BANGKOK BANK BERHAD

(299740-W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2010

Ernst & Young
AF : 0039

299740-W

Bangkok Bank Berhad
(Incorporated in Malaysia)

Contents

Bangkok Bank Berhad
(Incorporated in Malaysia)

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2010.

Principal activities

The principal activities of the Bank are banking and related financial services. The principal activity of the subsidiary is the provision of nominee services.

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

Results

	Group RM'000	Bank RM'000
Profit for the year	13,961	13,956

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

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of FRS 139 Financial Instruments: Recognition and Measurement as disclosed in Note 2(a)(iii) to the financial statements.

Dividends

No dividend has been paid or declared by the Bank since the end of the previous financial year. The directors do not propose any final dividend in respect of the financial year ended 31 December 2010.

Bangkok Bank Berhad
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Directors

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Mr Staporn Kavitanon
Mr Prasong Uthaisangchai
Mr Loke Tan Cheng
Ms Rushda Theeratharathorn
Mr Toh Chong
YBhg Professor Dato' Ruslan Khalid
YBhg Dato' Koay Soon Eng
Mr Chris Chia Woon Liat

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 31 to the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Directors' interests

None of the directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

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Other statutory information

(a) Before the statements of financial position and income statements of the Group and of the Bank were made out, 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 doubtful debts 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 realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

   (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

(d) 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 Group and of the Bank which would render any amount stated in the financial statements misleading.

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

   (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

   (ii) any contingent liability of the Group or of the Bank which has arisen since the end of the financial year other than those arising from the normal course of business of the Group and of the Bank.

Other statutory information (cont'd.)

(f) In the opinion of the directors:

   (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations when they fall due; and

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

Business overview for the financial year ended 31 December 2010 and outlook for the financial year 2011

BBB registered a profit before tax of RM18.8 million for financial year 2010, which is 61% higher than the RM11.7 million recorded in 2009. Net interest income improved by 23% to RM42.4 million from RM34.4 million in the last financial year. Expansion in the lending business and improved margins from the lending business have been the contributors to the better results.

Both the loans and deposits portfolio have shown a positive growth in 2010. Gross loan outstanding increased by 10% from RM1.46 billion at end of December 2009 to RM1.60 billion at end December 2010. Total deposits from customers has also grown by 11% from RM1.58 billion at end of December 2009 to RM1.76 billion at end of December 2010.

The loan impairment charges has decreased from RM11.9 million in 2009 to RM10.0 million in 2010. The decrease is mainly due to the lower individual impairment allowance for 2010. The net impaired loans ratio has improved from 1.99% in 2009 to 0.99% in 2010 resulting from accounts written off.

Non interest income has also improved by 29% to RM12.0 million from RM9.2 million a year ago. The increase was mainly due to the higher fee income and income from providing foreign exchange services to our customers.

Overhead expenses increased from RM20.2 million in 2009 to RM25.6 million in 2010. The increase was mainly due to setting up of branches in 2010 as well as additional staff force to support the growth and expansion of the Bank.

The Bank has opened 3 new branches in 2010 in Muar, Johor Bahru and Penang in 2010 and will continue to expand its network in Klang Valley in 2011. With the opening of these new branches, the Bank will continue to grow its core lending business in selected niche areas and focus on maintaining its current good liquidity position.

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Profile of directors

Mr Staporn Kavitanon
Chairman, Non-Independent Non-Executive Director

Mr Staporn Kavitanon, a Thai citizen, was appointed as Chairman of the Board on 25 January 2006. He holds a Master's degree in Economics from Vanderbilt University, USA and a Bachelor's degree in Economics from Thammasat University, Thailand.

Presently, Mr Staporn is also the Vice Chairman of the Board of Directors of Bangkok Bank Public Co Ltd ("BBL") in Thailand and he has been serving as BBL's Director since 1994. Apart from this, he also sits on the Boards of Berli Jucker Public Co Ltd, Indo Rama Petrochem Co Ltd, Beer Thai (1991) Public Co Ltd, Thai Beverage Public Co Ltd, Siam Food Public Co Ltd and T.C.C. Technology Co Ltd in Thailand.

Mr Staporn is currently the Chairman of Thai-Japanese Association, Thai-American Association, Thailand-US Business Council and Thammasat Chalermprakiet Hospital as well as an adviser of Thammasat Economic Association in Thailand.

His past appointments include being a Senator (Senate) President of Thammasat Economic Association, Secretary General of Board of Investment and Chairman of National Defence College (Class 30). Mr Staporn was also a Director of Foundation for Management Educational Institutions of Thailand and Foundation for International Human Resource Development, Thailand.

Profile of directors (cont'd.)

Mr Prasong Uthaisangchai
Vice Chairman, Non-Independent Non-Executive Director

Mr Prasong Uthaisangchai, a Thai citizen, was appointed to the Board on 15 September 1994 and was re-designated as the Vice Chairman of the Board on 1 January 2009. He holds a Diploma in Business Studies from Norwood Technical College, United Kingdom.

Mr Prasong has extensive banking experiences in the Asia Region, having worked for over 40 years with BBL. He began his banking career with BBL in Thailand as an officer, Export Division in 1971 and was then assigned to hold various senior management positions in the Singapore Branch, Taipei Branch, Hong Kong Branch, International Branch Activities Division and International Banking Group.

In 1999, he became the Executive Director and Senior Executive Vice President of BBL, heading the International Banking Group which supervises all overseas branches and subsidiaries. Currently, Mr Prasong also sits on the Board of Bangkok Bank (China) Co Ltd as its Vice Chairman.

Mr Robert Tan Cheng Loke
Executive Director/Chief Executive Officer

Mr Robert Tan Cheng Loke, a Malaysian, was appointed to the Board on 22 December 2006. He holds a Bachelor of Electrical Engineering and a Master of Business Administration (majoring in Marketing and Finance) from Concordia University, Canada. Mr Loke also holds a Postgraduate Diploma in Management from McGill University, Canada.

Mr Loke has more than 30 years experience in banking and finance industries prior to joining the Bank. He has worked with a few multinational banks, such as Chase Manhattan, Nomura, OCBC, etc. in Singapore and served in various senior management positions.

Ms Rushda Theeratharathorn
Non-Independent Non-Executive Director

Ms Rushda Theeratharathorn, a Thai citizen, was appointed to the Board on 17 September 1996. She first obtained her Bachelor of Accountancy degree from Chulalongkorn University, Thailand and later completed her Master of Management degree from Sasin Institute of Chulalongkorn University, Thailand.

Ms Rushda is currently the Executive Vice President, Chief Credit Officer of BBL and is responsible for the overall credit risk management. Prior to her current position, she assumed various senior positions in BBL, including General Manager, BBL Singapore branch and Head of Credit Acceptance with BBL, Thailand.

Currently, Ms Rushda sits on the Boards of ASEAN Finance Corporation Limited, Singapore, Sinnsuptawee Asset Management Co Ltd, Thailand and Bangkok Bank (China) Co Ltd.

Profile of directors (cont'd.)

Mr Toh Chong
Non-Independent Non-Executive Director

Mr Toh Chong, a Malaysian, was appointed to the Board on 25 January 2006. He holds a Bachelor of Arts (Hons) degree in Philosophy, Politics and Economics from Oxford University, UK and a Master of Science degree in Management from Massachusetts Institute of Technology, USA.

Mr Toh is an Executive Vice President in the International Banking Group in BBL. He is also currently the Executive Chairman of Bualuang Securities Public Co Ltd, the capital markets subsidiary of BBL. Prior to joining BBL, he was an Economist for the Government of Singapore Investment Corporation and had worked in Morgan Stanley Investment Bank.

Currently, Mr Toh also sits on the boards of several private and public companies in Thailand, Singapore and China.

YBhg Professor Dato' Ruslan Khalid
Independent Non-Executive Director

YBhg Professor Dato’ Ruslan Khalid, a Malaysian, was appointed to the Board on 3 January 2001. He graduated from Architectural Association School of Architecture in 1967. He is an Associate of the Royal Institute of British Architects, the Malaysian Institute of Architects and the Institute of Interior Designers Malaysia.

Professor Dato’ Ruslan had worked as an architect in various architectural firms in London and Switzerland. In 1973, he founded Ruslan Khalid Associates in London, which he re-established in Kuala Lumpur in 1984.

In 1975, he was appointed Senior Lecturer at Portsmouth Polytechnic (now University of Portsmouth). He also taught at the Architectural Association School, London as a part-time lecturer. Upon his return to Malaysia in 1980 he was appointed Associate Professor at the Faculty of Built Environment of University Technology Malaysia. In 1998 he was made Professor at University Putra Malaysia, where he founded the School of Architecture. His articles on various architectural topics have been published both locally and internationally.

Professor Dato’ Ruslan was previously a member of the Board of Advisors to Datuk Bandar Kuala Lumpur. He is currently a council member of United Nations Malaysia Association. He also sits on the boards of several private companies.

Profile of directors (cont'd.)

YBhg Dato' Koay Soon Eng
Independent Non-Executive Director

YBhg Dato' Koay Soon Eng, a Malaysian, was appointed to the Board on 1 August 2007. He holds a Diploma in Accountancy and a Bachelor of Commerce degree from University of Queensland. Dato' Koay is an Accountant by profession, being a Chartered Accountant of Malaysian Institute of Accountants and a Certified Practising Accountant of Australian Society of Certified Practising Accountants. He is also a Fellow of the Institute of Chartered Accountants in Australia.

Dato' Koay has been in public accountancy practice since 1970. He has wide experience in auditing, taxation, corporate secretarial and administration, liquidation and receivership as well as general and corporate finance consultancy serving small and medium sized companies to major public listed corporations.

Dato' Koay is currently an Independent Director of Y.S.P Southeast Asia Holding Berhad and holds directorship in several private companies.

Mr Chris Chia Woon Liat
Independent Non-Executive Director

Mr Chris Chia Woon Liat, a Malaysian, was appointed to the Board on 5 October 2006. He holds a Bachelor of Commerce (Accounting & Finance) degree with First Class Honours as well as a Master in Accounting degree (with distinction) from University of Western Australia. He also holds a M.B.A. from Massachussetts Institute of Technology's Sloan School of Management, USA and a Master of Liberal Arts degree from Harvard University, USA.

Mr Chris Chia started his career as an associate consultant with Arthur Andersen, Malaysia prior to joining Goldman Sachs (Singapore) Pte Ltd, Singapore as an Associate in its Investment Banking Division. He was part of the firm's Asia Pacific Mergers and Acquisitions practice.

After Goldman Sachs, he joined Citigroup Global Markets (Southeast Asia Investment Banking Division), based in Singapore. At Citigroup, as Vice President, he had coverage responsibility for key Southeast Asian clients, with a focus on Singapore and Malaysia as well as Financial Buyers/Private Equity Funds. He was also responsible for all aspects of deal origination and management as well as the execution of general corporate finance transactions. He has played a key role in the structuring and execution of capital markets transactions including the structuring of lending and leveraged finance, particularly in Mergers and Acquisitions and has deal experiences across Hong Kong, Thailand, Indonesia, Singapore, Australia and Malaysia.

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Profile of directors (cont'd.)
Mr Chris Chia Woon Liat (cont'd.)
Independent Non-Executive Director (cont'd.)

Mr Chris Chia is currently the Managing Partner of Kendall Court, an investment partnership focused on invesment in Southeast Asia (Kendall Court manages approximately USD300 million in assets and makes direct investments in public and private companies). He is also a member of the Money Policy Advisory Committee and Investment Advisory Committee under SPRING Singapore (a statutory board under the Ministry of Trade and Industry of Singapore which is the main agency for enterprise development and it aims to enhance the competitiveness of enterprises to develop a strong base of dynamic and innovative Singapore enterprises).

Corporate Governance

Board of directors

Board composition

The Board of Bangkok Bank Berhad (“the Bank”) consists of eight (8) members, of whom one (1) is the Executive Director/Chief Executive Officer (“CEO”), three (3) are Independent Non-Executive Directors and four (4) are Non-Independent Non-Executive Directors.

The Board consists of individuals of caliber, with credibility and integrity and the necessary skills, experiences as well as qualifications to supervise the management of the business and affairs of the Bank. The Board, as a whole, provides a mixture of core competencies including banking, finance, accounting, economics and business management for effective functioning and discharging of the responsibilities of the Board.

The presence of the three (3) Independent Non-Executive Directors provides the necessary checks and balances in the functioning of the Board and facilitates the Board in exercising objective judgement in decision making.

A brief profile of each Director is presented on pages 5 to 9 of this Audited Financial Statements.

Board of directors (cont'd.)

Board's duties and responsibilities

The Board is led by the Chairman, Mr Staporn Kavitanon, who is a Non-Independent Non-Executive Director.

The roles of the Chairman and CEO are separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decisions.

There are matters specifically reserved for the Board’s decision to ensure that the direction and control of the Bank are firmly in hand. The day-to-day conduct of the Bank’s business is delegated to the Executive Director/CEO and the full-time employees of the Bank subject to the authority limit given.

The Terms of Reference of the Board include the following:

1. The review and approval of management’s proposal on strategies, business plan and significant policies and monitor of management’s performance in the implementation process;

2. Establishment of comprehensive risk management policies, processes and infrastructure to manage the various types of risks; and

3. Ensuring the conduct of the operations of the Bank are carried out prudently and within the framework of relevant laws, rulings and regulations.

The Board also assumes various functions and responsibilities that are required of them by Bank Negara Malaysia (BNM), as specified in guidelines and directives issued by BNM from time to time.

Board of directors (cont'd.)

Frequency and conduct of board meetings

The Board meets on a scheduled basis, at least once in every two (2) months, to review the management reports and to deliberate on various matters which require its guidance and approval.

During the financial year, the Board held (6) meetings and the meetings were attended by all the members except for Mr Toh Chong and Mr Prasong who attended five (5) meetings and four (4) meetings respectively.

Directors' training

All the Directors received continuous training to keep abreast with latest developments in the banking and related sectors.

During the financial year, the seminars and courses attended by the Directors are, inter-alia on areas relating to banking and related topics, Financial Institutions Directors' Education Programme, Risk Management, Economic, Corporate Governance etc.

Board performance

The Board has established a performance evaluation mechanism to assess the effectiveness of the Board, Board Committees and each Director’s contribution annually. The Nomination Committee is responsible to undertake the performance evaluation every year and submit the result to the Board for deliberation.

The Board, Board Committees and individual Directors’ performance is evaluated against identified key areas and key performance indicators ("KPIs") that are based on regulatory requirements and best practices. The key areas and KPIs include but are not limited to the Board and Board Committees’ structure, responsibilities, meeting operations, input in policy development, participation in decision making and attendance.

Board committees

The Board has established the Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee to assist the Board in the execution of its duties and responsibilities. Each Board Committee operates within its own terms of reference approved by the Board, which clearly define its duties and responsibilities.

The composition of the Board Committees are as follows:

Name of Directors	Nomination Committee	Remuneration Committee	Risk Management Committee	Audit Committee
YBhg Professor Dato' Ruslan Khalid *(Independent Non-Executive Director)*	CH	M	CH	M
YBhg Dato' Koay Soon Eng *(Independent Non-Executive Director)*	M	CH	M	M
Mr Chris Chia Woon Liat *(Independent Non-Executive Director)*	-	-	M	CH
Mr Loke Tan Cheng *(Executive Director/CEO)*	M	-	-	-
Ms Rushda Theeratharathorn *(Non-Independent Non-Executive Director)*	M	M	M	M
Mr Toh Chong *(Non-Independent Non-Executive Director)*	M	M	M	M

<u>Note:</u>

CH - Chairman

M - Member

Board committees (cont'd.)

Nomination committee

During the financial year, the Nomination Committee held six (6) meetings and the meetings were attended by all the members except for Ms Rushda Theeratharathorn and Mr Toh Chong who attended five (5) meetings.

The Nomination Committee is established to provide a formal and transparent procedure for the appointment of Directors and CEO as well as assessment of effectiveness of individual Directors, Board as a whole and performance of CEO and key Senior Management Officers.

The Terms of Reference of the Nomination Committee include the following:

(i) Establishment of the minimum requirements for the Board in terms of required mix of skills, experience, qualification and other core competencies;

(ii) Establishment of the minimum requirements for the CEO, recommendation and assessment of the nominees for directorship, Board Committee members and the CEO;

(iii) Oversight of the overall composition of the Board through an annual review in terms of the appropriate size and skills and the balance between Executive Directors, Non-Executive Directors and Independent Directors; and

(iv) Establishment of a mechanism for the formal annual assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various Committees and the performance of the CEO and other key Senior Management Officers.

Remuneration committee

During the financial year, the Remuneration Committee held four (4) meetings and the meetings were attended by all the members except for Ms Rushda Theeratharathorn who attended three (3) meetings.

The Remuneration Committee is established to provide a formal and transparent procedure for developing remuneration policy for the Directors, CEO and key Senior Management Officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

Board committees (cont'd.)

Remuneration committee (cont'd.)

The Terms of Reference of the Remuneration Committee include the following:

(i) Recommendation of a framework of remuneration for Directors, the CEO and other key Senior Management Officers for the Board's approval;

(ii) Review of the remuneration packages of the Directors, CEO and key Senior Management Officers for the Board's approval; and

(iii) Recommendation to the Board on the proposed overall salary increment and overall annual bonus of the staff.

Risk management committee

During the financial year, the Risk Management Committee held six (6) meetings and the meetings were attended by all the members except for Ms Rushda Theeratharathorn and Mr Toh Chong who attended five (5) meetings.

The Risk Management Committee is established to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

The Terms of Reference of the Risk Management Committee include the following:

(i) Review and recommendation of risk management strategies, policies and risk tolerance for the Board's approval; and

(ii) Review of management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Board committees (cont'd.)

Risk management framework

The Board has in place a Risk Management Framework to provide greater clarity, focus and consistency across different risk areas in the governance of risks in the Bank. The underlying standards adopted in the Framework is consistent with BASEL II adopted by BNM.

The guiding risk management principles with which the Bank operates are as follows:

(i) Clear separation of risk-taking business lines and risk supervising unit;

(ii) Identification and coverage of all relevant risk types in risk management;

(iii) Measure risks in order to monitor and control them thereby enabling the implementation of more effective risk-based strategy, aid in decision making and management of portfolio transactions; and

(iv) Development of strong risk culture and continuous improvement of risk management skills throughout the Bank.

The Risk Management Framework of the Bank comprises three (3) levels and operates in the following manner:

Level 1: Policies, especially those which have impact on the risk framework and risk tolerances shall be approved at the Board's level.

Level 2: Subject-specific risk guidelines and standards are to be approved at Management Committee level, such as choice of appropriate statistical methodologies to compute specific product's market risk exposure.

Level 3: Procedures supporting policy implementation shall be approved at departmental levels. These policies and procedures rely on constant communication, judgement, knowledge of products and markets and controls by business and support units.

The Risk Management Department will be the central resource for quantifying and managing the portfolio of credit risk, market and liquidity risk and operational risk taken by the Board as a whole.

Board committees (cont'd.)

Audit committee

During the financial year, the Audit Committee held twelve (12) meetings and the meetings were attended by all the members except for Ms Rushda Theeratharathorn and Mr Toh Chong who attended eight (8) and nine (9) meetings respectively.

The Audit Committee is established to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the Bank's process for monitoring compliance with laws and regulations.

The Terms of Reference of the Audit Committee include the following:

(i) Review of significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;

(ii) Review of interim financial reports, the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;

(iii) Oversight of the functions of the Internal Audit Department to ensure it complies with BNM/GP10 requirement;

(iv) Review and approval of the annual audit plan and all major changes to the plan to ensure that there are no unjustified restrictions or limitations made;

(v) Review of the scope of the internal audit program, internal audit findings and recommend actions to be taken by management;

(vi) Review of the effectiveness of the Bank's internal control system, including information technology security and control;

(vii) Selection of external auditors for appointment by the Board;

(viii) Assessment of performance and independence of external auditors' objectivity;

(ix) Review of the external auditors' proposed audit scope and approach;

(x) Review of the external auditors' management letter and managements' response;

(xi) Approval of the provision of non-audit service by the external auditors; and

(xii) Review of the audit findings regularly to ensure that issues are being managed and rectified appropriately and in a timely manner.

Audit and control functions

The Audit & Control Department ("ACD") plays a key role in assisting the Audit Committee to oversee that the management has in place a sound system of risk management, internal controls and governance processes. This is achieved through the review of the recommendations for improvement to the current risk management, internal control systems and governance processes to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. In addition, reviews on compliance with established policies, procedures, guidelines and statutory requirements are also carried out.

The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the CEO. The scope of internal audit covers the audit of all units and operations. It is the responsibility of the ACD to provide the Audit Committee with independent and objective reports on the state of risk management, internal controls and governance processes. The audit reports, which provide the results of audits conducted in terms of the risk management of the units, effectiveness of internal control, compliance with internal and regulatory requirements and overall management of the units, are submitted to the Audit Committee for their review.

The Audit Committee reviews and approves the ACD's annual audit plan and human resource requirements to ensure that the function is adequately resourced with competent and proficient internal auditors. The internal audit functions were performed in accordance with the Audit Charter and BNM's Garis Panduan 10 ("GP10") – Guidelines for Minimum Audit Standards for Internal Audit of Financial Institutions. The International Standards for the Professional Practice of Internal Auditing ("SPPIA") of the Institute of Internal Auditors ("IIA") and the Practice Advisories issued by IIA are used where relevant as authoritative guides.

Risk management

All banking activities include involvement in analysis, evaluation, acceptance and management of certain degree of risk or combination of risks. The key business risks are credit risk, market risk (including foreign exchange and interest rate risk), liquidity risk and operational risk.

The Bank's risk management objectives are as follows:

(i) To protect the Bank's capital earnings from unexpected, excessive losses that could threaten the viability of the Bank;

(ii) To assist management to undertake and manage the appropriate levels of risks necessary to attain business and financial objectives;

(iii) To ensure that the Bank is in compliance with regulatory capital adequacy requirements; and

(iv) To ensure that the Board and senior management are adequately informed of the Bank's risk profile when making decisions.

Risk management (cont'd.)

The Bank's Risk Management policy has set out the broad overall risk policy of the Bank for the conduct of business and is applicable to all business functions within the Bank.

The Bank's risk management strategy is to ensure that all the risks undertaken are manageable and within its risk appetite and approved limits.

The risk management processes are broken down into four generic steps:

(i) Firstly, identifying the risks;
(ii) Secondly, assessing their potential impact to the Bank;
(iii) Thirdly, as risks are dynamic in nature, continuous monitoring of risks is required;
(iv) Fourthly, managing the risk and reporting those risks to the management and risk management committee for taking appropriate actions.

The Board of Directors is accountable for the management of risk. This is discharged by defining the scope of risk management activities within the Bank, distributing responsibilities at Board level for their management and determining the manner in which risk authorities are set.

The Board, through the independent Risk Management Committee, determines the Bank's risk appetite and sets the Bank's standards and policies for risk measurement and management. These standards and policies are proposed by the CEO through the Risk Management Committee, which is also accountable for providing independent assurance that risk is being managed, measured and controlled in conformity with the policies and standards set by the Bank.

The Management is accountable for the management of risk, collectively through the Loan Committee, Loan Rehabilitation Committee, Asset and Liability Management Committee and Management Committee.

The respective support and business units are responsible for putting in place the appropriate discipline, operating and control procedures, as well as systems within their own units, consistent with the board policies and guidelines set by the Bank. The respective units are accountable for all the risks taken within their units, and should be aware of the type and quantum of risks taken.

Risk management (cont'd.)

The Bank uses various methodologies to identify, monitor, manage and control these risks. Various processes have been established to analyse and identify any weaknesses in these risk areas such as the identification of "red flags", analysis of trends on market volatility etc. These risks are assessed and measured using various models, methodologies and reports such as Credit Risk Rating ("CRR") models, Net Interest Income ("NII") Impact and Economic Value of Equity Impact ("EVE") Methologies, Maximum Cumulative Outflow ("MCO") reports, etc. Processes and procedures have also been established to monitor and control these risks. These policies and procedures are reviewed periodically and necessary changes would be made to ensure that they are operationally robust. Stress tests covering credit, liquidity and market risks and operational risk are also performed under various scenarios to assess the Bank's risk weighted capital adequacy.

The Bank's financial risk management policies for managing, hedging and mitigating credit risk, market risk and liquidity risk are as disclosed in Note 35 to the financial statements.

The Bank's capital management process is further disclosed in Note 33 to the financial statements.

Management information

All the Directors have reviewed the Board reports prior to the Board Meetings. Information and materials, duly endorsed by the CEO and the relevant functional heads that are important to the Directors' understanding of the agenda items and related topics are distributed in advance prior to the date of the meeting. The Board reports include among others, the monthly performance of the Bank, minutes of the various Board and Management Committees, risk portfolio reports, any other prevailing regulatory developments as well as economic and business environment updates.

These reports are issued timely to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting.

Related party transactions

During the financial year ended 31 December 2010, the Bank entered into transactions with its holding company, Bangkok Bank Public Co. Ltd. in the normal course of business. The details and nature of the transactions are disclosed in Note 30 to the financial statements.

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Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 April 2011.

Loke Tan Cheng

Professor Dato' Ruslan Khalid

Kuala Lumpur, Malaysia

Bangkok Bank Berhad
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Statement by directors
Pursuant to Section 169(15) of the Companies Act, 1965

We, Loke Tan Cheng and Professor Dato' Ruslan Khalid, being two of the directors of Bangkok Bank Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 24 to 100 are drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 18 April 2011.

Loke Tan Cheng

Professor Dato' Ruslan Khalid

Kuala Lumpur, Malaysia

Statutory declaration
Pursuant to Section 169(16) of the Companies Act, 1965

I, Loke Tan Cheng, being the director primarily responsible for the financial management of Bangkok Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 24 to 100 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.

Subscribed and solemnly declared by
the abovenamed Loke Tan Cheng
at Kuala Lumpur in Wilayah Persekutuan
on 18 April 2011

Loke Tan Cheng

Before me,

Independent auditors' report to the member of
Bangkok Bank Berhad
(Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Bangkok Bank Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 100.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independent auditors' report to the member of Bangkok Bank Berhad (cont'd.) (Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 ("Act") in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiary that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the accounts of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Choong Mei Ling
No. 1918/09/12(J)
Chartered Accountant

Kuala Lumpur, Malaysia
18 April 2011

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Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 December 2010

		Group		Bank	
	Note	**2010**	**2009**	**2010**	**2009**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Assets					
Cash and short-term funds	4	574,241	377,508	574,208	377,478
Deposits and placements with banks	5	20,000	50,000	20,000	50,000
Securities held-for-trading	6	-	19,992	-	19,992
Securities available-for-sale	7	167,544	146,877	167,544	146,877
Securities held-to-maturity	8	144,782	45,262	144,782	45,262
Loans, advances and financing	9	1,534,731	1,395,585	1,534,731	1,395,585
Other assets	10	13,963	8,507	13,960	8,506
Statutory deposit with Bank Negara Malaysia	11	15,000	12,000	15,000	12,000
Investment in subsidiary	12	-	-	10	10
Property and equipment	13	16,551	11,022	16,551	11,022
Intangible assets	14	285	481	285	481
Deferred tax assets	15	6,438	6,114	6,438	6,114
Total assets		2,493,535	2,073,348	2,493,509	2,073,327
Liabilities and shareholder's equity					
Deposits from customers	16	1,758,065	1,577,530	1,758,065	1,577,530
Deposits and placements of banks and other financial institutions	17	300,230	93,011	300,230	93,011
Other liabilities	18	36,327	14,292	36,325	14,290
Total liabilities		2,094,622	1,684,833	2,094,620	1,684,831
Share capital	19	265,000	265,000	265,000	265,000
Statutory reserve	20(a)	123,972	116,994	123,962	116,984
Revaluation reserve	20(b)	(493)	(1,339)	(493)	(1,339)
Retained profits	21	10,434	7,860	10,420	7,851
Shareholder's equity		398,913	388,515	398,889	388,496
Total liabilities and shareholder's equity		2,493,535	2,073,348	2,493,509	2,073,327
Commitments and contingencies	29	1,431,818	1,212,857	1,431,818	1,212,857

The accompanying notes form an integral part of the financial statements.

Bangkok Bank Berhad
(Incorporated in Malaysia)

Income statements
For the year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Interest income	22	84,733	73,801	84,733	73,801
Interest expense	23	(42,315)	(39,347)	(42,315)	(39,347)
Net interest income		42,418	34,454	42,418	34,454
Loan loss and allowances, net	24	(10,002)	(11,860)	(10,002)	(11,860)
		32,416	22,594	32,416	22,594
Non-interest income	25	11,959	9,238	11,950	9,229
Net income		44,375	31,832	44,366	31,823
Overhead expenses	26	(25,584)	(20,158)	(25,582)	(20,156)
Profit before taxation		18,791	11,674	18,784	11,667
Taxation	27	(4,830)	(2,609)	(4,828)	(2,607)
Profit for the year		13,961	9,065	13,956	9,060
Earnings per share (sen)					
- basic	28	5.27	3.42		
- diluted	28	5.27	3.42		

The accompanying notes form an integral part of the financial statements.

Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of comprehensive income
For the year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Profit for the year		13,961	9,065	13,956	9,060
Other comprehensive income/(loss):					
Net gain/(loss) on available-for-sale financial assets		1,129	(4,079)	1,129	(4,079)
Income tax relating to components of other comprehensive income/(loss)		(283)	1,020	(283)	1,020
Other comprehensive income/(loss) for the year		846	(3,059)	846	(3,059)
Total comprehensive income for the year		14,807	6,006	14,802	6,001

The accompanying notes form an integral part of the financial statements.

Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of changes in equity
For the year ended 31 December 2010

		<---Non-distributable--->		Distributable	
	Share capital RM'000	**Statutory reserve RM'000**	**Revaluation reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
Group					
At 1 January 2009	265,000	112,461	1,720	3,328	382,509
Total comprehensive income for the year	-	-	(3,059)	9,065	6,006
Transfer to statutory reserve	-	4,533	-	(4,533)	-
At 31 December 2009	265,000	116,994	(1,339)	7,860	388,515
At 1 January 2010 (as previously stated)	265,000	116,994	(1,339)	7,860	388,515
Effects of adoption of FRS 139	-	-	-	(4,409)	(4,409)
At 1 January 2010 (as restated)	265,000	116,994	(1,339)	3,451	384,106
Total comprehensive income for the year	-	-	846	13,961	14,807
Transfer to statutory reserve	-	6,978	-	(6,978)	-
At 31 December 2010	265,000	123,972	(493)	10,434	398,913

The accompanying notes form an integral part of the financial statements.

Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of changes in equity
For the year ended 31 December 2010 (cont'd.)

		<---Non-distributable--->		Distributable	
	Share capital RM'000	**Statutory reserve RM'000**	**Revaluation reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
Bank					
At 1 January 2009	265,000	112,454	1,720	3,321	382,495
Total comprehensive income for the year	-	-	(3,059)	9,060	6,001
Transfer to statutory reserve	-	4,530	-	(4,530)	-
At 31 December 2009	265,000	116,984	(1,339)	7,851	388,496
At 1 January 2010 (as previously stated)	265,000	116,984	(1,339)	7,851	388,496
Effects of adoption of FRS 139	-	-	-	(4,409)	(4,409)
At 1 January 2010 (as restated)	265,000	116,984	(1,339)	3,442	384,087
Total comprehensive income for the year	-	-	846	13,956	14,802
Transfer to statutory reserve	-	6,978	-	(6,978)	-
At 31 December 2010	265,000	123,962	(493)	10,420	398,889

The accompanying notes form an integral part of the financial statements.

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Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the year ended 31 December 2010

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
Profit before taxation	18,791	11,674	18,784	11,667
Adjustments for:				
Depreciation	1,522	1,224	1,522	1,224
Amortisation of intangible assets	357	320	357	320
Loan loss and allowances, net	10,827	13,366	10,827	13,366
Property and equipment written off	106	44	106	44
Gain on disposal of property and equipment	(60)	-	(60)	-
Write back of impairment loss on securities held-to-maturity	(1)	(4)	(1)	(4)
Unrealised gain on derivatives	(816)	(297)	(816)	(297)
Net (gain)/loss on revaluation of securities held-for-trading	(46)	8	(46)	8
Net gain on disposal of securities held-for-trading	(85)	(8)	(85)	(8)
Net gain on disposal of securities available-for-sale	(37)	(602)	(37)	(602)
Amortisation of premium net of accretion of discount	645	776	645	776
Interest suspended	-	5,070	-	5,070
Dividend income	(62)	(61)	(62)	(61)
Operating profit before working capital changes	31,141	31,510	31,134	31,503
(Increase)/decrease in operating assets:				
Loans and advances	(155,851)	58,501	(155,851)	58,501
Other assets	(1,724)	418	(1,724)	418
Statutory deposit with Bank Negara Malaysia	(3,000)	28,000	(3,000)	28,000
Increase/(decrease) in operating liabilities:				
Deposits from customers	180,535	305,675	180,535	305,675
Deposits and placements of banks and other financial institutions	207,219	(345,565)	207,219	(345,565)
Obligations sold under repurchase agreements	-	(158,453)	-	(158,453)
Other liabilities	21,348	(1,650)	21,348	(1,649)
Cash generated from/(used in) operations carried forward	279,668	(81,564)	279,661	(81,570)

Bangkok Bank Berhad
(Incorporated in Malaysia)

Statements of cash flows
For the year ended 31 December 2010 (cont'd.)

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities (cont'd.)				
Cash generated from/(used in) operations brought forward	279,668	(81,564)	279,661	(81,570)
Taxes paid	(6,197)	(3,937)	(6,193)	(3,929)
Net cash generated from/(used in) operating activities	273,471	(85,501)	273,468	(85,499)
Cash flows from investing activities				
Purchase of property and equipment	(7,206)	(1,284)	(7,206)	(1,284)
Proceeds from disposal of property and equipment	60	-	60	-
Purchase of intangible assets	(112)	(285)	(112)	(285)
Net sale of securities held-for-trading	20,220	6,014	20,220	6,014
Net (purchase)/sale of securities available-for-sale	(20,224)	28,388	(20,224)	28,388
Net purchase of securities held-to-maturity	(99,538)	(30,332)	(99,538)	(30,332)
Dividend received	62	60	62	60
Net cash (used in)/generated from investing activities	(106,738)	2,561	(106,738)	2,561
Net increase/(decrease) in cash and cash equivalents	166,733	(82,940)	166,730	(82,938)
Cash and cash equivalents at beginning of financial year	427,508	510,448	427,478	510,416
Cash and cash equivalents at end of financial year	594,241	427,508	594,208	427,478

Cash and cash equivalents comprise:

Cash and short-term funds	574,241	377,508	574,208	377,478
Deposits and placements with bank	20,000	50,000	20,000	50,000
	594,241	427,508	594,208	427,478

The accompanying notes form an integral part of the financial statements.

Notes to the financial statements - 31 December 2010

1. Corporate information

The principal activities of Bangkok Bank Berhad ("the Bank") are banking and related financial services. The principal activity of its subsidiary is described in Note 12. There have been no significant changes in the nature of the principal activities during the financial year.

The Bank is a public limited liability licensed bank, incorporated and domiciled in Malaysia. The principal place of business of the Bank is located at 105, Jalan Tun H.S. Lee, 50000 Kuala Lumpur.

The Bank is a wholly-owned subsidiary of its holding company, Bangkok Bank Public Company Limited, a bank incorporated in Thailand.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of directors on 18 April 2011.

2. Basis of preparation

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies. The financial statements comply with the provisions of Companies Act, 1965 and applicable Financial Reporting Standards ("FRSs") in Malaysia as modified by Bank Negara Malaysia ("BNM") guidelines.

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

(a) Changes in accounting policies and effects arising from adoption of new and revised FRSs

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in previous years, except for the adoption of the following new and amended FRSs and IC Interpretations for the financial period beginning on or after 1 January 2010:

FRSs, Amendments to FRSs and IC Interpretations

FRS 4: Insurance Contracts
FRS 7: Financial Instruments: Disclosures
FRS 8: Operating Segments
FRS 101: Presentation of Financial Statements (Revised)
FRS 123: Borrowing Costs
FRS 139: Financial Instruments: Recognition and Measurement

2. Basis of preparation (cont'd.)

(a) Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd.)

FRSs, Amendments to FRSs and IC Interpretations

Amendments to FRS 1: First-time Adoption of Financial Reporting Standards
Amendments to FRS 2: Share-based Payment - Vesting Conditions and Cancellation
Amendments to FRS 7: Financial Instruments: Disclosures
Amendments to FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
*Amendments to FRS 132: Financial Instruments: Presentation
Amendments to FRS 139: Financial Instruments: Recognition and Measurement
Improvements to FRS issued in 2009
IC Interpretation 9: Reassessment of Embedded Derivatives
IC Interpretation 10: Interim Financial Reporting and Impairment
IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions
IC Interpretation 13: Customer Loyalty Programmes
IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
TRi-3 Presentation of Financial Statements of Islamic Financial Institutions

* The Amendments to FRS 132 as identified in paragraphs 95A, 97AA and 97AB of the Standard shall apply to financial statements of annual periods beginning or after 1 January 2010.

The application of the above FRSs, amendments to FRSs and IC Interpretations did not result in any significant impact on the financial results and financial position of the Group and of the Bank except for those discussed below.

(i) FRS 7: Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132: Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Bank have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Bank's financial statements for the year ended 31 December 2010.

2. Basis of preparation (cont'd.)

(a) Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd.)

(ii) FRS 101: Presentation of Financial Statements (Revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group and the Bank have elected to present this statement as two linked statements. Comparative information, with the exception of the requirements under FRS 139, had been re-presented so that it is also in conformity with the revised standard. This revised FRS does not have any impact on the financial position and results of the Group and of the Bank.

(iii) FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognising, derecognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. However, since the adoption of revised BNM/GP8 Guidelines on Financial Reporting for Licensed Financial Institutions on 1 January 2005, certain principles in connection with the recognition, derecognition and measurement of financial instruments which are similar to those prescribed by FRS 139 have already been adopted by the Group and the Bank. Therefore, the adoption of FRS 139 on 1 January 2010 has resulted in changes in accounting policies mainly pertaining to the following:

Impairment losses on loans, advances and financing

Prior to the adoption of FRS 139, allowances for impaired loans, advances and financing (previously referred to as non-performing loans) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans, advances and financing that are individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed loan, advances and financing, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Loans, advances and financing that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognised are not included in a collective assessment of impairment.

2. Basis of preparation (cont'd.)

(a) Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd.)

(iii) FRS 139: Financial Instruments: Recognition and Measurement (cont'd.)

Impairment losses on loans, advances and financing (cont'd.)

Amendments to FRS 139 include additional transitional provisions for entities in the financial services sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 17 December 2010, whereby banking institutions are required to maintain collective impairment provision of at least 1.5% of total outstanding loans, net of individual impairment provision. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective impairment provision.

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 are not restated. Instead the changes have been accounted for by restating the following opening balances in the statements of financial position as at 1 January 2010.

Group

RM'000	As previously stated	Effects of FRS 139	As restated
At 1 January 2010			
Retained profits	7,860	(4,409)	3,451
Loans, receivables and financing	1,395,585	(5,878)	1,389,707
Tax recoverable	5,314	1,469	6,783

Bank

RM'000	As previously stated	Effects of FRS 139	As restated
At 1 January 2010			
Retained profits	7,851	(4,409)	3,442
Loans, receivables and financing	1,395,585	(5,878)	1,389,707
Tax recoverable	5,315	1,469	6,784

In addition, these changes in accounting policies have the effect of decreasing the profit for the current financial year by approximately RM1,784,000.

2. Basis of preparation (cont'd.)

(b) Significant accounting judgements and estimates

In the process of applying the Group's and the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

(i) Impairment allowance on loans, advances and financing

The Group and the Bank review their individually significant loans, advances and financing at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank make judgement about the borrower's financial situation and the net realisable value of collateral. These estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the impairment amount.

(ii) Impairment of available-for-sale and held-to-maturity investments

The Group and the Bank review the debt securities classified as available-for-sale and held-to-maturity investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group and the Bank also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group and the Bank evaluate, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(iii) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2. Basis of preparation (cont'd.)

(c) FRSs and IC Interpretations issued but not yet effective

The following new FRSs and IC Interpretations were issued but are not yet effective and have not been applied by the Group and the Bank:-

FRSs, Amendments to FRSs and IC Interpretations:	Effective for financial year beginning on or after
* FRS 132: Financial Instruments: Presentation	1 March 2010
FRS 1:First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combinations (Revised 2010)	1 July 2010
FRS 127: Consolidated and Separate Financial Statements (Revised 2010)	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distributions of Non-cash Assets to Owners	1 July 2010
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)	1 January 2011
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)	1 January 2011
Improving Disclosures about Financial Instruments (Amendments to FRS 7)	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRSs contained in the document entitled “Improvements to FRSs (2010)”	1 January 2011
IC Interpretation 4: Determining whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
TR i-4: Shariah Compliant Sale Contracts	1 January 2011
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011

2. Basis of preparation (cont'd.)

(c) FRSs and IC Interpretations ("ICs") Issued But Not Yet Effective (Contd.)

FRSs, Amendments to FRSs and IC Interpretations:	**Effective for financial year beginning on or after**
FRS 124: Related Party Disclosures	1 January 2012
IC Interpretation 15: Agreements for the Construction of Real Estate	1 January 2012

* The amendments in paragraph 11, 16 and 97E of the Standard relating to Classification of Rights Issues shall apply to financial statements of annual periods beginning on or after 1 March 2010.

The application of the above FRSs, amendments to FRSs and IC Interpretations are expected to have no significant impact on the financial statements of the Group and of the Bank upon their initial application.

3. Significant accounting policies

(a) Subsidiary and basis of consolidation

(i) Subsidiary

The subsidiary is an entity over which the Group has the ability to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Bank's separate financial statements, the investment in subsidiary is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and its carrying amount is included in profit or loss.

(ii) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiary at each reporting date. The financial statements of the subsidiary are prepared for the same reporting date as the Bank.

3. Significant accounting policies (cont'd.)

(a) Subsidiary and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continues to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

The acquisition of the subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

(b) Revenue recognition

(i) Interest and financing income recognition

Interest income is recognised using the effective interest method. Interest income includes the amortisation of premiums or accretion of discounts. The effective interest method applies the rate that exactly discounts estimated future cash receipts through the effective life of the financial instruments to the net carrying amount of the financial asset.

(ii) Fee and other income recognition

Other fees and commission on a variety of services and facilities extended to customers are recognised on inception of such transactions.

3. Significant accounting policies (cont'd.)

(b) Revenue recognition (cont'd.)

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(c) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Group and the Bank have become a party to the contractual provisions of the instruments.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Bank determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held-for-trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

3. Significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as impaired where repayments are in arrears for three (3) months or more from the first day of default for loans and overdrafts. Trade bills, bankers' acceptances and trust receipts are classified as impaired when they are due and unpaid for three (3) months from the first day of default.

(iii) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Bank have the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(iv) Available-for-sale financial assets

Available-for-sale are financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Bank's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

3. Significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

All regular way purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised or derecognised on the settlement date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(d) Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are subject to impairment review at each reporting date. Impairment loss is recognised when there is objective evidence such as significant financial difficulty of the issuer, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of a financial asset is below its carrying amount.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

(i) Individual impairment allowance on financial assets carried at amortised cost

For financial assets carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future expcted credit losses that have not yet been incurred) discounted at the assets' original effective interest rate. The amount of the impairment loss is recognised in profit or loss. Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the assets' carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in profit or loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Bank. If write-off is later recovered, the recovery is credited to profit or loss.

3. Significant accounting policies (cont'd.)

(d) Impairment of financial assets (cont'd.)

(ii) Individual impairment allowance on available-for-sale financial assets

For available-for-sale investments in which there are objective evidence of impairment, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to profit or loss, even though the securities have not been derecognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on investments in equity instruments classified as available-for-sale recognised are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the profit or loss if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss.

(iii) Collective impairment allowance

Collective impairment allowance is made for estimated losses inherent in but not currently identifiable to individual financial assets.

The Group and the Bank have applied the transitional provision set out in BNM/GP3 Guidelines on Classification and Impairment Provisions for Loans/Financing to maintain collective impairment allowance of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance.

(e) Property and equipment and depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

3. Significant accounting policies (cont'd.)

(e) Property and equipment and depreciation (cont'd.)

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation of other property and equipment is provided for on a straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Buildings	2 - 10%
Motor vehicles	16%
Office equipment, furniture and fittings, and computer equipment	8% - 40%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each reporting date.

(f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

3. Significant accounting policies (cont'd.)

(f) Intangible assets (cont'd.)

Intangible assets are amortised over their finite useful lives as follows:

Computer software	2 - 5 years

The Group and the Bank have developed the following criteria to identify computer software or licence to be classified as plant or equipment or intangible assets:

- Software or licence that is embedded in computer-controlled equipment, including operating system that cannot operate without that specific software is an integral part of the related hardware and is treated as plant and equipment; and

- Application software that is being used on a computer is generally easily replaced and is not an integral part of the related hardware and is classified as intangible assets.

(g) Impairment of non-financial assets

At each reporting date, the Group and the Bank review the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group and the Bank make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to that asset.

An impairment loss is recognised in profit or loss in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. Significant accounting policies (cont'd.)

(h) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value throught profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held-for-trading include derivatives entered into by the Group and the Bank that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

(ii) Other financial liabilities

The Group's and the Bank's other financial liabilities include deposits from customers, deposits and placements of banks and other financial institutions and other liabilities.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished.

(i) Derivative financial instruments

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. 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 profit or loss.

3. Significant accounting policies (cont'd.)

(j) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(k) Leases

(i) As lessee

Finance leases, which transfer to the Group and the Bank substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group and the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(ii) As lessor

Leases where the Group and the Bank retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 3(b)(iv) to the financial statements.

3. Significant accounting policies (cont'd.)

(l) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group’s net investment in foreign operations.

The Group and Bank do not have any net investment in foreign operations.

The principal exchange rates for every unit of foreign currency ruling at reporting date used are as follows:

	2010	2009
Singapore Dollar	2.38	2.44
Thai Baht	0.10	0.10
United States Dollar	3.08	3.43

3. Significant accounting policies (cont'd.)

(m) Employee benefits

(i) 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 Group and the Bank. Short-term accumulating compensated balances 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.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Bank recognise termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after reporting date are discounted to present value.

(n) Provisions

Provisions are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

3. Significant accounting policies (cont'd.)

(o) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity, in which case, the deferred tax is also charged or credited to equity.

(p) Cash and cash equivalents

For the purpose of the statements of cash flow, cash and cash equivalents include cash and short term funds and deposits and placements with banks and financial institutions.

(q) Share capital and share issuance expenses

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

4. Cash and short-term funds

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and Bank Negara Malaysia	415,162	377,508	415,129	377,478
Money at call and deposit placements maturing within one month	159,079	-	159,079	-
	574,241	377,508	574,208	377,478

5. Deposits and placements with banks

	Group and Bank	
	2010	2009
	RM'000	RM'000
Bank Negara Malaysia	20,000	-
Licensed bank	-	50,000
	20,000	50,000

6. Securities held-for-trading

	Group and Bank	
	2010	2009
	RM'000	RM'000
In Malaysia:		
At fair value		
Money market instruments:		
Bank Negara Monetary Notes	-	19,992

7. Securities available-for-sale

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
In Malaysia:		
At fair value		
Money market instruments:		
Malaysian Government Securities	86,148	115,686
Cagamas Bonds	20,339	9,995
Government Investment Issue	40,022	-
Quoted securities in Malaysia:		
Debt converted shares *	-	-
Unquoted securities in Malaysia:		
Private debt securities	20,163	20,324
	166,672	146,005
At cost		
Unquoted securities:		
Shares	872	872
	167,544	146,877

* Quoted shares fully provided as at relevant reporting dates.

8. Securities held-to-maturity

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
In Malaysia:		
At amortised cost		
Money market instruments:		
Malaysian Government Securities	45,153	45,249
Unquoted securities:		
Private debt securities	99,629	13
	144,782	45,262

9. Loans, advances and financing

	Group and Bank	
	2010	**2009**
At amortised cost	**RM'000**	**RM'000**
Overdrafts	79,185	83,770
Term loans		
Housing loans	8,663	9,812
Syndicated term loan	39,214	75,571
Other term loans	294,499	268,946
Revolving credits	311,657	250,243
Bills receivables	9,470	14,061
Trust receipts	114,894	45,542
Bankers' acceptances	732,138	692,813
Other financing	16,269	19,717
Staff loans	1,252	1,496
	1,607,241	1,461,971
Unearned interest	(4,500)	(3,394)
Gross loans, advances and financing	1,602,741	1,458,577
Less: Allowance for impaired loans and financing		
Individual impairment allowance	(43,578)	-
Collective impairment allowance	(24,432)	-
Specific allowance	-	(41,460)
General allowance	-	(21,532)
Net loans, advances and financing	1,534,731	1,395,585

(i) The maturity structure of loans, advances and financing are as follows:

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Maturing within one year	1,316,463	1,127,087
One year to three years	80,181	102,004
Three years to five years	115,499	127,051
Over five years	90,598	102,435
	1,602,741	1,458,577

9. Loans, advances and financing (cont'd.)

(ii) Loans, advances and financing according to economic purpose are as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Purchase of securities	11,133	28,037
Purchase of transport vehicles	1,383	1,517
Purchase of residential properties	9,697	11,110
Purchase of non-residential properties	81,460	56,237
Purchase of fixed assets other than land and building	34,896	75,588
Personal use	787	4,837
Construction	57,845	24,316
Working capital	1,372,250	1,206,400
Others	33,290	50,535
	1,602,741	1,458,577

(iii) Loans, advances and financing according to type of customer are as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Domestic non-bank financial institutions	164,590	106,313
Domestic business enterprises		
- Small medium enterprises	348,455	402,703
- Others	1,079,069	933,402
Domestic other entities	-	40
Individuals	10,627	16,119
	1,602,741	1,458,577

9. Loans, advances and financing (cont'd.)

(iv) Loans, advances and financing according to interest/profit rate sensitivity are as follows:

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Fixed rate		
Housing loan	1,344	1,297
Other fixed rate loan/financing	17,384	16,463
Variable rate		
BLR plus	334,233	330,911
Cost-plus	1,177,919	1,104,135
Other variable rates	71,861	5,771
	1,602,741	1,458,577

(v) All loan, advances and financing of the Group and of the Bank are to customers in Malaysia.

(vi) Movements in impaired loans, advances and financing are as follows:

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Balance as at 1 January		
- as previously stated	68,383	35,957
- effects of adoption of FRS 139	9,936	-
- as restated	78,319	35,957
Classified as impaired during the year	6,433	34,417
Reclassified as non-impaired during the year	(364)	(1,034)
Amount recovered	(3,431)	(957)
Amount written off	(21,834)	-
Balance as at 31 December	59,123	68,383
Individual impairment allowance	(43,578)	-
Specific allowance	-	(41,460)
Net impaired loans, advances and financing	15,545	26,923
Ratio of net impaired loans, advances and financing to gross loans, advances and financing less individual impairment/specific allowance	0.99%	1.90%

Definition of impaired loan is disclosed in Note 3(c)(ii).

9. Loans, advances and financing (cont'd.)

(vii) Movements in the impairment allowance are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Individual impairment allowance		
Balance as at 1 January		
- as previously stated	-	-
- effect of adoption of FRS 139	57,485	-
- as restated	57,485	-
Allowance made during the year	10,470	-
Amount written back	(2,543)	-
Amount written off	(21,834)	-
Balance as at 31 December	43,578	-
Collective impairment allowance		
Balance as at 1 January		
- as previously stated	-	-
- effect of adoption of FRS 139	21,532	-
- as restated	21,532	-
Allowance made during the year	2,900	-
Balance as at 31 December	24,432	-
Collective impairment allowance as % of gross loans, advances and financing less individual impairment allowance	1.57%	-
Specific allowance		
Balance as at 1 January		
- as previously stated	41,460	26,086
- effect of adoption of FRS 139	(41,460)	-
- as restated	-	26,086
Allowance made during the year	-	16,370
Amount written back	-	(996)
Balance as at 31 December	-	41,460

9. Loans, advances and financing (cont'd.)

(vii) Movements in the impairment provisions are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
General allowance		
Balance as at 1 January		
- as previously stated	21,532	23,540
- effect of adoption of FRS 139	(21,532)	-
- as restated	-	23,540
Amount written back	-	(2,008)
Balance as at 31 December	-	21,532
General allowance as % of gross loans, advances and financing less specific allowance	-	1.52%

The Group and the Bank performs individual impairment assessment based on certain obligatory and judgemental triggers that may indicate potential impairment. All impaired accounts as defined in Note 3(c)(ii) are selected for individual impairment review on a monthly basis. The Group and the Bank also performs monthly individual impairment reviews for

- Special Mention accounts that are in arrears between 1 to 3 months, whether or not there had been any rescheduling or restructuring of payment terms; and

- Watchlist accounts that had been monitored as Special Mention accounts for more than 3 times in the last 6 months.

As disclosed in Note 3(c)(iii), the Group and the Bank has adopted the transitional provision of providing a minimum of 1.5% as collective impairment.

(viii) Impaired loans, advances and financing according to economic purpose are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Purchase of residential properties	3,504	2,580
Working capital	51,797	65,803
Others	3,822	-
	59,123	68,383

All impaired loan, advances and financing of the Group and of the Bank are attributable to customers in Malaysia.

9. Loans, advances and financing (cont'd.)

(ix) Individual impairment allowance for impaired loans, advances and financing according to economic purpose are as follows:

	Group and Bank 2010 RM'000
Purchase of residential properties	714
Working capital	39,050
Others	3,814
	43,578

(x) Collective impairment allowance for loans, advances and financing according to economic purpose, allocated on a pro-rated basis, are as follows:

	Group and Bank 2010 RM'000
Purchase of securities	170
Purchase of transport vehicles	21
Purchase of residential properties	148
Purchase of non-residential properties	1,242
Purchase of fixed assets other than land and building	532
Personal use	12
Construction	882
Working capital	20,918
Others	507
	24,432

(xi) Allowance for individual impairment during the year by economic purpose are as follows:

	Group and Bank 2010 RM'000
Purchase of residential properties	441
Working capital	7,293
Others	2,736
	10,470

9. Loans, advances and financing (cont'd.)

(xii) Allowance for individual impairent written off during the year by economic purpose are as follows:

	Group and Bank 2010 RM'000
Purchase of residential properties	7
Working capital	21,827
	21,834

10. Other assets

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Other receivables, deposits and prepayments	4,068	2,344	4,068	2,344
Unrealised gain on derivatives	2,352	848	2,352	848
Tax recoverable	7,543	5,315	7,540	5,314
	13,963	8,507	13,960	8,506

11. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amounts of which are determined as a set percentage of total eligible liabilities.

12. Investment in subsidiary

	Bank	
	2010	**2009**
	RM'000	**RM'000**
Unquoted shares, at cost	10	10

Details of the subsidiary, which is incorporated in Malaysia, are as follows:

Name of company	**Percentage of equity held**		**Principal activity**
	2010	**2009**	
	%	%	
BBL Nominees (Tempatan) Sdn. Bhd.	100	100	Provision of nominee services to local clients of the Bank

13. Property and equipment

Group and Bank	Freehold land and buildings* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings, and computer equipment RM'000	Renovation in progress RM'000	Total RM'000
2010					
Cost					
At 1 January 2010	14,821	1,049	4,579	464	20,913
Additions	-	-	1,418	5,788	7,206
Disposals	-	(140)	-	-	(140)
Write off	-	-	-	(106)	(106)
Reclassifications	1,687	-	1,180	(2,867)	-
Reclassified to intangible assets	-	-	-	(49)	- (49)
At 31 December 2010	16,508	909	7,177	3,230	27,824
Accumulated depreciation					
At 1 January 2010	6,453	865	2,573	-	9,891
Charge for the year (Note 26)	359	58	1,105	-	1,522
Disposals	-	(140)	-	-	(140)
At 31 December 2010	6,812	783	3,678	-	11,273
Net carrying amount	9,696	126	3,499	3,230	16,551
2009					
Cost					
At 1 January 2009	14,030	1,049	5,715	482	21,276
Additions	-	-	479	805	1,284
Write off	-	-	(1,615)	(32)	(1,647)
Transfers	791	-	-	(791)	-
At 31 December 2009	14,821	1,049	4,579	464	20,913
Accumulated depreciation					
At 1 January 2009	6,172	787	3,311	-	10,270
Charge for the year (Note 26)	281	78	865	-	1,224
Write off	-	-	(1,603)	-	(1,603)
At 31 December 2009	6,453	865	2,573	-	9,891
Net carrying amount	8,368	184	2,006	464	11,022

* Included in the above is freehold land costing RM714,000 (2009: RM714,000).

14. Intangible assets

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Computer software		
Cost		
At 1 January	1,675	1,390
Additions	112	285
Reclassified from property and equipment	49	-
At 31 December	1,836	1,675
Accumulated amortisation		
At 1 January	1,194	874
Amortisation (Note 26)	357	320
At 31 December	1,551	1,194
Net carrying amount	285	481

15. Deferred tax assets

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
At 1 January	6,114	5,683
Recognised in income statement (Note 27)	607	(589)
Recognised in equity	(283)	1,020
At 31 December	6,438	6,114
Presented after appropriate offsetting as follows:		
Deferred tax assets	6,438	6,114
Deferred tax liabilities	-	-
	6,438	6,114

15. Deferred tax assets (cont'd.)

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

Group and Bank

Deferred tax assets

	General allowance RM'000	Collective impairment RM'000	Revaluation reserve RM'000	Others RM'000	Total RM'000
At 1 January 2009	5,885	-	-	807	6,692
Recognised in income statement	(502)	-	-	(122)	(624)
Reclassified from deferred tax liabilities	-	-	447	-	447
At 31 December 2009	5,383	-	447	685	6,515
At 1 January 2010 (as previously stated)	5,383	-	447	685	6,515
Effects of adoption of FRS 139	(5,383)	5,383	-	-	-
At 1 January 2010 (as restated)	-	5,383	447	685	6,515
Recognised in income statement	-	725	-	(58)	667
Recognised in equity	-	-	(283)	-	(283)
At 31 December 2010	-	6,108	164	627	6,899

Deferred tax liabilities

	Plant and equipment RM'000	Revaluation reserve RM'000	Total RM'000
At 1 January 2009	436	573	1,009
Recognised in income statement	(35)	-	(35)
Recognised in equity	-	(1,020)	(1,020)
Reclassified to deferred tax assets	-	447	447
At 31 December 2009	401	-	401
At 1 January 2010	401	-	401
Recognised in income statement	60	-	60
At 31 December 2010	461	-	461

16. Deposits from customers

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Fixed deposits	1,075,223	1,163,999
Negotiable instruments of deposits	100,000	72,550
Current accounts	191,211	112,182
Savings deposits	10,762	9,721
Short term deposits	380,869	219,078
	1,758,065	1,577,530

(i) The maturity structure of fixed deposits, negotiable instruments of deposits and short term deposits is as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Due within six months	1,402,840	1,127,833
Six months to one year	146,896	319,683
One year to three years	1,601	6,211
Over three years	4,755	1,900
	1,556,092	1,455,627

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

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Business enterprises	1,405,462	1,250,027
Individuals	201,527	197,876
Others	151,076	129,627
	1,758,065	1,577,530

17. Deposits and placements of banks and other financial institutions

	Group and Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	281,340	75,460
Other financial institutions	16,247	14,907
Bank Negara Malaysia	2,643	2,644
	300,230	93,011

18. Other liabilities

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Accruals	2,144	1,808	2,144	1,808
Unrealised loss on derivatives	1,677	990	1,677	990
Other payables	32,506	11,494	32,504	11,492
	36,327	14,292	36,325	14,290

19. Share capital

	Group and Bank			
	Number of ordinary shares of RM1 each		Amount	
	2010	2009	2010	2009
	'000	'000	RM'000	RM'000
Authorised	300,000	300,000	300,000	300,000
Issued and fully paid-up	265,000	265,000	265,000	265,000

The holder of ordinary shares are entitled to receive dividends as and when declared by the Bank, after obtaining the regulatory approval from Bank Negara Malaysia prior to the declaration of dividends.

All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Bank's residual assets.

20. Other reserves

(a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

(b) The revaluation reserve arises from the change in the fair value of the available-for-sale securities and is not distributable as cash dividends.

21. Retained profits

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividends paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

The Bank did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the Section 108 balance as at 31 December 2010 and 2009 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act, 2007. As at 31 December 2010 and 2009, the Bank has sufficient credit in the Section 108 balance to pay franked dividends out of its entire retained profits.

22. Interest income

	Group and Bank	
	2010	2009
	RM'000	RM'000
Loans, advances and financing		
- Interest income other than recoveries from impaired loans	61,678	60,911
- Recoveries from impaired loans	-	537
- Interest income on impaired loans	1,656	-
Deposits and placements with banks and other financial institutions	10,617	10,580
Securities held-for-trading	146	117
Securities available-for-sale	7,504	6,421
Securities held-to-maturity	3,777	1,081
	85,378	79,647
Net interest suspended	-	(5,070)
Amortisation of premium net of accretion of discount	(645)	(776)
	84,733	73,801

23. Interest expense

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Deposits from customers	37,390	33,947
Deposits and placements of banks and other financial institutions	4,925	5,400
	42,315	39,347

24. Loan loss and allowances, net

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Allowance for impaired loans, advances and financing		
Individual impairment		
- made during the financial year	10,470	-
- written back	(2,543)	-
Collective impairment, net	2,900	-
Specific allowance		
- made during the financial year	-	16,370
- written back	-	(996)
General allowance, net	-	(2,008)
Impaired loans, advances and financing recovered	(825)	(1,506)
	10,002	11,860

25. Non-interest income

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Fee income:				
Commission	3,008	2,254	2,999	2,245
Service charges and fees	1,364	509	1,364	509
Guarantee fees	1,068	964	1,068	964
	5,440	3,727	5,431	3,718

25. Non-interest income (cont'd.)

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Investment income:				
Net gain on sale of investments:				
Securities held-for-trading	85	8	85	8
Securities available-for-sale	37	602	37	602
Net gain/(loss) on revaluation of securities held-for-trading	46	(8)	46	(8)
Write back of impairment loss on securities held-to-maturity	1	4	1	4
Gross dividend from securities available-for-sale	62	61	62	61
	231	667	231	667
Other income:				
Foreign exchange gain	4,891	3,993	4,891	3,993
Unrealised gain on derivatives	816	297	816	297
Rental income	516	553	516	553
Gain on disposal of property and equipment	60	-	60	-
Others	5	1	5	1
	6,288	4,844	6,288	4,844
	11,959	9,238	11,950	9,229

26. Overhead expenses

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Personnel costs				
Salaries, allowances and bonuses	11,260	9,366	11,260	9,366
Defined contribution plan - Employees Provident Fund	1,701	1,384	1,701	1,384
Others	1,595	1,362	1,595	1,362
	14,556	12,112	14,556	12,112

26. Overhead expenses (cont'd.)

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Establishment costs				
Depreciation	1,522	1,224	1,522	1,224
Amortisation of intangible assets	357	320	357	320
Repair and maintenance	444	650	444	650
Rental of premises	659	-	659	-
Computerisation costs	607	416	607	416
Others	1,163	614	1,163	614
	4,752	3,224	4,752	3,224
Marketing costs				
Advertising and publicity	752	264	752	264
Others	162	144	162	144
	914	408	914	408
Administration and general costs				
Professional fees	694	392	694	392
Others	4,668	4,022	4,666	4,020
	5,362	4,414	5,360	4,412
Total	25,584	20,158	25,582	20,156

The above expenses include the following statutory disclosures:

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors' remuneration (Note 31)	2,830	2,853	2,830	2,853
Hire of equipment	82	49	82	49
Auditors' remuneration				
- Statutory audit	81	71	80	70
- Other services	145	85	145	85
Property and equipment written off	106	44	106	44

27. Taxation

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Income tax:				
Current year	5,437	2,481	5,435	2,479
Over provision in prior years	-	(461)	-	(461)
	5,437	2,020	5,435	2,018
Deferred tax (Note 15):				
Relating to origination and reversal of temporary differences	(607)	589	(607)	589
	4,830	2,609	4,828	2,607

Income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

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

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	18,791	11,674	18,784	11,667
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	4,698	2,919	4,696	2,917
Effect of expenses not deductible for tax purposes	132	151	132	151
Over provision in prior years	-	(461)	-	(461)
Tax expense for the year	4,830	2,609	4,828	2,607

28. Earnings per share

Basic earnings per share of the Group is calculated by dividing the profit for the year attributable to shareholder for the financial year by the number of ordinary shares in issue during the financial year as follows:

	Group	
	2010	2009
Profit for the year (RM'000)	13,961	9,065
Number of ordinary shares in issue ('000)	265,000	265,000
Basic earnings per share (sen)	5.27	3.42

28. Earnings per share (cont'd.)

There is no dilutive potential in the ordinary shares as at 31 December 2010 and 31 December 2009.

29. Commitments and contingencies

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

The Group and Bank do not enter into OTC derivative transactions, repo-style transactios and credit derivative contracts booked in its trading and banking book. The Group and the Bank's involvement in derivatives are only restricted to foreign forward exchange contracts. The policies of market risk management in respect of foreign exchange risk are disclosed in Note 35(b).

Risk-weighted exposures of the Group and of the Bank as at the reporting date are as below:

Group and Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk weighted amount RM'000
2010				
Direct credit substitues	15,946	-	15,946	15,431
Transaction-related contingent items	94,510	-	47,255	43,334
Short-term self-liquidating trade-related contingencies	69,056	-	13,811	13,627
Forward foreign exchange contracts				
- less than one year	286,912	2,352	4,480	3,324
Other commitments, such as formal standby facilities and credit lines, with an original				
- maturity more than one year	159	-	80	60
- maturity less than one year	951,313	-	190,263	191,037
Any commitment that are unconditionally cancelled at any time without prior notice	13,922	-	-	-
Total	1,431,818	2,352	271,835	266,813

29. Commitments and contingencies (cont'd.)

Group and Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Amount RM'000
2009				
Direct credit substitues	17,771	-	17,771	17,253
Transaction-related contingent items	71,256	-	35,628	33,716
Short-term self-liquidating trade-related contingencies	35,541	-	7,108	7,108
Forward foreign exchange contracts				
- less than one year	171,052	848	2,369	1,882
Other commitments, such as formal standby facilities and credit lines, with an original				
- maturity more than one year	40	-	20	21
Any commitment that are unconditionally cancelled at any time without prior notice	917,197	-	-	-
Total	1,212,857	848	62,896	59,980

The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors as defined in Bank Negara Malaysia's revised Risk Weighted Capital Adequacy Framework: Standardised Approach (Basel II).

Banking Institutions can apply a 0% credit conversion factor (CCF), instead of 50% on the undrawn portion of credit facilities with an original maturity of more than one year, conditional upon the institution undertaking a credit review of the facility at least annually and having the right to withdraw the facility following an unsatisfactory assessment and can also apply a 0% CCF (instead of 20%) on the undrawn portions of credit facilities with an original maturity of less than one year as a temporary measure until 31 December 2010 under the Risk Weighted Capital Adequacy Framework (RWCAF).

30. Significant related party transactions and balances

(i) Related party transactions

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Income		
Interest on advances to holding company and its branches	265	43
Expenditure		
Interest on advances from holding company and its branches	151	940
Amount due to		
Deposits and placements from holding company and its branches	110	44,635
Amount due from		
Cash and short-term funds placed with holding company and its branches	3,244	6,611

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

(ii) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

The remuneration of key management personnel included in the income statements was as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Salary and emoluments	2,056	1,873
Defined contribution plan	268	210
Benefits-in-kind	276	222
	2,600	2,305

31. Directors' fees and remuneration

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

Group and Bank

2010	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments* RM'000	Benefits-in-kind RM'000	Total remuneration RM'000
Executive Directors/ Chief Executive Officer:						
Loke Tan Cheng	1,004	-	669	268	53	1,994
Non-Executive Directors:						
Staporn Kavitanon	-	132	-	6	-	138
Prasong Uthaisangchai	-	120	-	4	-	124
Rushda Theeratharathorn	-	84	-	14	-	98
Professor Dato' Ruslan Khalid	-	108	-	18	-	126
Toh Chong	-	84	-	14	-	98
Chris Chia Woon Liat	-	108	-	18	-	126
Dato' Koay Soon Eng	-	108	-	18	-	126
	-	744	-	92	-	836
Total directors' remuneration	1,004	744	669	360	53	2,830

* Includes allowances and EPF.

31. Directors' fees and remuneration (cont'd.)

Group and Bank

2009	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments* RM'000	Benefits-in-kind RM'000	Total remuneration RM'000
Executive Directors/ Chief Executive Officer:						
Loke Tan Cheng	873	-	436	280	48	1,637
Non-Executive Directors:						
Staporn Kavitanon	-	120	-	103	-	223
Prasong Uthaisangchai	-	108	-	72	-	180
Rushda Theeratharathorn	-	72	-	77	-	149
Professor Dato' Ruslan Khalid	-	96	-	77	-	173
Toh Chong	-	72	-	76	-	148
Chris Chia Woon Liat	-	96	-	77	-	173
Dato' Koay Soon Eng	-	94	-	76	-	170
	-	658	-	558	-	1,216
Total directors' remuneration	873	658	436	838	48	2,853

* Includes allowances and EPF.

32. Lease and Commitments

The Group as Lessee

The Group and the Bank have non-cancellable long term lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:-

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Future minimum rentals payments:				
Not later than 1 year	878	23	878	23
Later than 1 year and not later than 5 years	1,209	79	1,209	79
	2,087	102	2,087	102

33. Capital management

The objective of the Group's and the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory requirements and market expectations.

The Group and the Bank capital management process involves a careful analysis of the capital requirement to support business growth, including potential crisis scenarios, and the source of capital, both from financial performance as well as external funding sources, if necessary. The Group and the Bank regularly assess their capital adequacy under various scenarios on a forward looking perspective for the purpose of capital planning and management to ensure that the capital is at the level suitable for the prevailing business conditions.

The Bank's capital requirements and capital adequacy ratios, in accordance with BNM's revised Risk Weighted Capital Adequacy Framework (RWCAF): Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) are disclosed in Note 34.

34. Capital adequacy

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

As required by Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), the RWCAF framework applies only to Bangkok Bank Berhad, a company incorporated in Malaysia that does not offer Islamic financial services and is not involved in Islamic banking operations.

For the purpose of consolidation for financial reporting, the Group comprised the consolidated results of Bank and its wholly-owned subsidiary, BBL Nominees (Tempatan) Sdn. Bhd. (Note 12), which is not involved in banking operations. The subsidiary is fully consolidated in the Group's financial statements.

As the Bank's subsidiary is not involved in banking operations and is of an immaterial size relative to the Bank, the Group does not prepare and submit separate Group's capital adequacy ratios for the purpose of consolidation for regulatory reporting. However, the Group has a policy to transfer 50% of the retained profits of its subsidiary based on audited results to the statutory reserve at the group level.

There is no regulatory capital requirement in respect of the subsidiary of the Bank that has a shareholder's equity of RM33,753 as at the reporting date, which is higher as compared to the Bank's cost of investment of RM10,000.

(ii) The capital adequacy ratios of the Bank as at the reporting date, are as follows:

	2010	2009
Core capital ratio/Tier-1 Capital ratio	19.76%	24.17%
Risk-weighted capital ratio	20.97%	25.52%

In assessing the adequacy of its internal capital levels to support current and future activities, the Bank ensures that it complies with the minimum requirements of Bank Negara Malaysia of at least 8% in core capital ratio/Tier-1 capital ratio and risk-weighted capital ratio.

34. Capital adequacy (cont'd.)

(iii) The components of Tier-1 and Tier-2 capital of the Bank are as follows:

	2010 RM'000	2009 RM'000
Tier-1 Capital		
Paid-up share capital	265,000	265,000
Statutory reserve	123,962	116,984
Retained profits	10,420	7,851
Less: Deferred tax assets (excluding those from revaluation reserve)	(6,274)	(5,667)
Total Tier-1 Capital	393,108	384,168
Tier-2 Capital		
Collective impairment (only those attributable to non-impaired loan, advances and financing)	24,208	-
General allowance for doubtful debts	-	21,532
Total Tier-2 Capital	24,208	21,532
Total capital	417,316	405,700
Less: Investment in subsidiary	(10)	(10)
Capital base	417,306	405,690

Terms and conditions of the main features of all capital instruments are disclosed in the respective notes. The Bank does not have any innovative, non-innovative, complex or hybrid capital instruments.

34. Capital adequacy (cont'd.)

(iv) The breakdown of risk-weighted assets (excluding deferred tax assets) of the Bank in the various categories of risk-weights are as follows:

	Principal 2010 RM'000	Risk-weighted assets 2010 RM'000	Principal 2009 RM'000	Risk-Weighted assets 2009 RM'000
0%	618,450	-	552,566	-
20%	308,073	61,615	70,557	14,111
35%	3,144	1,100	4,320	1,512
50%	31,724	15,861	42,576	21,287
75%	3,120	2,340	2	1
100%	1,799,735	1,799,735	1,448,907	1,448,907
150%	9,448	14,173	6,807	10,211
Total risk-weighted assets for credit risk		1,894,824		1,496,029
Total risk-weighted assets for market risk		4,153		6,478
Total risk-weighted assets for operational risk		90,854		86,908
Total risk-weighted assets		1,989,831		1,589,415

34. Capital adequacy (cont'd.)

(v) Disclosures relating to credit risk and market risk are as below:

Exposure Class		Gross Exposures RM'000	Net Exposures RM'000	Risk-weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
31 December 2010					
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		584,935	584,935	-	-
Banks, Development Financial Institutions & MDBs		188,851	188,851	38,862	3,109
Corporates		1,678,042	1,678,042	1,544,262	123,541
Regulatory Retail		736	736	502	40
Residential Mortgages		5,964	5,964	2,510	201
Other Assets		26,915	26,915	23,974	1,918
Equity Exposure		872	872	341	27
Defaulted Exposures		15,545	15,545	18,277	1,462
Total for On-Balance Sheet Exposures		2,501,860	2,501,860	1,628,728	130,298
OTC Derivatives		-	-	-	-
Credit Derivatives		-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives		269,099	269,099	261,993	20,959
Defaulted Exposures		2,735	2,735	4,103	328
Total for Off-Balance Sheet Exposures		271,834	271,834	266,096	21,288
Total for On and Off-Balance Sheet Exposures		2,773,694	2,773,694	1,894,824	151,586
Market Risk	Long Position	Short Position			
Interest Rate Risk	197,787	197,033	754	1,073	86
Foreign Currency Risk	39,026	35,946	3,080	3,080	246
Operational Risk		-	-	90,854	7,268
Total RWA and Capital Requirements				1,989,831	159,186

34. Capital adequacy (cont'd.)

(v) Disclosures relating to credit risk and market risk are as below (Contd.):

Exposure Class		**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk weighted Assets RM'000**	**Minimum Capital Requirements at 8% RM'000**
31 December 2009					
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		526,505	526,505	-	-
Banks, Development Financial Institutions & MDBs		68,422	68,422	16,440	1,315
Corporates		1,412,364	1,412,364	1,372,721	109,818
Regulatory Retail		2	2	1	-
Residential Mortgages		8,399	8,399	3,551	284
Other Assets		19,344	19,344	16,973	1,358
Equity Exposure		872	872	341	27
Defaulted Exposures		26,930	26,930	26,022	2,082
Total for On-Balance Sheet Exposures		2,062,838	2,062,838	1,436,049	114,884
OTC Derivatives		-	-	-	-
Credit Derivatives		-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives		62,894	62,894	59,978	4,798
Defaulted Exposures		2	2	2	-
Total for Off-Balance Sheet Exposures		62,896	62,896	59,980	4,798
Total for On and Off-Balance Sheet Exposures		2,125,734	2,125,734	1,496,029	119,682
Market Risk	Long Position	Short Position			
Interest Rate Risk	111,206	111,284	(78)	1,109	89
Foreign Currency Risk	15,338	9,969	5,369	5,369	430
Operational Risk		-	-	86,908	6,953
Total RWA and Capital Requirements				1,589,415	127,153

As the Bank does not offer Islamic financial services and is not involved in Islamic banking operations, it does not have any Profit Sharing Investment Account as risk absorbent that is used in the computation of the above risk weighted assets.

34. Capital adequacy (cont'd.)

(vi) Credit Risk Disclosures on Risk Weights

Risk Weights	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Exposures after Netting and Credit Risk Mitigation								
As at 31 December 2010									
0%	584,935	-	30,458	117	-	2,940	-	618,450	-
10%	-	-	-	-	-	-	-	-	-
20%	-	186,657	120,752	-	-	-	664	308,073	61,615
35%	-	-	-	-	3,144	-	-	3,144	1,100
50%	-	7,279	21,625		2,820	-	-	31,724	15,862
75%	-	-	-	3,119	-	-	-	3,119	2,339
90%	-	-	-	-	-	-	-	-	-
100%	-	-	1,772,922	-	2,631	23,975	208	1,799,736	1,799,736
150%	-	-	9,448	-	-	-	-	9,448	14,172
Average Risk Weight								2,773,694	1,894,824
Deduction from Capital Base	-	-	-	-	-	-	-	-	

34. Capital adequacy (cont'd.)

(vi) Credit Risk Disclosures on Risk Weights

Risk Weights	Exposures after Netting and Credit Risk Mitigation								
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
As at 31 December 2009									
0%	526,505	-	23,689	-	-	2,372	-	552,566	-
20%	-	59,845	10,048	-	-	-	664	70,557	14,111
35%	-	-	-	-	4,320	-	-	4,320	1,512
50%	-	9,342	29,156		4,079	-	-	42,577	21,289
75%	-	-	-	2	-	-	-	2	1
100%	-	-	1,430,154	-	1,571	16,972	208	1,448,905	1,448,905
150%	-	-	6,807	-	-	-	-	6,807	10,211
Average Risk Weight								2,125,734	1,496,029
Deduction from Capital Base	-	-	-	-	-	-	-	-	

34. Capital adequacy (cont'd.)

(vi) Rated Exposures by External Credit Assessment Institutions ("ECAI")

The Bank used external credit assssments from these External Credit Assssment Institutions ("ECAI") for exposures as disclosed below:

2010
Bank

Exposure Class		Ratings of Corporate by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On & Off Balance Sheet Exposures Credit Exposure (using Corporate Risk Weight)						
Corporates		120,752	20,372	2,528	-	1,811,553
Equity		123	-	-	-	749
Total		120,875	20,372	2,528	-	1,812,302

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34. Capital adequacy (cont'd.)

(vi) Rated Exposures by External Credit Assessment Institutions ("ECAI") (Contd.)

2010
Bank

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On & Off Balance Sheet Exposures							
Sovereigns and Central Banks		-	584,935	-	-	-	-
Total		-	584,935	-	-	-	-

2010
Bank

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On & Off Balance Sheet Exposures							
Banks, MDBs & FDIs		7,360	145,214	22,769	-	-	18,593
Total		7,360	145,214	22,769	-	-	18,593

The Bank does not disclose the comparative information of ratings of exposure class by approved ECAI as this is the first year of adopting and disclosure of RWCAF and no corresponding disclosures were required in the previous reporting period.

34. Capital adequacy (cont'd.)

(vii) Disclosure on Credit Risk Mitigation

The Bank does not have exposures covered by guarantees or credit derivatives. The Bank only has exposures covered by eligible financial collateral of cash as further disclosed by the various exposure class as below:

2010

Bank

Exposure Class	Exposures Before CRM RM'000	Exposures Covered by Guarantees/ Credit Derivatives RM'000	Exposures Covered by Eligible Financial Collateral RM'000	Exposures Covered by Other Eligible Collateral RM'000
Credit Risk				
On Balance Sheet Exposures:				
Sovereigns/Central Banks	584,935	-	-	-
Banks, Development Financial Institutions & MDBs	188,851	-	-	-
Corporates	1,674,474	-	30,458	-
Regulatory Retail	736	-	117	-
Residental Mortgages	8,699	-	-	-
Other Assets	26,915	-	-	-
Equity Exposure	872	-	-	-
Defaulted Exposures	16,378	-	-	-
Total on balance sheet exposures	2,501,860	-	30,575	-
Off Balance Sheet Exposures:				
Off Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	269,099	-	-	-
Defaulted Exposures	2,735			
Total off balance sheet exposures	271,834	-	-	-
Total on and off balance sheet exposures	2,773,694	-	30,575	-

The Bank does not disclose the comparative information of ratings of exposure class by approved ECAI as this is the first year of adopting and disclosure of RWCAF and no corresponding disclosures were required in the previous reporting period.

35. Financial risk management objectives and policies

Risk management is one of the critical success factors in banking and is an essential element of the Group's and of the Bank's overall business strategy.

The Board of Directors recognises that a critical factor in the Group's and of the Bank's continued survival, profitability and success depends on the effectiveness of its risk management capabilities and risk return management. Therefore, the Group's and the Bank's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's and the Bank's business whilst managing its foreign exchange, interest rate, credit and liquidity risks. The Group and the Bank operates within clearly defined guidelines that are approved by the Board.

Major areas of the Group's and the Bank's risk management are as follows:

(a) Credit risk management

Credit risk is the potential loss of revenue and principal losses in the form of specific allowances as a result of partial or total default of a loan by the borrower. As such, management of credit risk is not only vital in protecting the Group's assets quality but also to sustain profits. Various credit committees are set up to supervise credit activities and management of credit risks.

The Group's and the Bank's credit risk grading system is used to grade the quality of all commercial and business loans. A key objective of the rating system is to track the movement of the Group's and the Bank's credit risk profile and to assist in the early detection of weak borrowers to commence early rehabilitation and to prevent the emergence of new impaired loans.

An effective preventive measure to identify and manage emerging problem loans is the independent review of performing loans by a special unit. This review is carried out with the prime objective of implementing prompt pre-emptive measures on loans where credit risks have increased.

35. Financial risk management objectives and policies (cont'd.)

(a) Credit risk management (cont'd.)

For corrective measures, loans which are three months in arrears and above would be under the purview of the Loan Review and Rehabilitation Committee. This committee would meet monthly to direct efforts towards effective collection, restructuring and rehabilitation of delinquent loans to prevent and recover impaired loans expeditiously.

It is not the policies of the Group and the Bank to use credit derivatives as part of their credit risk management.

(i) Credit quality of gross loans

Gross loans are graded in accordance with BNM guidelines as follows:

Group and Bank	2010 RM '000
Passed	1,543,925
Special Mention	4,401
Substandard	2,471
Doubtful	496
Loss	55,948
	1,607,241

(ii) Ageing analysis of past due and impaired assets

	2010		
Group and Bank	**Neither past due nor impaired RM '000**	**Past due RM '000**	**Impaired RM '000**
Current	1,539,924	-	-
Within 90 days	-	8,194	-
Over 90 to 180 days	-	-	1,205
Over 180 days	-	-	57,918
	1,539,924	8,194	59,123

(iii) Security coverage of impaired assets

Group and Bank	2010 RM '000
Impaired assets secured by properties	36,766
Unsecured impaired assets	22,357
	59,123

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management

Market risk is the risk of loss arising from movement in the level of market prices or rates, the two key components being interest rate risk and foreign currency exchange risk.

In order to manage risk in investment holding, the Group and the Bank mark-to-market their investment positions and makes comparisons against predetermined market risk limits. The market risk limits are set taking into consideration the risk appetite of the Group and of the Bank, which has traditionally been prudent.

(i) Foreign exchange risk management

Foreign currency exchange risk arises from exchange rate movements, which may affect the profit of the Group and of the Bank from their foreign exchange open positions taken from time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions against these limits and the setting and monitoring of cut-loss mechanisms. The Group and the Bank enter into foreign exchange related derivatives, namely spot and forward contracts, as part of its strategies to manage foreign currency risk.

(ii) Interest rate risk management

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rates and shifts in the composition of the assets and liabilities. The Group's and the Bank's Asset Liabilities Committee regularly reviews the interest rate outlook, assesses the vulnerability of net interest income and develops strategies to mitigate interest rate risk.

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial positions and cash flows. The following table indicates the effective interest rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier.

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Group	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	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	← Non-trading book					→			
As at 31 December 2010									
Assets									
Cash and short-term funds	528,379	-	-	-	-	45,862	-	574,241	2.75
Deposits and placements with banks and other financial institutions	-	20,000	-	-	-	-	-	20,000	2.95
Securities held-for-trading	-	-	-	-	-	-	-	-	-
Securities available-for-sale	-	-	15,108	151,564	-	872	-	167,544	3.48
Securities held-to-maturity	-	-	14,993	129,776	-	13	-	144,782	3.75
Loans, advances and financing									
- performing	1,530,876	11,260	-	94	1,388	-	-	1,543,618	4.54
- non-performing *	-	-	-	-	-	(8,887)	-	(8,887)	n/a
Other non-interest sensitive balances	-	-	-	-	-	52,237	-	52,237	n/a
Total assets	2,059,255	31,260	30,101	281,434	1,388	90,097	-	2,493,535	

* This is arrived at after deducting the collective impairment and individual impairment from gross impaired loans outstanding.

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Group	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	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Non-trading book								
As at 31 December 2010									
Liabilities									
Deposits from customers	1,158,958	329,901	224,388	44,818	-	-	-	1,758,065	2.59
Deposits and placements of banks and other financial institutions	229,710	70,410	-	-	-	110	-	300,230	2.53
Other non-interest sensitive balances	-	-	-	-	-	36,327	-	36,327	n/a
Total liabilities	1,388,668	400,311	224,388	44,818	-	36,437	-	2,094,622	
Shareholder's equity	-	-	-	-	-	398,913	-	398,913	n/a
Total liabilities and shareholder's equity	1,388,668	400,311	224,388	44,818	-	435,350	-	2,493,535	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	670,587	(369,051)	(194,287)	236,616	1,388	(345,253)	-	-	

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Group	Non-trading book								
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
As at 31 December 2009									
Assets									
Cash and short-term funds	350,200	-	-	-	-	27,308	-	377,508	2.00
Deposits and placements with banks and other financial institutions	-	50,000	-	-	-	-	-	50,000	2.18
Securities held-for-trading	-	-	-	-	-	-	19,992	19,992	1.97
Securities available-for-sale	-	-	5,005	121,479	19,521	872	-	146,877	3.49
Securities held-to-maturity	-	-	-	45,249	-	13	-	45,262	3.24
Loans, advances and financing									
- performing	1,372,434	14,882	296	814	1,768	-	-	1,390,194	3.92
- non-performing *	-	-	-	-	-	5,391	-	5,391	n/a
Other non-interest sensitive balances	-	-	-	-	-	38,124	-	38,124	n/a
Total assets	1,722,634	64,882	5,301	167,542	21,289	71,708	19,992	2,073,348	

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Group	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	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	← Non-trading book					→			
As at 31 December 2009									
Liabilities									
Deposits from customers	868,571	317,870	382,978	8,111	-	-	-	1,577,530	2.11
Deposits and placements of banks and other financial institution	61,300	31,601	-	-	-	110	-	93,011	0.88
Other non-interest sensitive balances	-	-	-	-	-	14,292	-	14,292	n/a
Total liabilities	929,871	349,471	382,978	8,111	-	14,402	-	1,684,833	
Shareholder's equity	-	-	-	-	-	388,515	-	388,515	n/a
Total liabilities and shareholder's equity	929,871	349,471	382,978	8,111	-	402,917	-	2,073,348	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	792,763	(284,589)	(377,677)	159,431	21,289	(331,209)	19,992	-	

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35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Bank	Non-trading book: Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
As at 31 December 2010									
Assets									
Cash and short-term funds	528,379	-	-	-	-	45,829	-	574,208	2.75
Deposits and placements with banks and other financial institutions	-	20,000	-	-	-	-	-	20,000	2.95
Securities held-for-trading	-	-	-	-	-	-	-	-	-
Securities available-for-sale	-	-	15,108	151,564	-	872	-	167,544	3.48
Securities held-to-maturity	-	-	14,993	129,776	-	13	-	144,782	3.75
Loans, advances and financing									
- performing	1,530,876	11,260	-	94	1,388	-	-	1,543,618	4.54
- non- performing *	-	-	-	-	-	(8,887)	-	(8,887)	n/a
Other non-interest sensitive balances	-	-	-	-	-	52,244	-	52,244	n/a
Total assets	2,059,255	31,260	30,101	281,434	1,388	90,071	-	2,493,509	

* This is arrived at after deducting the collective impairment and individual impairment from gross impaired loans outstanding.

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Bank	← Non-trading book					→			
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
As at 31 December 2010									
Liabilities									
Deposits from customers	1,158,958	329,901	224,388	44,818	-	-	-	1,758,065	2.59
Deposits and placements of banks and other financial institutions	229,710	70,410	-	-	-	110	-	300,230	2.53
Other non-interest sensitive balances	-	-	-	-	-	36,325	-	36,325	n/a
Total liabilities	1,388,668	400,311	224,388	44,818	-	36,435	-	2,094,620	
Shareholder's equity	-	-	-	-	-	398,889	-	398,889	n/a
Total liabilities and shareholder's equity	1,388,668	400,311	224,388	44,818	-	435,324	-	2,493,509	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	670,587	(369,051)	(194,287)	236,616	1,388	(345,253)	-	-	

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Bank	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	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	← Non-trading book →								
As at 31 December 2009									
Assets									
Cash and short-term funds	350,200	-	-	-	-	27,278	-	377,478	2.00
Deposits and placements with bank and other financial institutions	-	50,000	-	-	-	-	-	50,000	2.18
Securities held-for-trading	-	-	-	-	-	-	19,992	19,992	1.97
Securities available-for-sale	-	-	5,005	121,479	19,521	872	-	146,877	3.49
Securities held-to-maturity	-	-	-	45,249	-	13	-	45,262	3.24
Loans, advances and financing									
- performing	1,372,434	14,882	296	814	1,768	-	-	1,390,194	3.92
- non-performing *	-	-	-	-	-	5,391	-	5,391	n/a
Other non-interest sensitive balances	-	-	-	-	-	38,133	-	38,133	n/a
Total assets	1,722,634	64,882	5,301	167,542	21,289	71,687	19,992	2,073,327	

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

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35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management (cont'd.)

(ii) Interest rate risk management (cont'd.)

Bank	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	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	← Non-trading book →								
As at 31 December 2009									
Liabilities									
Deposits from customers	868,571	317,870	382,978	8,111	-	-	-	1,577,530	2.11
Deposits and placements of banks and other financial institution	61,300	31,601	-	-	-	110	-	93,011	0.88
Other non-interest sensitive balances	-	-	-	-	-	14,290	-	14,290	n/a
Total liabilities	929,871	349,471	382,978	8,111	-	14,400	-	1,684,831	
Shareholder's equity	-	-	-	-	-	388,496	-	388,496	n/a
Total liabilities and shareholder's equity	929,871	349,471	382,978	8,111	-	402,896	-	2,073,327	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	792,763	(284,589)	(377,677)	159,431	21,289	(331,209)	19,992	-	

35. Financial risk management objectives and policies (cont'd.)

(b) Market risk management

(ii) Interest rate risk management

The following table shows the impact on Net Interest Income (NII) and Economic Value of Equity (EVE) based on a 100 basis points (bps) parallel shift in interest rates at the beginning of the year from 1 January for a period of 12 months as follows:

Movement in basis points	**2010 RM million +/- 100 bps**
Effect on Net Interest Income	+/- 3.3
Effect on Economic Value of Equity	+/- 5.5

As at the reporting date, if interest rate increase/decrease by 100 bps with all the other variables held constant, the Group's and the Bank's Net Interest Income (NII) and Economic Value of Equity (EVE) would have been higher / lower by RM 3.3 million and RM 5.5 million respectively. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observed market environment.

(c) Liquidity risk management

Liquidity risk relates to the ability of the Group and of the Bank to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

The primary tool used for monitoring liquidity is the Bank Negara Malaysia New Liquidity Framework ("NLF"). The NLF is further supplemented with the Group's internal liquidity risk management policies set by the Board of Directors and incorporated in the Asset Liabilities Management policies and procedures. These policies ensure that the liquidity surpluses are within the limit. The liquidity risk management activities are carried out through a combination of management of Cash Flow Reports, maintenance of high quality long-term and short-term marketable securities that can be readily converted to cash, diversification of the funding base and proactive management of the Group's and of the Bank's customer deposits.

36. Fair values of financial instruments

The following table summarises the carrying amounts and fair values of the financial assets and liabilities, which were not presented at fair value in the Group's and the Bank's statements of financial position:

	Group and Bank			
	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Securities held-to-maturity	144,782	145,300	45,262	45,487

The fair values of the Group's and the Bank's quoted securities, money market instruments and private debt securities are estimated at their market values as disclosed in Notes 6, 7 and 8.

The fair value of loans is based on the carrying value of the loans and accrued interest receivable net of impairment allowance as most of the loans are floating rate loans.

The nominal/notional amount and fair value of derivatives are:

	Group and Bank 2010		
	Nominal/ notional amount RM'000	Positive fair value RM'000	Negative fair value RM'000
Forward foreign exchange contracts	286,912	2,352	(1,677)

	Group and Bank 2009		
	Nominal/ notional amount RM'000	Positive fair value RM'000	Negative fair value RM'000
Forward foreign exchange contracts	171,052	848	(990)

36. Fair values of financial instruments (cont'd.)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and cash equivalents, deposits and placements with banks and other financial institutions, deposits from customers, banks and other financial institutions, obligations on securities sold under repurchase agreement, bills and acceptances payable, other assets/liabilities

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

(ii) Securities held-for-trading, held-to-maturities and available-for-sale

The fair value of quoted securities is determined by reference to stock exchange quoted market bid prices at the close of business of the reporting date. The fair value of money market instruments is determined by reference to market bid prices at the close of the business on the balance sheet date. The fair value of Islamic debt securities is determined by reference to last done trade prices of the securities.

The fair values of investments in unquoted shares approximate their carrying amounts due to the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

(iii) Derivative financial instruments

The fair value of the forward foreign currency contracts is the estimated amount which the Group and the Bank would expect to pay or receive on the termination of the outstanding position arising from such contracts. At the end of the financial period, the fair value of such contracts is determined by reference to the current forward exchange rates for contracts of similar maturity profiles.

(iv) Determination of fair value and fair value hierarchy

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable; either directly or indirectly:

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

36. Fair values of financial instruments (cont'd.)

(iv) Determination of fair value and fair value hierarchy (cont'd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
<u>Securities available-for-sale</u>				
Money market instruments:				
Malaysian Government Securities	-	86,148	-	86,148
Cagamas Bonds	-	20,339	-	20,339
Government Investment Issue	-	40,022	-	40,022
Unquoted securities in Malaysia:				
Private debt securities	-	20,163	-	20,163
	-	166,672	-	166,672
<u>Derivatives</u>				
Unrealised gain on derivatives	-	2,352	-	2,352
Unrealised loss on derivatives	-	(1,677)	-	(1,677)
	-	675	-	675