

Company No.

918091	T
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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Company No.

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS

The Directors hereby submit their report and the audited financial statements of the Bank for the financial year ended 31 December 2017.

DIRECTORS

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

Dato Abdullah Mat Noh
Halim Bin Haji Din
Jean-Pierre Roger Beno Bernard
Yves Maurice Guy Marie Drieux
Pierre Veyres
Chia Seng Leng

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.

FINANCIAL RESULTS

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

	RM'000
Profit before tax	60,406
Income tax expense	(15,614)
Profit for the year	<u>44,792</u>

RESERVES AND PROVISIONS

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

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BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

ISSUE OF SHARES AND DEBENTURES

During the financial year, there was no issuance of new ordinary shares or debentures.

DIRECTORS' FEES AND BENEFITS

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

Neither during nor at the end of the financial year was the Bank a party to any arrangements whose object was to enable the Directors to 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 in this report.

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

Since the end of the previous financial year, no Director has 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.

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Bank or its holding company or subsidiaries of the holding company during the financial year except as follows:

	No. of ordinary shares of EUR2 each			
	As at <u>1.1.2017</u>	<u>Acquired</u>	<u>Disposed</u>	As at <u>31.12.2017</u>
<u>Shares in the ultimate holding company, BNP Paribas S.A.</u>				
Jean-Pierre Roger Beno Bernard	12,196	-	(6,000)	6,196
Yves Maurice Guy Marie Drieux	1,425	-	-	1,425
Chia Seng Leng	3,450	-	-	3,450
Pierre Veyres	3,117	-	-	3,117

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BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTEREST IN SHARES AND DEBENTURES (CONTINUED)

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Bank or its holding company or subsidiaries of the holding company during the financial year except as follows: (continued)

	<u>No. of employee share options of EUR2 each</u>			
	<u>As at</u> <u>1.1.2017</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at</u> <u>31.12.2017</u>
<u>Shares options in the ultimate holding company, BNP Paribas S. A.</u>				
Jean-Pierre Roger Beno Bernard	4,060	-	-	4,060
Yves Maurice Guy Marie Drieux	3,096	-	(1,616)	1,480
Pierre Veyres	8,751	-	(2,871)	5,880

	<u>No. of shares</u>			
	<u>Balance</u> <u>as of</u> <u>1.1.2017</u>	<u>Granted</u>	<u>Disposed</u>	<u>Balance</u> <u>as of</u> <u>31.12.2017</u>

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

Yves Maurice Guy Marie Drieux	1,240	461	-	1,701
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	<u>No. of units</u>			
	<u>Balance</u> <u>as of</u> <u>1.1.2017</u>	<u>Granted</u>	<u>Disposed</u>	<u>Balance</u> <u>as of</u> <u>31.12.2017</u>

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

Chia Seng Leng	1,020	-	-	1,020
Pierre Veyres	288	12	-	300

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.

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BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

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.

HOLDING COMPANY

The Directors regard BNP Paribas S.A., a financial institution incorporated in France, as the immediate and ultimate holding company of the Bank.

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.

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

During the financial year, Directors and Officers of the Bank are covered under the Directors' and Officers' Liability Insurance Group Policy in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Bank, subject to the terms of the policy. The total amount of directors' and officers' liability insurance premium effected for the Directors and Officers of the Bank are RM8,224.

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.

BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

OTHER STATUTORY INFORMATION

- a. Before the financial statements of the Bank were prepared, the Directors took reasonable steps:
 - i. to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for impairment, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - ii. to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.
- b. At the date of this Report, the Directors are not aware of any circumstances:
 - i. which would render the amount written off for bad debts or the amount of the provision for impairment in the financial statements of the Bank inadequate to any substantial extent; or
 - ii. which would render the values attributed to current assets in the financial statements of the Bank misleading; or
 - iii. which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- c. At the date of this Report:
 - i. there are no charges on the assets of the Bank which have arisen since the end of the financial year to secure the liability of any other person; and
 - ii. there are no contingent liabilities in the Bank which have arisen since the end of the financial year.
- d. No contingent or other liability of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet their obligations as and when they fall due.
- e. At the date of this Report, the Directors are not aware of any circumstances not otherwise dealt with in this Report or financial statements of the Bank which would render any amount stated in the financial statements misleading.
- f. In the opinion of the Directors:
 - i. the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

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BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

- f. In the opinion of the Directors: (continued)
- ii. 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 operations of the Bank for the financial year in which this Report is made.

AUDITORS' REMUNERATION

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

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

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

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 the financial year ended 31 December 2017

Malaysia experienced significant progress in 2017 with a year on year growth projected at 5.8%. This was supported by strengthening domestic demand, improved labor market conditions, wage growth as well as improved external demand for Malaysia's manufactured products and commodity exports. Growth is expected to remain strong, projected at 5.2% for 2018.

The Bank remained focused on its customers through the provision of its range of products and expertise together with excellent client service. Client portfolio continued to grow on a selective basis on the back of the development of the local platform. The Bank continued to reinforce its strong risk and control culture which resulted in the increase of its advisory, financing and capital market activities and its market share in the flow businesses and transactional banking activities.

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REPORT OF THE DIRECTORS (CONTINUED)

BUSINESS PLAN AND OUTLOOK FOR THE NEXT FINANCIAL YEAR (CONTINUED)

Business strategy for the financial year ended 31 December 2017 (continued)

In this context, the Bank registered profit after tax of RM44.8 million compared to RM12.8 million in 2016. This increase was driven mainly by strong revenue growth and the monitoring and implementation of effective cost controls. The strengthening of the Malaysian currency contributed to the sterling performance from the Global Markets and Assets Liabilities Management (ALM) Treasury teams. This resulted in a 67% increase in the Bank's revenue compared to the year to year growth of costs of 23%.

Total assets as at 31 December 2017 stood at RM3.9 billion, a decrease of 7.3% as compared to the position as at 31 December 2016. Cash and short-term funds have decreased considerably, compensated with an increase in financial assets held for trading and loan, advances and financing. On the liabilities side, funding from customers deposits increase to RM1.2 billion as at 31 December 2017. Interbank borrowing saw a decline from RM1.4 billion in FY2016 to RM786 million as at 31 December 2017 demonstrating lower reliance.

The Islamic Banking business continued to improve, registering new loan growth of RM4 million (Nil in 2016). Total assets as at 31 December 2017 stood at RM35 million, a decline of 10% as compared to the Bank's position of RM39 million as at 31 December 2016.

Outlook for 2018

Economic growth in Malaysia is expected to remain strong in 2018 with forecast for GDP between +5.0% and +5.5%. Domestic demand is expected to continue to be the primary driver of growth, external sector should also contribute positively. Private sector consumption is targeted to grow by 7.3% in line with the anticipated increase in sustained spending in private consumption and investment activities. Inflation is expected to be controlled, hovering between 2.5% and 3.5%.

Market conditions in 2018 are expected to be volatile on the back of uncertain US economic policies, the anticipated US interest rate hike cycle and the forthcoming general elections in Malaysia. Whilst global economic recovery is underway, downside risk to growth remains. This is due to the threat of increased protectionism, policy uncertainties in major advanced economies and geo political tensions. Nevertheless, expansionary fiscal policy in major economies is expected to provide impetus for global growth. Structural reforms to enhance productivity coupled with greater trade and investment activities are expected to enhance resilience and improve global growth prospects.

The Belt and Road initiative is expected to provide ample opportunities for Malaysia to access new markets. The initiative is expected to derive massive benefits to Malaysia in terms of excellent infrastructure, connectivity, social facilities, better living standards and abundant business opportunities.

In such an environment MYR could continue to appreciate versus USD and major SEA countries.

Najmah will further improve and diversify tailor made products and solutions in Islamic Banking as it gains popularity with a wider range of investors, both Muslim and non-Muslim. Najmah will continue to tap into this increased interest in Islamic Banking.

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BNP PARIBAS MALAYSIA BERHAD
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REPORT OF THE DIRECTORS (CONTINUED)

BUSINESS PLAN AND OUTLOOK FOR THE NEXT FINANCIAL YEAR (CONTINUED)

Outlook for 2018 (continued)

The Bank will continue to maintain stringent selectivity and risk profile, remaining focused on Malaysian champions both from the Corporate and Financial sectors. Global Market will continue to improve its services to customers with suitable products and services with flow banking remaining a strategic component to finance the real economy. Investment Banking will continue improving the Bank's anchor and franchise.

RATINGS BY AN EXTERNAL RATING AGENCY

<u>Rating Agency</u>	<u>Date of rating</u>	<u>Rating Received</u>
Rating Agency Malaysia (RAM)	3 Jan 2018	Long Term – AA2 Short Term – P1 Outlook - Stable

Rating classification description

RAM has reaffirmed BNP Paribas Malaysia Berhad's AA2/Stable/P1 financial institution ratings. The Bank's ratings reflects the ready parental support from BNP Paribas S.A. (the Group), if needed, while also leveraging on its parent's global franchise, international network and technical expertise. BNP Paribas S.A. is one of the world's largest financial institutions and among the globally systemically important banks identified by the Financial Stability Board.

This report was approved by the Board of Directors on

PIERRE VEYRES
DIRECTOR

HALIM BIN HAJI DIN
DIRECTOR

Kuala Lumpur

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BNP PARIBAS MALAYSIA BERHAD
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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 ("BNM") and the Islamic Financial Services Act 2013. We are responsible to endorse such internal control 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 BNM and Securities Commission of Malaysia ("SC"). The regulations 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* because the Bank does not fulfil *zakat* payment eligibility requirements set by "Jabatan Waqaf dan Haji ("JAWHAR").

Shariah Compliance

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

During the year ended 31 December 2017, 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, Shariah 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 to obtain relevant information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariah principles.

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BNP PARIBAS MALAYSIA BERHAD
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SHARIAH COMMITTEE'S REPORT (CONTINUED)

In our opinion, for the year ended 31 December 2017:

1. the products and processes of the Bank that we have reviewed and endorsed during the year ended 31 December 2017 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.

Muhammad Ali Jinnah Bin Ahmad
(Chairman)

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

Datuk Fazlur Rahman Bin Ebrahim
(Member)

Mazrul Shahir Bin Md Zuki
(Member)

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BNP PARIBAS MALAYSIA BERHAD

(Incorporated in Malaysia)
(Company No: 918091 T)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 107.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
BNP PARIBAS MALAYSIA BERHAD (CONTINUED)**

(Incorporated in Malaysia)
(Company No: 918091 T)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
BNP PARIBAS MALAYSIA BERHAD (CONTINUED)**

(Incorporated in Malaysia)
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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' Responsibilities for the audit of the Financial Statements (continued)

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

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

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

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

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

ONG CHING CHUAN
02907/11/2019 J
Chartered Accountant

Kuala Lumpur

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
ASSETS			
Cash and short-term funds	5	1,299,423	2,077,547
Reverse repurchase agreements		9,240	-
Financial assets held for trading	6	510,763	118,413
Financial assets available-for-sale	7	10,059	81,608
Loans, advances and financing	8	1,137,107	849,848
Derivative financial assets	9	571,049	799,074
Statutory deposits with Bank Negara Malaysia	10	-	-
Other assets	11	320,143	235,795
Property, plant and equipment	12	1,254	1,518
Intangible assets	13	2,674	2,735
Tax recoverable		1,644	1,484
Deferred tax assets	14	548	378
TOTAL ASSETS		<u>3,863,904</u>	<u>4,168,400</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	15	1,221,912	1,008,106
Deposits and placements of banks and other financial institutions	16	785,929	1,488,959
Derivative financial liabilities	9	763,233	448,808
Other liabilities	17	368,224	543,048
Total liabilities		<u>3,139,298</u>	<u>3,488,921</u>
Share capital	18	650,000	650,000
Retained profit / (Accumulated losses)		61,889	(11,989)
Reserves	19	12,717	41,468
Shareholder's equity		<u>724,606</u>	<u>679,479</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>3,863,904</u>	<u>4,168,400</u>
COMMITMENTS AND CONTINGENCIES	29	<u>47,200,072</u>	<u>34,376,513</u>

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

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Interest income	20	117,669	82,988
Interest expense	21	(38,971)	(25,795)
Net interest income		<u>78,698</u>	<u>57,193</u>
Net income from Islamic banking business	33	614	1,329
Other operating income	22	79,312	58,522
Other operating expenses	23	(73,656)	(59,716)
Allowance made for impairment on loans, advances and financing	24	(381)	(287)
Allowance written back/(made) for impairment on other receivables	11	1,002	(28)
Profit before tax		<u>60,406</u>	<u>18,301</u>
Income tax expense	25	(15,614)	(5,523)
Profit for the year		<u>44,792</u>	<u>12,778</u>
Other comprehensive income/(expense): <i>Items that may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve - financial investment available-for-sale: Net changes in fair value		335	(2,408)
Other comprehensive income/(expense)		<u>335</u>	<u>(2,408)</u>
Total comprehensive income		<u>45,127</u>	<u>10,370</u>

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

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	Share capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Revaluation reserve- financial assets available-for sale RM'000	Retained profits/ (Accumulated losses) RM'000	Total RM'000
At 1 January 2017	650,000	32,155	9,636	(323)	(11,989)	679,479
Profit for the year	-	-	-	-	44,792	44,792
Transfer from statutory reserve	-	(32,155)	-	-	32,155	-
Transfer to regulatory reserve	-	-	3,069	-	(3,069)	-
Other comprehensive income	-	-	-	335	-	335
At 31 December 2017	650,000	-	12,705	12	61,889	724,606
At 1 January 2016	601,920	25,766	6,738	2,085	(15,480)	621,029
Issuance of shares	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)
At 31 December 2016	650,000	32,155	9,636	(323)	(11,989)	679,479

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

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	60,406	18,301
Adjustment for:		
Unrealised loss/(gain) on derivative financial instrument	36,558	(42,211)
Unrealised loss/(gain) on financial assets held for trading	1,068	(151)
Unrealised loss on foreign exchange	319,532	355,971
Amortisation of premium less accretion of discount	257	1,052
Realised loss on financial assets available-for-sale	290	3,424
Interest income on financial assets available-for-sale	(9,029)	(11,755)
Depreciation of property, plant and equipment	632	1,271
Amortisation of intangible assets	61	50
Allowance (written back)/made for impairment on other receivables	(1,002)	28
Allowance made for impairment on loans, advances and financing	381	287
Operating profit before working capital changes	<u>409,154</u>	<u>326,267</u>
(Increase)/Decrease in:		
Reverse repurchase agreements	(9,240)	203,907
Financial assets held for trading	(393,418)	(73,080)
Loans, advances and financing	(287,640)	(265,370)
Other assets	(83,346)	(138,552)
Increase/(Decrease) in:		
Deposit from customers	213,806	(44,649)
Deposit and placements of banks and other financial institution	(703,030)	466,574
Derivative financial assets/liabilities	186,360	(43,392)
Other liabilities	(174,821)	(83,678)
Net cash (used in)/generated from operating activities	<u>(842,175)</u>	<u>348,027</u>
Income tax paid	(15,944)	(3,972)
Net cash (used in)/generated from operating activities	<u>(858,119)</u>	<u>344,055</u>

Company No.

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(371)	(597)
Interest income on financial assets available-for-sale	9,580	16,357
Net proceeds from sales of financial assets available-for-sale	70,786	386,578
	<u>79,995</u>	<u>402,338</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from issuance of shares	-	48,080
	<u>-</u>	<u>48,080</u>
Net cash generated from financing activity	-	48,080
	<u>-</u>	<u>48,080</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(778,124)	794,473
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,077,547	1,283,074
	<u>2,077,547</u>	<u>1,283,074</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,299,423	2,077,547
	<u>1,299,423</u>	<u>2,077,547</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	5	1,299,423
		<u>1,299,423</u>
		<u>2,077,547</u>

There were no changes in liabilities arising from financing activities for the financial year ended 31 December 2016 and 31 December 2017.

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

Company No.

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

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 Level 48A, Vista Tower, 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 23 May 2018.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. There are no critical accounting estimates and assumptions used that are significant to the financial statements.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

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

The Bank has applied the following amendments for the financial year beginning on 1 January 2017:

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

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) Standards and amendments that have been issued but not yet effective and applicable to the Bank

The Bank will apply these standards, amendments to published standards from:

(i) Financial year beginning on/after 1 January 2018

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(b) Standards and amendments that have been issued but not yet effective and applicable to the Bank (continued)

The Bank will apply these standards, amendments to published standards from: (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

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

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

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

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

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

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(b) Standards and amendments that have been issued but not yet effective and applicable to the Bank (continued)

The Bank will apply these standards, amendments to published standards from: (continued)

(i) Financial year beginning on/after 1 January 2018 (continued)

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

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

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

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

Key provisions of the new standard are as follows:

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

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(b) Standards and amendments that have been issued but not yet effective and applicable to the Bank (continued)

The Bank will apply these standards, amendments to published standards from: (continued)

(ii) Financial year beginning on/after 1 January 2019

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

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

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

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

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

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 9 'Prepayment Features with Negative Compensation' (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(b) Standards and amendments that have been issued but not yet effective and applicable to the Bank (continued)

The Bank will apply these standards, amendments to published standards from: (continued)

(ii) Financial year beginning on/after 1 January 2019 (continued)

- Annual Improvements to MFRSs 2015 – 2017 Cycle:
 - Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

The Bank is assessing the impact and is expecting no significant impact from the adoption of the new standards and amendments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Financial assets

(a) Classification

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

(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 and other financial assets designated by the Bank as fair value through profit or loss upon initial recognition.

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

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's loans and receivables comprise cash and short-term funds, deposits placements with bank and other financial institutions, loans, advances and financing and other assets in the statements of financial position.

(iii) Financial investments held-to-maturity

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

(iv) Financial investments available-for-sale

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Bank commences to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the profit or loss.

(c) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit or loss in the financial year which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in other comprehensive income, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised in the profit or loss. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the profit or loss in the financial year it arises.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

(c) Subsequent measurement (continued)

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the profit or loss.

Interest from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective interest method and is recognised in the profit or loss. Dividends from available-for-sale equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss.

(d) Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held for trading category if the financial asset is no longer held for the purposes of selling in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may 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 these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities become the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective interest rates for the securities reclassified to held-to-maturity category are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective interest rates prospectively.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statement of income. Financial liabilities are derecognised when extinguished.

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

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

(b) Financial liabilities at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, and other liabilities.

C Derecognition of financial assets and financial liabilities

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

Collateral furnished by the Bank under standard repurchase agreements transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

D Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E Impairment of financial assets

(a) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine whether there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or financial investment held-to-maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets that have not been individually assessed are grouped together for portfolio impairment assessment. These loans are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

If, in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

(b) Assets carried as available-for-sale

The Bank assesses at each date of the statements of financial position whether there is objective evidence that the financial asset is impaired.

For debt securities, the Bank uses criteria and measurement of impairment loss applicable for "assets carried at amortised cost" above. If in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of income, the impairment loss is reversed through profit or loss.

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is objective evidence that an impairment loss on financial investments available-for-sale has incurred, the cumulative loss that has been recognised directly in equity is removed from other comprehensive income and recognised in the profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the profit or loss.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of income.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the fair value of derivatives in statement of income immediately.

G Recognition of interest/profit income and interest/profit expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Income from Islamic banking business is recognised on an accrual basis in accordance with the principles of Shariah.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H Currency translation

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. 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 investment hedge, which are recognised in shareholder’s equity.

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.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

I **Property, plant and 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I Property, plant and equipment and intangible assets (continued)

The depreciation is made at the following rates:

Office equipment	20%
Renovation and installation	16.67%
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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Employee benefits

(a) 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.

(b) 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").

(c) 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.

(d) 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 Bank makes a charge to profit or loss in connection with expenses relating to share-based payments from grant date to vesting date.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

K Cash and short-term funds

The cash and short term funds 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

L 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.

M 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.

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

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.

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

5. CASH AND SHORT-TERM FUNDS

	<u>2017</u> RM'000	<u>2016</u> RM'000
At amortised cost:		
Cash and balances with banks and other financial institutions	48,917	54,853
Money at call and deposit placements maturing within one month	1,250,506	2,022,694
	<u>1,299,423</u>	<u>2,077,547</u>

6. FINANCIAL ASSETS HELD FOR TRADING

	<u>2017</u> RM'000	<u>2016</u> RM'000
At Fair Value:		
Government securities:		
Malaysian Government Securities	334,045	112,682
Malaysian Government Investment Issues	69,872	5,731
Treasury Bills	106,846	-
	<u>510,763</u>	<u>118,413</u>

7. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	<u>2017</u> RM'000	<u>2016</u> RM'000
At Fair Value:		
Government securities:		
Malaysian Government Investment Issues	10,059	30,262
Malaysian Government Securities	-	51,346
	<u>10,059</u>	<u>81,608</u>

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

8. LOANS, ADVANCES AND FINANCING

	<u>2017</u> RM'000	<u>2016</u> RM'000
At Amortised Cost:		
(i) By type		
Revolving credit	654,529	618,526
Term loans	302,257	130,984
Trust receipts	56,927	50,315
Bills discounting	-	19,316
Other trade bills discounted	117,964	22,848
Overdrafts	6,381	8,429
	<hr/>	<hr/>
Gross loans, advances and financing	1,138,058	850,418
Less: Collective impairment allowances	(951)	(570)
	<hr/>	<hr/>
Net loans, advances and financing	<u>1,137,107</u>	<u>849,848</u>
(ii) By type of customer		
Domestic business enterprises	1,094,440	822,102
Financial institutions	43,618	28,316
	<hr/>	<hr/>
	<u>1,138,058</u>	<u>850,418</u>
(iii) By interest rate		
Variable rate:		
BLR-minus	-	1,491
BLR-plus	-	19
Cost plus	1,138,058	848,908
	<hr/>	<hr/>
	<u>1,138,058</u>	<u>850,418</u>
(iv) By residual contractual maturity		
Maturing within one year	804,112	719,434
More than one year to five years	321,646	117,828
More than five years	12,300	13,156
	<hr/>	<hr/>
	<u>1,138,058</u>	<u>850,418</u>

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

8. LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
(v) By geographical distribution		
In Malaysia	1,138,058	850,418
(vi) By Sector		
Manufacturing	785,994	602,252
Transport, storage and communication	-	3,616
Construction	8,002	36,625
Wholesale and retail	97,467	-
Financial services	43,618	28,316
Other business services	190,599	166,453
Real estate activities	12,378	13,156
	<u>1,138,058</u>	<u>850,418</u>

(vii) Movements in collective impairment allowances are as follows:

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Collective impairment allowances</u>		
Balance as of 1 January	570	283
Add: Allowances made during the financial year (Note 24)	381	287
Balance as of 31 December	<u>951</u>	<u>570</u>
Collective impairment allowances (inclusive of regulatory reserve) as % of gross loans, advances and financing	<u>1.20%</u>	<u>1.20%</u>

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

9. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are 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:

	2017		
	<u>Notional</u>	<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000
<u>Derivatives held for trading at fair value through profit or loss</u>			
Foreign exchange derivatives:			
Currency forwards	8,503,287	275,412	(51,798)
Currency swaps	19,927,601	257,463	(674,812)
Currency options	930,751	3,386	(2,257)
Currency spot	197,132	324	(52)
Interest rate derivatives:			
Interest rate swaps	16,719,563	14,226	(25,152)
Credit derivatives:			
Credit default swaps	549,660	20,238	(9,162)
Total derivative assets/(liabilities)	<u>46,827,994</u>	<u>571,049</u>	<u>(763,233)</u>
	2016		
	<u>Notional</u>	<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000
<u>Derivatives held for trading at fair value through profit or loss</u>			
Foreign exchange derivatives:			
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 derivatives:			
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>

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

9. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTINUED)

The table 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 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 financial instruments are estimated by reference to quoted market prices, where available. Internal models are used when no market prices are available.

10. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits maintained with Bank Negara Malaysia ("BNM") are in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009 to satisfy the Statutory Reserve Requirement ("SRR"), the amounts of which are determined at set percentages of total eligible liabilities.

As of 31 December 2017 and 2016, the Bank has not placed any statutory deposit with BNM as the Bank's eligible assets are in excess of eligible liabilities.

11. OTHER ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Other receivables	48,254	62,309
Less: Allowance for impairment on other receivables	(1)	(1,510)
	<u>48,253</u>	<u>60,799</u>
Collateral assets	269,686	173,553
Deposit	958	985
Prepayments	1,246	458
	<u>320,143</u>	<u>235,795</u>

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

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

11. OTHER ASSETS (CONTINUED)

Movements of allowance for impairment on other receivables are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Individual impairment allowance</u>		
Balance as of 1 January	1,510	1,482
Allowance (written back)/made during the financial year	(1,002)	28
Allowance written off during the financial year	(507)	-
Balance as of 31 December	<u>1</u>	<u>1,510</u>

The other receivables of RM1,503 (2016: RM1,510,000) represent amount outstanding which are past due and impaired at the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS
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12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment and <u>machinery</u> RM'000	Renovation and <u>installation</u> RM'000	Furniture fixtures and <u>fittings</u> RM'000	Computer equipment and <u>hardware</u> RM'000	Motor vehicle RM'000	Renovation work-in <u>progress</u> RM'000	<u>Total</u> RM'000
<u>2017</u>							
<u>Cost</u>							
At beginning of year	212	4,126	1,456	4,306	15	269	10,384
Additions	1	-	-	100	-	270	371
Write off	-	-	-	-	-	(3)	(3)
Reclassification	-	130	369	37	-	(536)	-
Transfer to intangible assets	-	-	-	-	-	-	-
At end of year	<u>213</u>	<u>4,256</u>	<u>1,825</u>	<u>4,443</u>	<u>15</u>	<u>-</u>	<u>10,752</u>
<u>Accumulated depreciation</u>							
At beginning of year	145	3,588	1,344	3,781	8	-	8,866
Charge for the year	23	254	79	273	3	-	632
At end of year	<u>168</u>	<u>3,842</u>	<u>1,423</u>	<u>4,054</u>	<u>11</u>	<u>-</u>	<u>9,498</u>
<u>Net Book Value</u>							
As of 31 December 2017	<u>45</u>	<u>414</u>	<u>402</u>	<u>389</u>	<u>4</u>	<u>-</u>	<u>1,254</u>

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NOTES TO THE FINANCIAL STATEMENTS
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12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and <u>machinery</u> RM'000	Renovation and <u>installation</u> RM'000	Furniture fixtures and <u>fittings</u> RM'000	Computer equipment and <u>hardware</u> RM'000	Motor <u>vehicle</u> RM'000	Renovation work-in <u>progress</u> RM'000	<u>Total</u> RM'000
<u>2016</u>							
<u>Cost</u>							
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>
<u>Accumulated depreciation</u>							
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	<u>145</u>	<u>3,588</u>	<u>1,344</u>	<u>3,781</u>	<u>8</u>	<u>-</u>	<u>8,866</u>
<u>Net Book Value</u>							
As of 31 December 2016	<u>67</u>	<u>538</u>	<u>112</u>	<u>525</u>	<u>7</u>	<u>269</u>	<u>1,518</u>

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

13. INTANGIBLE ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Computer Software</u>		
<u>Cost</u>		
At 1 January	432	247
Transfer from property, plant and equipment	-	185
	<u>432</u>	<u>432</u>
At 31 December	432	432
<u>Accumulated amortisation</u>		
At 1 January	297	247
Amortisation for the year	61	50
	<u>358</u>	<u>297</u>
At 31 December	358	297
Net book value	<u>74</u>	<u>135</u>
<u>Interbank Giro License Fees</u>		
<u>Cost</u>		
At 1 January/31 December	<u>2,600</u>	<u>2,600</u>
<u>Accumulated amortisation</u>		
At 1 January/31 December	<u>-</u>	<u>-</u>
Net Book Value	<u>2,600</u>	<u>2,600</u>
Total Net Book Value	<u>2,674</u>	<u>2,735</u>

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

14. DEFERRED TAX ASSETS/(LIABILITIES)

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Deferred Tax Assets	550	475
Deferred Tax Liabilities	(2)	(97)
At 31 December	<u>548</u>	<u>378</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 tax authority.

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

14. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	<u>Property plant and equipment</u> RM'000	<u>Financial assets available- for-sale</u> RM'000	<u>Provisions</u> RM'000	<u>Total</u> RM'000
<u>2017</u>				
At 1 January	(97)	102	373	378
Credited to profit or loss	194	-	80	274
Charged to other comprehensive income	-	(104)	-	(104)
At 31 December	<u>97</u>	<u>(2)</u>	<u>453</u>	<u>548</u>
<u>2016</u>				
At 1 January	(181)	(658)	312	(527)
Credited to profit or loss	84	-	61	145
Credited to other comprehensive income	-	760	-	760
At 31 December	<u>(97)</u>	<u>102</u>	<u>373</u>	<u>378</u>

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

15. DEPOSITS FROM CUSTOMERS

	<u>2017</u> RM'000	<u>2016</u> RM'000
At Amortised Cost:		
Demand deposits	474,412	519,040
Fixed deposits	736,890	488,913
Commodity Murabahah	10,610	153
	<u>1,221,912</u>	<u>1,008,106</u>

(i) Maturity structure of fixed deposits and Commodity Murabahah are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Due within six months	742,301	484,820
Six months to one year	5,199	4,246
	<u>747,500</u>	<u>489,066</u>

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Business enterprises	1,209,606	967,718
Non-bank financial institutions	12,306	40,388
	<u>1,221,912</u>	<u>1,008,106</u>

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16. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2017</u> RM'000	<u>2016</u> RM'000
At Amortised Cost:		
Other financial institutions	785,929	1,488,959
	<u>785,929</u>	<u>1,488,959</u>

17. OTHER LIABILITIES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Other payables	110,606	58,426
Accruals and charges	14,434	10,051
Collateral deposit	243,184	474,571
	<u>368,224</u>	<u>543,048</u>

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

18. SHARE CAPITAL

	<u>2017</u>		<u>2016</u>	
	Number of ordinary shares In '000	RM'000	Number of ordinary shares In '000	RM'000
<u>Authorised share capital</u>				
Ordinary shares of RM1 each	-	-	650,000	650,000
<u>Ordinary shares issued and fully paid</u>				
At 1 January – ordinary shares of RM1 each	650,000	650,000	601,920	601,920
Issued during the year	-	-	48,080	48,080
At 31 December – ordinary shares with no par value (2016: par value of RM1 each)	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>

The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

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19. RESERVES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Non-distributable:		
Revaluation reserve-financial assets available-for-sale: (Note a)	12	(323)
Statutory reserve (Note b)	-	32,155
Regulatory reserve (Note c)	12,705	9,636
	<u>12,717</u>	<u>41,468</u>

(a) Revaluation reserve-financial assets available-for-sale

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

(b) Statutory reserve

The statutory reserve is maintained in compliance with BNM guidelines. Effective 3 May 2017, there is no requirement to maintain statutory reserves for banking entities in Malaysia, in accordance with BNM Guidelines – Capital Funds.

(c) Regulatory reserve

The reserve is maintained as an additional credit risk absorbent to ensure the robustness of the loan 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.

20. INTEREST INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Loans and advances	37,903	29,907
Money at call and deposit placements with financial institutions	32,953	28,540
Financial assets available-for-sale	9,029	11,755
Financial assets held for trading	20,326	7,794
Other interest income	17,715	6,044
	<u>117,926</u>	<u>84,040</u>
Amortisation of premium less accretion of discount	(257)	(1,052)
	<u>117,669</u>	<u>82,988</u>

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21. INTEREST EXPENSE

	<u>2017</u> RM'000	<u>2016</u> RM'000
Deposits from customers	18,641	18,760
Deposits and placements of banks and other financial institutions	20,316	7,027
Other interest expense	14	8
	<u>38,971</u>	<u>25,795</u>

22. OTHER OPERATING INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Fee income:		
Commissions	607	967
Guarantee fee	1,765	921
Other fee income:		
Unwinding fees	1,270	3,437
Advisory fees	6,405	4,127
Arrangement fees	1,345	1,290
Other fees	28	(4,734)
	<u>11,420</u>	<u>6,008</u>
Gain/(loss) arising from sale of securities:		
Financial assets held for trading	6,821	(382)
Financial assets available-for-sale	(290)	(3,424)
Gain/(loss) on derivatives trading:		
Realised	49,710	(21,162)
Unrealised	(36,558)	42,211
Unrealised gain/(loss) on revaluation of financial assets:		
Held for trading	(1,068)	151
Other income:		
Foreign exchange:		
Realised gain	339,542	344,625
Unrealised loss	(319,532)	(355,971)
Others	4,084	7,754
	<u>54,129</u>	<u>19,810</u>

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23. OTHER OPERATING EXPENSES

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Personnel costs (Note a)	42,805	36,413
Establishment costs (Note b)	16,384	13,891
Marketing expenses (Note c)	834	918
Administration and general expenses (Note d)	13,633	8,494
	<u>73,656</u>	<u>59,716</u>
(a) Personnel costs		
Wages, salaries and bonuses	30,577	25,556
Defined contribution plan	4,718	3,353
Social security cost	667	772
Other staff related expenses	6,843	6,732
	<u>42,805</u>	<u>36,413</u>
(b) Establishment costs		
Share of information technology costs (Note 26)	7,901	5,743
Depreciation of property, plant and equipment (Note 12)	632	1,271
Amortisation of intangible asset (Note 13)	61	50
Rental of premises	2,137	2,413
Others	5,653	4,414
	<u>16,384</u>	<u>13,891</u>
(c) Marketing expenses		
Advertising	(8)	56
Others	842	862
	<u>834</u>	<u>918</u>
(d) Administration and general expenses		
Legal and professional fees	1,882	1,945
Communication and transportation	248	246
Other general expenses	11,503	6,303
	<u>13,633</u>	<u>8,494</u>

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23. OTHER OPERATING EXPENSES (CONTINUED)

Included in the above expenditure are the following statutory disclosures:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Directors' remuneration	1,081	956
Auditors' remuneration:		
Statutory audit	305	248
Others	35	30
	<u> </u>	<u> </u>

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

	<u>Fees</u> RM'000	<u>Other allowances</u> RM'000	<u>Bonuses</u> RM'000	<u>Benefits in kind</u> RM'000	<u>Total</u> RM'000
<u>2017</u>					
Non-executive Directors	<u>1,061</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>1,081</u>
<u>2016</u>					
Non-executive Directors	<u>935</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>956</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.

Aggregate remuneration of the CEO and all Directors during the financial year is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Chief Executive Officer</u>		
Philippe Aroyo	2,639	2,378
<u>Non-Executive Directors</u>		
Dato Abdullah Mat Noh	400	400
Halim Haji Din	400	400
Jean-Pierre Roger Beno Bernard	144	35
Yves Maurice Guy Marie Drieux	-	-
Pierre Veyres	-	-
Chia Seng Leng	137	121
	<u>3,720</u>	<u>3,334</u>

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24. ALLOWANCE MADE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	<u>2017</u> RM'000	<u>2016</u> RM'000
Collective impairment allowance:		
Allowance made during the financial year (Note 8)	381	287
	<u>381</u>	<u>287</u>

25. INCOME TAX EXPENSE

	<u>2017</u> RM'000	<u>2016</u> RM'000
Current tax		
Current year	15,039	5,330
Under provision in prior years	849	338
	<u>15,888</u>	<u>5,668</u>
Deferred tax (Note 14)		
Origination and reversal of temporary differences	(24)	(82)
Recognition and reversal of prior years' temporary differences	(250)	(63)
	<u>(274)</u>	<u>(145)</u>
Income tax expenses	<u>15,614</u>	<u>5,523</u>

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25. INCOME TAX EXPENSE (CONTINUED)

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Profit before tax	60,406	18,301
Taxation at Malaysian statutory tax rate of 24%	14,497	4,392
Tax effects of:		
Expenses not deductible for tax purposes	518	856
Under provision in prior years	849	338
Recognition and reversal of prior years' temporary differences	(250)	(63)
	<u>15,614</u>	<u>5,523</u>

26. 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 the immediate and ultimate holding company of the Bank.

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

<u>Name of related parties</u>	<u>Relationship</u>
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 Asset Management Malaysia Sdn Bhd, (formerly known as BNP Paribas Investment Partners, Malaysia)	Fellow subsidiary
BNP Paribas Asset Management Najmah Malaysia Sdn Bhd (formerly known as BNP Paribas Investment Partners Najmah, Malaysia)	Fellow subsidiary
BNP Paribas Capital, Malaysia	Fellow subsidiary

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26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Income:		
Recharges from intercompany	6,365	7,496
Interest on cash and short term funds	242	176
Interest from deposit and placements with banks and other financial institutions	48	10
Other interest	216	257
	<u> </u>	<u> </u>
Expense:		
Interest on deposits and placements of banks and other financial institutions	18,937	6,722
Other intercompany charges	5,916	1,776
Share of information technology costs	7,901	5,743
Interest on Commodity Murabahah deposits	166	132
Interest on demand deposits	59	64
Interest on fixed deposits	215	268
Other interest	14	5
	<u> </u>	<u> </u>
(b) Related party balances		
	Ultimate holding company RM'000	Related parties RM'000
<u>2017</u>		
<u>Assets</u>		
Cash and short term funds	5,249	10,525
Derivative financial assets	108,968	195,408
Other assets	-	6,164
	<u> </u>	<u> </u>
	<u>114,217</u>	<u>212,097</u>

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26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (continued)

	Ultimate holding <u>company</u> RM'000	Related <u>parties</u> RM'000
<u>Liabilities</u>		
Deposits from customers	-	15,723
Deposit and placements of banks and other financial institutions	3,932	781,997
Derivative financial liabilities	69,596	11,779
Other liabilities	192,773	9,316
	<u>266,301</u>	<u>818,815</u>
 <u>2016</u>		
<u>Assets</u>		
Cash and short term funds	916	11,186
Derivative financial assets	21,524	828
Other assets	123,573	7,843
	<u>146,013</u>	<u>19,857</u>
 <u>Liabilities</u>		
Deposits from customers	-	39,685
Deposit 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>

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26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Compensation of key management personnel:

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Salaries and other short term employee benefits	8,180	6,311
Post-employment benefits:		
Defined contribution plan	982	922
	<u>9,162</u>	<u>7,233</u>

27. 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:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Future minimum rental payments:		
Not later than 1 year	3,566	1,981
Later than 1 year and not later than 5 year	3,369	5,645
	<u>6,935</u>	<u>7,626</u>

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28. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Outstanding credit exposures with connected parties	427,404	239,758
Total credit exposures	<u>2,759,649</u>	<u>2,558,628</u>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposures	<u>15.49%</u>	<u>9.38%</u>
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<u>-</u>	<u>-</u>

29. 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.

The principal amount of the commitment and contingencies as of 31 December are as follows:

	<u>2017</u> Principal amount RM'000	<u>2016</u> Principal amount RM'000
Direct credit substitutes	324,257	250,145
Short term self liquidating trade related contingencies	8,290	1,474
Irrevocable commitments to extend credit:		
Maturity up to one year	-	-
Maturity more than one year	39,531	98,107
Total credit related commitment and contingencies	<u>372,078</u>	<u>349,726</u>

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29. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The principal amount of the commitment and contingencies as of 31 December are as follows:
(continued)

	<u>2017</u> Principal amount RM'000	<u>2016</u> Principal amount RM'000
Foreign exchange derivatives:		
One year or less	27,670,712	18,052,648
Over one year to five years	1,888,059	1,795,422
Interest rate derivatives:		
One year or less	11,017,129	6,301,900
Over one year to five years	5,687,434	7,413,460
Over five years	15,000	50,000
Credit derivatives:		
One year or less	485	178,686
Over one year to five years	549,175	234,671
Total treasury related commitment and contingencies	<u>46,827,994</u>	<u>34,026,787</u>
Total commitment and contingencies	<u><u>47,200,072</u></u>	<u><u>34,376,513</u></u>

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30. **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.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Maximum exposure to credit risk

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

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

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
ASSETS			
Cash and short-term funds	5	1,299,423	2,077,547
Reverse repurchase agreements		9,240	-
Financial assets held for trading	6	510,763	118,413
Financial assets available-for-sale	7	10,059	81,608
Loans and advances*	8	1,138,058	850,418
Derivative financial assets	9	571,049	799,074
Other asset**	11	317,939	234,352
		<hr/>	<hr/>
Total asset		3,856,531	4,161,412
		<hr/>	<hr/>
Commitments and contingencies	29	1,595,088	1,705,211
		<hr/>	<hr/>
Total credit exposure		5,451,619	5,866,623
		<hr/> <hr/>	<hr/> <hr/>

* Excludes collective assessment allowance amounting to RM951,327 (2016: RM569,514).

** Other assets exclude prepayment and refundable deposits amounting to RM2,204,162 (2016: RM1,443,077)

Risk concentrations for commitments and contingencies are based on the credit equivalent balances derived based on credit conversion factor as per Bank Negara Malaysia guidelines.

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.

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(b) **Credit Risk (continued)**

The following tables represent the Bank's credit risk concentrations as of 31 December 2017:

	Cash and short term fund 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	1,260,454	9,240	510,763	10,059	-	-	-	1,790,516	-
Manufacturing	-	-	-	-	785,994	10,587	-	796,581	209,242
Mining and quarrying	-	-	-	-	-	11,766	-	11,766	87,719
Finance, insurance and business services	38,969	-	-	-	43,618	541,102	317,939	941,628	1,244,276
Construction	-	-	-	-	8,002	2,039	-	10,041	12,219
Wholesale and retail	-	-	-	-	97,467	847	-	98,314	2,273
Real estate	-	-	-	-	12,378	-	-	12,378	-
Transport, storage and communication	-	-	-	-	-	453	-	453	666
Other business services	-	-	-	-	190,599	4,255	-	194,854	38,693
	<u>1,299,423</u>	<u>9,240</u>	<u>510,763</u>	<u>10,059</u>	<u>1,138,058</u>	<u>571,049</u>	<u>317,939</u>	<u>3,856,531</u>	<u>1,595,088</u>

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

The following tables represent the Bank's credit risk concentrations as of 31 December 2017: (continued)

	Cash and short term fund 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 geographical sectors</u>									
Malaysia	1,261,169	9,240	510,763	10,059	1,138,058	252,681	317,939	3,499,909	983,299
United Kingdom	402	-	-	-	-	6,706	-	7,108	10,475
France	5,249	-	-	-	-	108,968	-	114,217	244,421
Hong Kong	2,182	-	-	-	-	-	-	2,182	535
Singapore	12,340	-	-	-	-	1,181	-	13,521	4,215
Thailand	31	-	-	-	-	185,748	-	185,779	231,074
Others	18,050	-	-	-	-	15,765	-	33,815	121,069
	<u>1,299,423</u>	<u>9,240</u>	<u>510,763</u>	<u>10,059</u>	<u>1,138,058</u>	<u>571,049</u>	<u>317,939</u>	<u>3,856,531</u>	<u>1,595,088</u>

* Excludes collective assessment allowance amounting to RM951,327 (2016: RM569,514).

** Other assets exclude prepayment and refundable deposits amounting to RM2,204,162 (2016: RM1,443,077)

Risk concentrations for commitments and contingencies are based on the credit equivalent balances derived based on credit conversion factor as per Bank Negara Malaysia guidelines.

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(b) **Credit Risk (continued)**

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

	Cash and short term fund 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	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	234,352	1,013,001	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>234,352</u>	<u>4,161,412</u>	<u>1,705,211</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(b) **Credit Risk (continued)**

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

	Cash and short term fund 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 geographical sectors</u>									
Malaysia	2,034,119	-	118,413	81,608	850,418	773,776	234,352	4,092,686	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>234,352</u>	<u>4,161,412</u>	<u>1,705,211</u>

* Excludes collective assessment allowance amounting to RM951,327 (2016: RM569,514).

** Other assets exclude prepayment and refundable deposits amounting to RM2,204,162 (2016: RM1,443,077)

Risk concentrations for commitments and contingencies are based on the credit equivalent balances derived based on credit conversion factor as per Bank Negara Malaysia guidelines.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets

Financial assets are required under MFRS 7, to be categorised into “neither past due nor impaired”, “past due but not impaired” or “impaired”.

(i) Loan and advances

	<u>2017</u> RM'000	<u>2016</u> RM'000
Neither past due nor impaired	1,138,058	850,418
Less: Collective assessment allowance	(951)	(570)
	<u>1,137,107</u>	<u>849,848</u>

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
BNP Paribas Ratings		
2- Very Good	43,618	28,316
3 Good	30,864	-
4+ Above Average	90,383	75,501
4 Above Average	105,056	77,757
4- Average	73,802	157,086
5+ Average	48,818	67,460
5 Average	18,701	48,933
5- Average	-	44,347
6+ Below Average	18,258	85,432
6 Below Average	248,552	20,563
6- Below Average	71,099	-
7+ Poor	228,296	174,645
7 Poor	97,467	6,015
7- Poor	3,456	-
8+ Weak	35,905	64,363
8- Weak	23,783	-
	<u>1,138,058</u>	<u>850,418</u>

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

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

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

The table below presents an analysis of the credit quality of securities that are neither past due nor impaired by rating:

		<u>Financial assets available-for-sale</u>	
		Malaysia Government investment issues	Total
		RM'000	RM'000
<u>2017</u>			
A-		10,059	10,059

		<u>Financial assets held for trading</u>			
		Government investment issues	Malaysia government securities	Treasury bills	Total
		RM'000	RM'000	RM'000	RM'000
<u>2017</u>					
A-		69,872	334,045	106,846	510,763

		<u>Financial assets available-for-sale</u>		
		Malaysian government securities	Malaysia Government investment issues	Total
		RM'000	RM'000	RM'000
<u>2016</u>				
A-		51,346	30,262	81,608

		<u>Financial assets held for trading</u>		
		Government investment issues	Malaysia government securities	Total
		RM'000	RM'000	RM'000
<u>2016</u>				
A-		5,731	112,682	118,413

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

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.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Market Risk (continued)

The VaR of the Bank at the end of the reporting period, based on one-day time horizon and at 99% confidence level, is RM2,455,234 (2016: RM1,600,220). 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.

	<u>2017</u> RM'mil	<u>2016</u> RM'mil
Aggregate VaR	<u>2.46</u>	<u>1.60</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 RM9,758,496 (2016: RM3,456,876) while the minimum VaR during the year is RM1,309,300 (2016: RM1,455,043).

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.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(d) Interest Rate Risk (continued)

The following table represents the Bank's financial assets and financial liabilities at carrying amounts as of 31 December 2017:

	Non-trading book					Trading book RM'000	Non interest sensitive 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			
<u>2017</u>								
<u>Financial assets</u>								
Cash and short term funds	1,298,917	-	-	-	-	-	506	1,299,423
Reverse repurchase agreement	9,232	-	-	-	-	-	8	9,240
Financial assets held for trading	-	-	-	-	-	510,763	-	510,763
Financial assets available-for-sale	-	-	10,014	-	-	-	45	10,059
Loans and advances	506,327	211,017	84,432	321,647	12,300	-	1,384	1,137,107
Derivatives financial assets	-	-	-	-	-	571,049	-	571,049
Other assets	-	-	-	-	-	-	317,939	317,939
Total financial assets	1,814,476	211,017	94,446	321,647	12,300	1,081,812	319,882	3,855,580

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) **Interest Rate Risk (continued)**

The following table represents the Bank's financial assets and financial liabilities at carrying amounts as of 31 December 2017: (continued)

	Non-trading book					Trading book RM'000	Non interest sensitive 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			
<u>2017</u>								
<u>Financial liabilities</u>								
Deposit from customers	1,036,340	153,959	30,679	-	-	-	934	1,221,912
Deposit and placements of banks and other financial institutions	689,019	95,281	-	-	-	-	1,629	785,929
Derivative financial liabilities	-	-	-	-	-	763,233	-	763,233
Other liabilities	-	-	-	-	-	-	368,224	368,224
Total financial liabilities	<u>1,725,359</u>	<u>249,240</u>	<u>30,679</u>	<u>-</u>	<u>-</u>	<u>763,233</u>	<u>370,787</u>	<u>3,139,298</u>
Net interest rate gap	<u>89,117</u>	<u>(38,223)</u>	<u>63,767</u>	<u>321,647</u>	<u>12,300</u>	<u>318,579</u>	<u>(50,905)</u>	<u>716,282</u>

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) **Interest Rate Risk (continued)**

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

	Non-trading book					Trading book RM'000	Non interest sensitive 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			
<u>2016</u>								
<u>Financial assets</u>								
Cash and short term funds	2,074,953	-	-	-	-	-	2,594	2,077,547
Financial assets held for trading	-	-	-	-	-	117,923	490	118,413
Financial assets available-for-sale	-	-	51,089	29,954	-	-	565	81,608
Loans and advances	586,896	114,366	17,101	117,317	13,075	-	1,093	849,848
Derivatives financial assets	-	-	-	-	-	799,074	-	799,074
Other assets	-	-	-	-	-	-	234,352	234,352
Total financial assets	2,661,849	114,366	68,190	147,271	13,075	916,997	239,094	4,160,842

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) **Interest Rate Risk (continued)**

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

	Non-trading book					Trading book RM'000	Non interest sensitive 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			
<u>2016</u>								
<u>Financial liabilities</u>								
Deposit from customers	876,849	126,403	4,234	-	-	-	620	1,008,106
Deposit and placements of banks and other financial institutions	590,276	897,200	-	-	-	-	1,483	1,488,959
Derivative financial liabilities	-	-	-	-	-	448,808	-	448,808
Other liabilities	-	-	-	-	-	-	543,048	543,048
Total financial liabilities	<u>1,467,125</u>	<u>1,023,603</u>	<u>4,234</u>	<u>-</u>	<u>-</u>	<u>448,808</u>	<u>545,151</u>	<u>3,488,921</u>
Net interest rate gap	<u>1,194,724</u>	<u>(909,237)</u>	<u>63,956</u>	<u>147,271</u>	<u>13,075</u>	<u>468,189</u>	<u>(306,057)</u>	<u>671,921</u>

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(d) Interest Rate Risk (continued)

Sensitivity of profit

The table below shows the sensitivity of the Bank's banking book to movement in interest rates:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	Increase/(Decrease)		Increase/(Decrease)	
	+100 basis	-100 basis	+100 basis	-100 basis
	<u>point</u>	<u>point</u>	<u>point</u>	<u>point</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Impact to profit (after tax)	703	(703)	2,983	(2,983)

Sensitivity is measured using the EaR methodology. The treatments and assumptions applied are based on the contractual repricing and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and others.

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on profit in the next 12 months from policy rate change.

The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) **Interest Rate Risk (continued)**

Sensitivity of reserves

The table below shows the sensitivity of the Bank's banking book to movement in interest rates:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	Increase/(Decrease)		Increase/(Decrease)	
	+100 basis	-100 basis	+100 basis	-100 basis
	<u>point</u>	<u>point</u>	<u>point</u>	<u>point</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Impact to revaluation reserve- financial investments available- for-sale	(213)	213	(3,714)	3,714

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on reserve in the next 12 months from changes in risk free rates. The impact on reserves arises from changes in valuation of financial investments available-for-sale following movements in risk free rates.

The projection assumes that all other variables are held constant. It also assumes a constant reporting date position and that all positions run to maturity.

The above sensitivities of profit and reserves do not take into account the effects of hedging and do not incorporate actions that the Bank would take to mitigate the impact of this interest rate risk. In practice, the Bank proactively seeks to mitigate the effect of prospective interest movements.

(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.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

The table below analyses financial assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions:

	Up to <u>1 month</u> RM'000	1 -3 <u>months</u> RM'000	3-12 <u>months</u> RM'000	1 -5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>2017</u>							
<u>Assets</u>							
Cash and short term funds	1,299,423	-	-	-	-	-	1,299,423
Reverse repurchase agreement	9,240	-	-	-	-	-	9,240
Financial assets held for trading	-	109,625	16,003	133,205	251,930	-	510,763
Financial assets available for sale	-	-	10,059	-	-	-	10,059
Loan and advances	506,223	212,184	84,754	321,646	12,300	-	1,137,107
Other assets	-	-	-	-	-	317,939	317,939
Total Assets	1,814,886	321,809	110,816	454,851	264,230	317,939	3,284,531
<u>Liabilities</u>							
Deposits from customers	1,036,968	154,200	30,744	-	-	-	1,221,912
Deposit and placement of banks and other financial institutions	690,411	95,518	-	-	-	-	785,929
Other liabilities	-	-	-	-	-	368,224	368,224
Total Liabilities	1,727,379	249,718	30,744	-	-	368,224	2,376,065
Net Liquidity Gap	87,507	72,091	80,072	454,851	264,230	(50,285)	908,466

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

	Up to <u>1 month</u> RM'000	1 -3 <u>months</u> RM'000	3-12 <u>months</u> RM'000	1 -5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>2017</u>							
Items not recognised in the Statement of Financial Position							
Financial guarantees	51,139	22,134	129,789	110,473	10,722	-	324,257
Net-settled derivatives	(6,157)	(78)	(2,864)	9,241	8	-	150
Gross-settled derivatives							
- Receipt	12,834,933	8,133,958	7,157,030	1,910,479	-	-	30,036,400
- Payments	(12,846,035)	(8,223,864)	(7,435,799)	(1,914,701)	-	-	(30,420,399)
	(17,259)	(89,984)	(281,633)	5,019	8	-	(383,849)

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

The table below analyses financial assets and liabilities of the Bank based on the remaining period to the contractual maturity date in accordance with the requirements of BNM Guidelines on Financial Reporting for Banking Institutions: (continued)

	Up to <u>1 month</u> RM'000	1 -3 <u>months</u> RM'000	3 - 12 <u>months</u> RM'000	1 -5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>2016</u>							
<u>Assets</u>							
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	587,179	115,110	17,167	117,317	13,075	-	849,848
Other assets	-	-	-	-	-	234,352	234,352
Total Assets	2,664,726	137,548	68,513	193,302	63,327	234,352	3,361,768
<u>Liabilities</u>							
Deposits from customers	877,220	126,606	4,280	-	-	-	1,008,106
Deposit and placement of banks and other financial institutions	591,007	897,952	-	-	-	-	1,488,959
Other liabilities	-	-	-	-	-	543,048	543,048
Total Liabilities	1,468,227	1,024,558	4,280	-	-	543,048	3,040,113
Net Liquidity Gap	1,196,499	(887,010)	64,233	193,302	63,327	(308,696)	321,655

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

	Up to <u>1 month</u> RM'000	1 -3 <u>months</u> RM'000	3 - 12 <u>months</u> RM'000	1 -5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>2016</u>							
<u>Items not recognised in the Statement of Financial Position</u>							
Financial guarantees	4,680	5,757	89,169	138,453	12,086	-	250,145
Net-settled derivatives	272	322	(1,729)	1,096	(1,224)	-	(1,263)
Gross-settled derivatives							
- Receipt	4,748,758	4,580,190	8,523,341	1,656,758	-	-	19,509,047
- Payments	(4,749,539)	(4,401,953)	(8,257,335)	(1,768,984)	-	-	(19,177,811)
	(509)	178,559	264,277	(111,130)	(1,224)	-	329,973

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

The financial 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.

	Up to <u>1 month</u> RM'000	1 -3 <u>months</u> RM'000	3 - 12 <u>months</u> RM'000	1 -5 <u>years</u> RM'000	Over <u>5 years</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
<u>2017</u>							
<u>Non-derivative financial liabilities</u>							
Deposits from customers	1,037,487	154,599	31,030	-	-	-	1,223,116
Deposit and placement of banks and other financial institutions	690,555	95,779	-	-	-	-	786,334
Other liabilities	-	-	-	-	-	368,224	368,224
Total Liabilities	<u>1,728,042</u>	<u>250,378</u>	<u>31,030</u>	<u>-</u>	<u>-</u>	<u>368,224</u>	<u>2,377,674</u>
<u>2016</u>							
<u>Non-derivative financial liabilities</u>							
Deposits from customers	877,661	126,827	4,380	-	-	-	1,008,868
Deposit and placement of banks and other financial institutions	591,291	899,470	-	-	-	-	1,490,761
Other liabilities	-	-	-	-	-	543,048	543,048
Total Liabilities	<u>1,468,952</u>	<u>1,026,297</u>	<u>4,380</u>	<u>-</u>	<u>-</u>	<u>543,048</u>	<u>3,042,677</u>

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30. **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(e) **Liquidity Risk (continued)**

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.

(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.

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(f) Currency Risk (continued)

	<u>RM</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2017</u>					
<u>Assets</u>					
Cash and short term funds	1,261,168	6,306	5,260	26,689	1,299,423
Reverse repurchase agreement	9,240	-	-	-	9,240
Financial assets held for trading	510,763	-	-	-	510,763
Financial assets available-for-sale	10,059	-	-	-	10,059
Loans and advances	716,514	355,443	65,150	-	1,137,107
Derivative financial assets	22,843	524,275	20,035	3,896	571,049
Other assets	63,189	254,340	172	238	317,939
Total Assets	<u>2,593,776</u>	<u>1,140,364</u>	<u>90,617</u>	<u>30,823</u>	<u>3,855,580</u>
<u>Liabilities</u>					
Deposits from customers	712,457	430,555	30,218	48,682	1,221,912
Deposits and placements of banks and other financial institutions	9,786	745,627	29,077	1,439	785,929
Derivative financial liabilities	13,981	657,793	79,205	12,254	763,233
Other liabilities	130,050	232,625	1,459	4,090	368,224
Total Liabilities	<u>866,274</u>	<u>2,066,600</u>	<u>139,959</u>	<u>66,465</u>	<u>3,139,298</u>
Currency gap	<u>1,727,502</u>	<u>(926,236)</u>	<u>(49,342)</u>	<u>(35,642)</u>	

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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(f) Currency Risk (continued)

	<u>RM</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
<u>2016</u>					
<u>Assets</u>					
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	570,737	234,157	44,954	-	849,848
Derivative financial assets	23,366	749,928	7,967	17,813	799,074
Other assets	74,726	159,022	179	425	234,352
Total Assets	<u>2,902,969</u>	<u>1,150,863</u>	<u>54,018</u>	<u>52,992</u>	<u>4,160,842</u>
<u>Liabilities</u>					
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	179,933	358,903	700	3,512	543,048
Total Liabilities	<u>884,970</u>	<u>2,443,001</u>	<u>86,517</u>	<u>74,433</u>	<u>3,488,921</u>
Currency gap	<u>2,017,999</u>	<u>(1,292,138)</u>	<u>(32,499)</u>	<u>(21,441)</u>	

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NOTES TO THE FINANCIAL STATEMENTS
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30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(f) Currency Risk (continued)

The table below shows the sensitivity of the Bank's profit to movement in foreign exchange rates:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>(Decrease)/Increase</u>		<u>(Decrease)/Increase</u>	
	<u>1% appreciation in foreign currency</u>	<u>1% depreciation in foreign currency</u>	<u>1% appreciation in foreign currency</u>	<u>1% depreciation in foreign currency</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Impact to profit (after tax)	(5,892)	5,892	(10,477)	10,477

The impact on profit arises from transactional exposures. The projection assumes that foreign exchange rates move by the same amount and, therefore, do not reflect the potential impact on profit and reserves of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.

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

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(g) Offsetting financial assets and financial liabilities

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

	Gross amount of recognised financial assets/ financial liabilities <u>RM'000</u>	<u>Related amount not set off in the statement of financial position</u>		Net amount <u>RM'000</u>
		<u>Financial instrument RM'000</u>	<u>Financial collateral RM'000</u>	
<u>2017</u>				
<u>Assets</u>				
Derivative financial assets	571,049	(281,161)	(269,686)	20,202
<u>Liabilities</u>				
Derivative financial liabilities	763,233	(281,161)	(243,184)	238,888
<u>2016</u>				
<u>Assets</u>				
Derivative financial assets	799,074	(160,755)	(173,553)	464,766
<u>Liabilities</u>				
Derivative financial liabilities	448,808	(160,755)	(474,571)	(186,518)

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NOTES TO THE FINANCIAL STATEMENTS
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31. 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.

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31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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	Level 1 RM'000	Fair value		Total RM'000
			Level 2 RM'000	Level 3 RM'000	
<u>2017</u>					
<u>Financial Assets</u>					
Financial assets held for trading	510,763	-	510,763	-	510,763
Financial assets available for sale	10,059	-	10,059	-	10,059
Loans and advances*	1,137,107	-	1,436,895	-	1,436,895
Derivative financial assets	571,049	-	550,811	20,238	571,049
<u>Financial Liabilities</u>					
Derivative financial liabilities	763,233	-	754,071	9,162	763,233

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

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31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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: (continued)

	<u>Carrying amount</u> RM'000	<u>Level 1</u> RM'000	<u>Fair value</u>		<u>Total</u> RM'000
			<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	
<u>2016</u>					
<u>Financial Assets</u>					
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	-	955,815	-	955,815
Derivative financial assets	799,074	-	792,504	6,570	799,074
<u>Financial Liabilities</u>					
Derivative financial liabilities	448,808	-	445,923	2,885	448,808

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

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NOTES TO THE FINANCIAL STATEMENTS
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31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Reconciliation of movements in Level 3 financial instruments

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Derivative Financial Assets</u>		
At 1 January	6,570	27,423
(Loss)/Gain recognised in profit or loss		
Realised	(5,859)	22,214
Unrealised	19,527	(43,067)
	<u>20,238</u>	<u>6,570</u>
At 31 December	<u><u>20,238</u></u>	<u><u>6,570</u></u>
<u>Derivative Financial Liabilities</u>		
At 1 January	2,885	15,943
(Loss)/Gain recognised in profit or loss		
Realised	(1,003)	(14,665)
Unrealised	7,280	1,607
	<u>9,162</u>	<u>2,885</u>
At 31 December	<u><u>9,162</u></u>	<u><u>2,885</u></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.

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31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(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 non-performing 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.

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31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

<u>Financial assets/ Financial liabilities</u>	<u>Fair value as at 31.12.2017</u>			<u>Fair value as at 31.12.2016</u>			<u>Valuation and techniques key inputs</u>	<u>Significant unobservable inputs</u>	<u>Relationship of unobservable inputs to fair value</u>
	<u>Assets</u> RM'000	<u>Liabilities</u> RM'000	<u>Hierarchy</u>	<u>Assets</u> RM'000	<u>Liabilities</u> RM'000	<u>Hierarchy</u>			
<u>Credit derivatives</u>									
Credit default swaps	20,238	9,162	Level 3	6,570	2,885	Level 3	Interpolation and extrapolation are flat forward hazard rate. Inputs are credit spreads, recoveries and interest rate curves obtained from unquoted market instruments.	Credit spreads, recoveries and interest rate curves obtained from unquoted market instruments.	Perform market adjustment parameter review on first to default correlation using market observable quotes.

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NOTES TO THE FINANCIAL STATEMENTS
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32. CAPITAL ADEQUACY

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	650,000	650,000
Retained profits/(Accumulated losses)	61,889	(11,989)
Other disclosed reserves	12	31,832
	<u>711,901</u>	<u>669,843</u>
<u>Less : Regulatory adjustments</u>		
Intangible assets	(2,674)	(2,735)
Deferred tax assets	(548)	(378)
55% of cumulative gains of AFS financial instruments	(7)	-
	<u>708,672</u>	<u>666,730</u>
<u>Tier 2 capital</u>		
Collective assessment allowance	951	570
Regulatory reserve	12,705	9,636
	<u>13,656</u>	<u>10,206</u>
Total Tier 2 capital	<u>13,656</u>	<u>10,206</u>
Total Capital base	<u>722,328</u>	<u>676,936</u>
<u>Capital Ratios</u>		
Common Equity Tier 1 Ratio	21.306%	27.982%
Tier 1 Capital Ratio	21.306%	27.982%
Total Capital Ratio	<u>21.716%</u>	<u>28.410%</u>

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NOTES TO THE FINANCIAL STATEMENTS
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32. CAPITAL ADEQUACY (CONTINUED)

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

	<u>2017</u>		<u>2016</u>	
	<u>Principal</u>	<u>Risk</u>	<u>Principal</u>	<u>Risk</u>
	RM'000	weighted assets RM'000	RM'000	weighted assets RM'000
<u>Risk weight</u>				
0%	1,288,421	-	2,151,491	-
20%	808,701	161,740	754,093	150,819
50%	391,453	195,727	207,738	103,869
100%	1,626,180	1,626,180	1,365,910	1,365,910
Credit risk		1,983,647		1,620,598
Market risk		1,008,574		577,134
Operational risk		334,017		184,994
Total risk-weighted assets		3,326,238		2,382,726

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

33. ISLAMIC BANKING WINDOW

The Bank launched its Islamic banking business under its Islamic Banking Window on 9 April 2012. The financial position of the Islamic Banking Window of the Bank as at 31 December 2016 and 2017, and results for the financial year ended on the dates are summarised as follows:

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
ASSETS			
Cash and short-term funds	(a)	22,591	33,991
Loans, advances and financing	(b)	4,017	-
Other assets	(c)	8,829	5,357
Property, plant and equipment	(d)	3	4
Intangible assets	(e)	4	5
TOTAL ASSET		<u>35,444</u>	<u>39,357</u>
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(f)	13,605	16,743
Other liabilities		447	665
Deferred tax liabilities	(g)	-	-
Tax liabilities		131	131
Total liabilities		<u>14,183</u>	<u>17,539</u>
Capital fund		24,350	24,350
Accumulated losses		(3,137)	(2,532)
Reserves		48	-
Islamic banking funds		<u>21,261</u>	<u>21,818</u>
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		<u>35,444</u>	<u>39,357</u>
COMMITMENTS AND CONTINGENCIES		<u>-</u>	<u>-</u>

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

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

33. ISLAMIC BANKING WINDOW (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Income derived from investment of Islamic banking funds and depositors' funds	(h)	909	1,611
Profit expense to depositors		(295)	(282)
		<hr/>	<hr/>
Net income derived from investment of Islamic banking funds and depositors' funds		614	1,329
Other operating income	(i)	930	976
Other operating expenses	(j)	(2,100)	(1,764)
Allowance made for impairment on other receivables		(1)	-
		<hr/>	<hr/>
(Loss)/profit before zakat and taxation		(557)	541
Income tax expense	(k)	-	(131)
		<hr/>	<hr/>
(Loss)/profit after zakat and taxation		(557)	410
		<hr/> <hr/>	<hr/> <hr/>
<u>Other comprehensive income/(expense)</u>			
<i>Items that may be reclassified subsequent to profit or loss:</i>			
Revaluation reserve – financial investments available-for-sale			
Net changes in fair value		-	(154)
		<hr/>	<hr/>
Other comprehensive (expense)/income, net of tax		-	(154)
		<hr/>	<hr/>
Total comprehensive (expense)/income		(557)	256
		<hr/> <hr/>	<hr/> <hr/>

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

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NOTES TO THE FINANCIAL STATEMENTS
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33. ISLAMIC BANKING WINDOW (CONTINUED)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Capital Fund RM'000	Regulatory reserve RM'000	Revaluation reserve- financial assets available-for sale RM'000	Retained profits/ (Accumulated losses) RM'000	Total
Balance as of 1 January 2016	24,350	-	154	(2,942)	21,562
Profit for the year	-	-	-	410	410
Transfer to regulatory reserve	-	-	-	-	-
Other comprehensive income	-	-	(154)	-	(154)
Balance as of 31 December 2016	<u>24,350</u>	<u>-</u>	<u>-</u>	<u>(2,532)</u>	<u>21,818</u>
Balance as of 1 January 2017	24,350	-	-	(2,532)	21,818
Loss for the year	-	-	-	(557)	(557)
Transfer to regulatory reserve	-	48	-	(48)	-
Other comprehensive loss	-	-	-	-	-
Balance as of 31 December 2017	<u>24,350</u>	<u>48</u>	<u>-</u>	<u>(3,137)</u>	<u>21,261</u>

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

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(a) CASH AND SHORT-TERM FUNDS

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>At Amortised Cost</u>		
Cash and balances with licensed banks	1,586	1,986
Money at call and deposit placements maturing within one month	21,005	32,005
	<u>22,591</u>	<u>33,991</u>

(b) LOANS, ADVANCES AND FINANCING

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>At Amortised Cost</u>		
Revolving credit	4,018	-
Less: Collective impairment allowances	(1)	-
	<u>4,017</u>	<u>-</u>

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(c) OTHER ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Other receivables, deposit and prepayments	8,829	5,857
Less: Allowances for impairment on other receivables	-	(500)
	<u>8,829</u>	<u>5,357</u>

Movements of allowance for impairment on other receivables are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Individual impairment allowance</u>		
At 1 January	500	500
Allowance written back during the financial year	(500)	-
At 31 December	<u>-</u>	<u>500</u>

The other receivables of RM500,000 represent amount outstanding which was past due and impaired as at 31 December 2016.

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(d) PROPERTY, PLANT AND EQUIPMENT

	Office equipment and machinery RM'000	Computer equipment RM'000	<u>Total</u> RM'000
<u>2017</u>			
<u>Cost</u>			
At beginning/end of year	6	23	29
<u>Accumulated Depreciation</u>			
At beginning of year	2	23	25
Charge for the year	1	-	1
At end of year	<u>3</u>	<u>23</u>	<u>26</u>
<u>Net Book Value</u>			
As of 31 December 2017	<u>3</u>	-	<u>3</u>
As of 31 December 2016	<u>4</u>	-	<u>4</u>

(e) INTANGIBLE ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Computer Software</u>		
<u>Cost</u>		
At 1 January	41	34
Additions	-	7
At 31 December	<u>41</u>	<u>41</u>
<u>Accumulated amortisation</u>		
At 1 January	36	34
Amortisation for the year	1	2
	<u>37</u>	<u>36</u>
Net Book Value	<u>4</u>	<u>5</u>

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(f) DEPOSITS FROM CUSTOMERS

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>At Amortised Cost</u>		
Non-Mudharabah Fund		
Demand deposits	2,996	16,590
Commodity Murabahah	10,609	153
	<u>13,605</u>	<u>16,743</u>

(i) Maturity structure of Commodity Murabahah is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Due within six months	10,609	153
	<u>10,609</u>	<u>153</u>

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Business enterprises	7,151	6,288
Non-bank financial institutions	6,454	10,455
	<u>13,605</u>	<u>16,743</u>

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(g) DEFERRED TAX LIABILITIES

	<u>2017</u> RM'000	<u>2016</u> RM'000
At 1 January	-	49
Recognised in other comprehensive income	-	(49)
	<hr/>	<hr/>
At 31 December	-	-
	<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.

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Loans, advances and financing	17	64
Money at call and deposit placement with financial institutions	663	852
Financial assets available-for-sale	249	785
	<hr/>	<hr/>
Amortisation of premium less accretion of discount	929 (20)	1,701 (90)
	<hr/>	<hr/>
	<u>909</u>	<u>1,611</u>
	<hr/> <hr/>	<hr/> <hr/>

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(i) OTHER OPERATING INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Fee income:		
Commissions	1	1
Other fee income	282	748
Net gain arising for sale of securities financial assets available-for-sale	-	61
Foreign exchange - Unrealised loss	(26)	-
Others	673	166
	<u>930</u>	<u>976</u>

(j) OTHER OPERATING EXPENSES

	<u>2017</u> RM'000	<u>2016</u> RM'000
Personnel costs (Note i)	1,509	1,200
Establishment costs (Note ii)	102	159
Marketing expenses (Note iii)	3	35
Administration and general expenses (Note iv)	486	370
	<u>2,100</u>	<u>1,764</u>

(i) Personnel Costs

	<u>2017</u> RM'000	<u>2016</u> RM'000
Wages, salaries and bonuses	1,133	921
Defined contribution retirement plan	201	165
Social security cost	3	3
Other staff related expense	172	111
	<u>1,509</u>	<u>1,200</u>

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(j) OTHER OPERATING EXPENSES (CONTINUED)

(ii) Establishment Costs

	<u>2017</u> RM'000	<u>2016</u> RM'000
Rental of premises	83	100
Amortisation of intangible assets	-	2
Depreciation of property, plant and equipment	1	4
Others	18	53
	<u>102</u>	<u>159</u>

(iii) Marketing Expenses

	<u>2017</u> RM'000	<u>2016</u> RM'000
Other	3	35
	<u>3</u>	<u>35</u>

(iv) Administration and General Expenses

	<u>2017</u> RM'000	<u>2016</u> RM'000
Legal and professional fees	385	302
Others	101	68
	<u>486</u>	<u>370</u>

Included in administration and general expenses is the Shariah Committee's remuneration of RM255,750 (2016: RM242,750).

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(k) INCOME TAX EXPENSE

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:

	<u>2017</u> RM'000	<u>2016</u> RM'000
(Loss)/profit before tax	(557)	541
Taxation at Malaysian statutory tax rate of 24%	-	130
Tax effect of expenses not deductible for tax purposes	-	1
Income tax expense for the year	-	131

(l) CAPITAL ADEQUACY

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Tier-1 capital</u>		
Paid-up share capital	24,350	24,350
Retained profit / (Accumulated losses)	(3,137)	(2,532)
	21,213	21,818
<u>Less: Regulatory adjustments</u>		
Intangible assets	(4)	(5)
Deferred tax assets	-	-
55% of cumulative gains of AFS instruments	-	-
Total Tier 1 capital	21,209	21,813
<u>Tier 2 capital</u>		
Collective assessment allowance	1	-
Regulatory reserve	48	-
Total Tier 2 capital	49	-
Total Capital base	21,258	21,813
<u>Capital Ratios</u>		
Common Equity Tier 1 Ratio	131.374%	272.526%
Tier 1 Capital Ratio	131.374%	272.526%
Total Capital Ratio	131.677%	272.526%

BNP PARIBAS MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33. ISLAMIC BANKING WINDOW (CONTINUED)

(I) CAPITAL ADEQUACY (CONTINUED)

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

	<u>Principal</u>	<u>Risk</u>	<u>Principal</u>	<u>Risk</u>
	<u>RM'000</u>	<u>weighted</u>	<u>RM'000</u>	<u>weighted</u>
		<u>assets</u>		<u>assets</u>
		<u>RM'000</u>		<u>RM'000</u>
<u>Risk weight</u>				
0%	21,604	-	32,833	-
100%	12,851	12,851	4,853	4,853
Credit risk		12,851		4,853
Market risk		246		-
Operational risk		3,047		3,151
Total risk-weighted assets		16,144		8,004

Company No.

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BNP PARIBAS MALAYSIA BERHAD
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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, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as of 31 December 2017 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

Company No.

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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

Before me,

COMMISSIONER FOR OATHS