

Registration No.

201001034168 (918091-T)

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Registration No.

201001034168 (918091-T)

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

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BNP PARIBAS MALAYSIA BERHAD
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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 2019.

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
Chia Seng Leng
Wahid Ali Mohd Khalil
Joris Maria A. Dierckx (appointed w.e.f 8.3.2019)
Vijayam Nadarajah (appointed w.e.f 1.10.2019)

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	81,495
Income tax expense	(21,388)
Profit for the year	<u>60,107</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.

ISSUE OF SHARES AND DEBENTURES

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

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REPORT OF THE DIRECTORS (CONTINUED)

EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

Event subsequent to the balance sheet date is disclosed in Note 35 of the financial statements.

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 24 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 is 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:

	<u>No. of ordinary shares of EUR2 each</u>			
	<u>As at</u> <u>1.1.2019</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at</u> <u>31.12.2019</u>
<u>Shares in the ultimate holding</u> <u>company, BNP Paribas S.A.</u>				
Jean-Pierre Roger Beno Bernard	6,196	-	-	6,196
Yves Maurice Guy Marie Drieux	1,425	-	(1,425)	-
Chia Seng Leng	3,450	-	-	3,450

	<u>No. of employee share options of EUR2 each</u>			
	<u>As at</u> <u>1.1.2019</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at</u> <u>31.12.2019</u>
<u>Shares options in the ultimate</u> <u>holding company, BNP Paribas S. A.</u>				
Jean-Pierre Roger Beno Bernard	1,660	-	(1,660)	-
Yves Maurice Guy Marie Drieux	1,480	-	(1,480)	-

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DIRECTORS' INTEREST IN SHARES AND DEBENTURES (CONTINUED)

				No. of shares
	Balance as of <u>1.1.2019</u>	<u>Granted</u>	<u>Disposed</u>	Balance as of <u>31.12.2019</u>
<u>Rights to shares in the ultimate holding company, BNP Paribas S. A.</u>				
Yves Maurice Guy Marie Drieux	997	-	(705)	292

				No. of units
	Balance as of <u>1.1.2019</u>	<u>Granted</u>	<u>Disposed</u>	Balance as of <u>31.12.2019</u>
<u>Units in Corporate Mutual Fund in the ultimate holding company, BNP Paribas S. A.</u>				
Chia Seng Leng	1,020	-	-	1,020

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.

DIVIDENDS

The dividend paid or declared since the end of the previous financial year were as follows:

In respect of financial year ended 31 December 2019:

	RM'000
An interim single-tier dividend of RM0.10 per ordinary share on 650,000,000 ordinary shares paid on 5 September 2019	65,000

The Directors do not propose to declare a final dividend for the financial year ended 31 December 2019.

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.

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REPORT OF THE DIRECTORS (CONTINUED)

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 RM8,386 (2018: RM8,523).

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.

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.

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REPORT OF THE DIRECTORS (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

- 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 respect of the Bank which have arisen since the end of the financial year other than those incurred in the normal course of business of the Bank.
- 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 substantially 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 the 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
 - 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.

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REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 24 to the financial statements.

AUDITORS

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

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 2019

Malaysia's Gross Domestic Product ('GDP') was 4.3% in 2019; a decline from the 4.7% growth registered in 2018 on a back of lower personal consumption and external demand.

While the country's diversified economic structure and nature of exports helped cushion the impact of a challenging external environment, global economic uncertainties continued to weigh on the local economy.

The Bank focused on its customers' needs and improving quality of its banking services through its range of product offerings and advisory service. The Bank continued to leverage on its Group's strong risk and control culture in its business growth and operations, which is in-line with Central Bank's continuous emphasis on governance.

The Bank registered profit after tax of RM60.1 million compared to RM65.6 million in 2018.

Total assets as at 31 December 2019 stood at RM4.2 billion, RM1.8 billion lower than prior year. The decline was due to lower bond holdings and this has also resulted in decline in the funding from BNPP related entities.

Islamic Banking banking's total assets as at 31 December 2019 stood at RM38.7 million, an increase of 3.5% as compared to the Islamic Banking's total assets of RM37.4 million as at 31 December 2018.

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REPORT OF THE DIRECTORS (CONTINUED)

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

Outlook 2020

Bank Negara Malaysia in its 2019 annual report highlighted that Malaysia's GDP growth is projected between -2% to 0.5%. This was mainly due to the challenging environment posed by the COVID-19 pandemic, coupled with volatile crude oil prices.

The Movement Control Order has also impacted private consumption and dampened economic activity.

Globally, the International Monetary Fund expects a recession in 2020.

In spite of these challenges, the Bank aims to continuously improve and provide the best level of service and support to its customers during this challenging period.

RATINGS BY AN EXTERNAL RATING AGENCY

<u>Rating Agency</u>	<u>Date of rating</u>	<u>Rating Received</u>
Rating Agency Malaysia ('RAM')	01 Nov 2019	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 reflect 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.

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REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS

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

This report was approved by the Board of Directors on 8 May 2020. Signed on behalf of the Board of Directors:



WAHID ALI MOHD KHALIL
DIRECTOR



DATU ABDULLAH MAT NOH
DIRECTOR

Kuala Lumpur
8 May 2020

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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 ('IFSA 2013'). We are responsible to endorse such internal controls 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. 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.

Shariah Compliance

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

During the financial year ended 31 December 2019, 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 rules and principles.

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

In our opinion, for the financial year ended 31 December 2019:

1. the products and processes of the Bank that we have reviewed and endorsed during the financial year ended 31 December 2019 are in compliance with Shariah rules and principles; and
2. the transactions and dealings entered into by the Bank are in compliance with Shariah rules and 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 Shariah non-compliances.



Muhammad Ali Jinnah Bin Ahmad
(Chairman)



Mazrul Shahir Bin Md Zuki
(Member)



Dr Sa'id Adekunle Mikail
(Member)



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)
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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 2019, 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 2019, 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 139.

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*



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
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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)
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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
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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
02907/11/2021 J
Chartered Accountant

Kuala Lumpur
8 May 2020

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BNP PARIBAS MALAYSIA BERHAD
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**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
ASSETS			
Cash and short-term funds	5	1,431,636	2,003,833
Deposits and placement with banks and other financial institutions	6	-	300,110
Reverse repurchase agreements		-	49,225
Financial assets at fair value through profit or loss ("FVTPL")	7	100,233	1,734,650
Financial investments at fair value through other comprehensive income ("FVOCI")	8	957,509	280,836
Loans, advances and financing	9	1,189,887	1,168,302
Derivative financial assets	10	459,442	374,980
Other assets	11	29,072	56,534
Property, plant and equipment	12	9,705	1,730
Intangible assets	13	910	1,807
Tax recoverable		13,959	-
Deferred tax assets	14	3,721	3,704
TOTAL ASSETS		<u>4,196,074</u>	<u>5,975,711</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	15	1,638,737	1,969,571
Deposits and placements of banks and other financial institutions	16	940,422	2,759,765
Derivative financial liabilities	10	431,077	230,293
Other liabilities	17	399,550	222,514
Tax liabilities		-	3,723
TOTAL LIABILITIES		<u>3,409,786</u>	<u>5,185,866</u>
Share capital	18	650,000	650,000
Retained profits		125,086	124,513
Reserves	19	11,202	15,332
SHAREHOLDER'S EQUITY		<u>786,288</u>	<u>789,845</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>4,196,074</u>	<u>5,975,711</u>
COMMITMENTS AND CONTINGENCIES	30	<u>90,352,648</u>	<u>58,167,877</u>

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

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

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Interest income	21	143,668	124,180
Interest income for financial assets at FVTPL	21	36,434	50,641
Interest expense	22	(71,558)	(56,705)
Net interest income		108,544	118,116
Net income from Islamic banking business	34	424	479
		108,968	118,595
Other operating income	23	81,511	32,649
Other operating expenses	24	(102,821)	(67,476)
Expected credit losses	25	(6,163)	(449)
Profit before tax		81,495	83,319
Income tax expense	26	(21,388)	(17,749)
Profit for the year		60,107	65,570
 Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income			
• Net changes in fair value		1,520	86
Other comprehensive income		1,520	86
Total comprehensive income		61,627	65,656

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

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

	Note	Share capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Revaluation reserve- financial investments at FVOCI RM'000	Retained profits RM'000	Total RM'000
At 1 January 2019		650,000	-	15,234	98	124,513	789,845
Effect of adoption of MFRS 16	35	-	-	-	-	(184)	(184)
At 1 January 2019, as restated		650,000	-	15,234	98	124,329	789,661
Profit for the year		-	-	-	-	60,107	60,107
Transfer to retained profits		-	-	(5,650)	-	5,650	-
Other comprehensive income		-	-	-	1,520	-	1,520
Dividend on ordinary shares	20	-	-	-	-	(65,000)	(65,000)
At 31 December 2019		650,000	-	9,584	1,618	125,086	786,288
At 1 January 2018		650,000	-	12,705	12	61,472	724,189
Profit for the year		-	-	-	-	65,570	65,570
Transfer to regulatory reserve		-	-	2,529	-	(2,529)	-
Other comprehensive income		-	-	-	86	-	86
At 31 December 2018		650,000	-	15,234	98	124,513	789,845

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

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BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	81,495	83,319
Adjustment for:		
Unrealised gain on derivative financial instrument	(62,053)	(101,731)
Unrealised loss/(gain) on financial assets at FVTPL	2,315	(2,721)
Unrealised loss/(gain) on foreign exchange	69,141	(251,945)
Amortisation of premium less accretion of discount	3,114	941
Realised gain on financial investments at FVOCI	(1,129)	-
Interest income on financial investments at FVOCI	(33,718)	(12,124)
Depreciation of property, plant and equipment	3,176	550
Amortisation of intangible assets	898	925
Expected credit losses made for impairment on loans, advances and financing	6,163	449
Operating profit/(loss) before working capital changes	<u>69,402</u>	<u>(282,337)</u>
Decrease/(Increase) in:		
Deposits and placement with banks and other financial institutions	300,110	(300,110)
Reverse repurchase agreements	49,225	(39,985)
Financial assets at FVTPL	1,632,102	(1,266,535)
Loans, advances and financing	(27,748)	(32,061)
Property, plant and equipment- right of use	(10,218)	-
Other assets	27,462	242,152
(Decrease)/Increase in:		
Deposit from customers	(330,834)	747,659
Deposit and placements of banks and other financial institution	(1,819,343)	1,973,836
Derivative financial assets/liabilities	109,234	16,805
Other liabilities	179,821	(78,884)
Cash generated from operating activities	<u>179,213</u>	<u>980,540</u>
Income tax paid	(39,088)	(15,538)
Reclassification of property, plant and equipment	409	-
Net cash generated from operating activities	<u><u>140,534</u></u>	<u><u>965,002</u></u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,527)	(1,026)
Purchase of intangible assets	-	(58)
Interest income on financial investments at FVOCI	30,351	9,900
Net purchase of financial investments at FVOCI	<u>(673,770)</u>	<u>(269,408)</u>
Net cash used in investing activities	<u>(644,946)</u>	<u>(260,592)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(65,000)	-
Payment for lease liabilities	(2,785)	-
Net cash used in financing activities	<u>(67,785)</u>	<u>-</u>
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS	(572,197)	704,410
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,003,833</u>	<u>1,299,423</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>1,431,636</u></u>	<u><u>2,003,833</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	5	<u><u>1,431,636</u></u>
		<u><u>2,003,833</u></u>

Changes in liabilities arising from financing activities as following

	<u>Cash changes</u>	<u>Non-cash changes</u>			
	As at 01.01.2019 RM'000	Net Cash Flows from Financing Activities RM'000	Additions RM'000	Interest Expense RM'000	As at 31.12.2019 RM'000
Lease	<u>8,116</u>	<u>(2,785)</u>	<u>1,818</u>	<u>279</u>	<u>7,428</u>

There were no changes in liabilities arising from financing activities for the financial year ended 31 December 2018.

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 2019**

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 and 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 8 May 2020.

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 judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (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 standards and amendments for the first time for the financial year beginning on 1 January 2019:

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

The Bank has adopted these new standards, amendments to published standards and new interpretation for the first time in the 2019 financial statements, which resulted in changes in accounting policies. The adoption of these new standards, amendments to published standards and new interpretation did not have any material impact on the financial statements of the Bank except for those arising from the adoption of MFRS 16 as disclosed in Note 36.

The nature of the new standards are described below:

(i) MFRS 16 "Leases"

MFRS 16 which supersedes MFRS 117, eliminates the classification of leases by the lessee as either finance leases or operating leases. MFRS 16 requires a lessee to account for all leases under a single on balance sheet model similar to the accounting for a finance lease under MFRS 117 which involves the recognition of a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payments.

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

The Bank has adopted MFRS 16 for the first time since 1 January 2019. In its transition to MFRS 16, the Bank has elected to apply the simplified transition approach whereby the comparative amount were not restated and the cumulative effects of initial application of MFRS 16 where the Bank is a lessee were recognised as an adjustments to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 "Leases" and IC Interpretation 4 "Determining whether an Arrangement contains a lease".

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

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

(ii) Amendments to MFRS 9 "Prepayment Features with Negative Compensation"

Under the current MFRS 9 requirements, the "solely payments of principal and interest on the principal amount outstanding" ('SPPI') condition is not met if the lender has to make a settlement payment in the event of early termination by the borrower. The existing requirements are amended to enable entities, to measure at amortised cost or at fair value through other comprehensive income (depending on the business model), some prepayable financial assets with negative compensation if the negative compensation is an amount that reflects the effect of the change in the relevant benchmark rate of interest at the time of termination; the calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. The adoption of these amendments did not result in any impact as the Bank does not hold any prepayable financial assets with negative compensation.

(iii) IC Interpretation 23 "Uncertainty over Income Tax Treatments"

The interpretation provides guidance on how to recognise and measure deferred and current income tax assets and liabilities in situations when there is uncertainty over whether the tax treatment applied by an entity will be accepted by the tax authority. If it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, the accounting for income taxes shall be determined consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made by applying the most likely amount method or the expected value method. The adoption of this interpretation did not have any material financial impact to the Bank.

(iv) Annual Improvements to MFRSs 2015-2017 Cycle

The Annual Improvements to MFRSs 2015-2017 Cycle include minor amendments affecting below:

- MFRS 112 "Income Taxes".

The amendments clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated the distributable amounts were recognised. Hence the tax consequences are recognised in profit or loss only when an entity determines payments on such instruments are distributions of profits. The amendment did not have any material financial impact to the Bank.

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NOTES TO THE FINANCIAL STATEMENTS
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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

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

(i) Financial year beginning on/after 1 January 2020

(a) Amendments to References to the Conceptual Framework in MFRS Standards

The Malaysia Accounting Standards Board ('MASB') also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies. The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

(b) Definition of Material (Amendments of MFRS 101 and MFRS 108)

The amendments clarified the definition of material and how it should be applied through the addition of definition guidance. In addition, the explanations accompanying the definition have been improved and aligned across all MFRS standards to make it easier for entities to make materiality judgements. The amendments are applied prospectively from annual reporting period beginning on or after 1 January 2020. Early adoption is permitted.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Financial assets

Financial assets

The Bank initially recognises financial assets measured at amortised cost on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the settlement date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

Financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ('FVOCI'):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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NOTES TO THE FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Classification of financial assets (continued)

By default, all other financial assets are subsequently measured at fair value through profit or loss ('FVTPL').

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Bank may irrevocably designate a debt investment that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate ('EIR'), transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Amortised cost and effective interest method (continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

Term placements with banks and other financial institutions, term placements due from BNP Paribas related entities, bills receivable from customers, loans to customers and other receivables consists of financial assets measured at amortised cost.

Debt instruments classified as FVOCI

Debt instruments recorded as investment securities are classified as FVOCI. Fair value is determined in the manner described in Note 32 fair value of financial assets and liabilities. The debt instruments classified as FVOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments classified as FVOCI as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments classified as FVOCI had been measured at amortised cost. All other changes in the carrying amount of these debt instruments classified as FVOCI are recognised in other comprehensive income and accumulated under the heading of "Revaluation reserves". When these debt instruments classified as FVOCI are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as FVOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVOCI criteria are classified as FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVOCI criteria may be designated as FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as FVTPL.

Financial assets at FVTPL are measured at fair value as at each reporting date, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'Interest income and Other operating income' line. Fair value is determined in the manner described in Note 32 Fair value of financial assets and liabilities.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Repurchase agreements

Securities temporarily sold under repurchase agreements continue to be recorded in the Bank's statement of financial position in the category of securities to which they belong. The corresponding liability is recognised in the appropriate debt category on the statement of financial position except in the case of repurchase agreements contracted for trading purposes where the corresponding liability is classified under "Financial liabilities at fair value through profit or loss".

Securities temporarily acquired under reverse repurchase agreements are not recognised in the Bank's statement of financial position. The corresponding receivable is recognised in the appropriate asset category on the statement of financial position except in the case of reverse repurchase agreements contracted for trading purposes, where the corresponding receivable is recognised under "Financial assets at fair value through profit or loss".

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate as at each reporting date. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other operating income" line item;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the "Other operating income" line item;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'Other operating' line item; and

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Impairment of financial assets

The Bank recognises a loss allowance for expected credit losses ('ECL') on investments in debt instruments that are measured at amortised cost or at FVOCI, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

With the exception of Purchased or originated credit-impaired ('POC') financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Bank expect to receive, over the remaining life of the financial instrument. For financial contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The measurement of ECL reflects:

- any unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Impairment of financial assets (continued)

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default ('PD') which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Significant increase in credit risk (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. There is particular focus on assets that are included on a "watch list" given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Financial assets (continued)

Significant increase in credit risk (continued)

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off.

Recoveries resulting from the Bank's enforcement activities will result in impairment credit.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or other financial liabilities.

Financial liabilities at fair value through profit or loss are initially measured at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other operating income" line in the statement of comprehensive income.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities

Deposits of non-bank customers, deposits and balances of banks and other financial institutions, amounts due to head office and other branches and related companies, trade and other payables and other liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

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 assets and settle the liabilities simultaneously.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C 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.

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

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

The effective interest/profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest/profit income or interest/profit expense over the relevant period. The effective interest/profit 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/profit 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/profit rate, but not future credit losses.

Interest/profit 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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3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E Recognition of revenue from contracts with customers

Revenue is recognised by reference to each distinct performance obligation promised in the contract with customer when or as the Bank transfer the control of the goods or services promised in a contract and the customer obtains control of the goods and services. Depending on the substance of the respective contract with customer, the control of the promised goods or services may transfer over time or at point in time.

A contract with customer exists when the contract has commercial substance, the Bank and customer have approved the contract and intend to perform their respective obligations, the Bank's and the customer's rights regarding the goods or services to be transferred and the payment terms can be identified, and it is probable that the Bank will collect the consideration to which it will be entitled to in exchange of those goods or services.

At the inception of each contract with customer, the Bank assess the contract to identify distinct performance obligations, being the units of account that determine when and how revenue from the contract with customer is recognized.

Revenue is measured at the amount of consideration to which the Bank expect to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties. If the amount of consideration varies, the Bank estimate the amount of consideration that it expects to be entitled based on the expected value or the most likely outcome but the estimation is constrained up to the amount that is highly probable of no significant reversal in the future. If the contract with customer contains more than one distinct performance obligation, the amount of consideration is allocated to each distinct performance obligation based on the prices of the goods or services promised in the contract.

The consideration allocated to each performance obligation is recognised as revenue when or as the customer obtains control of the goods or services. At the inception of each contract with customer, the Bank determine whether control of the goods or services for each performance obligation is transferred over time or at a point in time. Revenue is recognised over time if the control over the goods or services are transferred over time. Revenue for performance obligation that is not satisfied over time is recognised at the point in time at which the customer obtains control of the promised goods or services.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E Recognition of revenue from contracts with customers (continued)

The following specific recognition criteria must be met before revenue is recognized:

Fee and commission income

The Bank earn fee and commission income from a diverse range of services provided to their customers. Fee income can be divided into the following categories:

Fee income earned from services that are provided over a period of time

Fees earned for the provision of services over a period of time are accrued over that period by reference to the stage of completion of the services. These fees include loan arrangement, commission income and advisory fees. Loan commitments fees for loans that are unlikely to be drawn down are recognised over the commitment period on a straight-line basis.

Fee income from providing transactions services

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Success fee from advisory services

Fee from such activities can only be determined at the end of the transaction in view of the fact that the final consideration is subject a wide range of variables such as market price fluctuation, demand / supply etc.

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

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

G 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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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H 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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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I 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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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J 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

K 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L Leases

The Bank as a lessee

Accounting policies applied from 1 January 2019

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

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Bank is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

(a) Lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonable certain to be extended (or not to be terminated).

The Bank reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank and affects whether the Bank is reasonable certain to exercise an option not previously included in the determination of lease term, or not to exercise an option not previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities as per Note L (d) below.

(b) ROU

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying remeasurement of the lease liabilities. The Bank presents the ROU assets within the "Property, plant and equipment" financial statement line item. Depreciation of property, plant and equipment is presented within "Other operating expenses in the statement of profit or loss.

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

L **Leases (continued)**

The Bank as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

(b) **Lease Liabilities**

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive received;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Bank under residual value guarantees;
- The exercise price of a purchase and extension options if the Bank is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank presents the lease liabilities within the "Other Liabilities" financial statement line item. Interest expenses on the lease liability is presented within finance cost in the statement of profit or loss.

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

L **Leases (continued)**

The Bank as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

(c) **Reassessment of lease liabilities**

The Bank is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

(d) **Short term leases and leases of low-value assets**

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

Accounting policies applied until 31 December 2018

Leases in which a significant (substantially all) portion of the risks and rewards of ownership are not transferred to the Bank as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the financial statements involves making judgements, assumptions and estimates 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.

In the process of applying the Bank's accounting policies, the following significant judgements, estimates and assumptions made by the management:

- the measurement of expected credit losses. This applies in particular to the assessment of significant increase in credit risk, the models and assumptions used to measure expected credit losses, the determination of the different economic scenarios and their weighting. The detailed judgements, assumptions and estimates made are disclosed in Note 3A;
- the use of internally-developed models to measure positions in financial instruments that are not quoted in active markets the detailed judgements, assumptions and estimates are disclosed in Note 32;
- calculations of the fair value of unquoted financial instruments classified in "Financial assets at fair value through equity", or in "Financial instruments at fair value through profit or loss", whether as assets or liabilities, and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement;

5. CASH AND SHORT-TERM FUNDS

	<u>2019</u> RM'000	<u>2018</u> RM'000
At amortised cost:		
Cash and balances with banks and other financial institutions	36,029	38,610
Money at call and deposit placements maturing within one month	1,395,607	1,965,223
	<u>1,431,636</u>	<u>2,003,833</u>

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6 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Bank Negara Malaysia	-	300,110
	<u>-</u>	<u>300,110</u>

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ('FVTPL')

	<u>2019</u> RM'000	<u>2018</u> RM'000
At Fair Value:		
Government securities:		
Malaysian Government Securities	87,387	1,458,050
Malaysian Government Investment Issues	12,846	276,600
	<u>100,233</u>	<u>1,734,650</u>

8. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	<u>2019</u> RM'000	<u>2018</u> RM'000
At Fair Value:		
Government securities:		
Malaysian Government Securities	316,310	270,841
Bank Negara Malaysia Debt Securities	408,219	9,995
Malaysian Government Investment Issues	232,980	-
	<u>957,509</u>	<u>280,836</u>

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9. **LOANS, ADVANCES AND FINANCING**

	<u>2019</u> RM'000	<u>2018</u> RM'000
At Amortised Cost:		
(i) By type		
Revolving credit	669,493	634,581
Term loans	420,681	391,974
Trust receipts	80,289	115,783
Other trade bills discounted	6,695	10,428
Overdrafts	18,500	16,955
	<hr/>	<hr/>
Gross loans, advances and financing [^]	1,195,658	1,169,721
Less: Expected Credit Losses ('ECL')	(5,771)	(1,419)
	<hr/>	<hr/>
Net loans, advances and financing	<u>1,189,887</u>	<u>1,168,302</u>

Note [^]: Included in the loans, funding extended to BNP Paribas Najmah (an Islamic Banking window in the Bank) under Profit Sharing Investment Account (PSIA) amounting to RM55.00 million (FY2018: RM62.00 million). The PSIA is a contract based on the Wakalah principle.

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9. LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>2019</u> RM'000	<u>2018</u> RM'000
(ii) By type of customer		
Domestic business enterprises	1,195,658	1,131,848
Financial institutions	-	37,873
	<u>1,195,658</u>	<u>1,169,721</u>
(iii) By interest rate		
Variable rate:		
Cost plus	1,195,658	1,169,721
	<u>1,195,658</u>	<u>1,169,721</u>
(iv) By residual contractual maturity		
Maturing within one year	903,471	714,749
More than one year to five years	154,829	443,549
More than five years	137,358	11,423
	<u>1,195,658</u>	<u>1,169,721</u>
(v) By geographical distribution		
In Malaysia	1,195,658	1,169,721
(vi) By Sector		
Manufacturing	924,316	930,078
Mining and Quarrying	10,301	6,545
Construction	10,001	6,001
Wholesale and retail	28,375	66,583
Financial services	-	37,873
Other business services	212,255	111,218
Real estate activities	10,410	11,423
	<u>1,195,658</u>	<u>1,169,721</u>

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9. **LOANS, ADVANCES AND FINANCING (CONTINUED)**

(vii) Movements in ECL on loans, advances and financing are as follows:

	12 month ECL <u>(Stage 1)</u> RM'000	Lifetime ECL not credit impaired <u>(Stage 2)</u> RM'000	Lifetime ECL credit impaired <u>(Stage 3)</u> RM'000	<u>Total</u> RM'000
<u>2019</u>				
Balance at beginning of financial year	1,243	176	-	1,419
Change in credit risk Allowance made/(written back) during the financial year	(100) 545	100 4,432	- -	- 4,977
Derecognised during the financial year	(491)	(1)	-	(492)
Exchange differences	(29)	(104)	-	(133)
Balance at end of financial year	<u>1,168</u>	<u>4,603</u>	-	<u>5,771</u>
				<u>2019</u>
Loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% to total credit exposures, net of loss allowance for credit-impaired exposures				<u>1.0%</u>

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9. **LOANS, ADVANCES AND FINANCING (CONTINUED)**

(vii) Movements in ECL on loans, advances and financing are as follows:

	12 month ECL <u>(Stage 1)</u> RM'000	Lifetime ECL not credit impaired <u>(Stage 2)</u> RM'000	Lifetime ECL credit impaired <u>(Stage 3)</u> RM'000	<u>Total</u> RM'000
<u>2018</u>				
Balance at beginning of financial year	-	-	-	-
Effects of adopting MFRS 9	720	300	-	1,020
As restated	720	300	-	1,020
Change in credit risk	250	(250)	-	-
Allowance made/(written back) during the financial year	412	149	-	561
Derecognised during the financial year	(181)	(24)	-	(205)
Exchange differences	42	1	-	43
Balance at end of financial year	<u>1,243</u>	<u>176</u>	<u>-</u>	<u>1,419</u>
				<u>2018</u>
Loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% to total credit exposures, net of loss allowance for credit-impaired exposures				<u>1.0%</u>

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9. **LOANS, ADVANCES AND FINANCING (CONTINUED)**

(viii) Movements on loans, advances and financing are as follows:

	12 month ECL (Stage1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
<u>2019</u>				
Balance at beginning of financial year	1,100,317	69,404	-	1,169,721
Change in credit risk	(131,419)	131,419	-	-
Purchases and origination	489,782	-	-	489,782
Derecognised during the financial year	(397,362)	(66,483)	-	(463,845)
Exchange fluctuation	-	-	-	-
Balance at end of financial year	<u>1,061,318</u>	<u>134,340</u>	<u>-</u>	<u>1,195,658</u>
<u>2018</u>				
Balance at beginning of financial year	-	-	-	-
Effects of adopting MFRS 9	994,156	143,902	-	1,138,058
As restated	994,156	143,902	-	1,138,058
Change in credit risk	61,135	(61,135)	-	-
Purchases and origination	399,564	15,972	-	415,536
Derecognised during the financial year	(354,555)	(29,335)	-	(383,890)
Exchange fluctuation	17	-	-	17
Balance at end of financial year	<u>1,100,317</u>	<u>69,404</u>	<u>-</u>	<u>1,169,721</u>

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10. 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:

	<u>2019</u>		
	<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	11,883,718	85,393	(83,287)
Currency swaps	42,683,439	215,828	(285,375)
Currency options	928,438	6,792	(1,916)
Currency spot	154,524	243	(9)
Interest rate derivatives:			
Interest rate swaps	32,779,249	120,390	(48,559)
Interest rate options	200,000	-	(2,610)
Credit derivatives:			
Credit default swaps	1,072,940	30,796	(9,321)
Total derivative assets/(liabilities)	89,702,308	459,442	(431,077)
	<u>2018</u>		
	<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	18,699,338	105,083	(77,930)
Currency swaps	24,455,395	185,792	(92,382)
Currency options	1,818,216	9,063	(8,747)
Currency spot	556,365	36	(662)
Interest rate derivatives:			
Interest rate swaps	10,827,280	13,740	(15,148)
Credit derivatives:			
Credit default swaps	1,217,542	61,266	(35,424)
Total derivative assets/(liabilities)	57,574,136	374,980	(230,293)

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10. 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.

11. OTHER ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Other receivables	7,608	9,546
Less: Allowance for impairment on other receivables	-	(1)
	<hr/>	<hr/>
	7,608	9,545
Collateral assets	19,643	44,991
Deposit	824	696
Prepayments	997	1,302
	<hr/>	<hr/>
	<u>29,072</u>	<u>56,534</u>

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11. OTHER ASSETS (CONTINUED)

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

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Individual impairment allowance</u>		
Balance as of 1 January	1	1
Allowance written off during the financial year	1	-
	<hr/>	<hr/>
Balance as of 31 December	-	1
	<hr/> <hr/>	<hr/> <hr/>

The other receivables of RM nil (2018: RM1,503) represent amount outstanding which are past due and impaired at the end of the reporting period.

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12. PROPERTY, PLANT AND EQUIPMENT

2019	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture fixtures and fittings RM'000	Computer equipment and hardware RM'000	Motor vehicle RM'000	Renovation work-in progress RM'000	Right of Use RM'000	Total RM'000
Cost								
At beginning of year	269	4,256	1,847	4,936	15	455	-	11,778
Effect of adoption of MFRS 16 (Note 36)	-	-	-	-	-	-	13,134	13,134
At beginning of year, restated	269	4,256	1,847	4,936	15	455	13,134	24,912
Additions	41	-	4	1,255	-	228	1,565	3,093
Matured during the year	-	-	-	-	-	-	(1,468)	(1,468)
Reclassification	-	-	-	45	-	(45)	-	-
Expensed off	-	-	-	-	-	(410)	-	(410)
At end of year	310	4,256	1,851	6,236	15	228	13,231	26,127

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

2019	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture fixtures and fittings RM'000	Computer equipment and hardware RM'000	Motor vehicle RM'000	Renovation work-in progress RM'000	Right of Use RM'000	Total RM'000
Accumulated depreciation								
At beginning of year	197	3,984	1,536	4,317	14	-	-	10,048
Effect of adoption of MFRS 16 (Note 36)	-	-	-	-	-	-	4,666	4,666
At beginning of year, restated	197	3,984	1,536	4,317	14	-	4,666	14,714
Charge for the year	30	125	106	472	1	-	2,442	3,176
Matured during the year	-	-	-	-	-	-	(1,468)	(1,468)
At end of year	227	4,109	1,642	4,789	15	-	5,640	16,422
Net Book Value								
As of 31 December 2019	83	147	209	1,447	-	228	7,591	9,705

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12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>2018</u>	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture fixtures and fittings RM'000	Computer equipment and hardware RM'000	Motor vehicle RM'000	Renovation work-in progress RM'000	Total RM'000
<u>Cost</u>							
At beginning of year	213	4,256	1,825	4,443	15	-	10,752
Additions	56	-	22	493	-	455	1,026
At end of year	<u>269</u>	<u>4,256</u>	<u>1,847</u>	<u>4,936</u>	<u>15</u>	<u>455</u>	<u>11,778</u>
<u>Accumulated depreciation</u>							
At beginning of year	168	3,842	1,423	4,054	11	-	9,498
Charge for the year	29	142	113	263	3	-	550
At end of year	<u>197</u>	<u>3,984</u>	<u>1,536</u>	<u>4,317</u>	<u>14</u>	<u>-</u>	<u>10,048</u>
<u>Net Book Value</u>							
As of 31 December 2018	<u>72</u>	<u>272</u>	<u>311</u>	<u>619</u>	<u>1</u>	<u>455</u>	<u>1,730</u>

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13. INTANGIBLE ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Computer Software</u>		
<u>Cost</u>		
At 1 January	3,090	3,032
Additions	-	58
At 31 December	<u>3,090</u>	<u>3,090</u>
<u>Accumulated amortisation</u>		
At 1 January	1,283	358
Amortisation for the year	897	925
At 31 December	<u>2,180</u>	<u>1,283</u>
Net book value	<u>910</u>	<u>1,807</u>

14. DEFERRED TAX ASSETS/(LIABILITIES)

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Deferred Tax Assets	4,232	3,724
Deferred Tax Liabilities	(511)	(20)
At 31 December	<u>3,721</u>	<u>3,704</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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14. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	<u>Note</u>	<u>Property plant and equipment RM'000</u>	<u>Financial investment at FVOCI RM'000</u>	<u>Provisions RM'000</u>	<u>Total RM'000</u>
<u>2019</u>					
At 1 January		196	(20)	3,528	3,704
Effect of adoption of MFRS 16	35	69	-	-	69
Credited to profit or loss		265	(20)	3,528	3,773
Charged to other comprehensive income	26	22	-	417	439
		-	(491)	-	(491)
At 31 December		287	(511)	3,945	3,721
<u>2018</u>					
At 1 January		97	(2)	453	548
Credited to profit or loss	26	99	-	3,075	3,174
Charged to other comprehensive income		-	(18)	-	(18)
At 31 December		196	(20)	3,528	3,704

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15. DEPOSITS FROM CUSTOMERS

	<u>2019</u> RM'000	<u>2018</u> RM'000
At Amortised Cost:		
Demand deposits	827,347	754,335
Fixed deposits	811,390	1,208,579
Commodity Murabahah	-	6,657
	<u>1,638,737</u>	<u>1,969,571</u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Due within six months	807,516	1,214,384
Six months to one year	3,874	852
	<u>811,390</u>	<u>1,215,236</u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Business enterprises	1,622,909	1,951,475
Non-bank financial institutions	15,828	18,096
	<u>1,638,737</u>	<u>1,969,571</u>

16. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2019</u> RM'000	<u>2018</u> RM'000
At Amortised Cost:		
Other financial institutions	940,422	2,759,765
	<u>940,422</u>	<u>2,759,765</u>

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17. OTHER LIABILITIES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Other payables	61,815	38,014
Accruals and charges	7,410	9,548
Collateral deposits	320,753	174,534
Allowance for impairment losses on loan commitment and financial guarantee	2,144	418
Lease liabilities	7,428	-
	<u>399,550</u>	<u>222,514</u>

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

- i) Allowance for impairment losses on loans commitment and financial guarantee are as follows:

	12 month ECL (Stage 1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
<u>2019</u>				
Balance at beginning of financial year	86	332	-	418
Change in credit risk Allowance made	(45)	45	-	-
during the financial year	202	1,401	-	1,603
Exchange differences	1	122	-	123
Balance at end of financial year	<u>244</u>	<u>1,900</u>	<u>-</u>	<u>2,144</u>

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17. OTHER LIABILITIES (CONTINUED)

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

i) Allowance for impairment losses on loans commitment and financial guarantee are as follows: (continued)

	12 month ECL (Stage1) RM'000	Lifetime ECL not credit impaired (Stage 2) RM'000	Lifetime ECL credit impaired (Stage 3) RM'000	Total RM'000
<u>2018</u>				
Balance at beginning of financial year	44	304	-	348
Change in credit risk	129	(129)	-	-
Allowance made/(written back) during the financial year	(84)	157	-	73
Exchange differences	(3)	-	-	(3)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at end of financial year	<u>86</u>	<u>332</u>	<u>-</u>	<u>418</u>

18. SHARE CAPITAL

	<u>2019</u>		<u>2018</u>	
	No of Ordinary Shares '000	RM '000	No of Ordinary Shares '000	RM '000
<u>Ordinary shares issued and fully paid</u>				
At 31 December – ordinary shares of RM1 each	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>

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19. RESERVES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Non-distributable:		
Revaluation reserve-financial investments at FVOCI (Note a)	1,618	98
Regulatory reserve (Note b)	9,584	15,234
	<u>11,202</u>	<u>15,332</u>

(a) Revaluation reserve-financial investments at FVOCI

The revaluation reserve-financial investments at FVOCI represent cumulative fair value changes on financial investments at FVOCI.

(b) Regulatory reserve

Regulatory reserve represents the Bank's compliance with BNM's revised Policy Document on Financial Reporting with effect from 1 January 2018, whereby the Bank must maintain, in aggregate, less allowance for non-credit impaired exposures and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit impaired exposures.

20. DIVIDEND

	<u>2019</u> RM'000	<u>2018</u> RM'000
An interim single tier dividend of RM0.10 per ordinary share on 650,000,000 ordinary shares paid on 5 September 2019	65,000	-

The Directors do not propose to declare a final dividend for the financial year ended 31 December 2019.

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21. INTEREST INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Loans and advances	45,868	50,907
Money at call and deposit placements with financial institutions	49,293	40,168
Financial investments at FVOCI	33,580	12,124
Financial assets at FVTPL	36,434	50,641
Other interest income	18,041	21,922
	<u>183,216</u>	<u>175,762</u>
Amortisation of premium less accretion of discount	(3,114)	(941)
	<u>180,102</u>	<u>174,821</u>

22. INTEREST EXPENSE

	<u>2019</u> RM'000	<u>2018</u> RM'000
Deposits from customers	39,610	38,292
Deposits and placements of banks and other financial institutions	31,296	18,227
Lease liabilities	279	-
Other interest expense	373	186
	<u>71,558</u>	<u>56,705</u>

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23. OTHER OPERATING INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Fee income:		
Commissions	1,988	926
Guarantee fee	1,733	2,033
Other fee income:		
Unwinding fees	-	38
Advisory fees	14,381	4,164
Arrangement fees	639	98
Other fees	534	498
	<u>19,275</u>	<u>7,757</u>
Gain arising from sale of:		
Financial assets at FVTPL	37,663	7,977
Financial investments at FVOCI	1,129	32
(Loss)/gain on derivatives trading:		
Realised	(13,365)	(62,154)
Unrealised	62,053	101,731
Unrealised (loss)/gain on revaluation of financial assets:		
FVTPL	(2,315)	2,721
Other income:		
Foreign exchange:		
Realised gain/(loss)	35,602	(288,038)
Unrealised (loss)/gain	(69,141)	251,945
Others	10,610	10,678
	<u>81,511</u>	<u>32,649</u>

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24. OTHER OPERATING EXPENSES

	2019 RM'000	2018 RM'000
Personnel costs (Note a)	44,519	42,571
Establishment costs (Note b)	14,856	17,236
Marketing expenses (Note c)	781	617
Administration and general expenses (Note d)	42,665	7,052
	<u>102,821</u>	<u>67,476</u>
(a) Personnel costs		
Wages, salaries and bonuses	32,673	29,905
Defined contribution plan	4,775	4,296
Social security cost	721	602
Other staff related expenses	6,350	7,768
	<u>44,519</u>	<u>42,571</u>
(b) Establishment costs		
Information technology costs	7,413	10,265
Depreciation of property, plant and equipment (Note 12)	3,176	550
Amortisation of intangible asset (Note 13)	897	925
Rental of premises	-	2,208
Others	3,370	3,288
	<u>14,856</u>	<u>17,236</u>
(c) Marketing expenses		
Advertising	69	48
Others	712	569
	<u>781</u>	<u>617</u>
(d) Administration and general expenses		
Legal and professional fees	2,575	1,647
Communication and transportation	1,240	236
Other general expenses	38,850	5,169
	<u>42,665</u>	<u>7,052</u>

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24. OTHER OPERATING EXPENSES (CONTINUED)

Included in the above expenditure are the following statutory disclosures:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Directors' remuneration	1,523	1,353
Auditors' remuneration:		
Statutory audit	411	338
Others	37	38
	<u> </u>	<u> </u>

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

	<u>Fees</u> RM'000	<u>Other</u> <u>allowances</u> RM'000	<u>Bonuses</u> RM'000	<u>Benefits</u> <u>in kind</u> RM'000	<u>Total</u> RM'000
<u>2019</u>					
Non-executive Directors	<u>1,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,523</u>
<u>2018</u>					
Non-executive Directors	<u>1,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,353</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>2019</u> RM'000	<u>2018</u> RM'000
<u>Chief Executive Officer</u>		
Philippe Aroyo	2,063	2,727
Anthony Lo	577	-
	<u>2,640</u>	<u>2,727</u>
<u>Non-Executive Directors</u>		
Dato Abdullah Mat Noh	400	400
Halim Haji Din	400	400
Jean-Pierre Roger Beno Bernard	170	170
Yves Maurice Guy Marie Drieux	170	128
Wahid Ali bin Mohd Khalil	170	85
Chia Seng Leng	170	170
Vijayam a/p Nadarajah	43	-
Joris Maria A. Dierckx	-	-
	<u>4,163</u>	<u>4,080</u>

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25. EXPECTED CREDIT LOSSES / ALLOWANCE MADE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING AND OTHER FINANCIAL ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Expected credit losses:		
Allowance made during the financial year	6,163	449
	<u>6,163</u>	<u>449</u>
<u>Charge during the financial year:</u>		
Loans, advances and financing	4,508	403
Other financial assets	1,655	46
	<u>6,163</u>	<u>449</u>

26. INCOME TAX EXPENSE

	<u>2019</u> RM'000	<u>2018</u> RM'000
Current tax:		
Current year	20,641	20,805
Under provision in prior years	1,186	118
	<u>21,827</u>	<u>20,923</u>
Deferred tax (Note 14)		
Origination and reversal of temporary differences	(715)	(1,380)
Recognition and reversal of prior years' temporary differences	276	(1,794)
	<u>(439)</u>	<u>(3,174)</u>
Income tax expenses	<u>21,388</u>	<u>17,749</u>

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26. 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>2019</u> RM'000	<u>2018</u> RM'000
Profit before tax	81,495	83,319
Taxation at Malaysian statutory tax rate of 24%	19,559	19,997
Tax effects of:		
Expenses not deductible for tax purposes	367	558
Exemption based on incremental chargeable income from business	-	(1,130)
Under provision in prior years	1,186	118
Recognition and reversal of prior years' temporary differences	276	(1,794)
	<u>21,388</u>	<u>17,749</u>

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The Bank is a wholly-owned subsidiary of BNP Paribas S.A., a financial institution incorporated in France, which is also regarded by the Directors as 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, Fortis	Fellow subsidiary
BNP Paribas, Labuan	Fellow subsidiary
BNP Paribas Asset Management Malaysia Sdn Bhd	Fellow subsidiary
BNP Paribas Asset Management Najmah Malaysia Sdn Bhd	Fellow subsidiary
BNP Paribas Capital (Malaysia) Sdn Bhd	Fellow subsidiary

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27. **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>2019</u> RM'000	<u>2018</u> RM'000
Income:		
Recharges from intercompany	6,867	7,680
Interest on cash and short term funds	118	253
Interest from deposit and placements with banks and other financial institutions	-	9
Other interest	1	19
Other intercompany charges	-	1,776
	<u> </u>	<u> </u>
Expense:		
Interest on deposits and placements of banks and other financial institutions	8,089	15,640
Other intercompany charges	34,092	-
Share of information technology costs	9,102	10,185
Other staff related expenses	184	88
Interest on Commodity Murabahah deposits	117	144
Interest on demand deposits	47	56
Interest on fixed deposits	117	99
Other interest	370	184
	<u> </u>	<u> </u>

(b) **Related party balances**

	<u>Ultimate</u> <u>holding</u> <u>company</u> RM'000	<u>Related</u> <u>parties</u> RM'000
<u>2019</u>		
<u>Assets</u>		
Cash and short term funds	379	13,598
Derivative financial assets	92,350	55,732
Other assets	-	6,611
	<u> </u>	<u> </u>
	<u>92,729</u>	<u>75,941</u>

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

(b) **Related party balances (continued)**

	Ultimate holding company RM'000	Related parties RM'000
<u>2019 (continued)</u>		
<u>Liabilities</u>		
Deposits from customers	-	25,215
Deposit and placements of banks and other financial institutions	2,938	936,675
Derivative financial liabilities	109,191	8,280
Other liabilities	227,166	8,966
	<u>339,295</u>	<u>979,136</u>
 <u>2018</u>		
<u>Assets</u>		
Cash and short term funds	13	21,139
Derivative financial assets	100,118	17,667
Other assets	44,862	6,642
	<u>144,993</u>	<u>45,448</u>
 <u>2018</u>		
<u>Liabilities</u>		
Deposits from customers	-	23,972
Deposit and placements of banks and other financial institutions	2,142	2,332,605
Derivative financial liabilities	78,955	44,308
Other liabilities	-	19,380
	<u>81,097</u>	<u>2,420,265</u>

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly. The key management personnel of the Bank include the Chief Executive Officer and Senior Officers of the Bank.

Compensation of key management personnel:

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Salaries and other short term employee benefits	11,481	8,467
Post-employment benefits:		
Defined contribution plan	1,132	1,085
	<u>12,613</u>	<u>9,552</u>

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The following tables represent the Bank's top 5 related party transactions by geographical and type of services as of 31 December 2019:

Services provided by geographical	Client	Middle	Back	Finance	Reconciliations	Operations	Information	Other	Total
	management	office	office	and			technology	services	
	RM'000	services	services	Control	RM'000	RM'000	RM'000	RM'000	RM'000
India	25	-	-	-	56	266	-	1	348
Belgium	-	-	-	-	-	-	508	-	508
France	-	-	-	-	-	-	49	-	49
Hong Kong	37	510	(40)	285	-	441	500	-	1,733
Singapore	-	420	-	-	-	-	6,153	135	6,708
	62	930	(40)	285	56	707	7,210	136	9,346

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The following tables represent the Bank's top 5 related party transactions by geographical and type of services as of 31 December 2018:

Services provided by geographical	Client management RM'000	Middle office services RM'000	Back office services RM'000	Finance and Control RM'000	Reconciliations RM'000	Operations RM'000	Information technology RM'000	Other services RM'000	Total RM'000
India	31	-	-	-	60	291	-	1	383
Belgium	-	-	-	-	-	-	461	-	461
France	-	-	-	-	-	-	42	-	42
Hong Kong	84	531	351	804	-	458	639	-	2,867
Singapore	-	227	-	-	-	-	6,739	23	6,989
	115	758	351	804	60	749	7,881	24	10,742

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28. OPERATING LEASE ARRANGEMENTS

The Bank has lease commitments in respect of rented premises which are classified as operating lease as at 31 December 2018. For 1 January 2019, the Bank has recognised right of use assets for these leases, except for leases which are scoped out of MFRS 16. A summary of the lease commitments, net of sub-lease is as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Future minimum rental payments:		
Not later than 1 year	343	3,013
Later than 1 year and not later than 5 year	303	547
	<u>646</u>	<u>3,560</u>

29. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Outstanding credit exposures with connected parties	144,797	584,291
Total credit exposures	<u>2,443,669</u>	<u>2,811,109</u>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposures	<u>5.93%</u>	<u>20.79%</u>
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<u>-</u>	<u>-</u>

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30. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

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

	<u>2019</u> Principal amount RM'000	<u>2018</u> Principal amount RM'000
Direct credit substitutes	387,830	406,655
Short term self liquidating trade related contingencies	1,006	3,245
Irrevocable commitments to extend credit:		
Maturity up to one year	-	-
Maturity more than one year	261,504	183,841
Total credit related commitment and contingencies	<u>650,340</u>	<u>593,741</u>
Foreign exchange derivatives:		
One year or less	54,493,027	44,584,659
Over one year to five years	1,157,092	944,655
Interest rate derivatives:		
One year or less	10,016,250	1,056,750
Over one year to five years	21,849,881	9,566,530
Over five years	1,113,118	204,000
Credit derivatives:		
One year or less	78,229	-
Over one year to five years	994,711	1,217,542
Total treasury related commitment and contingencies	<u>89,702,308</u>	<u>57,574,136</u>
Total commitment and contingencies	<u>90,352,648</u>	<u>58,167,877</u>

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31. **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, Shariah non-compliance 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 potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. 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.

Counterparty risk is the credit risk embedded in payment or transactions between counterparties. Those transactions include bilateral contracts such as over-the-counter derivatives contracts ('OTC'). The amount of this risk varies over time in line with changing market parameters which then impacts the replacement value of the relevant transactions or portfolio.

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

General credit policy, credit control and provisioning procedures

The Bank's lending activities are governed by the Bank's Credit Risk Policy which is subject to and fully adopts BNP Paribas Group's Global Credit Policy. The policy is underpinned by core principles related to compliance with the Group's ethical standards, clear definition of roles and responsibilities and thorough analysis of risks. It is rolled down in the form of specific policies tailored to each type of business or counterparty.

In respect of its lending activities, the Bank structures the levels of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and would abide by geographical and industry segments limit as and when defined at Group or Regional level.

A comprehensive risk monitoring system is organised around Control units, which are responsible for ensuring that lending commitments comply with the loan approval decision, that credit risk reporting data are reliable and that risks accepted by the Bank are effectively monitored. Daily exception reports are produced and various forecasting tools are used to provide early warnings of potential escalations of credit risks. The various monitoring levels, which generally reflect the organisation of discretionary lending authorities, are carried out up to the General Management Doubtful and WatchList Committee, under the supervision of Risk Function ('RISK'). This committee examines on a quarterly basis all sensitive or non-performing loans in excess of a given threshold, for which it reviews and decides on the strategy towards the client, the rating and Global Recovery Rate ('GRR') and examines the adequacy of the impairment and recovery data based on a recommendation from the business lines, with RISK concurrence.

As part of the Group's policy, each business line is required to make a monthly review, together with RISK, of all corporate, bank and sovereign loans in default to determine the amount of impairment loss, if any, to be recognised, either by reducing the carrying amount or by recording a provision for impairment, depending on the applicable accounting standards. The amount of the impairment loss is based on the present value of expected net recoveries, including from the realisation of collateral. Each and every change in provision must be examined locally by a committee between Business, Finance and Risk. Committees may be physical meetings or by circulation. Changes in provision exceeding local/regional delegation level are recommended to Head Office.

In addition, at APAC level, a collective impairment is established while a dedicated local management committee is also established to provide the necessary oversight.

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

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

General credit policy, credit control and provisioning procedures (continued)

The determination of this collective impairment, known as MFRS 9 provisions, is calculated on all facilities and results from a two-step approach.

First the facilities have to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility is defaulted. If that increase did occur, the facility is considered as being in Stage 2. If there was no significant credit risk increase, the facility remains in stage 1.

Second, the collective provisioning of the facility, known as the expected credit loss is calculated: 12-month expected loss for all facilities in stage 1 and lifetime expected credit loss for all facilities in stage 2; facilities in stage 3 are covered by specific provisions.

Internal rating system

The Bank adopts the BNP Paribas Group's Corporate Credit Policy which formalises the rating principles and methodology to be used to qualify and quantify the credit risks of counterparty. The implementation of this policy contributes to the management, approval and monitoring, credit delegation, provisioning and pricing policy process and portfolio management of corporate credit risks within the Bank at counterparty level.

The BNPP's group performs regular back-testing to ensure that the rating system is appropriate and robust.

Under the rating system, there are 32 notches. 30 (ranging from 1+ to 10-) cover counterparties that are not in default with credit assessments ranging from 'excellent' to 'very concerning', and two relate to counterparties classified as in Doubtful. Confirmation or amendments to Counterparty Ratings and the Global Recovery Rates applicable to each transaction of the counterparty are reviewed at inception and at least once a year as part of the credit approval process or annual credit review, drawing on the combined expertise of business line staff and Risk representatives, who have the final say. High quality tools have been developed to support the rating process, including analysis aids and credit scoring systems.

Portfolio policy

In addition to selecting individual risks and measuring the related exposure, the Bank follows a portfolio-based policy designed to diversify risks among borrowers and industries with a cautious approach to country risk. Concentrations of counterparty risks are closely monitored at regular intervals.

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

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

Risk mitigation techniques

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, reducing part of its risks through risk participations and securitisation and entering into netting agreements with counterparties that permit the Bank to offset receivables and payables with such counterparties.

Where possible, the Bank takes collateral to mitigate its exposure. Collateral includes cash, marketable securities, structured products, moveable and immovable properties, trade receivables, inventory and other physical and financial collateral. The Bank may also take fixed and floating charges on the assets of borrowers. It has put in place policies governing eligibility of collateral. Where appropriate, collaterals are revalued periodically depending on the type of collaterals in order to ensure continued effective coverage.

The Bank generally holds full collaterals against the credit facilities granted under its wealth management businesses and holds the right to dispose of these collaterals when certain exposure thresholds are exceeded. Mortgage loan is usually extended to customers who maintain their liquidity with the Bank and represent an immaterial proportion of the total loan portfolio of the Bank.

Netting arrangements

Netting is used by the Bank in order to mitigate counterparty credit risk associated with derivatives trading. The main instance where netting occurs is in case of trades termination: if the counterparty defaults, all the trades are terminated at their current market value, and all the positive and negative market values are summed to obtain a single amount (net) to be paid to or received from the counterparty. The balance ('close-out netting') may be collateralised with cash, securities or deposits.

The Bank also applies settlement netting in order to mitigate counterparty credit risk in case of currency-settlements. This corresponds to the netting of all payments and receipts between the Bank and one counterparty in the same currency to be settled in the same day. The netting results in a single amount (for each currency) to be paid either by the Bank or by the counterparty.

Transactions affected by this are processed in accordance with bilateral or multilateral agreements respecting the general principles of the national or international framework. The main forms of bilateral agreements are those issued on an international basis by International Swaps and Derivatives Association ('ISDA').

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Derivatives

This credit risk exposure is managed at Group level as part of the overall credit limits with customers, together with potential exposures from market movements. Collateral or other security may be obtained to mitigate credit risk exposures on these instruments.

Measurement of Expected Credit Loss for capital purposes

The key inputs used for measuring ECL are probability of default ('PD'), loss given default ('LGD') exposure at default ('EAD') and effective maturity ('M').

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Measurement of Expected Credit Loss for capital purposes (continued)

The effective maturity ('M') is the expected date when the contract with the counterparty expires.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items).

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31. 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>2019</u> RM'000	<u>2018</u> RM'000
ASSETS			
Cash and short-term funds	5	1,431,636	2,003,833
Deposits and placements with banks and other financial institutions		-	300,110
Reverse repurchase agreements		-	49,225
Financial assets at FVTPL	7	100,233	1,734,650
Financial investments at FVOCI	8	957,509	280,836
Loans, advances and financing*	9	1,195,658	1,169,721
Derivative financial assets	10	459,442	374,980
Other asset**	14	27,251	54,536
Total asset		<u>4,171,729</u>	<u>5,967,891</u>
Commitments and contingencies	30	<u>1,248,012</u>	<u>1,770,931</u>
Total credit exposure		<u>5,419,741</u>	<u>7,738,822</u>

* Excludes expected credit losses allowance amounting to RM 5,771,000 (2018: RM 1,419,000).

** Other assets exclude prepayment and refundable deposits amounting to RM 1,821,000 (2018: RM1,998,000)

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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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

The following tables represent the Bank's credit risk concentrations as of 31 December 2019:

	Cash and short-term funds	Deposit and placements with banks and other FI	Reverse repurchase agreements	Financial assets at FVTPL	Financial investments at FVOCI	Loans, advances and financing*	Derivative financial assets	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Concentration risk by industry sectors</u>										
Government and central banks	1,408,883	-	-	100,233	957,509	-	-	-	2,466,625	-
Manufacturing	-	-	-	-	-	924,316	20,305	-	944,621	357,296
Mining and quarrying	-	-	-	-	-	10,301	1,933	-	12,234	14,905
Finance, insurance and business services	22,753	-	-	-	-	-	428,852	27,251	478,856	696,534
Construction	-	-	-	-	-	10,001	1,222	-	11,223	64,711
Wholesale and retail	-	-	-	-	-	28,375	198	-	28,573	19,045
Real estate	-	-	-	-	-	10,410	-	-	10,410	-
Transport, storage and communication	-	-	-	-	-	-	558	-	558	1,794
Other business services	-	-	-	-	-	212,255	6,374	-	218,629	93,727
	<u>1,431,636</u>	<u>-</u>	<u>-</u>	<u>100,233</u>	<u>957,509</u>	<u>1,195,658</u>	<u>459,442</u>	<u>27,251</u>	<u>4,171,729</u>	<u>1,248,012</u>

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

(b) Credit Risk (continued)

The following tables represent the Bank's credit risk concentrations as of 31 December 2019: (continued)

	Cash and short-term funds	Deposit and placement with banks and other FI	Reverse repurchase agreements	Financial assets at FVTPL	Financial investments at FVOCI	Loans, advances and financing*	Derivative financial assets	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Concentration risk by geographical sectors</u>										
Malaysia	1,409,687	-	-	100,233	957,509	1,195,658	299,603	27,251	3,989,941	1,132,472
United Kingdom	1,692	-	-	-	-	-	-	-	1,692	-
France	379	-	-	-	-	-	110,620	-	110,999	56,052
Hong Kong	1,743	-	-	-	-	-	7,796	-	9,539	2,096
Singapore	1,712	-	-	-	-	-	4,002	-	5,714	3,195
Thailand	4	-	-	-	-	-	30,769	-	30,773	4,623
Others	16,419	-	-	-	-	-	6,652	-	23,071	49,574
	<u>1,431,636</u>	<u>-</u>	<u>-</u>	<u>100,233</u>	<u>957,509</u>	<u>1,195,658</u>	<u>459,442</u>	<u>27,251</u>	<u>4,171,729</u>	<u>1,248,012</u>

* Excludes expected credit losses amounting to RM 5,771,000 (2018: RM1,419,000).

** Other assets exclude prepayment and refundable deposits amounting to RM 1,821,000 (2018: RM1,998,000)

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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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

The following tables represent the Bank's credit risk concentrations as of 31 December 2018:

	Cash and short-term funds RM'000	Deposit and placements with banks and other FI RM'000	Reverse repurchase agreements RM'000	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Loans, advances and financing* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Concentration risk by industry sectors										
Government and central banks	1,976,546	300,110	49,225	1,734,650	280,836	-	-	-	4,341,367	-
Manufacturing	-	-	-	-	-	930,078	25,043	-	955,121	256,416
Mining and quarrying	-	-	-	-	-	6,545	867	-	7,412	47,818
Finance, insurance and business services	27,287	-	-	-	-	37,873	339,034	54,536	458,730	1,203,698
Construction	-	-	-	-	-	6,001	1,329	-	7,330	32,774
Wholesale and retail	-	-	-	-	-	66,583	918	-	67,501	3,444
Real estate	-	-	-	-	-	11,423	-	-	11,423	-
Transport, storage and communication	-	-	-	-	-	-	-	-	-	712
Other business services	-	-	-	-	-	111,218	7,789	-	119,007	226,069
	2,003,833	300,110	49,225	1,734,650	280,836	1,169,721	374,980	54,536	5,967,891	1,770,931

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

The following tables represent the Bank's credit risk concentrations as of 31 December 2018 (continued):

	Cash and short-term funds RM'000	Deposit and placement with banks and other FI RM'000	Reverse repurchase agreements RM'000	Financial assets at FVTPL RM'000	Financial investments at FVOCI RM'000	Loans, advances and financing* RM'000	Derivative financial assets RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	1,977,329	300,110	49,225	1,734,650	280,836	1,169,721	185,418	54,536	5,751,825	1,197,181
United Kingdom	2,530	-	-	-	-	-	4,683	-	7,213	15,371
France	13	-	-	-	-	-	102,203	-	102,216	286,950
Hong Kong	8,637	-	-	-	-	-	8,646	-	17,283	51,224
Singapore	2,317	-	-	-	-	-	2,504	-	4,821	9,642
Thailand	-	-	-	-	-	-	1,350	-	1,350	13,430
Others	13,007	-	-	-	-	-	70,176	-	83,183	197,133
	<u>2,003,833</u>	<u>300,110</u>	<u>49,225</u>	<u>1,734,650</u>	<u>280,836</u>	<u>1,169,721</u>	<u>374,980</u>	<u>54,536</u>	<u>5,967,891</u>	<u>1,770,931</u>

Concentration risk
by geographical sectors

* Excludes expected credit losses amounting to RM 5,771,000 (2018: RM1,419,000).

** Other assets exclude prepayment and refundable deposits amounting to RM 1,821,000 (2018: RM1,998,000)

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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31. 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'.

The table below compares, for indicative purpose only, BNP Paribas' Rating Scale with the rating agencies 'Long Term Currency Issuer Credit Ratings' and 'Long Term Local Currency Senior Unsecured Rating'.

BNP Paribas Ratings		Long-term Issuer/Unsecured issues ratings		
		Moody's	S&P	Fitch IBCA
1+	Excellent	Aaa	AAA	AAA
1	Excellent	Aa1	AA+	AA+
1-	Excellent	Aa2	AA	AA
2+	Very good	Aa3	AA	AA
2	Very good	A1	A+	A+
		A2	A	A
2-	Very good	A3	A-	A-
3+/3/3-	Good	Baa1	BBB+	BBB+
4+/4/4-	Above average	Baa2	BBB	BBB
5+/5/5-	Average	Baa3	BBB-	BBB-
6+	Below average	Ba1	BB+	BB+
6/6-	Below average	Ba2	BB	BB
7+/7	Poor	Ba3	BB-	BB
7-	Poor	B1	B+	B+
8+/8/8-	Weak	B2	B	B
9+/9/9-	Speculative	B3	B-	B-
		Caa1	CCC+	CCC+
10+	Substandard	Caa2	CCC	CCC
		Caa3	CCC-	CCC-
10	Substandard	Ca	CC	CC
10-	Substandard	C	C	C
11	Default			
12	Inversible default	D	SD/D	DDD/DD/D

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2019			Total RM'000
	ECL Staging			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	RM'000	RM'000	RM'000	
Cash and short-term funds	1,431,636	-	-	1,431,636
1-	13,986	-	-	13,986
2+	5,471	-	-	5,471
2	776	-	-	776
2-	1,408,883	-	-	1,408,883
3+	804	-	-	804
3	1,712	-	-	1,712
4	4	-	-	4
Financial assets at FVTPL	100,233	-	-	100,233
2-	100,233	-	-	100,233
Financial investment at FVOCI	957,509	-	-	957,509
2-	957,509	-	-	957,509

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2019			Total RM'000
	ECL Staging			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month <u>ECL</u>	Lifetime <u>ECL</u>	Lifetime <u>ECL</u>	
	RM'000	RM'000	RM'000	
Loans advances and financing*	1,061,318	134,340	-	1,195,658
3-	243,210	-	-	243,210
4+	45,014	-	-	45,014
4	40,059	-	-	40,059
5+	56,480	-	-	56,480
5	151,199	-	-	151,199
5-	155,567	-	-	155,567
6+	6,278	-	-	6,278
6	115,738	-	-	115,738
6-	79,198	-	-	79,198
7+	96,249	-	-	96,249
7-	48,850	53,347	-	102,197
8+	16,412	-	-	16,412
8	2,468	15,328	-	17,796
8-	4,596	10,410	-	15,006
10	-	55,255	-	55,255

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2019			Total RM'000
	ECL Staging			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	RM'000	RM'000	RM'000	
Derivative financial assets	457,114	2,328	-	459,442
1-	152,205	-	-	152,205
2-	1,139	-	-	1,139
3+	101,423	-	-	101,423
3	21,885	-	-	21,885
3-	62,472	-	-	62,472
4+	48,149	-	-	48,149
4	3,832	-	-	3,832
4-	7,569	-	-	7,569
5+	1,458	-	-	1,458
5	42,116	-	-	42,116
6+	59	-	-	59
6	924	-	-	924
6-	571	-	-	571
7+	10,906	-	-	10,906
8+	184	-	-	184
10	-	2,328	-	2,328
No rating	2,222	-	-	2,222

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2019			<u>Total</u> RM'000
	<u>ECL Staging</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month <u>ECL</u>	Lifetime <u>ECL</u>	Lifetime <u>ECL</u>	
	RM'000	RM'000	RM'000	
Other asset	27,251	-	-	27,251
1-	25	-	-	25
2-	3,397	-	-	3,397
3	96	-	-	96
3-	1,970	-	-	1,970
4+	3,806	-	-	3,806
4-	8,970	-	-	8,970
5+	18	-	-	18
5	1,500	-	-	1,500
No rating	7,469	-	-	7,469
Gross carrying amount	4,035,061	136,668	-	4,171,729
Less: ECL	(1,169)	(4,602)	-	(5,771)
Net carrying amount	4,033,892	132,066	-	4,165,958

* Excludes expected credit losses amounting to RM5,771,000 (2018: RM 1,419,000).

** Other assets exclude prepayment and refundable deposits amounting to RM1,821,000 (2018: RM1,998,000)

Financial effects of collaterals

Collateral is generally taken as security for credit exposures as a secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations from cash flow generation. Types of collateral typically taken by the Bank includes

- Cash and Margin Deposits
- Land and building

The Bank also accepts non-tangible securities as support, such as guarantees from corporates and institutions, central banks and general governments in a form of assignments of contract proceeds and/or promissory notes.

Overall, there do not appear to be a significant deterioration in the quality of collateral.

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2018			<u>Total</u> RM'000
	<u>ECL Staging</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month <u>ECL</u>	Lifetime <u>ECL</u>	Lifetime <u>ECL</u>	
	RM'000	RM'000	RM'000	
Cash and short-term funds	2,003,833	-	-	2,003,833
1-	21,173	-	-	21,173
2+	1,680	-	-	1,680
2	1,335	-	-	1,335
2-	1,976,545	-	-	1,976,545
3+	783	-	-	783
3	2,317	-	-	2,317
Deposits and placements with banks and other financial institutions	300,110	-	-	300,110
2-	300,110	-	-	300,110
Reverse repurchase agreements	49,225	-	-	49,225
2-	49,225	-	-	49,225
Financial assets at FVTPL	1,734,650	-	-	1,734,650
1-	1,734,650	-	-	1,734,650
Financial investment at FVOCI	280,836	-	-	280,836
1-	270,841	-	-	270,841
2-	9,995	-	-	9,995

Loans, advances and financing 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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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit quality of financial assets (continued)

	2018			Total RM'000
	ECL Staging			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	RM'000	RM'000	RM'000	
Loans advances and financing*	1,100,317	69,404	-	1,169,721
2-	37,873	-	-	37,873
3	121,287	-	-	121,287
4+	106,048	-	-	106,048
4	50,037	-	-	50,037
4-	14,597	-	-	14,597
5+	40,959	-	-	40,959
5	2,304	-	-	2,304
5-	222,715	-	-	222,715
6+	10,197	-	-	10,197
6	121,447	-	-	121,447
6-	95,793	-	-	95,793
7+	98,298	-	-	98,298
7	130,255	69,404	-	199,659
7-	22,616	-	-	22,616
8+	6,001	-	-	6,001
8	6,859	-	-	6,859
8-	13,031	-	-	13,031
				-
Derivative financial assets	374,980	-	-	374,980
1-	211,218	-	-	211,218
2-	85,458	-	-	85,458
3	54,811	-	-	54,811
3-	20,408	-	-	20,408
4-	454	-	-	454
5+	2,297	-	-	2,297
5	314	-	-	314
5-	5	-	-	5
8+	15	-	-	15

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

	2018			Total RM'000
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	RM'000	RM'000	RM'000	
Other asset	54,536	-	-	54,536
1-	43,530	-	-	43,530
2-	1,371	-	-	1,371
2	38	-	-	38
3	98	-	-	98
4+	1,680	-	-	1,680
4	7	-	-	7
No rating	7,812	-	-	7,812
Gross carrying amount	5,898,487	69,404	-	5,967,891
Less: ECL	(1,243)	(176)	-	(1,419)
Net carrying amount	5,897,244	69,228	-	5,966,472

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Credit Risk (continued)

Credit exposure by stage

Financial assets of the Bank are classified into three stages as below:

Stages	Description
Stage 1: 12 months ECL – not credit impaired	For credit exposures where there have not been significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL – not credit impaired	For credit exposures where there have been significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL – credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Sensitivity analysis

The Bank has performed ECL sensitivity assessment on loans, advances and financing based on the changes in % of GDP growth used for optimist and adverse scenarios while all other variables remain unchanged.

The table below outlines the effect of ECL on the changes in weightage used:

	<u>Increase/(Decrease) in %</u>	<u>Increase/(Decrease) in ECL</u> RM'000
Optimist	+15%	(RM 4,162)
Adverse	-15%	RM 3,386

The above disclosure is intended to illustrate the relative sensitivity of the ECL allowance calculation and is not predictive or indicative of future loss experience.

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(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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31. 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 RM2,091,093.65 (2018: RM3,343,586). 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>2019</u> RM'mil	<u>2018</u> RM'mil
Aggregate VaR	<u>2.10</u>	<u>3.34</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 RM5,004,858 (2018: RM5,044,257) while the minimum VaR during the year is RM1,407,203 (2018: RM923,226).

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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31. 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 2019:

	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				
Financial assets									
Cash and short-term funds	1,430,029	-	-	-	-	-	1,607	1,431,636	-
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Reverse repurchase agreement	-	-	-	-	-	-	-	-	-
Financial assets at FVTPL	-	-	-	-	-	100,233	-	100,233	-
Financial investments at FVOCI	3	438,272	229,436	284,162	-	-	5,636	957,509	-
Loans, advances and financing	744,125	308,845	139,404	-	-	-	(2,487)	1,189,887	-
Derivatives financial assets	-	-	-	-	-	459,442	-	459,442	-
Other assets	-	-	-	-	-	-	27,251	27,251	-
Total financial assets	2,174,157	747,117	368,840	284,162	-	559,675	32,007	4,165,958	-

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31. 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 2019: (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>Financial liabilities</u>									
Deposit from customers	1,453,397	180,113	3,886	-	-	-	1,341	1,638,737	
Deposit and placements of banks and other financial institutions	530,364	409,250	-	-	-	-	808	940,422	
Derivative financial liabilities	-	-	-	-	-	431,077	-	431,077	
Other liabilities	-	-	-	-	-	-	399,550	399,550	
Total financial liabilities	1,983,761	589,363	3,886	-	-	431,077	401,699	3,409,786	
Net interest rate gap	190,396	157,754	364,954	284,162	-	128,598	(369,692)	756,172	

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31. 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 2018:

	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				
Financial assets									
Cash and short-term funds	2,001,610	-	-	-	-	-	2,223	2,003,833	
Deposits and placements with banks and other financial institutions	-	300,000	-	-	-	-	110	300,110	
Reverse repurchase agreement	49,136	-	-	-	-	-	89	49,225	
Financial assets at FVTPL	-	-	-	-	-	1,734,650	-	1,734,650	
Financial investments at FVOCI	9,998	-	268,570	-	-	-	2,268	280,836	
Loans, advances and financing	498,727	163,459	61,968	442,230	-	-	1,918	1,168,302	
Derivatives financial assets	-	-	-	-	-	374,980	-	374,980	
Other assets	-	-	-	-	-	-	54,536	54,536	
Total financial assets	2,559,471	463,459	330,538	442,230	-	2,109,630	61,144	5,966,472	

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31. 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 2018: (continued)

	Non-trading book							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	Trading book RM'000			
Financial liabilities									
Deposit from customers	1,762,153	198,339	7,155	-	-	-	1,924	1,969,571	
Deposit and placements of banks and other financial institutions	2,548,695	208,375	-	-	-	-	2,695	2,759,765	
Derivative financial liabilities	-	-	-	-	-	230,293	-	230,293	
Other liabilities	-	-	-	-	-	-	222,514	222,514	
Total financial liabilities	4,310,848	406,714	7,155	-	-	230,293	227,133	5,182,143	
Net interest rate gap	(1,751,377)	56,745	323,383	442,230	-	1,879,337	(165,989)	784,329	

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31. 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 2019</u>		<u>31 December 2018</u>	
	Increase/(Decrease)		Increase/(Decrease)	
	+100 basis point <u>RM'000</u>	-100 basis point <u>RM'000</u>	+100 basis point <u>RM'000</u>	-100 basis point <u>RM'000</u>
Impact to profit (after tax)	3,325	(3,325)	(11,882)	11,882

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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31. 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 2019</u>		<u>31 December 2018</u>	
	Increase/(Decrease)		Increase/(Decrease)	
	+100 basis point	-100 basis point	+100 basis point	-100 basis point
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Impact to revaluation reserve- financial investments through other comprehensive income	(10,795)	10,795	(2,768)	2,768

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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31. 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:

2019 Assets	Up to 1 month RM'000	1 -3 months RM'000	3-12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Cash and short-term funds	1,431,636	-	-	-	-	-	1,431,636
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-
Reverse repurchase agreements	78	43,760	957	11,552	43,886	-	100,233
Financial assets at FVTPL	3	438,538	231,230	287,738	-	-	957,509
Financial investments at FVOCI	554,568	250,748	49,384	209,737	125,450	-	1,189,887
Loan, advances and financing	110,996	75,129	120,208	134,483	18,626	-	459,442
Derivative financial assets	-	-	-	-	-	27,251	27,251
Other assets	-	-	-	-	-	-	-
Total Assets	2,097,281	808,175	401,779	643,510	187,962	27,251	4,165,958

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31. 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 1 month RM'000	1 -3 months RM'000	3-12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	1,454,478	180,348	3,911	-	-	-	1,638,737
Deposit and placement of banks and other financial institutions	531,050	409,372	-	-	-	-	940,422
Derivative financial liabilities	104,682	108,453	144,182	67,802	5,958	-	431,077
Other liabilities	-	-	-	-	-	399,550	399,550
Total Liabilities	2,090,210	698,173	148,093	67,802	5,958	399,550	3,409,786
Net Liquidity Gap	7,071	110,002	253,686	575,708	182,004	(372,299)	756,172

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31. 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 1 month RM'000	1 -3 months RM'000	3 - 12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
2018							
Assets							
Cash and short-term funds	2,003,833	-	-	-	-	-	2,003,833
Deposits and placements with banks and other financial institutions	-	300,110	-	-	-	-	300,110
Reverse repurchase agreements	49,225	-	-	-	-	-	49,225
Financial assets at FVTPL	-	708	587,730	917,086	229,126	-	1,734,650
Financial investments at FVOCI	9,998	-	270,838	-	-	-	280,836
Loan, advances and financing	470,165	165,215	62,388	442,230	28,304	-	1,168,302
Derivative financial assets	117,515	115,901	52,902	87,823	839	-	374,980
Other assets	-	-	-	-	-	54,536	54,536
Total Assets	2,650,736	581,934	973,858	1,447,139	258,269	54,536	5,966,472

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31. 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)

Liabilities						
Deposits from customers	1,763,761	198,639	7,171	-	-	1,969,571
Deposit and placement of banks and other financial institutions	2,550,883	208,882	-	-	-	2,759,765
Derivative financial liabilities	61,236	52,432	62,735	53,890	-	230,293
Other liabilities	-	-	-	-	222,514	222,514
Total Liabilities	4,375,880	459,953	69,906	53,890	222,514	5,182,143
Net Liquidity Gap	(1,725,144)	121,981	903,952	1,393,249	258,269	784,329

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31. 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.

2019

	Up to 1 month RM'000	1 -3 months RM'000	3 - 12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>Non-derivative financial liabilities</u>							
Deposits from customers	1,455,193	181,044	4,021	-	-	-	1,640,258
Deposit and placement of banks and other financial institutions	531,109	410,070	-	-	-	-	941,179
Other liabilities	-	-	-	-	-	399,550	399,550
Total Liabilities	1,986,302	591,114	4,021	-	-	399,550	2,980,987

2018

	Up to 1 month RM'000	1 -3 months RM'000	3 - 12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<u>Non-derivative financial liabilities</u>							
Deposits from customers	1,765,159	199,539	7,272	-	-	-	1,971,970
Deposit and placement of banks and other financial institutions	2,552,022	209,803	-	-	-	-	2,761,825
Other liabilities	-	-	-	-	-	222,514	222,514
Total Liabilities	4,317,181	409,342	7,272	-	-	222,514	4,956,309

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

2019

Items not recognised in the Statement
of Financial Position
Financial guarantees

	Up to 1 month RM'000	1-3 months RM'000	3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
	41,293	33,626	126,209	140,709	-	-	341,837
Net-settled derivatives	-	(136)	(3,316)	(51,079)	(5,959)	-	(60,490)
Gross-settled derivatives	10,687,770	14,108,444	8,106,660	862,298	-	-	33,765,172
- Receipt	(10,792,927)	(14,222,374)	(8,264,849)	(880,083)	-	-	(34,160,233)
- Payments	(105,157)	(114,066)	(161,505)	(68,864)	(5,959)	-	(455,551)

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Liquidity Risk (continued)

2018

Items not recognised in the Statement
of Financial Position
Financial guarantees

	Up to 1 month RM'000	1 -3 months RM'000	3 - 12 months RM'000	1 -5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Net-settled derivatives	-	(26)	(1,492)	(15,460)	-	-	(16,978)
Gross-settled derivatives	7,245,963	5,007,328	6,277,784	153,341	-	-	18,684,416
- Receipt	(7,306,725)	(5,065,191)	(6,340,219)	(161,102)	-	-	(18,873,237)
- Payments	(60,762)	(57,889)	(63,927)	(23,221)	-	-	(205,799)

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31. 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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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(f) Currency Risk (continued)

2019

	MYR RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
Assets					
Cash and short-term funds	1,409,687	9,224	387	12,338	1,431,636
Financial assets at FVTPL	100,233	-	-	-	100,233
Financial investments at FVOCI	957,509	-	-	-	957,509
Loans, advances and financing	882,210	246,036	61,641	-	1,189,887
Derivative financial assets	132,990	290,582	33,438	2,432	459,442
Other assets	19,972	7,244	-	35	27,251
Total Assets	3,502,601	553,086	95,466	14,805	4,165,958
Liabilities					
Deposits from customers	1,121,285	451,920	20,582	44,950	1,638,737
Deposits and placements of banks and other financial institutions	10,034	886,796	43,567	25	940,422
Derivative financial liabilities	48,859	348,602	15,993	17,623	431,077
Other liabilities	92,602	302,742	2,143	2,063	399,550
Total Liabilities	1,272,780	1,990,060	82,285	64,661	3,409,786
Currency gap	2,229,821	(1,436,974)	13,181	(49,856)	

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31. FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(f) Currency Risk (continued)

2018

	<u>MYR</u> RM'000	<u>USD</u> RM'000	<u>EUR</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
Assets					
Cash and short-term funds	1,977,329	9,222	33	17,249	2,003,833
Deposits and placements with banks and other financial institutions	300,110	-	-	-	300,110
Reverse repurchase agreements	49,225	-	-	-	49,225
Financial assets at FVTPL	1,734,650	-	-	-	1,734,650
Financial investments at FVOCI	280,836	-	-	-	280,836
Loans, advances and financing	621,652	500,445	46,205	-	1,168,302
Derivative financial assets	60,121	270,189	37,035	7,635	374,980
Other assets	11,133	43,312	41	50	54,536
Total Assets	5,035,056	823,168	83,314	24,934	5,966,472
Liabilities					
Deposits from customers	1,528,815	368,922	24,195	47,639	1,969,571
Deposits and placements of banks and other financial institutions	7,714	1,262,720	1,447,031	42,300	2,759,765
Derivative financial liabilities	13,201	172,237	39,652	5,203	230,293
Other liabilities	72,961	141,309	1,537	6,707	222,514
Total Liabilities	1,622,691	1,945,188	1,512,415	101,849	5,182,143
Currency gap	3,412,365	(1,122,020)	(1,429,101)	(76,915)	

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31. 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 2019</u>		<u>31 December 2018</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)	(10,869)	10,869	(20,682)	20,682

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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31. 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:

		<u>Related amount not set off in the statement of financial position</u>		
	<u>Gross amount of recognised financial assets/ financial liabilities</u> RM'000	<u>Financial instrument</u> RM'000	<u>Financial collateral</u> RM'000	<u>Net amount</u> RM'000
<u>2019</u>				
<u>Assets</u>				
Derivative financial assets	<u>459,442</u>	<u>(266,740)</u>	<u>(19,643)</u>	<u>173,059</u>
<u>Liabilities</u>				
Derivative financial liabilities	<u>431,077</u>	<u>(266,740)</u>	<u>(320,753)</u>	<u>(156,416)</u>
<u>2018</u>				
<u>Assets</u>				
Derivative financial assets	<u>374,980</u>	<u>(162,827)</u>	<u>(44,991)</u>	<u>167,162</u>
<u>Liabilities</u>				
Derivative financial liabilities	<u>230,293</u>	<u>(162,827)</u>	<u>(174,534)</u>	<u>(107,068)</u>

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NOTES TO THE FINANCIAL STATEMENTS
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32. 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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32. 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	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<u>2019</u>					
<u>Financial Assets</u>					
Financial assets at FVTPL	100,233	-	100,233	-	100,233
Financial investments at FVOCI	957,509	-	957,509	-	957,509
Loans, advances and financing*	1,189,887	-	1,218,684	-	1,218,684
Derivative financial assets	459,442	-	428,646	30,796	459,442
<u>Financial Liabilities</u>					
Derivative financial liabilities	431,077	-	421,756	9,321	431,077

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

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32. 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)

	Carrying amount RM'000	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
2018					
<u>Financial Assets</u>					
Financial assets at FVTPL	1,734,650	-	1,734,650	-	1,734,650
Financial investments at FVOCI	280,836	-	280,836	-	280,836
Loans, advances and financing*	1,168,302	-	1,183,310	-	1,183,310
Derivative financial assets	374,980	-	313,714	61,266	374,980
<u>Financial Liabilities</u>					
Derivative financial liabilities	230,293	-	194,869	35,424	230,293

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

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

Reconciliation of movements in Level 3 financial instruments

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Derivative Financial Assets</u>		
At 1 January	61,266	20,238
Gain recognised in profit or loss		
Realised	(10,884)	3,812
Unrealised	(19,586)	37,216
	<u>30,796</u>	<u>61,266</u>
At 31 December	<u><u>30,796</u></u>	<u><u>61,266</u></u>
<u>Derivative Financial Liabilities</u>		
At 1 January	35,424	9,162
Loss recognised in profit or loss		
Realised	(35,424)	-
Unrealised	9,321	26,262
	<u>9,321</u>	<u>26,262</u>
At 31 December	<u><u>9,321</u></u>	<u><u>35,424</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 through profit and loss and through other comprehensive income

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

(iii) Loans, advances and financing

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 credit-impaired 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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32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

<u>Financial assets/ Financial liabilities</u>	<u>Fair value as at 31.12.2019</u>		<u>Fair value as at 31.12.2018</u>		<u>Valuation and techniques key inputs</u>	<u>Significant unobservable inputs</u>	<u>Relationship of unobservable inputs to fair value</u>
	<u>Assets RM'000</u>	<u>Liabilities RM'000</u>	<u>Assets RM'000</u>	<u>Liabilities RM'000</u>			
<u>Credit derivatives</u> Credit default swaps	30,796	9,321	61,266	35,424	Stripping, interpolation and extrapolation.	Credit default spreads beyond observation limit. Recovery rate variance.	Adjustment to parameter based on review on first to default.

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33. CAPITAL ADEQUACY

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	650,000	650,000
Retained profits	125,086	124,513
Other disclosed reserves	1,618	98
	<u>776,704</u>	<u>774,611</u>
<u>Less: Regulatory adjustments</u>		
Intangible assets	(910)	(1,807)
Deferred tax assets	(3,721)	(3,704)
55% of cumulative gains financial instruments at FVOCI	(890)	(54)
Total Tier 1 capital	<u>771,183</u>	<u>769,046</u>
<u>Tier 2 capital</u>		
Expected credit losses	7,915	1,837
Regulatory reserve	9,584	15,234
Total Tier 2 capital	<u>17,499</u>	<u>17,071</u>
Total Capital base	<u>788,682</u>	<u>786,117</u>
<u>Capital Ratios</u>		
Common Equity Tier 1 Ratio	18.685%	19.989%
Tier 1 Capital Ratio	18.685%	19.989%
Total Capital Ratio	<u>19.109%</u>	<u>20.433%</u>

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33. CAPITAL ADEQUACY (CONTINUED)

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

	<u>Principal</u>	<u>2019</u> Risk weighted <u>assets</u>	<u>Principal</u>	<u>2018</u> Risk weighted <u>assets</u>
	RM'000	RM'000	RM'000	RM'000
<u>Risk weight</u>				
0%	2,366,393	-	2,553,191	-
20%	617,318	123,464	694,166	138,833
50%	25,414	12,707	252,883	126,442
100%	1,890,217	1,890,217	1,853,987	1,853,987
Credit risk		2,026,388		2,119,262
Market risk		1,657,388		1,329,763
Operational risk		443,555		398,206
Total risk-weighted assets		4,127,331		3,847,231

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34. 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 2018 and 2019, and results for the financial year ended on the dates are summarised as follows:

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
ASSETS			
Cash and short-term funds	(a)	29,079	17,813
Financial investments at fair value through other comprehensive income ('FVOCI')	(b)	-	9,995
Loans, advances and financing	(c)	-	-
Other assets	(d)	9,668	9,575
Property, plant and equipment	(e)	-	1
Intangible assets	(f)	-	4
TOTAL ASSET		<u>38,747</u>	<u>37,388</u>
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(g)	16,312	15,586
Other liabilities		152	189
Total liabilities		<u>16,464</u>	<u>15,775</u>
Capital fund		26,850	25,750
Accumulated losses		(4,567)	(4,185)
Reserves		-	48
Islamic banking funds		<u>22,283</u>	<u>21,613</u>
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		<u>38,747</u>	<u>37,388</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
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34. ISLAMIC BANKING WINDOW (CONTINUED)

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

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Income derived from investment of Islamic banking funds and depositors' funds	(h)	716	799
Profit expense to depositors		(293)	(320)
Net income derived from investment of Islamic banking funds and depositors' funds		423	479
Other operating income	(i)	1,027	339
Other operating expenses	(j)	(1,880)	(1,873)
Allowance made for impairment on loans, advances and financing		-	7
Loss before zakat and taxation		(430)	(1,048)
Income tax expense	(k)	-	-
Loss after zakat and taxation		(430)	(1,048)
<u>Other comprehensive income/(expense)</u>			
<i>Items that may be reclassified subsequent to profit or loss:</i>			
Revaluation reserve – financial investments at FVOCI		-	-
Net changes in fair value		-	-
Other comprehensive (expense)/income, net of tax		-	-
Total comprehensive expense		(430)	(1,048)

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

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

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

	Capital fund RM'000	Regulatory reserve RM'000	Revaluation reserve- financial investments at FVOCI RM'000	(Accumulated losses) RM'000	Total RM'000
Balance as of 1 January 2019	25,750	48	-	(4,185)	21,613
Additional capital fund	1,100	-	-	-	1,100
Loss for the year	-	-	-	(430)	(430)
Transfer from regulatory reserve	-	(48)	-	48	-
Other comprehensive loss	-	-	-	-	-
Balance as of 31 December 2019	26,850	-	-	(4,567)	22,283
Balance as of 1 January 2018	24,350	48	-	(3,137)	21,261
Additional capital fund	1,400	-	-	-	1,400
Loss for the year	-	-	-	(1,048)	(1,048)
Transfer to regulatory reserve	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-
Balance as of 31 December 2018	25,750	48	-	(4,185)	21,613

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

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34. ISLAMIC BANKING WINDOW (CONTINUED)

(a) CASH AND SHORT-TERM FUNDS

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>At amortised Cost</u>		
Cash and balances with licensed banks	6,081	3,812
Money at call and deposit placements maturing within one month	22,998	14,001
	<u>29,079</u>	<u>17,813</u>

(b) FINANCIAL INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ('FVOCI')

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>At Fair Value</u>		
Bank Negara Malaysia Debt Securities	-	9,995
	<u>-</u>	<u>9,995</u>

(c) LOANS, ADVANCES AND FINANCING

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>At amortised Cost</u>		
Revolving credit	-	-
Less: Collective impairment allowances	-	-
Net loans, advances and financing	<u>-</u>	<u>-</u>

(d) OTHER ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Other receivables, deposit and prepayments	9,668	9,575
	<u>9,668</u>	<u>9,575</u>

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34. ISLAMIC BANKING WINDOW (CONTINUED)

(e) PROPERTY, PLANT AND EQUIPMENT

	Office equipment and <u>machinery</u> RM'000	Computer <u>equipment</u> RM'000	<u>Total</u> RM'000
<u>2019</u>			
<u>Cost</u>			
At beginning of year	6	23	29
Additions	-	-	-
At end of year	<u>6</u>	<u>23</u>	<u>29</u>
<u>Accumulated Depreciation</u>			
At beginning of year	5	23	28
Charge for the year	1	-	1
At end of year	<u>6</u>	<u>23</u>	<u>29</u>
<u>Net Book Value</u>			
As of 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>
As of 31 December 2018	<u>1</u>	<u>-</u>	<u>1</u>

(f) INTANGIBLE ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Computer Software</u>		
<u>Cost</u>		
At 1 January	41	41
Additions	-	-
At 31 December	<u>41</u>	<u>41</u>
<u>Accumulated amortisation</u>		
At 1 January	37	37
Amortisation for the year	4	-
	<u>41</u>	<u>37</u>
Net Book Value	<u>-</u>	<u>4</u>

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34. ISLAMIC BANKING WINDOW (CONTINUED)

(g) DEPOSITS FROM CUSTOMERS

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>At Amortised Cost</u>		
Non-Mudharabah Fund		
Demand deposits	16,312	8,929
Commodity Murabahah	-	6,657
	<u>16,312</u>	<u>15,586</u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Due within six months	-	6,657

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Business enterprises	8,552	8,356
Non-bank financial institutions	7,760	7,230
	<u>16,312</u>	<u>15,586</u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Loans, advances and financing	-	104
Money at call and deposit placement with financial institutions	587	590
Financial investment at FVOCI	138	105
	<u>725</u>	<u>799</u>
Amortisation of premium less accretion of discount	(9)	-
	<u>716</u>	<u>799</u>

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34. ISLAMIC BANKING WINDOW (CONTINUED)

(i) OTHER OPERATING INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Fee income:		
Other fee income	462	90
Gain arising from sale of:		
Financial investments at FVOCI	34	-
Foreign exchange		
- Unrealised (loss)/gain	(16)	71
Others	547	178
	<u>1,027</u>	<u>339</u>

(j) OTHER OPERATING EXPENSES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Personnel costs (Note i)	1,392	1,384
Establishment costs (Note ii)	114	107
Marketing expenses (Note iii)	35	5
Administration and general expenses (Note iv)	339	377
	<u>1,880</u>	<u>1,873</u>

(i) Personnel Costs

Wages, salaries and bonuses	1,059	1,013
Defined contribution retirement plan	193	179
Social security cost	-	-
Other staff related expense	140	192
	<u>1,392</u>	<u>1,384</u>

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34. ISLAMIC BANKING WINDOW (CONTINUED)

(j) OTHER OPERATING EXPENSES (CONTINUED)

(ii) Establishment Costs

	<u>2019</u> RM'000	<u>2018</u> RM'000
Rental of premises	82	86
Depreciation of property, plant and equipment	1	2
Amortisation of intangible asset	4	-
Others	27	19
	<u>114</u>	<u>107</u>

(iii) Marketing Expenses

Advertising	32	-
Other	3	5
	<u>35</u>	<u>5</u>

(iv) Administration and General Expenses

Legal and professional fees	230	298
Others	109	79
	<u>339</u>	<u>377</u>

Included in administration and general expenses is the Shariah Committee's remuneration of RM223,470 (2018: RM244,875).

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34. 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>2019</u> RM'000	<u>2018</u> RM'000
Loss before tax	(427)	(1,048)
Taxation at Malaysian statutory tax rate of 24%	-	-
Tax effect of expenses not deductible for tax purposes	-	-
Income tax expense for the year	-	-

(l) CAPITAL ADEQUACY

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Tier-1 capital</u>		
Paid-up share capital	26,850	25,750
Accumulated losses	(4,567)	(4,185)
	22,283	21,565
<u>Less: Regulatory adjustments</u>		
Intangible assets	-	(4)
Total Tier 1 capital	22,283	21,561
<u>Tier 2 capital</u>		
Expected credit losses	-	-
Regulatory reserve	-	48
Total Tier 2 capital	-	48
Total Capital base	22,283	21,609
<u>Capital Ratios</u>		
Common Equity Tier 1 Ratio	169.144%	158.409%
Tier 1 Capital Ratio	169.144%	158.409%
Total Capital Ratio	169.144%	158.761%

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34. 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>2019</u> Risk weighted assets	<u>Principal</u>	<u>2018</u> Risk weighted assets
	RM'000	RM'000	RM'000	RM'000
<u>Risk weight</u>				
0%	23,973	-	14,742	-
100%	8,550	8,550	8,398	8,398
Credit risk		8,550		8,398
Market risk		2,133		1,959
Operational risk		2,491		3,254
Total risk-weighted assets		13,174		13,611

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NOTES TO THE FINANCIAL STATEMENTS
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35. SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR END

The COVID-19 outbreak occurred at a time close to the end of 2019, but the World Health Organisation only characterised it as a pandemic on 11 March 2020. Many governments and regulators have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures will affect the global supply chain as well as demand for goods and services and therefore have significant impact to the global growth.

At the same time, fiscal and monetary policies are being relaxed to sustain the economy, and while these government responses and their corresponding effects are still evolving, there is not yet sufficient certainty on the scale of damage this outbreak will have made to the local and global economies.

Financial statements as of 31 December 2019 were prepared on a going concern basis, and this series of events does not provide evidence of conditions that existed at the end of 2019. The management believes however that the outbreak may have more or less severe impacts on 2020 financial statements. These will depend on several elements including clients sector, their financial health prior to COVID-19 and the efficiency of the governmental and financial support they will benefit from.

While the effect of these events on the Bank is largely unpredictable as the pandemic is still spreading, the management expects that they will primarily affect the level of expected credit losses and the valuation of assets. These impacts will be mitigated by the effects of all contra-cyclical measures.

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36. CHANGE IN ACCOUNTING POLICIES

Adoption of MFRS 16 "Leases"

During the financial year, the Bank changed its accounting policies on leases upon adoption of MFRS 16. The Bank has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16.

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

As a lessor, the Bank is not required to make any adjustment on transition, except for the reassessment of existing operating subleases at the date of initial application.

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

The Bank as a lessee

Leases classified as operating leases under MFRS 117

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

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

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

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

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36. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Adoption of MFRS 16 "Leases" (continued)

The Bank as a lessee (continued)

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

As at 1 January 2019, the change in accounting policies has affected the following items as a result of the impact of transition in the Statement of Financial Position of the Bank.

	<u>Note</u>	<u>Carrying amount at 31.12.2018 RM'000</u>	<u>Effect of adoption of MFRS 16 RM'000</u>	<u>carrying amount at 01.01.2019 RM'000</u>
<u>Assets</u>				
Right of use	12	-	8,468	8,468
Deferred tax assets	14	3,704	69	3,773
		<hr/>	<hr/>	<hr/>
<u>Liabilities</u>				
Other liabilities	17	222,514	8,721	231,235
		<hr/>	<hr/>	<hr/>
<u>Equity</u>				
Retained profits		124,513	(184)	124,329
		<hr/>	<hr/>	<hr/>

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

36. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Adoption of MFRS 16 "Leases" (continued)

The Bank as a lessee (continued)

(b) Measurement of lease liabilities on 1 January 2019

The weighted average lessee's incremental borrower rate applied to the lease liabilities on 1 January 2019 was 3.78% per annum.

The reconciliation between the operating lease commitments disclosed applying MFRS 117 at 31 December 2018 to the lease liabilities recognised at 1 January 2019 is as follows:

	RM'000
Operating lease commitments disclosed as at 31 December 2018	3,560
Discounted using the lessee's incremental borrowing rate at the date of initial application	130
	<hr/> 3,690
<i>(Less):</i>	
Short-term leases recognised on a straight-line basis as expense	(548)
Low-value leases recognised on a straight-line basis as expense	-
	<hr/> 3,142
<i>Add/(Less):</i>	
Adjustments as a result of a different treatment of extension and termination options	4,974
	<hr/> 8,116
Lease liabilities recognised as at 1 January 2019	<hr/> 8,116
Of which are:	
Current lease liabilities	2,392
Non-current lease liabilities	5,724
	<hr/> 8,116

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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 2019 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,



WAQID ALI MOHD KHALIL



DATO ABDULLAH MAT NOH

Kuala Lumpur
8 May 2020

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BNP PARIBAS MALAYSIA BERHAD
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**DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE
FINANCIAL MANAGEMENT OF THE BANK**

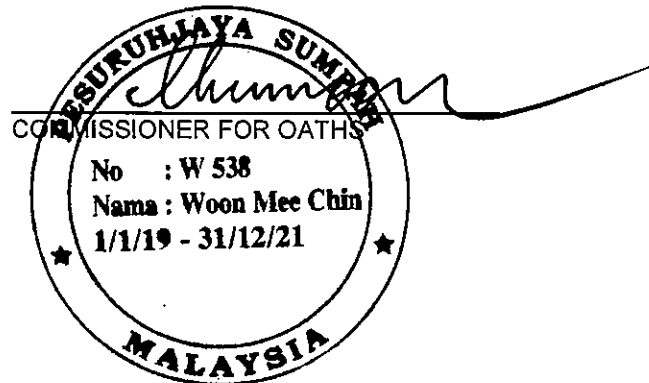
I, ANTHONY LO CHIANG LOONG, the Officer primarily responsible for the financial management of BNP PARIBAS MALAYSIA BERHAD, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to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



ANTHONY LO CHIANG LOONG

Subscribed and solemnly declared by the abovenamed ANTHONY LO CHIANG LOONG at KUALA LUMPUR this 8 May 2020.

Before me,



42A, PERSIARAN ARA KIRI,
LUCKY GARDEN, BANGSAR,
59100 KUALA LUMPUR.