



**BANGKOK BANK BERHAD**  
**(299740-W)**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial**  
**Statements**  
**31 December 2012**

**299740-W**

**Bangkok Bank Berhad  
(Incorporated in Malaysia)**

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**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 2012.

**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**

	<b>Group RM'000</b>	<b>Bank RM'000</b>
Profit for the year	<u>14,845</u>	<u>14,835</u>

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 adoption of Malaysian Financial Reporting Standards Framework as disclosed in Note 2.2 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 2012.

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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 Loke Tan Cheng  
Ms Rushda Theeratharathorn  
Mr Toh Chong  
Mr Chris Chia Woon Liat  
Mr Staporn Kavitanon (Deceased on 1.2.2012)  
YBhg Professor Dato' Ruslan Khalid (Deceased on 11.11.2012)

**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 or the fixed salary of a full-time employee of the Bank as shown in Note 31 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he or she is a member, or with a company in which he or she 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.

**Other statutory information**

- (a) Before the statements of financial position, income statements and statement of comprehensive income 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 there were no bad debts and that adequate allowances 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.

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**Other statutory information (cont'd.)**

- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) it necessary to write off any bad debts or the amount of the allowances 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.
- (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.

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**Business overview for the financial year ended 31 December 2012 and outlook for the financial year 2013**

With effect from 1 January 2012, Bangkok Bank Berhad ("BBB") has converged to the Malaysian Financial Reporting Standards ("MFRS") and the transitional arrangement in the previous BNM/GP3 Guidelines on Classification and Impairment Provisions for Loans/Financing has expired. A major consequence of the above was the change in the accounting policy for collective impairment assessment which has been adopted with retrospective effects.

The above changes in the accounting policy have resulted in the following:-

- Profit before tax for 2011 was restated from RM20.0 million to RM29.2 million due to a writeback of collective impairment allowance of RM9.2 million.
- Lower profit before tax for 2012 of RM20.5 million due to an additional collective impairment allowance of RM8.5 million.

However, the higher net interest income was partly off set by the higher loan impairment.

Gross loan outstanding increased by 16.8% from RM1.82 billion at end of December 2011 to RM2.13 billion at end of December 2012. The increase was due to the expansion of the lending business.

Deposits from customers grew significantly from RM1.86 billion at end of December 2011 to RM2.31 billion at end of December 2012, a 24.2% growth. This is the result of the Bank's heighten focus on generating customer deposits to monitor prudent liquidity position and to fund future loan growth.

The quality of the Bank's loan portfolio continues to be at a tolererable and low level. Net impaired loan ratio increased to 1.12% at end of December 2012 from 0.55% at end of December 2011.

The Bank will continue to grow its core lending business in selected niche areas and focus on maintaining its current liquidity position.

**Profile of directors**

**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. He has worked with a few multinational banks, such as Chase Manhattan, Nomura, OCBC, etc in Singapore and served in various senior management positions.

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**Profile of directors (cont'd.)**

**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 Senior Executive Vice President, Chief Credit Officer of Bangkok Bank Public Co Ltd ("BBL") and is responsible for the overall credit 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.

**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 the Senior Executive Vice President in the International Banking Group in Bangkok Bank Public Co Ltd ("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 had worked as an economist at the Government of Singapore Investment Corporation and in investment banking with Morgan Stanley.

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

**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 Massachusetts 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.

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**Profile of directors (cont'd.)**

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

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.

Mr Chris Chia is currently the Managing Partner of Kendall Court, an investment partnership focused on investment 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 was a member of 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**

As at the date of this report, the Board of Bangkok Bank Berhad ("the Bank") consists of four (4) members, comprising one (1) Executive Director/Chief Executive Officer ("CEO"), one (1) Independent Non-Executive Director and two (2) Non-Independent Non-Executive Directors.

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.

During the financial year ended 31 December 2012, Mr Staporn Kavitanon (Non-Executive Chairman) and YBhg Professor Dato' Ruslan Khalid (Independent Non-Executive Director) of the Bank passed away on 1 February 2012 and 11 November 2012, respectively.

Following the demise of YBhg Professor Dato' Ruslan Khalid on 11 November 2012, the Board has been unable to meet the requirement of at least one-third of the Board members are Independent Directors. The Bank is in the midst of appointing a Chairman and identifying suitable candidate(s) to be appointed as Independent Non-Executive Director(s) to the Board of the Bank.



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**Corporate Governance (cont'd.)**

**Board of directors (cont'd.)**

**Board composition (cont'd.)**

The Board consists of individuals of caliber with credibility and integrity and has 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 Independent Non-Executive Director 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 current Board members is presented on pages 5 to 6 in this Directors' Report.

**Board's duties and responsibilities**

The Board was led by the Non-Executive Chairman, Mr Staporn Kavitanon until 1 February 2012.

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 full-time employees of the Bank subject to the authority limit given.

The primary functions of the Board include the following:

- (i) To review and approve management's proposal on strategies, business plan and significant policies and the monitoring of management's performance in the implementation process;
- (ii) To ensure the Bank establishes comprehensive risk management policies, processes and infrastructure to manage the various types of risks; and
- (iii) To ensure the operations of the Bank are conducted prudently and within the framework of relevant laws, rulings and regulations.

The Board also assumes various functions and responsibilities as laid down by the guidelines and directives issued by the Bank Negara Malaysia from time to time.

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**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 various matters which require its guidance and approval.

During the financial year ended 31 December 2012, the Board held seven (7) meetings. The attendance of Directors at Board Meetings held in the financial year ended 31 December 2012 is as follows:

	<b>Name of Directors</b>	<b>Designation</b>	<b>Attendance</b>
1.	Mr Staporn Kavitanon ( <i>Deceased on 1.2.2012</i> )	Non-Executive Chairman	N/A
2.	Mr Loke Tan Cheng	Executive Director/CEO	7/7
3.	Ms Rushda Theeratharathorn	Non-Independent Non-Executive Director	7/7
4.	Mr Toh Chong	Non-Independent Non-Executive Director	7/7
5.	YBhg Professor Dato' Ruslan Khalid ( <i>Deceased on 11.11.2012</i> )	Independent Non-Executive Director	5/6
6.	Mr Chris Chia Woon Liat	Independent Non-Executive Director	7/7

The Revised BNM/GP1 requires individual Directors to have a minimum attendance of at least 75% of the Board meetings held in each financial year. All the existing Directors have complied with the BNM's requirement.

**Directors' training**

During the financial year, the Directors had attended the seminars and courses such as Financial Institutions Directors' Education ("FIDE") core Programme, Internal Capital Adequacy Assessment Process ("ICAAP") workshop, Corporate Governance, Industry update on the latest development on accounting standards and regulatory requirements and other topics relating to the Bank's businesses.

**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 results to the Board for deliberation.

The Board, Board Committees and individual Directors' performances are 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.

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**Board committees**

The Board of Directors has established the Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee to assist the Board in execution of its duties and responsibilities. The appointments of the members to these committees were approved by the Board of Directors upon recommendation by the Nominating Committee. Each Board Committee operates within its own terms of reference approved by the Board, which clearly define its duties and responsibilities.

**(a) Nomination committee**

During the financial year of 2012, the Nomination Committee held four (4) meetings.

The composition of the Nomination Committee and attendance of the members at the meetings held during the financial year 2012 are as follows:

	<b>Committee Members</b>	<b>Designation</b>	<b>Attendance</b>
1.	YBhg Professor Dato' Ruslan Khalid – Chairman (Deceased on 11.11.2012)	Independent Non-Executive Director	2/3
2.	Mr Loke Tan Cheng	Executive Director/CEO	4/4
3.	Ms Rushda Theeratharathorn	Non-Independent Non-Executive Director	4/4
4.	Mr Toh Chong	Non-Independent Non-Executive Director	4/4
5.	Mr Chris Chia Woon Liat	Independent Non-Executive Director	4/4

**Terms of Reference**

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

The primary functions of the Nomination Committee include the following:

- (i) Establishes the minimum requirements for the Board in terms of required mix of skills, experience, qualification and other core competencies. Establishes minimum requirements for the CEO;
- (ii) Recommends and assesses the nominees for directorship, Board Committee members and the CEO;
- (iii) Oversees through an annual review of overall composition of the Board in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors;

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**Board committees (cont'd.)**

**(a) Nomination committee (cont'd.)**

- (iv) Establishes 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; and
- (v) Assesses on an annual basis that individual Directors and key Senior Management Officers are not disqualified under Section 56 of the Banking and Financial Institutions Act, 1989 and continue to comply with the standards for "fit and proper" criteria as approved by the Board.

**(b) Remuneration committee**

During the financial year of 2012, the Remuneration Committee held three (3) meetings.

The composition of the Remuneration Committee and attendance of the members at the meetings held during the financial year 2012 are as follows:

	<b>Committee Members</b>	<b>Designation</b>	<b>Attendance</b>
1.	Mr Chris Chia Woon Liat - Chairman	Independent Non-Executive Director	3/3
2.	Ms Rushda Theeratharathorn	Non-Independent Non-Executive Director	3/3
3.	Mr Toh Chong	Non-Independent Non-Executive Director	3/3
4.	YBhg Professor Dato' Ruslan Khalid ( <i>Deceased on 11.11.2012</i> )	Independent Non-Executive Director	1/2

**Terms of Reference**

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

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**Board committees (cont'd.)**

**(b) Remuneration committee (cont'd.)**

The primary functions of the Remuneration Committee include the following:

- (i) Recommends a framework of remuneration for Directors, the CEO and other key Senior Management Officers for the Board's approval;
- (ii) Reviews the remuneration packages of the Directors, CEO and key Senior Management Officers; and
- (iii) Recommends to the Board the proposed overall salary increment and overall annual bonus of the staff.

**(c) Risk management committee**

During the financial year of 2012, the Risk Management Committee held seven (7) meetings.

The composition of Risk Management Committee and attendance of the members at the meetings held during the financial year 2012 are as follows:

	<b>Committee Members</b>	<b>Designation</b>	<b>Attendance</b>
1.	YBhg Professor Dato' Ruslan Khalid – Chairman (Deceased on 11.11.2012)	Independent Non-Executive Director	5/6
2.	Ms Rushda Theeratharathorn	Non-Independent Non-Executive Director	7/7
3.	Mr Toh Chong	Non-Independent Non-Executive Director	7/7
4.	Mr Chris Chia Woon Liat	Independent Non-Executive Director	7/7

Terms of Reference

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 primary functions of the Risk Management Committee include the following:

- (i) Reviews and recommends risk management strategies, policies and risk tolerance for the Board's approval;
- (ii) Reviews and assesses adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and extent to which these are operating effective; and

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**Board committees (cont'd.)**

**(c) Risk management committee (cont'd.)**

- (iii) Reviews management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

**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.

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**Board committees (cont'd.)**

**(d) Audit committee**

During the financial year, the Audit Committee held nine (9) meetings.

The details of attendance of each member at the Audit Committee meetings held during the financial year ended 31 December 2012 are as follows:

	<b>Committee Members</b>	<b>Designation</b>	<b>Attendance</b>
1.	Mr Chris Chia Woon Liat – Chairman	Independent Non-Executive Director	9/9
2.	YBhg Professor Dato' Ruslan Khalid (Deceased on 11.11.2012)	Independent Non-Executive Director	7/8
3.	Mr Toh Chong	Non-Independent Non-Executive Director	9/9
4.	Ms Rushda Theeratharathorn	Non-Independent Non-Executive Director	8/9

**Terms of Reference**

The Audit Committee is established to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process and the system of internal control. Their roles and responsibilities include:

- (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 Guidelines on Internal Audit Function of Licensed Institutions;
- (iv) Review the adequacy 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 and risk management processes;

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**Board committees (cont'd.)**

**(d) Audit committee (cont'd.)**

- (vii) Selection of external auditors for appointment by the Board;
- (viii) Assessment of objectivity, performance and independence of external auditors;
- (ix) Review of the external auditors' proposed audit scope and approach;
- (x) Review of the external auditors' management letter and management's response;
- (xi) Approval of the provision of non-audit service by the external auditors; and
- (xii) Review any related party transactions that may arise within the Bank.

**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 Guidelines on Internal Audit Function of Licensed Institutions.



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**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.

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; and
- (iv) Fourthly, managing the risk and reporting those risks to the management and risk management committee for taking appropriate actions.

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**Risk management (cont'd.)**

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.

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") Methodologies, 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 objectives, policies and processes for managing, hedging and mitigating credit risk, market risk and liquidity risk are as disclosed in Note 36 to the financial statements.

The Bank's capital management process is further disclosed in Note 34 to the financial statements.

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**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 meetings. The Board reports include among others, the monthly performance of the Bank, minutes of the various Board and Management Committees, risk portfolio reports, compliance reports any other prevailing regulatory developments as well as economic and business environments updates.

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

**Related party transactions**

During the financial year ended 31 December 2012, the Bank entered into transactions with its holding company, Bangkok Bank Public Company Limited in the normal course of business. The details and nature of the transactions are disclosed in Note 30 to the financial statements.

**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 3 April 2013.

Loke Tan Cheng

Chris Chia Woon Liat

Kuala Lumpur, Malaysia

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**Statement by directors**

**Pursuant to Section 169(15) of the Companies Act, 1965**

We, Loke Tan Cheng and Chris Chia Woon Liat, 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 22 to 103 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 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 3 April 2013.

Loke Tan Cheng

Chris Chia Woon Liat

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 22 to 103 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 3 April 2013

Loke Tan Cheng

Before me,

299740-W

**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 2012 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 22 to 103.

*Directors' responsibility for the financial statements*

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 about whether the financial statements are free from material misstatement.

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 about 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 of financial statements that give a true and fair view 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 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.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

**Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act, 1965 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 financial statements 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' report on the financial statements 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.

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

**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

Chan Hooi Lam  
No. 2844/02/14(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
3 April 2013

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statement of financial position as at 31 December 2012**

			<b>Group</b>	
	<b>Note</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>				
Cash and short-term funds	4	387,441	644,523	574,241
Deposits and placements with banks and other financial institutions	5	-	20,000	20,000
Securities held-for-trading	6	49,987	-	-
Securities available-for-sale	7	534,901	77,300	167,544
Securities held-to-maturity	8	45,261	85,488	144,782
Loans, advances and financing	9	2,058,230	1,740,707	1,519,606
Derivative assets	37	465	2,972	2,352
Other assets	10	6,550	3,893	11,611
Statutory deposit with Bank Negara Malaysia	11	70,000	48,000	15,000
Property and equipment	13	69,430	70,510	16,551
Intangible assets	14	188	340	285
Deferred tax assets	15	9,591	9,087	10,219
<b>Total assets</b>		<b>3,232,044</b>	<b>2,702,820</b>	<b>2,482,191</b>
<b>Liabilities and shareholder's equity</b>				
Deposits from customers	16	2,308,631	1,860,496	1,758,065
Deposits and placements of banks and other financial institutions	17	136,136	189,955	300,230
Bills and acceptances payable		191,394	69,316	-
Derivative liabilities	37	961	2,737	1,677
Other liabilities	18	35,507	35,789	34,650
<b>Total liabilities</b>		<b>2,672,629</b>	<b>2,158,293</b>	<b>2,094,622</b>
Share capital	19	400,000	400,000	265,000
Statutory reserve	20(a)	138,661	131,244	123,972
Revaluation reserve	20(b)	31	(12)	(493)
Retained profits	21	20,723	13,295	(910)
<b>Shareholder's equity</b>		<b>559,415</b>	<b>544,527</b>	<b>387,569</b>
<b>Total liabilities and shareholder's equity</b>		<b>3,232,044</b>	<b>2,702,820</b>	<b>2,482,191</b>
<b>Commitments and contingencies</b>	29	<b>1,844,779</b>	<b>1,558,971</b>	<b>1,431,818</b>

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



**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statement of financial position as at 31 December 2012 (cont'd.)**

			<b>Bank</b>	
	<b>Note</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>				
Cash and short-term funds	4	387,383	644,478	574,208
Deposits and placements with banks and other financial institutions	5	-	20,000	20,000
Securities held-for-trading	6	49,987	-	-
Securities available-for-sale	7	534,901	77,300	167,544
Securities held-to-maturity	8	45,261	85,488	144,782
Loans, advances and financing	9	2,058,230	1,740,707	1,519,606
Derivative assets	37	465	2,972	2,352
Other assets	10	6,550	3,891	11,608
Statutory deposit with Bank Negara Malaysia	11	70,000	48,000	15,000
Investment in subsidiary	12	10	10	10
Property and equipment	13	69,430	70,510	16,551
Intangible assets	14	188	340	285
Deferred tax assets	15	9,591	9,087	10,219
<b>Total assets</b>		<b>3,231,996</b>	<b>2,702,783</b>	<b>2,482,165</b>
<b>Liabilities and shareholder's equity</b>				
Deposits from customers	16	2,308,631	1,860,496	1,758,065
Deposits and placements of banks and other financial institutions	17	136,136	189,955	300,230
Bills and acceptances payable		191,394	69,316	-
Derivative liabilities	37	961	2,737	1,677
Other liabilities	18	35,503	35,786	34,648
<b>Total liabilities</b>		<b>2,672,625</b>	<b>2,158,290</b>	<b>2,094,620</b>
Share capital	19	400,000	400,000	265,000
Statutory reserve	20(a)	138,651	131,234	123,962
Revaluation reserve	20(b)	31	(12)	(493)
Retained profits	21	20,689	13,271	(924)
<b>Shareholder's equity</b>		<b>559,371</b>	<b>544,493</b>	<b>387,545</b>
<b>Total liabilities and shareholder's equity</b>		<b>3,231,996</b>	<b>2,702,783</b>	<b>2,482,165</b>
<b>Commitments and contingencies</b>	29	<b>1,844,779</b>	<b>1,558,971</b>	<b>1,431,818</b>

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

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**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Income statements**

**For the year ended 31 December 2012**

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income	22	126,310	102,754	126,310	102,754
Interest expense	23	(74,840)	(56,542)	(74,840)	(56,542)
Net interest income		51,470	46,212	51,470	46,212
Loan loss and allowances, net	24	(10,855)	(270)	(10,855)	(270)
		40,615	45,942	40,615	45,942
Non-interest income	25	12,361	13,419	12,344	13,403
Net income		52,976	59,361	52,959	59,345
Overhead expenses	26	(32,454)	(30,146)	(32,451)	(30,144)
Profit before taxation		20,522	29,215	20,508	29,201
Taxation	27	(5,677)	(7,738)	(5,673)	(7,734)
Profit for the year		14,845	21,477	14,835	21,467
Earnings per share (sen)					
- basic	28	3.71	7.47		
- diluted	28	3.71	7.47		

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

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**Bangkok Bank Berhad**  
**(Incorporated in Malaysia)**

**Statement of comprehensive income**  
**For the year ended 31 December 2012**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit for the year	<u>14,845</u>	<u>21,477</u>	<u>14,835</u>	<u>21,467</u>
Other comprehensive income:				
Net gain on securities available-for-sale	57	641	57	641
Income tax relating to components of other comprehensive income (Note 15)	<u>(14)</u>	<u>(160)</u>	<u>(14)</u>	<u>(160)</u>
Other comprehensive income for the year	<u>43</u>	<u>481</u>	<u>43</u>	<u>481</u>
Total comprehensive income for the year	<u>14,888</u>	<u>21,958</u>	<u>14,878</u>	<u>21,948</u>

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

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statement of changes in equity**  
**For the year ended 31 December 2012**

	<----- Group ----->				
	Share capital RM'000	<---Non-distributable---> Statutory reserve RM'000	Revaluation reserve RM'000	Distributable Retained profits RM'000	Total RM'000
<b>At 1 January 2011</b>					
- as previously stated	265,000	123,972	(493)	10,434	398,913
- MFRS adoption (Note 2.2 (a))	-	-	-	(11,344)	(11,344)
- as restated	265,000	123,972	(493)	(910)	387,569
Total comprehensive income	-	-	481	21,477	21,958
Capital injection	135,000	-	-	-	135,000
Transfer to statutory reserve	-	7,272	-	(7,272)	-
<b>At 31 December 2011</b>					
- as restated	400,000	131,244	(12)	13,295	544,527
<b>At 1 January 2012</b>					
- as previously stated	400,000	131,244	(12)	17,716	548,948
- MFRS adoption (Note 2.2 (a))	-	-	-	(4,421)	(4,421)
- as restated	400,000	131,244	(12)	13,295	544,527
Total comprehensive income	-	-	43	14,845	14,888
Transfer to statutory reserve	-	7,417	-	(7,417)	-
<b>At 31 December 2012</b>	400,000	138,661	31	20,723	559,415

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

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statement of changes in equity**  
**For the year ended 31 December 2011 (cont'd.)**

	<----- Bank ----->				
	<---Non-distributable--->		Distributable		
	Share capital	Statutory reserve	Revaluation reserve	Retained profits	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2011</b>					
- as previously stated	265,000	123,962	(493)	10,420	398,889
- MFRS adoption (Note 2.2 (a))	-	-	-	(11,344)	(11,344)
- as restated	265,000	123,962	(493)	(924)	387,545
Total comprehensive income	-	-	481	21,467	21,948
Capital injection	135,000	-	-	-	135,000
Transfer to statutory reserve	-	7,272	-	(7,272)	-
<b>At 31 December 2011</b>					
- as restated	400,000	131,234	(12)	13,271	544,493
<b>At 1 January 2012</b>					
- as previously stated	400,000	131,234	(12)	17,692	548,914
- MFRS adoption (Note 2.2 (a))	-	-	-	(4,421)	(4,421)
- as restated	400,000	131,234	(12)	13,271	544,493
Total comprehensive income	-	-	43	14,835	14,878
Transfer to statutory reserve	-	7,417	-	(7,417)	-
<b>At 31 December 2012</b>	400,000	138,651	31	20,689	559,371

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

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statements of cash flows**  
**For the year ended 31 December 2012**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities</b>				
Profit before taxation	20,522	29,215	20,508	29,201
Adjustments for:				
Depreciation	2,249	2,065	2,249	2,065
Amortisation of intangible assets	205	232	205	232
Loan impairment allowances, net	11,275	343	11,275	343
Property and equipment written off	-	80	-	80
Gain on disposal of property and equipment	-	(16)	-	(16)
Write back of impairment loss on securities held-to-maturity	(9)	(9)	(9)	(9)
Unrealised loss on derivatives	731	438	731	438
Net loss on revaluation of securities held-for-trading	5	19	5	19
Net gain on disposal of securities held-for-trading	(92)	(49)	(92)	(49)
Net (gain)/loss on disposal of securities available-for-sale	(44)	73	(44)	73
Net gain on redemption of securities held-to-maturity	-	(396)	-	(396)
Amortisation of premium net of accretion of discount	788	241	788	241
Dividend income	(117)	(62)	(117)	(62)
Operating profit before working capital changes	35,513	32,174	35,499	32,160
(Increase)/decrease in operating assets:				
Loans and advances	(328,798)	(221,444)	(328,798)	(221,444)
Other assets	(3,629)	1,151	(3,630)	1,151
Statutory deposit with Bank Negara Malaysia	(22,000)	(33,000)	(22,000)	(33,000)
Increase/(decrease) in operating liabilities:				
Deposits from customers	448,135	102,431	448,135	102,431
Deposits and placements of banks and other financial institutions	(53,819)	(110,275)	(53,819)	(110,275)
Bills and acceptances payable	122,078	69,316	122,078	69,316
Other liabilities	(354)	1,139	(354)	1,139
Cash generated from/(used in) operations carried forward	197,126	(158,508)	197,111	(158,522)

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**Statements of cash flows**

**For the year ended 31 December 2012 (cont'd.)**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities (cont'd.)</b>				
Cash generated from/(used in) operations brought forward	197,126	(158,508)	197,111	(158,522)
Taxes paid	(8,399)	(197)	(8,395)	(193)
Taxes refunded	3,250	2	3,248	-
Net cash generated from/(used in) operating activities	<u>191,977</u>	<u>(158,703)</u>	<u>191,964</u>	<u>(158,715)</u>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(1,172)	(56,136)	(1,172)	(56,136)
Proceeds from disposal of property and equipment	-	16	-	16
Purchase of intangible assets	(50)	(255)	(50)	(255)
Net (purchase)/sale of securities held-for-trading	(49,609)	55	(49,609)	55
Net (purchase)/sale of securities available-for-sale	(458,352)	90,560	(458,352)	90,560
Net proceeds from securities held-to-maturity	40,009	59,685	40,009	59,685
Dividend received	115	60	115	60
Net cash (used in)/generated from investing activities	<u>(469,059)</u>	<u>93,985</u>	<u>(469,059)</u>	<u>93,985</u>
<b>Cash flows from financing activity</b>				
Capital injection	-	135,000	-	135,000
Net cash generated from financing activity	<u>-</u>	<u>135,000</u>	<u>-</u>	<u>135,000</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(277,082)</u>	<u>70,282</u>	<u>(277,095)</u>	<u>70,270</u>
<b>Cash and cash equivalents at beginning of financial year</b>	<u>664,523</u>	<u>594,241</u>	<u>664,478</u>	<u>594,208</u>
<b>Cash and cash equivalents at end of financial year</b>	<u>387,441</u>	<u>664,523</u>	<u>387,383</u>	<u>664,478</u>
Cash and cash equivalents comprise:				
Cash and short-term funds	387,441	644,523	387,383	644,478
Deposits and placements with bank	-	20,000	-	20,000
	<u>387,441</u>	<u>664,523</u>	<u>387,383</u>	<u>664,478</u>

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

**Bangkok Bank Berhad**  
**(Incorporated in Malaysia)**

**Notes to the financial statements - 31 December 2012**

**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 3 April 2013.

**2. Basis of preparation of the financial statements**

**2.1 Basis of preparation**

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. These are the Bank's first annual financial statements prepared in accordance with MFRS and MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

In previous financial years, the financial statements of the Group and the Bank were prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia Guidelines. The financial impact arising from transition to MFRS is disclosed in Note 2.2.

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise stated in the accounting policies. The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency, and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

As at the reporting date, the Bank has met the minimum capital requirements as prescribed by the Risk Weighted Capital Adequacy Framework (RWCAF) issued by Bank Negara Malaysia ("BNM").



**Bangkok Bank Berhad  
(Incorporated in Malaysia)**

**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

These are the Group's and the Bank's first annual financial statements prepared in accordance with MFRS. In previous financial years, the financial statements of the Group and the Bank were prepared in accordance with FRS in Malaysia as modified by BNM Guidelines.

The accounting policies set out in Note 3 has been applied in preparing the financial statements of the Group and the Bank for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening statements of financial position at 1 January 2011 (which is also the Group's and the Bank's date of transition).

In preparing its opening statement of financial position as at 1 January 2011, the Group and the Bank have adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's and the Bank's financial position, financial performance and cash flows is set out below in Note 2.2(a) and Note 2.2(b).

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

**(a) Reconciliation of assets, liabilities and equity**

<b>Group</b>	<b>As previously stated under FRS as at 1.1.2011 RM'000</b>	<b>Effects of transition to MFRS RM'000</b>	<b>As restated under MFRS as 1.1.2011 RM'000</b>	<b>As previously stated under FRS as at 31.12.2011 RM'000</b>	<b>Effects of transition to MFRS RM'000</b>	<b>As restated under MFRS as 31.12.2011 RM'000</b>
<b>Assets</b>						
Cash and short-term funds	574,241	-	574,241	644,523	-	644,523
Deposits and placements with banks	20,000	-	20,000	20,000	-	20,000
Securities available-for-sale	167,544	-	167,544	77,300	-	77,300
Securities held-to-maturity	144,782	-	144,782	85,488	-	85,488
Loans, advances and financing	1,534,731	(15,125)	1,519,606	1,746,601	(5,894)	1,740,707
Other assets	13,963	-	13,963	6,865	-	6,865
Statutory deposit with Bank Negara Malaysia	15,000	-	15,000	48,000	-	48,000
Property and equipment	16,551	-	16,551	70,510	-	70,510
Intangible assets	285	-	285	340	-	340
Deferred tax assets	6,438	3,781	10,219	7,614	1,473	9,087
<b>Total assets</b>	<b>2,493,535</b>	<b>(11,344)</b>	<b>2,482,191</b>	<b>2,707,241</b>	<b>(4,421)</b>	<b>2,702,820</b>

**Bangkok Bank Berhad**  
(Incorporated in Malaysia)

**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

**(a) Reconciliation of assets, liabilities and equity (cont'd.)**

	As previously stated under FRS as at 1.1.2011 RM'000	Effects of transition to MFRS RM'000	As restated under MFRS as 1.1.2011 RM'000	As previously stated under FRS as at 31.12.2011 RM'000	Effects of transition to MFRS RM'000	As restated under MFRS as 31.12.2011 RM'000
<b>Liabilities and shareholder's equity</b>						
Deposits from customers	1,758,065	-	1,758,065	1,860,496	-	1,860,496
Deposits and placements of banks and other financial institutions	300,230	-	300,230	189,955	-	189,955
Bills and acceptances payable	-	-	-	69,316	-	69,316
Other liabilities	36,327	-	36,327	38,526	-	38,526
<b>Total liabilities</b>	<b>2,094,622</b>	<b>-</b>	<b>2,094,622</b>	<b>2,158,293</b>	<b>-</b>	<b>2,158,293</b>
Share capital	265,000	-	265,000	400,000	-	400,000
Statutory reserve	123,972	-	123,972	131,244	-	131,244
Revaluation reserve	(493)	-	(493)	(12)	-	(12)
Retained profits/(accumulated loss)	10,434	(11,344)	(910)	17,716	(4,421)	13,295
<b>Shareholder's equity</b>	<b>398,913</b>	<b>(11,344)</b>	<b>387,569</b>	<b>548,948</b>	<b>(4,421)</b>	<b>544,527</b>
<b>Total liabilities and shareholder's equity</b>	<b>2,493,535</b>		<b>2,482,191</b>	<b>2,707,241</b>		<b>2,702,820</b>

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**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

**(a) Reconciliation of assets, liabilities and equity**

<b>Bank</b>	<b>As previously stated under FRS as at 1.1.2011 RM'000</b>	<b>Effects of transition to MFRS RM'000</b>	<b>As restated under MFRS as 1.1.2011 RM'000</b>	<b>As previously stated under FRS as at 31.12.2011 RM'000</b>	<b>Effects of transition to MFRS RM'000</b>	<b>As restated under MFRS as 31.12.2011 RM'000</b>
<b>Assets</b>						
Cash and short-term funds	574,208	-	574,208	644,478	-	644,478
Deposits and placements with banks	20,000	-	20,000	20,000	-	20,000
Securities available-for-sale	167,544	-	167,544	77,300	-	77,300
Securities held-to-maturity	144,782	-	144,782	85,488	-	85,488
Loans, advances and financing	1,534,731	(15,125)	1,519,606	1,746,601	(5,894)	1,740,707
Other assets	13,960	-	13,960	6,863	-	6,863
Statutory deposit with Bank Negara Malaysia	15,000	-	15,000	48,000	-	48,000
Investment in subsidiary	10	-	10	10	-	10
Property and equipment	16,551	-	16,551	70,510	-	70,510
Intangible assets	285	-	285	340	-	340
Deferred tax assets	6,438	3,781	10,219	7,614	1,473	9,087
<b>Total assets</b>	<b>2,493,509</b>	<b>(11,344)</b>	<b>2,482,165</b>	<b>2,707,204</b>	<b>(4,421)</b>	<b>2,702,783</b>

2. Basis of preparation of the financial statements (cont'd.)

2.2 Transition to MFRS and application of MFRS 1 (cont'd.)

(a) Reconciliation of assets, liabilities and equity (cont'd.)

	As previously stated under FRS as at 1.1.2011 RM'000	Effects of transition to MFRS RM'000	As restated under MFRS as 1.1.2011 RM'000	As previously stated under FRS as at 31.12.2011 RM'000	Effects of transition to MFRS RM'000	As restated under MFRS as 31.12.2011 RM'000
<b>Liabilities and shareholder's equity</b>						
Deposits from customers	1,758,065	-	1,758,065	1,860,496	-	1,860,496
Deposits and placements of banks and other financial institutions	300,230	-	300,230	189,955	-	189,955
Bills and acceptances payable	-	-	-	69,316	-	69,316
Other liabilities	36,325	-	36,325	38,523	-	38,523
<b>Total liabilities</b>	<b>2,094,620</b>	<b>-</b>	<b>2,094,620</b>	<b>2,158,290</b>	<b>-</b>	<b>2,158,290</b>
Share capital	265,000	-	265,000	400,000	-	400,000
Statutory reserve	123,962	-	123,962	131,234	-	131,234
Revaluation reserve	(493)	-	(493)	(12)	-	(12)
Retained profits/(accumulated loss)	10,420	(11,344)	(924)	17,692	(4,421)	13,271
<b>Shareholder's equity</b>	<b>398,889</b>	<b>(11,344)</b>	<b>387,545</b>	<b>548,914</b>	<b>(4,421)</b>	<b>544,493</b>
<b>Total liabilities and shareholder's equity</b>	<b>2,493,509</b>		<b>2,482,165</b>	<b>2,707,204</b>		<b>2,702,783</b>

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**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

**(b) Reconciliation of total comprehensive income for the year ended  
31 December 2011**

<b>Group</b>	<b>FRS 31.12.2011 RM'000</b>	<b>Adjustment RM'000</b>	<b>MFRS 31.12.2011 RM'000</b>
Interest income	102,754	-	102,754
Interest expense	(56,542)	-	(56,542)
Net interest income	46,212	-	46,212
Loan impairment charges, net	(9,501)	9,231	(270)
	36,711	9,231	45,942
Non-interest income	13,419	-	13,419
Net income	50,130	9,231	59,361
Overhead expenses	(30,146)	-	(30,146)
Profit before taxation	19,984	9,231	29,215
Taxation	(5,430)	(2,308)	(7,738)
Profit for the year	14,554	6,923	21,477
<b>Profit for the year</b>	<b>14,554</b>	<b>6,923</b>	<b>21,477</b>
<b>Other comprehensive income</b>			
Net gain on securities available-for-sale	641	-	641
Income tax relating to components of other comprehensive income	(160)	-	(160)
<b>Other comprehensive income for the year, net of tax</b>	<b>481</b>	<b>-</b>	<b>481</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>15,035</b>	<b>6,923</b>	<b>21,958</b>

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**2. Basis of preparation of the financial statements (cont'd.)**

**2.2 Transition to MFRS and application of MFRS 1 (cont'd.)**

**(b) Reconciliation of total comprehensive income for the year ended  
31 December 2011 (cont'd.)**

<b>Bank</b>	<b>FRS 31.12.2011 RM'000</b>	<b>Adjustment RM'000</b>	<b>MFRS 31.12.2011 RM'000</b>
Interest income	102,754	-	102,754
Interest expense	(56,542)	-	(56,542)
Net interest income	46,212	-	46,212
Loan impairment charges, net	(9,501)	9,231	(270)
	36,711	9,231	45,942
Non-interest income	13,403	-	13,403
Net income	50,114	9,231	59,345
Overhead expenses	(30,144)	-	(30,144)
Profit before taxation	19,970	9,231	29,201
Taxation	(5,426)	(2,308)	(7,734)
Profit for the year	14,544	6,923	21,467
<b>Profit for the year</b>	<b>14,544</b>	<b>6,923</b>	<b>21,467</b>
<b>Other comprehensive income</b>			
Net gain on securities available-for-sale	641	-	641
Income tax relating to components of other comprehensive income	(160)	-	(160)
<b>Other comprehensive income for the year, net of tax</b>	<b>481</b>	<b>-</b>	<b>481</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>15,025</b>	<b>6,923</b>	<b>21,948</b>

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**2. Basis of preparation of the financial statements (cont'd.)**

**2.3 Standards issued but not yet effective**

As at the date of authorisation of these financial statements, the following Standards, Amendments and Issues Committee ("IC") Interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Group and the Bank.

**Effective for financial periods beginning on or after 1 January 2013**

MFRS 10 *Consolidated Financial Statements*

MFRS 11 *Joint Arrangements*

MFRS 12 *Disclosure of Interests in Other Entities*

MFRS 13 *Fair Value Measurement*

MFRS 119 *Employee Benefits (revised)*

MFRS 127 *Consolidated and Separate Financial Statements (revised)*

Amendments to MFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards - Government Loans*

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 101 *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 116 *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 132 *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 134 *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 10 *Consolidated Financial Statements: Transition Guidance*

Amendments to MFRS 11 *Joint Arrangements: Transition Guidance*

Amendments to MFRS 12 *Disclosure of Interests in Other Entities: Transition Guidance*



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**2. Basis of preparation of the financial statements (cont'd.)**

**2.3 Standards issued but not yet effective (cont'd.)**

**Effective for financial periods beginning on or after 1 January 2014**

Amendments to MFRS 132 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

**Effective for financial periods beginning on or after 1 January 2015**

MFRS 9 *Financial Instruments*

Amendments to MFRS 7 *Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures*

The Bank plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Group and the Bank upon their initial application except as described below:

**(a) MFRS 9 *Financial Instruments***

MFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of MFRS 139 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial liabilities and financial liabilities as defined in MFRS 139 *Financial Instruments: Recognition and Measurement* ("MFRS 139") and replaces the guidance in MFRS 139. The Standard may have material impact on the financial statements of the Group and the Bank upon its first adoption. As the Standard is still being revised and developed, the Bank is in the midst of analysing the requirements of the standard and its impact.

**(b) MFRS 10 *Consolidated Financial Statements***

MFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by MFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in MFRS 127 *Consolidated and Separate Financial Statements* and IC Interpretation 112 *Special Purpose Entities*. Based on the preliminary analyses performed, MFRS 10 is not expected to have any impact on the currently held investments of the Bank.

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**2. Basis of preparation of the financial statements (cont'd.)**

**2.3 Standards issued but not yet effective (cont'd.)**

**(c) MFRS 12 *Disclosure of Interests in Other Entities***

MFRS 12 includes all disclosures that were previously in MFRS 127 related to consolidated financial statements as well as all of the disclosures that were previously included in MFRS 11 Joint Arrangements and MFRS 128 Investments in Associates. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required but no impact is expected on the Group's and the Bank's financial position or performance.

**(d) MFRS 13 *Fair Value Measurement***

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted. The Bank is currently assessing the impact that this Standard will have on the financial position and performance of the Group and the Bank but based on preliminary analyses, no material impact is expected.

**3. Significant accounting policies**

**(a) Subsidiary and basis of consolidation**

**(i) Subsidiary**

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.

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**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 obtains control, and continue 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 as income in profit or loss on the date of acquisition.

**(b) Revenue recognition**

**(i) Interest and financing income**

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**

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

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**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.

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**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.

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**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 expected 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.

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**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 in profit or loss 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.

In the previous financial year, the Group and the Bank had applied the transitional arrangement 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.

During the current financial year, the Group and the Bank have changed its accounting policy to fully comply with MFRS 139, after the expiry of the abovementioned transition arrangement on 31 December 2011. Loans, advances and financing that are individually assessed and found not to be individually impaired are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of loans, advances and financing could include the Group's and the Bank's past experience of collections, an increase in the default rates or loss experiences experienced by credit rating agencies on rated borrowers and observable changes in economic conditions that correlate with default on receivables.

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**3. Significant accounting policies (cont'd.)**

**(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.

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.



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**3. Significant accounting policies (cont'd.)**

**(f) Intangible assets (cont'd.)**

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.

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

Computer software	2 - 5 years
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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 property 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.

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**3. Significant accounting policies (cont'd.)**

**(g) Impairment of non-financial assets (cont'd.)**

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.

**(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 MFRS 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 through 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.

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**3. Significant accounting policies (cont'd.)**

**(h) Financial liabilities (cont'd.)**

**(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 for non-option derivatives 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.

**(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.

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**3. Significant accounting policies (cont'd.)**

**(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).

**(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 Bank's functional currency.

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**3. Significant accounting policies (cont'd.)**

**(l) Foreign currencies (cont'd.)**

**(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:

	<b>2012</b>	<b>2011</b>
Singapore Dollar	2.50	2.45
Thai Baht	0.10	0.10
United States Dollar	3.06	3.18

**(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.

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**3. Significant accounting policies (cont'd.)**

**(m) Employee benefits (cont'd.)**

**(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.

**(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.

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**3. Significant accounting policies (cont'd.)**

**(o) Income tax (cont'd.)**

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 flows, 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**

	<b>Group</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and Bank Negara Malaysia	357,441	482,743	415,162
Money at call and deposit placements maturing within one month	30,000	161,780	159,079
	<u>387,441</u>	<u>644,523</u>	<u>574,241</u>
	<b>Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and Bank Negara Malaysia	357,383	482,698	415,129
Money at call and deposit placements maturing within one month	30,000	161,780	159,079
	<u>387,383</u>	<u>644,478</u>	<u>574,208</u>

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**5. Deposits and placements with banks and other financial institutions**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Bank Negara Malaysia	-	-	20,000
Licensed bank	-	20,000	-
	-	20,000	20,000

**6. Securities held-for-trading**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
In Malaysia:			
<b>At fair value</b>			
Money market instruments:			
Bank Negara Monetary Notes	49,987	-	-
	49,987	-	-

**7. Securities available-for-sale**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
In Malaysia:			
<b>At fair value</b>			
Money market instruments:			
Malaysian Government Securities	91,049	26,195	86,148
Cagamas Bonds	15,121	20,237	20,339
Government Investment Issues	187,042	5,011	40,022
Bank Negara Monetary Notes	9,997	19,980	-
Negotiable Instruments of Deposit	180,000	-	-
Unquoted securities in Malaysia:			
Private debt securities	50,820	5,005	20,163
	534,029	76,428	166,672
<b>At cost</b>			
Unquoted securities:			
Shares	872	872	872
	534,901	77,300	167,544



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**8. Securities held-to-maturity**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
In Malaysia:			
<b>At amortised cost</b>			
Money market instruments:			
Malaysian Government Securities	-	30,045	45,153
Unquoted securities:			
Private debt securities	45,261	55,443	99,629
	<u>45,261</u>	<u>85,488</u>	<u>144,782</u>

**9. Loans, advances and financing**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>			
Overdrafts	91,149	94,802	79,185
Term loans			
- Housing loans	5,963	7,471	8,663
- Syndicated term loan	-	-	39,214
- Other term loans	590,306	348,828	294,499
Revolving credits	409,889	401,833	311,657
Bills receivables	7,673	9,421	9,470
Trust receipts	89,712	133,191	114,894
Bankers' acceptances	924,647	815,094	732,138
Other financing	12,209	13,029	16,269
Staff loans	1,745	1,433	1,252
	<u>2,133,293</u>	<u>1,825,102</u>	<u>1,607,241</u>
Unearned interest	(6,758)	(5,199)	(4,500)
Gross loans, advances and financing	<u>2,126,535</u>	<u>1,819,903</u>	<u>1,602,741</u>
Less: Allowance for impaired loans and financing			
- Individual impairment allowance	(22,147)	(41,520)	(43,578)
- Collective impairment allowance	(46,158)	(37,676)	(39,557)
Net loans, advances and financing	<u>2,058,230</u>	<u>1,740,707</u>	<u>1,519,606</u>

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

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Maturing within one year	1,544,098	1,479,978	1,316,463
One year to three years	164,056	137,026	80,181
Three years to five years	48,899	62,214	115,499
Over five years	369,482	140,685	90,598
	<b>2,126,535</b>	<b>1,819,903</b>	<b>1,602,741</b>

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Purchase of securities	1,891	-	11,133
Purchase of transport vehicles	308	232	1,383
Purchase of residential properties	7,314	8,701	9,697
Purchase of non-residential properties	89,892	94,310	81,460
Purchase of fixed assets other than land and built	15,725	21,763	34,896
Personal use	6,275	3,508	787
Construction	141,466	56,749	57,845
Mergers and acquisitions	91,722	-	-
Working capital	1,712,162	1,603,425	1,372,250
Others	59,780	31,215	33,290
	<b>2,126,535</b>	<b>1,819,903</b>	<b>1,602,741</b>

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Domestic non-bank financial institutions	200,900	224,633	164,590
Domestic business enterprises			
- Small medium enterprises	620,822	548,655	348,455
- Others	1,290,916	1,034,170	1,079,069
Individuals	13,897	12,445	10,627
	<b>2,126,535</b>	<b>1,819,903</b>	<b>1,602,741</b>

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

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fixed rate			
- Housing loan	-	-	1,344
- Other fixed rate loan/financing	-	164	17,384
Variable rate			
- BLR plus	408,360	391,448	334,233
- Cost-plus	1,665,056	1,335,119	1,177,919
- Other variable rates	53,119	93,172	71,861
	<b>2,126,535</b>	<b>1,819,903</b>	<b>1,602,741</b>

(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:

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>31.12.2010/</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
Balance as at 1 January	51,384	59,123	68,383
- effect of adoption of MFRS 139	-	-	9,936
- as restated	51,384	59,123	78,319
Classified as impaired during the year	19,285	1,725	6,433
Reclassified as non-impaired during the year	(708)	(1,218)	(364)
Amount recovered	(2,100)	(3,964)	(3,431)
Amount written off	(22,166)	(4,282)	(21,834)
Balance as at end of year	45,695	51,384	59,123
Individual impairment allowance	(22,147)	(41,520)	(43,578)
Net impaired loans, advances and financing	23,548	9,864	15,545
Ratio of net impaired loans, advances and financing to gross loans, advances and financing less individual impairment allowance	1.12%	0.55%	1.00%

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

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

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>31.12.2010/</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>1.1.2011</b>
			<b>RM'000</b>
<b>Individual impairment allowance</b>			
Balance as at 1 January	41,520	43,578	57,485
Allowance made during the period/year (Note 24)	3,858	3,806	10,470
Amount written back (Note 24)	(1,065)	(1,582)	(2,543)
Amount written off	(22,166)	(4,282)	(21,834)
Balance as at end of year	<u>22,147</u>	<u>41,520</u>	<u>43,578</u>
<b>Collective impairment allowance</b>			
Balance as at 1 January as previously stated	31,782	24,432	21,532
Effect of removal of transitional provision to fully adopt MFRS 139 (Note 2.2(a))	5,894	15,125	15,125
Balance as at 1 January as restated	<u>37,676</u>	<u>39,557</u>	<u>36,657</u>
Allowance made/(written back) during the year (2011 restated) (Note 24)	8,482	(1,881)	2,900
Balance as at end of year	<u>46,158</u>	<u>37,676</u>	<u>39,557</u>
Collective impairment allowance as % of gross loans, advances and financing less individual impairment allowance	<u>2.19%</u>	<u>2.12%</u>	<u>2.54%</u>

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

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

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Purchase of residential properties	1,778	2,290	3,504
Working capital	41,460	46,095	51,797
Others	2,457	2,999	3,822
	<b>45,695</b>	<b>51,384</b>	<b>59,123</b>

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

**10. Other assets**

	<b>Group</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Other receivables, deposits and prepayments	6,550	2,919	4,068
Tax recoverable	-	974	7,543
	<b>6,550</b>	<b>3,893</b>	<b>11,611</b>

  

	<b>Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Other receivables, deposits and prepayments	6,550	2,919	4,068
Tax recoverable	-	972	7,540
	<b>6,550</b>	<b>3,891</b>	<b>11,608</b>

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**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 of the Bank.

**12. Investment in subsidiary**

	<b>Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares, at cost	<u>10</u>	<u>10</u>

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

<b>Name of company</b>	<b>Percentage of equity held</b>		<b>Principal activity</b>
	<b>2012</b>	<b>2011</b>	
	%	%	
BBL Nominees (Tempatan) Sdn. Bhd.	100	100	Provision of nominee services to local clients of the Bank

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**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	Property under construction RM'000	Work in progress RM'000	Total RM'000
<b>2012</b>						
<b>Cost</b>						
At 1 January 2012	18,890	1,486	9,184	53,379	574	83,513
Additions	97	-	264	43	768	1,172
Write off	-	-	(187)	-	-	(187)
Reclassifications	41	-	4	-	(45)	-
Reclassified to intangible assets (Note 14)	-	-	(3)	-	-	(3)
At 31 December 2012	19,028	1,486	9,262	53,422	1,297	84,495
<b>Accumulated depreciation</b>						
At 1 January 2012	7,409	606	4,988	-	-	13,003
Charge for the year (Note 26)	649	202	1,398	-	-	2,249
Write off	-	-	(187)	-	-	(187)
At 31 December 2012	8,058	808	6,199	-	-	15,065
<b>Net carrying amount</b>	<b>10,970</b>	<b>678</b>	<b>3,063</b>	<b>53,422</b>	<b>1,297</b>	<b>69,430</b>
<b>2011</b>						
<b>Cost</b>						
At 1 January 2011	16,508	909	7,177	-	3,230	27,824
Additions	43	912	817	53,379	985	56,136
Disposals	-	(335)	-	-	-	(335)
Write off	-	-	-	-	(80)	(80)
Reclassifications	2,339	-	1,190	-	(3,529)	-
Reclassified to intangible assets (Note 14)	-	-	-	-	(32)	(32)
At 31 December 2011	18,890	1,486	9,184	53,379	574	83,513
<b>Accumulated depreciation</b>						
At 1 January 2011	6,812	783	3,678	-	-	11,273
Charge for the year (Note 26)	597	158	1,310	-	-	2,065
Disposals	-	(335)	-	-	-	(335)
At 31 December 2011	7,409	606	4,988	-	-	13,003
<b>Net carrying amount</b>						
- 31 December 2011	11,481	880	4,196	53,379	574	70,510
-1 January 2011	9,696	126	3,499	-	3,230	16,551

\* Included in the above is freehold land costing RM714,000 (2011: RM714,000).

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**14. Intangible assets**

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2010/ 1.1.2011 RM'000
<b>Computer software</b>			
<b>Cost</b>			
At 1 January	2,123	1,836	1,675
Additions	50	255	112
Reclassified from property and equipment (Note 13)	3	32	49
At 31 December	2,176	2,123	1,836
<b>Accumulated amortisation</b>			
At 1 January	1,782	1,551	1,194
Amortisation (Note 26)	205	232	357
Reclassified from property and equipment	1	-	-
At 31 December	1,988	1,783	1,551
<b>Net carrying amount</b>	188	340	285

**15. Deferred tax assets**

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2010/ 1.1.2011 RM'000
At 1 January	9,087	10,219	9,895
Recognised in income statements (Note 27)	518	(972)	607
Recognised in equity	(14)	(160)	(283)
At 31 December	9,591	9,087	10,219
Presented after appropriate offsetting as follows:			
Deferred tax assets	10,284	10,019	10,680
Deferred tax liabilities	(693)	(932)	(461)
	9,591	9,087	10,219



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**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**

	<b>Collective impairment allowance RM'000</b>	<b>Revaluation reserve RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
At 1 January 2011 as previously stated	6,108	164	627	6,899
- MFRS adoption (Note 2.2 (a))	3,781	-	-	3,781
Recognised in income statements	(470)	-	(31)	(501)
Recognised in equity	-	(160)	-	(160)
At 31 December 2011	<u>9,419</u>	<u>4</u>	<u>596</u>	<u>10,019</u>
At 1 January 2012	9,419	4	596	10,019
Recognised in income statements	283	-	(4)	279
Recognised in equity	-	(14)	-	(14)
At 31 December 2012	<u>9,702</u>	<u>(10)</u>	<u>592</u>	<u>10,284</u>

**Deferred tax liabilities**

	<b>Property and equipment RM'000</b>	<b>Total RM'000</b>
At 1 January 2011	461	461
Recognised in income statements	471	471
At 31 December 2011	<u>932</u>	<u>932</u>
At 1 January 2012	932	932
Recognised in income statements	(239)	(239)
At 31 December 2012	<u>693</u>	<u>693</u>

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**16. Deposits from customers**

(i) By type of deposit

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fixed deposits	1,795,129	1,426,112	1,075,223
Negotiable instruments of deposits	110,000	-	100,000
Current accounts	181,719	191,924	191,211
Savings deposits	16,564	12,914	10,762
Short term deposits	205,219	229,546	380,869
	<b>2,308,631</b>	<b>1,860,496</b>	<b>1,758,065</b>

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Due within six months	1,903,542	1,488,795	1,402,840
Six months to one year	168,775	154,624	146,896
One year to three years	35,961	8,401	1,601
Over three years	2,070	3,838	4,755
	<b>2,110,348</b>	<b>1,655,658</b>	<b>1,556,092</b>

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

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Domestic financial institutions	30,000	-	-
Government	80,000	-	-
Business enterprises	1,886,209	1,607,997	1,405,462
Individuals	251,342	209,632	201,527
Others	61,080	42,867	151,076
	<b>2,308,631</b>	<b>1,860,496</b>	<b>1,758,065</b>

(iv) All the deposits from customers are unsecured.

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**17. Deposits and placements of banks and other financial institutions**

	<b>Group and Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	122,428	174,682	281,340
Other financial institutions	12,208	13,026	16,247
Bank Negara Malaysia	1,500	2,247	2,643
	<b>136,136</b>	<b>189,955</b>	<b>300,230</b>

**18. Other liabilities**

	<b>Group</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accruals	2,572	1,262	2,144
Tax payables	71	-	-
Other payables	32,864	34,527	32,506
	<b>35,507</b>	<b>35,789</b>	<b>34,650</b>

	<b>Bank</b>		
	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>1.1.2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accruals	2,572	1,262	2,144
Tax payables	70	-	-
Other payables	32,861	34,524	32,504
	<b>35,503</b>	<b>35,786</b>	<b>34,648</b>

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**19. Share capital**

	Group and Bank			
	Number of ordinary shares of RM1 each		Amount	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Authorised</b>				
At 1 January	400,000	300,000	400,000	300,000
Created during the year	-	100,000	-	100,000
At 31 December	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>
<b>Issued and fully paid-up</b>				
At 1 January	400,000	265,000	400,000	265,000
Capital injection from holding company	-	135,000	-	135,000
At 31 December	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>

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 changes in the fair value of the available-for-sale securities and is not distributable as cash dividends.

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## 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 2012 and 2011 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act, 2007. As at 31 December 2012 and 2011, the Bank has sufficient credit in the Section 108 balance to pay franked dividends out of its entire retained profits.

## 22. Interest income

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Loans, advances and financing		
- Interest income other than recoveries from impaired loans	94,567	77,145
- Interest income on impaired loans	1,483	1,094
Deposits and placements with banks and other financial institutions	15,875	16,251
Securities held-for-trading	100	102
Securities available-for-sale	12,255	3,965
Securities held-to-maturity	2,818	4,438
	<u>127,098</u>	<u>102,995</u>
Amortisation of premium net of accretion of discount		
- Securities held-for-trading	291	25
- Securities available-for-sale	(852)	(252)
- Securities held-to-maturity	(227)	(14)
	<u>126,310</u>	<u>102,754</u>

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**23. Interest expense**

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers	66,674	48,937
Deposits and placements of banks and other financial institutions	8,166	7,605
	<u>74,840</u>	<u>56,542</u>

**24. Loan impairment charges/(writeback), net**

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Allowance/(writeback) for impaired loans, advances and financing		
Individual impairment		
- made during the financial year (Note 9(vii))	3,858	3,806
- written back (Note 9(vii))	(1,065)	(1,582)
Collective impairment, net (Note 9(vii))	8,482	(1,881)
Impaired loans, advances and financing recovered	(420)	(73)
	<u>10,855</u>	<u>270</u>

**25. Non-interest income**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fee income:				
Commission	3,697	3,018	3,680	3,002
Service charges and fees	909	1,200	909	1,200
Guarantee fees	1,855	1,606	1,855	1,606
	<u>6,461</u>	<u>5,824</u>	<u>6,444</u>	<u>5,808</u>

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

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Investment income:				
Net gain/(loss) on disposal of investments:				
- Securities held-for-trading	92	49	92	49
- Securities available-for-sale	44	(73)	44	(73)
Net gain on redemption of securities held-to-maturity	-	396	-	396
Net loss on revaluation of securities held-for-trading	(5)	(19)	(5)	(19)
Writeback of impairment losses on securities held-to-maturity	9	9	9	9
Gross dividend from securities available-for-sale	117	62	117	62
	<u>257</u>	<u>424</u>	<u>257</u>	<u>424</u>
Other income:				
Foreign exchange gain	5,876	7,442	5,876	7,442
Net realised loss on interest rate swaps	-	(370)	-	(370)
Unrealised gain loss on foreign exchange forward	(731)	(438)	(731)	(438)
Rental income	493	512	493	512
Gain on disposal of property and equipment	-	16	-	16
Others	5	9	5	9
	<u>5,643</u>	<u>7,171</u>	<u>5,643</u>	<u>7,171</u>
	<u>12,361</u>	<u>13,419</u>	<u>12,344</u>	<u>13,403</u>

**26. Overhead expenses**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Personnel costs				
Salaries, allowances and bonuses	16,829	13,978	16,829	13,978
Defined contribution plan				
- Employees Provident Fund	2,422	2,204	2,422	2,204
Others	1,538	1,691	1,538	1,691
	<u>20,789</u>	<u>17,873</u>	<u>20,789</u>	<u>17,873</u>

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**26. Overhead expenses (cont'd.)**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Establishment costs				
Depreciation	2,249	2,065	2,249	2,065
Amortisation of intangible assets	205	232	205	232
Repair and maintenance	979	615	979	615
Rental of premises	840	840	840	840
Computerisation costs	870	808	870	808
Others	1,477	1,584	1,477	1,584
	<u>6,620</u>	<u>6,144</u>	<u>6,620</u>	<u>6,144</u>
Marketing costs				
Advertising and publicity	242	289	242	289
Others	79	152	79	152
	<u>321</u>	<u>441</u>	<u>321</u>	<u>441</u>
Administration and general costs				
Professional fees	665	1,288	665	1,288
Others	4,059	4,400	4,056	4,398
	<u>4,724</u>	<u>5,688</u>	<u>4,721</u>	<u>5,686</u>
Total	<u>32,454</u>	<u>30,146</u>	<u>32,451</u>	<u>30,144</u>

The above expenses include the following statutory disclosures:

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Directors' fee and remuneration (Note 31)	1,950	3,299	1,950	3,299
Hire of equipment	113	106	113	106
Auditors' remuneration				
- Statutory audit	90	89	89	88
- Other audit	75	35	75	35
- Other services	110	64	110	64
Property and equipment written off	-	80	-	80



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**27. Taxation**

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income tax:				
Current year	7,892	7,004	7,888	7,000
Over provision in prior years	(1,697)	(238)	(1,697)	(238)
	<u>6,195</u>	<u>6,766</u>	<u>6,191</u>	<u>6,762</u>
Deferred tax (Note 15):				
Relating to origination and reversal of temporary differences	(518)	972	(518)	972
	<u>5,677</u>	<u>7,738</u>	<u>5,673</u>	<u>7,734</u>

Income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 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:

	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation	<u>20,522</u>	<u>29,215</u>	<u>20,508</u>	<u>29,201</u>
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	5,131	7,304	5,127	7,300
Effect of expenses not deductible for tax purposes	406	672	406	672
Under provision of deferred tax in prior years	1,837	-	1,837	-
Over provision in prior years	(1,697)	(238)	(1,697)	(238)
Tax expense for the year	<u>5,677</u>	<u>7,738</u>	<u>5,673</u>	<u>7,734</u>

**28. Earnings per share**

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

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
Profit for the year (RM'000)	14,845	21,477
Weighted average number of ordinary shares in issue ('000)	400,000	287,500
Basic earnings per share (sen)	<u>3.71</u>	<u>7.47</u>

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**28. Earnings per share (cont'd.)**

There is no dilutive potential in the ordinary shares as at 31 December 2012 and 31 December 2011.

**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 over-the-counter ("OTC") derivative transactions, repo-style transactions 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 and interest rate swaps. 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:

<b>Group and Bank</b>	<b>Principal Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk Weighted Amount RM'000</b>
<b>31 December 2012</b>				
Direct credit substitutes	16,009	-	16,009	15,303
Transaction-related contingent items	118,099	-	59,050	56,825
Short-term self-liquidating trade-related contingencies	41,138	-	8,228	8,228
Forward foreign exchange contracts				
- less than one year	275,537	465	3,227	2,149
Interest rate related contracts				
- less than one year	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original				
- maturity more than one year	105,860	-	52,930	52,929
- maturity less than one year	1,265,584	-	253,117	251,331
Any commitment that are unconditionally cancelled at any time without prior notice	22,552	-	-	-
<b>Total</b>	<b>1,844,779</b>	<b>465</b>	<b>392,561</b>	<b>386,765</b>

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**29. Commitments and contingencies (cont'd.)**

<b>Group and Bank</b>	<b>Principal Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk Weighted Amount RM'000</b>
<b>31 December 2011</b>				
Direct credit substitutes	16,726	-	16,726	16,217
Transaction-related contingent items	136,866	-	68,433	64,954
Short-term self-liquidating trade-related contingencies	79,118	-	15,824	15,703
Forward foreign exchange contracts				
- less than one year	332,876	2,972	5,905	4,467
Interest rate related contracts				
- less than one year	20,000	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original				
- maturity more than one year	130	-	65	65
- maturity less than one year	961,674	-	192,335	191,982
Any commitment that are unconditionally cancelled at any time without prior notice	11,581	-	-	-
<b>Total</b>	<b>1,558,971</b>	<b>2,972</b>	<b>299,288</b>	<b>293,388</b>

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 2012 under the Risk Weighted Capital Adequacy Framework (RWCAF).

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**30. Significant related party transactions and balances**

**(i) Related party transactions**

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Income</b>		
Interest on advances to holding company and its branches	42	54
<b>Expenditure</b>		
Interest on advances from holding company and its branches	133	324
<b>Amount due to</b>		
Deposits and placements from holding company and its branches	68	108,162
<b>Amount due from</b>		
Cash and short-term funds placed with holding company and its branches	5,655	5,097

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 key management personnel include all the directors of the Bank and certain senior management personnel of the Bank.

The remuneration of certain senior management personnel who are part of key management personnel included in the income statements was as follows:

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Salary and emoluments	1,953	2,584
Defined contribution plan	188	265
Benefits-in-kind	180	233
	<u>2,321</u>	<u>3,082</u>

Directors' remuneration including benefits-in-kind are disclosed in Note 31.

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### 31. Directors' fees and remuneration

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

Group and Bank	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments* RM'000	Benefits-in- kind RM'000	Total remuneration RM'000
2012	1,176	-	-	188	30	1,394
<b>Executive Director/ Chief Executive Officer:</b>						
Loke Tan Cheng						
<b>Non-Executive Directors:</b>						
Staporn Kavitanon	-	22	-	-	-	22
Chris Chia Woon Liat	-	108	-	16	-	124
Rushda Theeratharathorn	-	84	-	15	-	99
Professor Dato' Ruslan Khalid	-	99	-	112	-	211
Toh Chong	-	84	-	16	-	100
	-	397	-	159	-	556
<b>Total directors' remuneration</b>	1,176	397	-	347	30	1,950

\* Includes allowances and EPF.

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

Group and Bank

2011

Executive Director/

Chief Executive Officer:

Loke Tan Cheng

Salary RM'000	1,104	Fees RM'000	-	Bonus RM'000	552	Other emoluments* RM'000	335	Benefits-in- kind RM'000	44	Total remuneration RM'000	2,035
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Non-Executive Directors:

Staporn Kavitanon

Chris Chia Woon Liat

Rushda Theeratharathorn

Professor Dato' Ruslan Khalid

Toh Chong

Prasong Uthaisangchai

(Resigned w.e.f 21.4.2011)

Dato' Koay Soon Eng

(Resigned w.e.f. 25.11.2011)

Salary RM'000	-	Fees RM'000	132	Bonus RM'000	-	Other emoluments* RM'000	105	Benefits-in- kind RM'000	-	Total remuneration RM'000	237
-	-	108	-	-	-	90	-	-	-	198	
-	-	84	-	-	-	89	-	-	-	173	
-	-	108	-	-	-	90	-	-	-	198	
-	-	84	-	-	-	88	-	-	-	172	
-	-	37	-	-	-	70	-	-	-	107	
-	-	99	-	-	-	80	-	-	-	179	
-	-	652	-	-	-	612	-	-	-	1,264	

Total directors' remuneration

Salary RM'000	1,104	Fees RM'000	652	Bonus RM'000	552	Other emoluments* RM'000	947	Benefits-in- kind RM'000	44	Total remuneration RM'000	3,299
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\* Includes allowances and EPF.

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### 32. Lease and commitments

#### The Group as Lessee

The Group and the Bank have non-cancellable long-term lease commitments in respect of 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:-

	<b>Group and Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Future minimum rentals		
payments:		
Not later than 1 year	421	893
Later than 1 year and not later than 5 years		
	317	418
	<u>738</u>	<u>1,311</u>

### 33. Capital commitments

Capital commitment as at the reporting date is as follows:

	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure		
Approved and contracted for:		
Property and equipment	79,578	79,621
	<u>79,578</u>	<u>79,621</u>

### 34. 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's and the Bank's 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.

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**34. Capital management (cont'd.)**

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 35.

**35. 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.

There is no regulatory capital requirement in respect of the subsidiary of the Bank that has a shareholder's equity of RM55,195 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:

	2012	2011
Core capital ratio/Tier-1 Capital ratio	20.18%	23.20%
Risk-weighted capital ratio	<u>21.88%</u>	<u>24.83%</u>

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.



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**35. Capital adequacy (cont'd.)**

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

	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Tier-1 Capital</b>		
Paid-up share capital	400,000	400,000
Statutory reserve	138,651	131,234
Retained profits	20,689	13,271
Less: Deferred tax assets (excluding those from revaluation reserve)	(9,601)	(9,083)
Total Tier-1 Capital	<u>549,739</u>	<u>535,422</u>
<b>Tier-2 Capital</b>		
Collective impairment (only those attributable to non-impaired loan, advances and financing)	46,130	37,626
Total Tier-2 Capital	<u>46,130</u>	<u>37,626</u>
Total capital	595,869	573,048
Less: Investment in subsidiary	(10)	(10)
Capital base	<u>595,859</u>	<u>573,038</u>

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.

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**35. 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 31.12.2012 RM'000	Risk- weighted assets 31.12.2012 RM'000	Principal 31.12.2011 RM'000	Risk- Weighted assets 31.12.2011 RM'000
0%	690,544	-	626,801	-
20%	330,891	66,178	265,053	53,011
35%	4,364	1,527	4,541	1,589
50%	10,918	5,459	21,719	10,859
75%	-	-	1,400	1,050
100%	2,505,419	2,505,419	2,134,131	2,134,131
150%	21,551	32,327	4,897	7,346
Total risk-weighted assets for credit risk		2,610,910		2,207,986
Total risk-weighted assets for market risk		6,502		6,251
Total risk-weighted assets for operational risk		106,101		93,944
Total risk-weighted assets		<u>2,723,513</u>		<u>2,308,181</u>

**36. Financial risk management objectives, policies, and processes**

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 operate within clearly defined guidelines that are approved by the Board.

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**36. Financial risk management objectives, policies, and processes (cont'd.)**

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 impairment 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.

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 minimise 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, advances and financing**

Gross loans, advances and financing are analysed as follows:

	<b>2012</b>	<b>2011</b>
<b>Group and Bank</b>	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	2,042,835	1,709,627
Past due but not impaired	44,762	64,091
Impaired	45,696	51,384
	<u>2,133,293</u>	<u>1,825,102</u>

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**36. Financial risk management objectives, policies, and processes (cont'd.)**

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

**(i) Credit quality of gross loans, advances and financing (cont'd.)**

Neither past due nor impaired

Gross loans, advances and financing which are neither past due nor impaired are classified as "PASS" internally. Facilities with "PASS" classification refers to loans, advances and financing which have no past due or no overdue in the principle or interest for a period of less than one (1) month.

Past due but not impaired

Past due but not impaired refers to loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans, advances and financing which are due more than one month but less than (3) months.

**(i) Ageing analysis of past due but not impaired assets**

	<b>1 to 2 month RM'000</b>	<b>2 to 3 month RM'000</b>	<b>Total RM'000</b>
<b>Group and Bank 2012</b>			
Corporate loans/financing	44,762	-	44,762

	<b>1 to 2 month RM'000</b>	<b>2 to 3 month RM'000</b>	<b>Total RM'000</b>
<b>Group and Bank 2011</b>			
Corporate loans/financing	64,091	-	64,091

Impaired

The definition of impaired loans, advances and financing is described in Note 3(c)(ii).

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**36. Financial risk management objectives, policies, and processes (cont'd.)**

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

**(ii) Collateral**

**Effects of holding collateral**

The credit risk of financial assets of the Group and the Bank is mitigated by the collaterals held against the financial assets.

All impaired loan, advances and financing are subject to individual assessment impairment review as at the current and previous financial year end. The collateral mitigates credit risk and would reduce the extent of impairment allowance for the assets subject to impairment review.

For loan, advances and financing, individual assessment allowance as at the date of the statement of financial position would have been higher by approximately RM24,481,000 (2011: RM10,847,000) for the Group and the Bank without the collaterals.

**Reposessed collateral**

For the financial years ended 31 December 2012 and 2011, there are no reposessed collaterals.

**(iii) Credit risk exposure and concentration**

The Bank's concentration of risk is managed by industry sector, risk grade asset quality and large customer limit. The Bank monitors the large exposures to single counterparty risk as per BNM GP5.

The following tables shows the exposures to credit risk from financial instruments including derivatives by industry.

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

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

**(iv) Industry analysis**

Group	Government and central bank RM'000	Primary Agriculture RM'000	Manufacturing RM'000	Electricity, gas and water supply RM'000	Construction RM'000	Wholesale & Retail RM'000	Finance, Insurance, Real Estate & Business Services RM'000	Transport, Storage & Telecomm RM'000	Others RM'000	Total RM'000
<b>As at 31 December 2012</b>										
Cash and short-term funds	325,141	-	-	-	-	-	62,300	-	-	387,441
Securities held-for-trading	49,987	-	-	-	-	-	-	-	-	49,987
Securities available-for-sale	288,088	-	-	-	-	-	246,813	-	-	534,901
Securities held-to-maturity	-	40,195	-	5,053	-	-	13	-	-	45,261
Loans, advances and financing less Collective impairment	-	217,703	677,066	-	68,486	499,979	593,527	31,048	16,579	2,104,388
Derivative assets	-	42	94	-	-	88	241	-	-	(46,158)
Statutory Deposit with Bank Negara Malaysia	70,000	-	-	-	-	-	-	-	-	70,000
<b>Commitments</b>										
Commitments and Contingencies	-	84,571	748,661	38	147,982	372,751	455,458	30,499	4,819	1,844,779
<b>Bank</b>										
Cash and short-term funds	325,141	-	-	-	-	-	62,242	-	-	387,383
Securities held-for-trading	49,987	-	-	-	-	-	-	-	-	49,987
Securities available-for-sale	288,088	-	-	-	-	-	246,813	-	-	534,901
Securities held-to-maturity	-	40,195	-	5,053	-	-	13	-	-	45,261
Loans, advances and financing less Collective impairment	-	217,703	677,066	-	68,486	499,979	593,527	31,048	16,579	2,104,388
Derivative assets	-	42	94	-	-	88	241	-	-	(46,158)
Statutory Deposit with Bank Negara Malaysia	70,000	-	-	-	-	-	-	-	-	70,000
<b>Commitments</b>										
Commitments and Contingencies	-	84,571	748,661	38	147,982	372,751	455,458	30,499	4,819	1,844,779

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

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

**(iv) Industry analysis (cont'd.)**

Group	Government and central bank RM'000	Primary Agriculture RM'000	Manufacturing RM'000	Electricity, gas and water supply RM'000	Construction RM'000	Wholesale & Retails RM'000	Finance, Insurance, Real Estate & Business Services RM'000	Transport, Storage & Telecomm RM'000	Others RM'000	Total RM'000
<b>As at 31 December 2011</b>										
Cash and short-term funds	459,670	-	-	-	-	-	184,853	-	-	644,523
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Securities available-for-sale	51,186	-	5,005	-	-	-	20,000	-	-	20,000
Securities held-to-maturity	30,045	50,306	-	5,124	-	-	21,109	-	-	77,300
Loans, advances and financing less Collective impairment	-	151,627	578,385	969	63,458	387,288	574,048	8,961	13,647	1,778,383
Derivative assets	-	-	2,194	-	-	358	420	-	-	(37,676)
Statutory Deposit with Bank Negara Malaysia	48,000	-	-	-	-	-	-	-	-	2,972
										48,000
<b>Commitments</b>										
Commitments and Contingencies	-	75,136	433,167	15,372	143,020	366,186	485,819	30,743	9,528	1,558,971
<b>Bank</b>										
Cash and short-term funds	459,670	-	-	-	-	-	184,808	-	-	644,478
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Securities held-for-trading	-	-	-	-	-	-	20,000	-	-	20,000
Securities available-for-sale	51,186	-	5,005	-	-	-	21,109	-	-	77,300
Securities held-to-maturity	30,045	50,306	-	5,124	-	-	13	-	-	85,488
Loans, advances and financing less Collective impairment	-	151,627	578,385	969	63,458	387,288	574,048	8,961	13,647	1,778,383
Derivative assets	-	-	2,194	-	-	358	420	-	-	(37,676)
Statutory Deposit with Bank Negara Malaysia	48,000	-	-	-	-	-	-	-	-	2,972
										48,000
<b>Commitments</b>										
Commitments and Contingencies	-	75,136	433,167	15,372	143,020	366,186	485,819	30,743	9,528	1,558,971

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**36. Financial risk management objectives, policies, and processes (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 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.

The following table shows the sensitivity of the Group's and Bank's profit before taxation to a possible change in exchange rates with all other variables remaining constant.

Currency	2012		2011	
	Exchange Rate		Exchange Rate	
	+10%	- 10%	+10%	- 10%
	RM'000	RM'000	RM'000	RM'000
<b>Group and Bank</b>				
USD	175	(175)	(494)	494
SGD	56	(56)	86	(86)
NZD	27	(27)	50	(50)
THB	36	(36)	30	(30)
Others	104	(104)	87	(87)

**(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 and 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.



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**36. 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					Non-interest sensitive	Trading book	Total	Effective interest rate %
	Up to 1 month	> 1-3 months	> 3-12 months	1-5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>As at 31 December 2012</b>									
<b>Assets</b>									
Cash and short-term funds	350,058	-	-	-	-	37,383	-	387,441	3.04
Securities held-for-trading	49,987	-	-	-	-	-	-	49,987	3.04
Securities available-for-sale	89,998	100,000	20,126	323,905	-	872	-	534,901	3.51
Securities held-to-maturity	-	-	5,054	40,194	-	13	-	45,261	4.10
Loans, advances and financing									
- non-impaired	2,080,839	-	-	-	-	-	-	2,080,839	4.60
- impaired *	(22,609)	-	-	-	-	-	-	(22,609)	9.31
Other non-interest sensitive balances	-	-	-	-	-	156,224	-	156,224	
<b>Total assets</b>	<b>2,548,273</b>	<b>100,000</b>	<b>25,180</b>	<b>364,099</b>	<b>-</b>	<b>194,492</b>	<b>-</b>	<b>3,232,044</b>	

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

**36. 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						Effective interest rate %
	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	
<b>As at 31 December 2012</b>							
<b>Liabilities</b>							
Deposits from customers	1,179,178	696,636	394,786	38,031	-	-	3.06
Deposits and placements of banks and other financial institutions	105,478	30,590	-	-	-	68	0.65
Bills and acceptances payable	63,096	59,895	68,403	-	-	-	3.20
Other non-interest sensitive balances	-	-	-	-	-	36,468	
<b>Total liabilities</b>	<b>1,347,752</b>	<b>787,121</b>	<b>463,189</b>	<b>38,031</b>	<b>-</b>	<b>36,536</b>	
<b>Shareholder's equity</b>							
<b>Total liabilities and shareholder's equity</b>	<b>1,347,752</b>	<b>787,121</b>	<b>463,189</b>	<b>38,031</b>	<b>-</b>	<b>559,415</b>	
<b>On-balance sheet interest sensitivity gap representing total interest sensitivity gap</b>	<b>1,200,521</b>	<b>(687,121)</b>	<b>(438,009)</b>	<b>326,068</b>	<b>-</b>	<b>(401,459)</b>	<b>-</b>

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**36. 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					Non- interest sensitive		Trading book RM'000	Total RM'000	Effective interest rate %
	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	RM'000	RM'000			
As at 31 December 2011										
Assets										
Cash and short-term funds	618,525	-	-	-	-	25,998	-	644,523	2.88	
Deposits and placements with banks and other financial institutions	-	20,000	-	-	-	-	-	20,000	3.20	
Securities available-for-sale	19,980	5,004	5,002	46,442	-	872	-	77,300	3.35	
Securities held-to-maturity	-	-	40,058	45,417	-	13	-	85,488	3.61	
Loans, advances and financing										
- non-impaired	1,768,355	-	164	-	-	-	-	1,768,519	4.64	
- impaired *	(27,812)	-	-	-	-	-	-	(27,812)	9.58	
Other non-interest sensitive balances	-	-	-	-	-	134,802	-	134,802		
Total assets	2,379,048	25,004	45,224	91,859	-	161,685	-	2,702,820		

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

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**36. 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					Non- interest sensitive		Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Trading book RM'000	Total RM'000	
As at 31 December 2011								
Liabilities								
Deposits from customers	858,420	671,558	318,279	12,239	-	-	1,860,496	2.95
Deposits and placements of banks and other financial institutions	78,833	110,382	-	-	-	740	189,955	1.60
Bills and acceptances payable	-	69,316	-	-	-	-	69,316	3.28
Other non-interest sensitive balances	-	-	-	-	-	38,526	38,526	
Total liabilities	937,253	851,256	318,279	12,239	-	39,266	2,158,293	
Shareholder's equity								
	-	-	-	-	-	544,527	544,527	
Total liabilities and shareholder's equity	937,253	851,256	318,279	12,239	-	583,793	2,702,820	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap								
	1,441,795	(826,252)	(273,055)	79,620	-	(422,108)	-	-

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**36. 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					Non-interest sensitive	Trading book	Total	Effective interest rate %
	Up to 1 month	> 1-3 months	> 3-12 months	1-5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>As at 31 December 2012</b>									
<b>Assets</b>									
Cash and short-term funds	350,000	-	-	-	-	37,383	-	387,383	3.04
Securities held-for-trading	49,987	-	-	-	-	-	-	49,987	3.04
Securities available-for-sale	89,998	100,000	20,126	323,905	-	872	-	534,901	3.51
Securities held-to-maturity	-	-	5,054	40,194	-	13	-	45,261	4.10
Loans, advances and financing									
- non-impaired	2,080,839					-	-	2,080,839	4.60
- impaired *	(22,609)	-	-	-	-	-	-	(22,609)	9.31
Other non-interest sensitive balances	-	-	-	-	-	156,234	-	156,234	
<b>Total assets</b>	<b>2,548,215</b>	<b>100,000</b>	<b>25,180</b>	<b>364,099</b>	<b>-</b>	<b>194,502</b>	<b>-</b>	<b>3,231,996</b>	

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

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**36. 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					Effective interest rate %
	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
As at 31 December 2012						
<b>Liabilities</b>						
Deposits from customers	1,179,178	696,636	394,786	38,031	-	-
Deposits and placements of banks and other financial institutions	105,478	30,590	-	-	-	68
Bills and acceptances payable	63,096	59,895	68,403	-	-	-
Other non-interest sensitive balances	-	-	-	-	-	36,464
<b>Total liabilities</b>	<b>1,347,752</b>	<b>787,121</b>	<b>463,189</b>	<b>38,031</b>	<b>-</b>	<b>36,532</b>
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>559,371</b>
<b>Total liabilities and shareholder's equity</b>	<b>1,347,752</b>	<b>787,121</b>	<b>463,189</b>	<b>38,031</b>	<b>-</b>	<b>595,903</b>
<b>On-balance sheet interest sensitivity gap representing total interest sensitivity gap</b>	<b>1,200,463</b>	<b>(687,121)</b>	<b>(438,009)</b>	<b>326,068</b>	<b>-</b>	<b>(401,401)</b>

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**36. 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					Non- interest sensitive		Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Trading book RM'000	Total RM'000	
As at 31 December 2011								
Assets								
Cash and short-term funds	618,480	-	-	-	-	25,998	-	644,478
Deposits and placements with banks and other financial institutions	-	20,000	-	-	-	-	-	20,000
Securities available-for-sale	19,980	5,004	5,002	46,442	-	872	-	77,300
Securities held-to-maturity	-	-	40,058	45,417	-	13	-	85,488
Loans, advances and financing								
- non-impaired	1,768,355	-	164	-	-	-	-	1,768,519
- impaired *	(27,812)	-	-	-	-	-	-	(27,812)
Other non-interest sensitive balances	-	-	-	-	-	134,810	-	134,810
Total assets	2,379,003	25,004	45,224	91,859	-	161,693	-	2,702,783

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

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**36. 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					Effective interest rate %
	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
As at 31 December 2011						
<b>Liabilities</b>						
Deposits from customers	858,420	671,558	318,279	12,239	-	-
Deposits and placements of banks and other financial institutions	78,833	110,382	-	-	-	740
Bills and acceptances payable	-	69,316	-	-	-	-
Other non-interest sensitive balances	-	-	-	-	-	38,523
<b>Total liabilities</b>	<b>937,253</b>	<b>851,256</b>	<b>318,279</b>	<b>12,239</b>	<b>-</b>	<b>39,263</b>
<b>Shareholder's equity</b>	-	-	-	-	-	544,493
<b>Total liabilities and shareholder's equity</b>	<b>937,253</b>	<b>851,256</b>	<b>318,279</b>	<b>12,239</b>	<b>-</b>	<b>583,756</b>
<b>On-balance sheet interest sensitivity gap representing total interest sensitivity gap</b>	<b>1,441,750</b>	<b>(826,252)</b>	<b>(273,055)</b>	<b>79,620</b>	<b>-</b>	<b>(422,063)</b>



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

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

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

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:

	<b>2012</b>	<b>2011</b>
	<b>RM million</b>	<b>RM million</b>
<u>Movement in basis points</u>	<b>+/- 100 bps</b>	<b>+/- 100 bps</b>
Effect on Net Interest Income	+/- 4.1	+/- 6.1
Effect on Economic Value of Equity	+/- 20.7	+/- 0.8

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 RM4.1 million and RM20.7 million (2011: RM6.1 million and RM0.8 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.

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

**(c) Liquidity risk management (cont'd.)**

**(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities**

<b>Group</b>	<b>Up to 1 month RM'000</b>	<b>&gt; 1-3 months RM'000</b>	<b>&gt; 3-6 months RM'000</b>	<b>&gt; 6-12 months RM'000</b>	<b>&gt; 1-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 31 December 2012</b>								
<b>Assets</b>								
Cash and short-term funds	388,074	-	-	-	-	-	-	388,074
Securities held-for-trading	50,000	-	-	-	-	-	-	50,000
Securities available-for-sale	92,260	105,630	1,532	20,000	320,000	-	-	539,422
Securities held-to-maturity		138	869	5,000	40,260	556	-	46,823
Loans, advances and financing	772,161	555,189	284,570	58,427	321,044	152,322	-	2,143,712
Derivative financial asset	121	156	188	-	-	-	-	465
Statutory Deposit with Bank Negara Malaysia	70,000	-	-	-	-	-	-	70,000
<b>Total assets</b>	<b>1,372,616</b>	<b>661,113</b>	<b>287,159</b>	<b>83,427</b>	<b>681,304</b>	<b>152,878</b>	<b>-</b>	<b>3,238,496</b>
<b>Liabilities</b>								
Deposits from customers	1,181,388	695,605	144,156	243,669	4,630	-	-	2,269,448
Deposits and placements of banks and other financial institutions	105,589	30,627	-	-	-	-	-	136,216
Bills and acceptances payable	51,999	82,391	57,004	-	-	-	-	191,394
Derivative financial liabilities	672	93	195	-	-	-	-	960
<b>Total liabilities</b>	<b>1,339,648</b>	<b>808,716</b>	<b>201,355</b>	<b>243,669</b>	<b>4,630</b>	<b>-</b>	<b>-</b>	<b>2,598,018</b>
<b>Net maturity mismatch</b>	<b>32,968</b>	<b>(147,603)</b>	<b>85,804</b>	<b>(160,242)</b>	<b>676,674</b>	<b>152,878</b>	<b>-</b>	<b>640,479</b>

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

**(c) Liquidity risk management (cont'd.)**

**(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)**

<b>Group</b>	<b>Up to 1 month RM'000</b>	<b>&gt; 1-3 months RM'000</b>	<b>&gt; 3-6 months RM'000</b>	<b>&gt; 6-12 months RM'000</b>	<b>&gt; 1-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 31 December 2011</b>								
<b>Assets</b>								
Cash and short-term funds	612,692	32,041	-	-	-	-	-	644,733
Deposits and placements with banks and other financial institutions	-	20,084	-	-	-	-	-	20,084
Securities available-for-sale	21,696	5,280	965	6,141	47,734	-	-	81,816
Securities held-to-maturity	-	263	1,051	41,699	49,039	560	-	92,612
Loans, advances and financing	886,933	433,782	196,642	41,041	217,890	52,072	-	1,828,360
Derivative financial asset	1,516	955	500	-	-	-	-	2,971
Statutory Deposit with Bank Negara Malaysia	48,000	-	-	-	-	-	-	48,000
<b>Total assets</b>	<b>1,570,837</b>	<b>492,405</b>	<b>199,158</b>	<b>88,881</b>	<b>314,663</b>	<b>52,632</b>	<b>-</b>	<b>2,718,576</b>
<b>Liabilities</b>								
Deposits from customers	1,107,266	429,689	171,631	161,116	6,917	-	-	1,876,619
Deposits and placements of banks and other financial institutions	129,134	60,703	-	-	-	-	740	190,577
Bills and acceptances payable	37,849	27,257	4,210	-	-	-	-	69,316
Derivative financial liabilities	1,178	1,250	308	-	-	-	-	2,736
<b>Total liabilities</b>	<b>1,275,427</b>	<b>518,899</b>	<b>176,149</b>	<b>161,116</b>	<b>6,917</b>	<b>-</b>	<b>740</b>	<b>2,139,248</b>
<b>Net maturity mismatch</b>	<b>295,410</b>	<b>(26,494)</b>	<b>23,009</b>	<b>(72,235)</b>	<b>307,746</b>	<b>52,632</b>	<b>(740)</b>	<b>579,328</b>

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

**(c) Liquidity risk management (cont'd.)**

**(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)**

<b>Bank</b>	<b>Up to 1 month RM'000</b>	<b>&gt; 1-3 months RM'000</b>	<b>&gt; 3-6 months RM'000</b>	<b>&gt; 6-12 months RM'000</b>	<b>&gt; 1-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 31 December 2012</b>								
<b>Assets</b>								
Cash and short-term funds	388,016	-	-	-	-	-	-	388,016
Securities held-for-trading	50,000	-	-	-	-	-	-	50,000
Securities available-for-sale	92,260	105,630	1,532	20,000	320,000	-	-	539,422
Securities held-to-maturity		138	869	5,000	40,260	556	-	46,823
Loans, advances and financing	772,161	555,189	284,570	58,427	321,044	152,322	-	2,143,713
Derivative financial asset	121	156	188	-	-	-	-	465
Statutory Deposit with Bank Negara Malaysia	70,000	-	-	-	-	-	-	70,000
<b>Total assets</b>	<b>1,372,558</b>	<b>661,113</b>	<b>287,159</b>	<b>83,427</b>	<b>681,304</b>	<b>152,878</b>	<b>-</b>	<b>3,238,439</b>
<b>Liabilities</b>								
Deposits from customers	1,195,724	695,605	213,977	173,849	40,324	-	-	2,319,479
Deposits and placements of banks and other financial institutions	105,589	30,627	-	-	-	-	-	136,216
Bills and acceptances payable	51,999	82,391	57,004	-	-	-	-	191,394
Derivative financial liabilities	672	93	195	-	-	-	-	960
<b>Total liabilities</b>	<b>1,353,984</b>	<b>808,716</b>	<b>271,176</b>	<b>173,849</b>	<b>40,324</b>	<b>-</b>	<b>-</b>	<b>2,648,049</b>
<b>Net maturity mismatch</b>	<b>18,574</b>	<b>(147,603)</b>	<b>15,983</b>	<b>(90,422)</b>	<b>640,980</b>	<b>152,878</b>	<b>-</b>	<b>590,390</b>

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

**(c) Liquidity risk management (cont'd.)**

**(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)**

<b>Bank</b>	<b>Up to 1 month RM'000</b>	<b>&gt; 1-3 months RM'000</b>	<b>&gt; 3-6 months RM'000</b>	<b>&gt; 6-12 months RM'000</b>	<b>&gt; 1-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non specific maturity RM'000</b>	<b>Total RM'000</b>
<b>As at 31 December 2011</b>								
<b>Assets</b>								
Cash and short-term funds	612,647	32,041	-	-	-	-	-	644,688
Deposits and placements with banks and other financial institutions	-	20,084	-	-	-	-	-	20,084
Securities available-for-sale	21,696	5,280	965	6,141	47,734	-	-	81,816
Securities held-to-maturity		263	1,051	41,699	49,039	560	-	92,612
Loans, advances and financing	886,933	433,782	196,642	41,041	217,890	52,072	-	1,828,360
Derivative financial asset	1,516	955	500	-	-	-	-	2,971
Statutory Deposit with Bank Negara Malaysia	48,000	-	-	-	-	-	-	48,000
<b>Total assets</b>	<b>1,570,792</b>	<b>492,405</b>	<b>199,158</b>	<b>88,881</b>	<b>314,663</b>	<b>52,632</b>	<b>-</b>	<b>2,718,531</b>
<b>Liabilities</b>								
Deposits from customers	1,107,266	429,689	171,631	161,116	6,917	-	-	1,876,619
Deposits and placements of banks and other financial institutions	129,134	60,703	-	-	-	-	740	190,577
Bills and acceptances payable	37,849	27,257	4,210	-	-	-	-	69,316
Derivative financial liabilities	1,178	1,250	308	-	-	-	-	2,736
<b>Total liabilities</b>	<b>1,275,427</b>	<b>518,899</b>	<b>176,149</b>	<b>161,116</b>	<b>6,917</b>	<b>-</b>	<b>740</b>	<b>2,139,248</b>
<b>Net maturity mismatch</b>	<b>295,365</b>	<b>(26,494)</b>	<b>23,009</b>	<b>(72,235)</b>	<b>307,746</b>	<b>52,632</b>	<b>(740)</b>	<b>579,283</b>

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**37. 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:

	<b>Group and Bank</b>			
	<b>31.12.2012</b>		<b>31.12.2011</b>	
	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
Securities held-to-maturity	45,261	45,259	85,488	85,997

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 Note 6 and note 7.

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:

	<b>Group and Bank</b>		
	<b>31.12.2012</b>		
	<b>Nominal/ notional amount RM'000</b>	<b>Positive fair value RM'000</b>	<b>Negative fair value RM'000</b>
Forward foreign exchange contracts	275,537	465	(961)

	<b>Group and Bank</b>		
	<b>31.12.2011</b>		
	<b>Nominal/ notional amount RM'000</b>	<b>Positive fair value RM'000</b>	<b>Negative fair value RM'000</b>
Forward foreign exchange contracts	332,876	2,972	(2,737)

	<b>Group and Bank</b>		
	<b>1.1.2011</b>		
	<b>Nominal/ notional amount RM'000</b>	<b>Positive fair value RM'000</b>	<b>Negative fair value RM'000</b>
Forward foreign exchange contracts	286,912	2,352	(1,677)

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**37. 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, 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-maturity and available-for-sale**

The fair value of securities held-to-maturity and available-for-sale are estimated based on broker/dealer price quotations.

**(iii) Derivative financial instruments**

Derivative products valued using valuation technique with significant market observable inputs are mainly interest rate swaps, currency swaps and forward exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange and forward rates and interest rate curves.

**(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 values 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.

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**37. Fair values of financial instruments (cont'd.)**

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

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

<b>Group and Bank 31 December 2012</b>	<b>Note</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<u>Securities held-for-trad</u>	6				
Money market instruments:					
BNM Monetary Notes		-	49,987	-	49,987
		-	49,987	-	49,987
<u>Securities available-for</u>	7				
Money market instruments:					
Malaysian Government					
Securities		-	91,049	-	91,049
Cagamas Bonds		-	15,121	-	15,121
Government Investment Issue			187,042	-	187,042
BNM Monetary Notes		-	9,997	-	9,997
Negotiable Instruments of Deposit		-	180,000	-	180,000
Unquoted securities in Malaysia:					
Private debt securities		-	50,820	-	50,820
Shares		-	-	872	872
		-	534,029	872	534,901
<u>Derivatives</u>					
Derivative financial assets					
Unrealised gain on derivatives		-	465	-	465
Derivative financial liabilities					
Unrealised loss on derivatives		-	(961)	-	(961)
		-	(496)	-	(496)



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**37. Fair values of financial instruments (cont'd.)**

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

<b>Group and Bank</b>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>31 December 2011</b>		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Securities available-for-sale	7				
Money market instruments:					
Malaysian Government					
Securities		-	26,195	-	26,195
Cagamas Bonds		-	20,237	-	20,237
Government Investment					
Issue		-	5,011	-	5,011
BNM Monetary Notes		-	19,980		19,980
Unquoted securities in Malaysia:					
Private debt securities		-	5,005	-	5,005
Shares		-	-	872	872
		-	76,428	872	77,300

Derivatives

Derivative financial assets					
Unrealised gain on derivatives			2,972	-	2,972
Derivative financial liabilities					
Unrealised loss on derivatives			(2,737)	-	(2,737)
		-	235	-	235

<b>Group and Bank</b>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>1 January 2011</b>		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Securities available-for</u>	7				
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
Shares		-	-	872	872
		-	166,672	872	167,544

Derivatives

Derivative financial assets					
Unrealised gain on derivatives			2,352	-	2,352
Derivative financial liabilities					
Unrealised loss on derivatives			(1,677)	-	(1,677)
		-	675	-	675