723	50,252	-	118,413
Financial assets available-for-sale	-	-	51,346	30,262	-	-	81,608
Loan and advances	591,375	121,445	264,428	132,615	8,889	-	1,118,752
Other assets	173,553	-	-	-	-	62,242	235,795
Total Assets	2,842,475	143,883	315,774	208,600	59,141	62,242	3,632,115
Liabilities							
Deposits from customers	877,220	126,606	4,280	-	-	-	1,008,106
Deposits and placements of banks and other financial institutions	591,007	897,952	-	-	-	-	1,488,959
Other liabilities	474,571	-	-	-	-	68,477	543,048
Total Liabilities	1,942,798	1,024,558	4,280	-	-	68,477	3,040,113
Net Liquidity Gap	899,677	(880,675)	311,494	208,600	59,141	(6,235)	592,002

(Forward)

The Bank 2016	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Items not recognised in the statement of financial position						
Financial guarantees	<u>4,680</u>	<u>5,757</u>	<u>89,169</u>	<u>138,453</u>	<u>12,086</u>	<u>250,145</u>
Net-settled derivatives	272	322	(1,729)	1,096	(1,224)	(1,263)
Gross-settled derivatives						
- Receipts	4,748,758	4,580,190	8,523,341	1,656,758	-	19,509,047
- Payments	<u>(4,749,539)</u>	<u>(4,401,953)</u>	<u>(8,257,335)</u>	<u>(1,768,984)</u>	<u>-</u>	<u>(19,177,811)</u>
	<u>(509)</u>	<u>178,559</u>	<u>264,277</u>	<u>(111,130)</u>	<u>(1,224)</u>	<u>329,973</u>

The Bank 2015	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,283,074	-	-	-	-	-	1,283,074
Reverse repurchase agreement	203,907	-	-	-	-	-	203,907
Financial assets held-for-trading	-	-	-	23,759	21,423	-	45,182
Financial assets available-for-sale	-	101,358	346,878	31,436	-	-	479,672
Loan and advances	463,938	64,621	19,385	40,276	10,899	-	599,119
Other assets	84,542	-	-	-	-	12,729	97,271
Total Assets	2,035,461	165,979	366,263	95,471	32,322	12,729	2,708,225
Liabilities							
Deposits from customers	677,643	281,044	94,068	-	-	-	1,052,755
Deposits and placements of banks and other financial institutions	161,460	645,349	215,576	-	-	-	1,022,385
Other liabilities	588,255	-	-	-	-	38,593	626,848
Total Liabilities	1,427,358	926,393	309,644	-	-	38,593	2,701,988
Net Liquidity Gap	608,103	(760,414)	56,619	95,471	32,322	(25,864)	6,237
(Forward)							

The Bank 2015	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Items not recognised in the statement of financial position						
Financial guarantees	<u>427</u>	<u>1,042</u>	<u>31,424</u>	<u>100,850</u>	<u>13,364</u>	<u>147,107</u>
Net-settled derivatives	5	(7,637)	2,773	7,878	(2,635)	384
Gross-settled derivatives						
- Receipts	5,034,830	5,605,189	4,584,049	1,935,496	-	17,159,564
- Payments	<u>(5,007,337)</u>	<u>(5,332,856)</u>	<u>(4,238,269)</u>	<u>(1,983,442)</u>	<u>-</u>	<u>(16,561,904)</u>
	<u>27,498</u>	<u>264,696</u>	<u>348,553</u>	<u>(40,068)</u>	<u>(2,635)</u>	<u>598,044</u>

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the Bank. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria, such as market price hurdles being reached, the asset is included in the latest date on which it can be repaid regardless of early repayment, the liability is included at the earliest possible date that the conditions can be fulfilled without considering the probability of the conditions being met.

The contractual maturity of the financial assets and liabilities highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits.

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when it can legally be withdrawn. On a behavioural basis, the assets and liabilities cash flows may differ from contractual basis.

Financial assets and financial liabilities held for trading are classified based on trading pattern. The cash flows of the derivatives are presented net as they are short-term in nature and held for trading.

(f) **Currency Risk**

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

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

The Bank 2016	RM RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
Assets					
Cash and short-term funds	2,034,119	7,756	918	34,754	2,077,547
Reverse repurchase agreement	-	-	-	-	-
Financial assets held-for-trading	118,413	-	-	-	118,413
Financial assets available-for-sale	81,608	-	-	-	81,608
Loans and advances	571,308	234,156	44,954	-	850,418
Derivative financial assets	28,610	767,554	2,104	806	799,074
Other assets	54,113	173,982	8,982	228	237,305
Total Assets	2,888,171	1,183,448	56,958	35,788	4,164,365
Liabilities					
Deposits from customers	683,865	259,785	22,227	42,229	1,008,106
Deposits and placements of banks and other financial institutions	91	1,457,190	4,719	26,959	1,488,959
Derivative financial liabilities	21,081	367,123	58,871	1,733	448,808
Other liabilities	170,129	359,003	10,587	3,329	543,048
Total Liabilities	875,166	2,443,101	96,404	74,250	3,488,921
Currency gap	2,013,005	(1,259,653)	(39,446)	(38,462)	

The Bank 2015	RM RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
Assets					
Cash and short-term funds	1,144,975	119,462	11,838	6,799	1,283,074
Reverse repurchase agreement	203,907	-	-	-	203,907
Financial assets held-for-trading	45,182	-	-	-	45,182
Financial assets available-for-sale	479,672	-	-	-	479,672
Loans and advances	457,492	113,478	14,078	-	585,048
Derivative financial assets	41,247	895,395	5,136	7,195	948,973
Other assets	12,592	86,057	67	37	98,753
Total Assets	2,385,067	1,214,392	31,119	14,031	3,644,609
Liabilities					
Deposits from customers	757,513	265,241	22,804	7,197	1,052,755
Deposits and placements of banks and other financial institutions	-	1,022,043	-	342	1,022,385
Derivative financial liabilities	26,111	248,854	48,314	5,060	328,339
Other liabilities	250,787	371,658	718	3,685	626,848
Total Liabilities	1,034,411	1,907,796	71,836	16,284	3,030,327
Currency gap	1,350,656	(693,404)	(40,717)	(2,253)	

(g) **Offsetting financial assets and financial liabilities**

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

The Bank	Gross amount of recognised financial assets/ financial liabilities RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
		Financial instrument RM'000	Financial collateral RM'000	
2016				
Assets				
Derivative financial assets	799,074	(160,755)	(474,571)	163,748
Liabilities				
Derivative financial liabilities	<u>448,808</u>	<u>(160,755)</u>	<u>(173,553)</u>	<u>114,500</u>
2015				
Assets				
Derivative financial assets	948,973	(140,226)	(588,255)	220,492
Liabilities				
Derivative financial liabilities	<u>328,339</u>	<u>(140,226)</u>	<u>(84,542)</u>	<u>103,571</u>

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which the financial asset could be exchanged or a financial liability could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as at the end of the reporting period.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on appropriate methodologies and assumptions on risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

MFRS 13 Fair Value Measurement requires each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition to be categorised according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of those financial instruments and non-financial assets:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities; characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices;
- 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); these techniques are regularly calibrated and the inputs are corroborated with information from active markets; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value.

For financial instruments disclosed in Level 3 of the fair value hierarchy, a difference between the transaction price and the fair value may arise at initial recognition. This "Day One Profit" is deferred and released to the profit and loss account over the period during which the valuation parameters are expected to remain non-observable. When parameters that were originally non-observable become observable, or when the valuation can be substantiated in comparison with recent similar transactions in an active market, the unrecognised portion of the day one profit is released to profit or loss account.

The following table shows the Bank's financial instruments which are measured at fair value and those that are not measured at fair value but for which fair value disclosures are provided, analysed by the various levels within the fair value hierarchy. It does not include those short-term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2016					
Financial Assets					
Financial assets held-for-trading	118,413	118,413	-	118,413	-
Financial assets available-for-sale	81,608	81,608	-	81,608	-
Loans and advances*	849,848	849,848	-	-	849,848
Derivative financial assets	799,074	799,074	-	792,504	6,570
Financial Liabilities					
Derivative financial liabilities	448,808	448,808	-	445,923	2,885

* Denotes financial instruments not carried at fair value but fair value disclosure required.

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2015					
Financial Assets					
Financial assets held-for-trading	45,182	45,182	-	45,182	-
Financial assets available-for-sale	479,672	479,672	-	479,672	-
Loans and advances*	584,765	584,765	-	-	584,765
Derivative financial assets	948,973	948,973	-	921,550	27,423
Financial Liabilities					
Derivative financial liabilities	328,339	328,339	-	312,396	15,943

* Denotes financial instruments not carried at fair value but fair value disclosure required.

Reconciliation of movements in level 3 financial instruments

	2016 RM'000	2015 RM'000
Derivative Financial Assets		
At 1 January	27,423	39,583
Gain/(Loss) recognised in profit or loss:		
Realised	22,214	(8,159)
Unrealised	<u>(43,067)</u>	<u>(4,001)</u>
At 31 December	<u>6,570</u>	<u>27,423</u>
Derivative Financial Liabilities		
At 1 January	15,943	18,841
(Gain)/Loss recognised in profit or loss:		
Realised	(14,665)	(32)
Unrealised	<u>1,607</u>	<u>(2,866)</u>
At 31 December	<u>2,885</u>	<u>15,943</u>

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction under normal market conditions.

However, for certain assets such as loans, deposits and derivatives, fair values are not readily available as there is no open market where these instruments are traded.

The fair values for these instruments are estimated based on the assumptions and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

(i) Cash and short-term funds

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

(ii) Financial assets held-for-trading and available-for-sale

The estimated fair value is based on quoted and observable market prices at the end of the reporting period. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flows techniques. Where discounted cash flows technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the end of the reporting period.

(iii) **Loans and advances**

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values.

For fixed rate loans with maturities of more than one year, the fair values are estimated based on discounted future cash flows of contractual instalment payments.

For variable rate loans with maturities of more than one year, the fair values have been determined with generally pricing models based on a discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

In respect of nonperforming loans, the fair values are deemed to approximate the carrying values, net of individual impairment allowance for bad and doubtful debts and financing.

(iv) **Deposits from customers**

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cash flows.

(v) **Deposits and placements from banks and other financial institutions**

Deposits and placements from banks and other financial institutions are valued at carrying amount.

(vi) **Derivative financial instruments**

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

Financial assets/ Financial liabilities	Fair Value as at 31.12.2016			Fair Value as at 31.12.2015			Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	Assets (RM'000)	Liabilities (RM'000)	Hierarchy	Assets (RM'000)	Liabilities (RM'000)	Hierarchy			
Foreign exchange derivative									
Currency forwards	27,373	44,580	Level 2	162,196	10,581	Level 2	Curve stripping which generates discount factors and forwards. Inputs are quoted market instruments.	N/A	N/A
Currency swap	742,643	377,091	Level 2	721,323	260,721	Level 2	Curve stripping which generates discount factors and forwards. Inputs are quoted market instruments.	N/A	N/A
Currency spot	7	68	Level 2	-	9	Level 2	Curve stripping which generates discount factors and forwards. Inputs are quoted market instruments.	N/A	N/A

(Forward)

Financial assets/ Financial liabilities	Fair Value as at 31.12.2016			Fair Value as at 31.12.2015			Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	Assets (RM'000)	Liabilities (RM'000)	Hierarchy	Assets (RM'000)	Liabilities (RM'000)	Hierarchy			
Foreign exchange derivative									
Currency options	3,794	549	Level 2	12,595	4,553	Level 2	Inputs are quoted market vanilla instruments and discount factors derived from curve stripping. Vanilla uses parameterised interpolation volatility smile. Exotic pricing uses local mixture model valued using Monte Carlo and PDE techniques. Model parameter derived from market one touch barrier prices.	N/A	N/A
Interest rate derivative									
Interest rate swaps	18,687	23,635	Level 2	25,436	36,532	Level 2	Curve stripping which generates discount factors and forwards. Inputs are quoted market instruments.	N/A	N/A

Financial assets/ Financial liabilities	Fair Value as at 31.12.2016			Fair Value as at 31.12.2015			Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	Assets (RM'000)	Liabilities (RM'000)	Hierarchy	Assets (RM'000)	Liabilities (RM'000)	Hierarchy			
Credit derivatives									
Credit defaults swaps	6,570	2,885	Level 3	27,423	15,943	Level 3	Interpolation and extrapolation are flat forward hazard rate. Inputs are credit spreads, recoveries and interest rate curves obtained from quoted market instruments.	Credit spreads, recoveries and interest rate curves obtained from quoted market instruments.	Perform Market Adjustment Parameter review on first to default correlation using market observable quotes.
Financial Assets									
Held-for-trading	118,413	-	Level 2	45,182	-	Level 2	Fair values based on observable inputs.	N/A	N/A
Available-for-sale	81,608	-	Level 2	479,672	-	Level 2	Fair values based on observable inputs.	N/A	N/A

34. **CAPITAL ADEQUACY**

The components of Tier I and Tier II capital are as follows:

	2016 RM'000	2015 RM'000
Tier-I capital		
Paid-up share capital	650,000	601,920
Statutory reserve	32,155	25,766
Accumulated losses	<u>(11,989)</u>	<u>(15,480)</u>
	670,166	612,206
Less: Deferred tax assets	378	-
55% of cumulative gains of AFS financial instruments	-	1,147
Other disclosed reserves	<u>323</u>	<u>(2,085)</u>
Total Tier-I capital	<u>669,465</u>	<u>613,144</u>
Tier-II capital		
Collective assessment allowance	570	283
Regulatory reserve	<u>9,636</u>	<u>6,738</u>
Total Tier-II capital	<u>10,206</u>	<u>7,021</u>
Total Capital base	<u><u>679,671</u></u>	<u><u>620,165</u></u>
Capital Ratios		
Tier 1 Capital Ratio	28.097%	27.437%
Total Capital Ratio	<u><u>28.525%</u></u>	<u><u>27.751%</u></u>

The breakdown of risk-weighted assets by each major risk category is as follows:

	2016		2015	
	Principal RM'000	Risk Weighted RM'000	Principal RM'000	Risk Weighted RM'000
Risk weight				
0%	2,151,491	-	1,618,265	-
20%	754,093	150,819	808,932	161,786
50%	207,738	103,869	161,129	80,565
100%	1,365,910	<u>1,365,910</u>	1,061,208	<u>1,061,208</u>
Credit risk		1,620,598		1,303,559
Market risk		577,134		760,770
Operational risk		<u>184,994</u>		<u>170,419</u>
Total risk-weighted assets		<u>2,382,726</u>		<u>2,234,748</u>

35. ISLAMIC BANKING WINDOW

The Bank launched its Islamic banking business under its Islamic Banking Window on 9 April 2012. The financial position as of 31 December 2016 and results for the financial year ended on this date under the Islamic Banking Window of the Bank are summarised as follows:

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

ISLAMIC BANKING WINDOW

**STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and short-term funds	(a)	33,991	43,307
Financial assets available-for-sale	(b)	-	34,500
Other assets	(c)	5,357	2,107
Property, plant and equipment	(d)	4	8
Intangible assets	(e)	5	-
TOTAL ASSETS		<u>39,357</u>	<u>79,922</u>
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(f)	16,743	58,279
Other liabilities	(g)	665	32
Deferred tax liabilities	(h)	-	49
Tax liabilities	(m)	131	-
Total liabilities		<u>17,539</u>	<u>58,360</u>
Capital fund		24,350	24,350
Accumulated losses		(2,532)	(2,942)
Reserve		-	154
Islamic banking funds	(i)	<u>21,818</u>	<u>21,562</u>
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		<u>39,357</u>	<u>79,922</u>
COMMITMENTS AND CONTINGENCIES		<u>-</u>	<u>-</u>

The accompanying Notes form an integral part of the Financial Statements.

BNP PARIBAS MALAYSIA BERHAD

(Incorporated in Malaysia)

ISLAMIC BANKING WINDOW

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000
Total income derived from investment of Islamic banking funds and depositors' funds		1,611	1,778
Income derived from investment of Islamic banking funds and depositors' funds	(j)	1,611	1,778
Profit expense to depositors		(282)	(1,047)
Net income derived from investment of Islamic banking funds and depositors' funds		1,329	731
Other operating income	(k)	976	858
Other operating expenses	(l)	(1,764)	(2,455)
Write back for doubtful debt on other receivables		-	738
Profit/(Loss) for the financial year before zakat and taxation		541	(128)
Zakat		-	-
Income tax expense	(m)	(131)	-
Profit/(Loss) for the financial year after zakat and income tax		410	(128)
Other comprehensive (loss)/income:			
Items that may be reclassified subsequent to profit or loss:			
Net fair value gain on available-for-sale financial assets		-	154
Realised loss transferred to statement of comprehensive income on disposal of available-for-sale		(154)	-
Other comprehensive (loss)/income, net of tax		(154)	154
Total comprehensive profit for the year		256	26

The accompanying Notes form an integral part of the Financial Statements.

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BNP PARIBAS MALAYSIA BERHAD

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ISLAMIC BANKING BUSINESS

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Capital fund RM'000	Revaluation reserve-available -for-sale securities RM'000	Accumulated losses/Retained earning RM'000	Total RM'000
Balance as of 1 January 2015	24,350	-	(2,814)	21,536
Loss for the year	-	-	(128)	(128)
Other comprehensive income	-	154	-	154
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of 31 December 2015	24,350	154	(2,942)	21,562
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of 1 January 2016	24,350	154	(2,942)	21,562
Profit for the year	-	-	410	410
Other comprehensive loss	-	(154)	-	(154)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of 31 December 2016	24,350	-	(2,532)	21,818
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying Notes form an integral part of the Financial Statements.

(a) **CASH AND SHORT-TERM FUNDS**

	2016 RM'000	2015 RM'000
At Amortised Cost		
Cash and balances with licensed banks	1,986	15,414
Money at call and deposit placements maturing within one month	<u>32,005</u>	<u>27,893</u>
	<u>33,991</u>	<u>43,307</u>

(b) **SECURITIES - AVAILABLE FOR SALE**

	2016 RM'000	2015 RM'000
At Fair Value		
Government securities:		
Malaysian Government Investment Issues	<u>-</u>	<u>34,500</u>

(c) **OTHER ASSETS**

	2016 RM'000	2015 RM'000
Other receivables, deposit and prepayments	5,857	2,607
Less: Allowance for doubtful debt on other receivables	<u>(500)</u>	<u>(500)</u>
	<u>5,357</u>	<u>2,107</u>

Movements of allowance for doubtful debt on other receivables are as follows:

	2016 RM'000	2015 RM'000
Individual impairment allowance		
At 1 January	500	1,238
Less: Write back made during the financial year	<u>-</u>	<u>(738)</u>
At 31 December	<u>500</u>	<u>500</u>

The other receivables of RM500,000 represent amount outstanding which are past due and impaired at the end of the reporting period.

(d) **PROPERTY, PLANT AND EQUIPMENT**

2016	Office equipment and machinery RM'000	Computer equipment RM'000	Total RM'000
Cost			
At beginning/end of year	6	23	29
Accumulated Depreciation			
At beginning of year	1	20	21
Charge for the year	1	3	4
	<hr/>	<hr/>	<hr/>
At end of year	2	23	25
	<hr/>	<hr/>	<hr/>
Net Book Value			
As of 31 December 2016	5	3	8
	<hr/>	<hr/>	<hr/>
As of 31 December 2015	4	-	4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(e) **INTANGIBLE ASSETS**

	2016 RM'000	2015 RM'000
<u>Computer Software:</u>		
Cost		
At 1 January	34	34
Additions	7	-
	<hr/>	<hr/>
At 31 December	41	34
	<hr/>	<hr/>
Accumulated Depreciation		
At 1 January	34	34
Amortisation for the year	2	-
	<hr/>	<hr/>
At 31 December	36	34
	<hr/>	<hr/>
Net Book Value	5	-
	<hr/> <hr/>	<hr/> <hr/>

(f) **DEPOSITS FROM CUSTOMERS**

Type	2016 RM'000	2015 RM'000
At Amortised Cost:		
Non-Mudharabah Fund		
Demand deposits	16,590	37,550
Commodity Murabahah	<u>153</u>	<u>20,729</u>
	<u>16,743</u>	<u>58,279</u>

(i) Maturity structure of deposit from customers is as follows:

	2016 RM'000	2015 RM'000
Due within six months	<u>153</u>	<u>20,729</u>

(ii) The deposits are sourced from the following types of customers:

	2016 RM'000	2015 RM'000
Business enterprise	6,288	4,290
Domestic non-bank financial institution	<u>10,455</u>	<u>53,989</u>
	<u>16,743</u>	<u>58,279</u>

(g) **OTHER LIABILITIES**

	2016 RM'000	2015 RM'000
Other liabilities	<u>665</u>	<u>32</u>

(h) **DEFERRED TAX LIABILITIES**

	2016 RM'000	2015 RM'000
At 1 January	49	-
Recognised in other comprehensive income	<u>(49)</u>	<u>49</u>
At 31 December	<u>-</u>	<u>49</u>

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 income taxes relate to the same fiscal authority.

(i) **ISLAMIC BANKING FUNDS**

	2016 RM'000	2015 RM'000
Capital fund	24,350	24,350
Revaluation reserve	-	154
Accumulated losses	<u>(2,532)</u>	<u>(2,942)</u>
	<u>21,818</u>	<u>21,562</u>

(j) **INCOME DERIVED FROM INVESTMENT OF ISLAMIC BANKING FUNDS AND DEPOSITORS' FUNDS**

	2016 RM'000	2015 RM'000
Loans, advance and financing	64	-
Money at call and deposit placement with financial institutions	852	933
Financial assets held-for-trading	-	(72)
Financial assets available-for-sale	<u>785</u>	<u>1,012</u>
	1,701	1,873
Amortisation of premium less accretion of discount	<u>(90)</u>	<u>(95)</u>
	<u>1,611</u>	<u>1,778</u>

(k) **OTHER OPERATING INCOME**

	2016 RM'000	2015 RM'000
Fee income:		
Commissions	1	1
Other fee income	748	-
Net gain arising from sale of securities:		
Financial assets held-for-trading	-	801
Financial assets available-for-sale	61	-
Unrealised loss on revaluation of securities:		
Unrealised loss on revaluation of financial assets held-for-trading	-	(3)
Other income:		
Others	166	59
	<u>976</u>	<u>858</u>

(l) **OTHER OPERATING EXPENSES**

	2016 RM'000	2015 RM'000
Personnel costs (Note i)	1,200	1,670
Establishment costs (Note ii)	159	335
Marketing expense (Note iii)	35	2
Administration and general expenses (Note iv)	370	448
	<u>1,764</u>	<u>2,455</u>

(i) **Personnel Costs**

	2016 RM'000	2015 RM'000
Wages, salaries and bonuses	921	1,122
Defined contribution retirement plan	165	226
Social security cost	3	2
Other staff related expense	111	320
	<u>1,200</u>	<u>1,670</u>

(ii) **Establishment Costs**

	2016 RM'000	2015 RM'000
Rental of premises	100	267
Amortisation of intangible assets	2	-
Depreciation of property, plant and equipment	4	7
Others	53	61
	<u>159</u>	<u>335</u>

(iii) **Marketing Expenses**

	2016 RM'000	2015 RM'000
Other	<u>35</u>	<u>2</u>

(iv) **Administration and General Expenses**

	2016 RM'000	2015 RM'000
Legal and professional fees	302	310
Others	68	138
	<u>370</u>	<u>448</u>

Included in administration and general expenses is the Shariah Committee's remuneration of RM242,750 (2015: RM269,250).

(m) **INCOME TAX EXPENSE**

	2016 RM'000	2015 RM'000
Estimated current tax payable	<u>131</u>	<u>-</u>

A numerical reconciliation of income tax expense to profit/(loss) before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2016 RM'000	2015 RM'000
Profit/(Loss) before tax	<u>541</u>	<u>(128)</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	130	(32)
Tax effects of expenses not deductible for tax purposes	<u>1</u>	<u>32</u>
Income tax expense for the year	<u>131</u>	<u>-</u>

(n) **CAPITAL ADEQUACY**

The components of Tier I and Tier II capital are as follows:

	2016 RM'000	2015 RM'000
Tier-I capital		
Capital fund	24,350	24,350
Accumulated losses	<u>(2,532)</u>	<u>(2,942)</u>
	21,818	21,408
Less: 55% of cumulative gains of AFS instruments	-	85
Other disclosed reserves	<u>-</u>	<u>(154)</u>
Total Tier-I capital	<u>21,818</u>	<u>21,477</u>
Tier-II capital		
Collective assessment allowance	<u>-</u>	<u>-</u>
Total Tier-II capital	<u>-</u>	<u>-</u>
Total Capital base	<u>21,818</u>	<u>21,477</u>
Capital Ratios		
Tier 1 Capital Ratio	272.589%	349.902%
Total Capital Ratio	<u>272.589%</u>	<u>349.902%</u>

The breakdown of risk-weighted assets by each major risk category is as follows:

	2016		2015	
	Principal RM'000	Risk Weighted RM'000	Principal RM'000	Risk Weighted RM'000
Risk weight				
0%	32,833	-	75,338	-
100%	4,853	<u>4,853</u>	2,777	<u>2,777</u>
Credit risk		4,853		2,777
Market risk		-		-
Operational risk		<u>3,151</u>		<u>3,361</u>
Total risk-weighted assets		<u><u>8,004</u></u>		<u><u>6,138</u></u>

The following table represents the Islamic Banking Window's assets and liabilities at carrying amounts as of 31 December 2016:

The Bank 2016	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	33,991	-	-	-	-	-	33,991
Other assets	-	-	-	-	-	5,357	5,357
Total Assets	33,991	-	-	-	-	5,357	39,348
Liabilities							
Deposits from customers	16,743	-	-	-	-	-	16,743
Other liabilities	-	-	-	-	-	665	665
Total Liabilities	16,743	-	-	-	-	665	17,408
Net liquidity gap	17,248	-	-	-	-	4,692	21,940

The Bank 2015	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	43,307	-	-	-	-	-	43,307
Financial assets available-for-sale	-	-	34,500	-	-	-	34,500
Other assets	-	-	-	-	-	2,107	2,107
Total Assets	43,307	-	34,500	-	-	2,107	79,914
Liabilities							
Deposits from customers	48,232	10,015	32	-	-	-	58,279
Other liabilities	-	-	-	-	-	32	32
Total Liabilities	48,232	10,015	32	-	-	32	58,311
Net liquidity gap	(4,925)	(10,015)	34,468	-	-	2,075	21,603

Company No. 918091 - T

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

The Directors of **BNP PARIBAS MALAYSIA BERHAD** state that, in their opinion, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as of 31 December 2016 and of the financial performance and the cash flows of the Bank for the year ended on that date.

Signed in accordance
with a resolution of the Directors,

PIERRE VEYRES

HALIM BIN HAJI DIN

Kuala Lumpur,
28 March 2017

Company No. 918091 - T

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE
FINANCIAL MANAGEMENT OF THE BANK**

I, **PHILIPPE AROYO**, the Officer primarily responsible for the financial management of **BNP PARIBAS MALAYSIA BERHAD**, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true , and by virtue of the provisions of the Statutory Declarations Act, 1960.

PHILIPPE AROYO

Subscribed and solemnly declared by the abovenamed **PHILIPPE AROYO** at **KUALA LUMPUR** this 28th of March 2017.

Before me,

COMMISSIONER FOR OATHS