Company No.

918091	T

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010
(DATE OF INCORPORATION) TO 31 DECEMBER 2011

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BNP PARIBAS MALAYSIA BERHAD
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DIRECTORS' REPORT
FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

The Directors are pleased to submit their report to the member together with the audited financial statements of the Bank for the financial period ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

The Bank commenced its operation on 1 June 2011.

FINANCIAL RESULTS

	RM'000
Net loss for the financial period	20,729

DIVIDENDS

No dividend has been paid, declared or proposed since the date of incorporation. The Directors do not recommend the payment of any dividend for the financial period ended 31 December 2011.

RESERVES AND PROVISIONS

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

DIRECTORS

The Directors of the Bank who have held office since the date of incorporation and as at the date of this report are as follows:

Dayakrishna Vaidynatha Chetti (appointed on 13 October 2010)
Khairuddin Bin Mohd Rawi (resigned on 23 March 2011)
Dato Abdullah Bin Mat Noh (appointed on 23 March 2011)
Halim Bin Haji Din (appointed on 23 March 2011)
Didier Raymond Marie Balme (appointed on 23 March 2011)
Jean-Pierre Roger Beno Bernard (appointed on 23 March 2011)

In accordance with Article 93 of the Bank's Articles of Association, Dato' Abdullah Bin Mat Noh and Dayakrishna Vaidynatha Chetti will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial period, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Since the date of incorporation, no Director of the Bank has received or become entitled to receive any benefit (other than the directors' remuneration as disclosed in Note 22 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

According to the Register of Directors' shareholdings, maintained by the Bank in accordance with Section 134 of the Companies Act 1965, the interests of Directors who held office at the end of the financial period in the shares, restricted stock units and share options of related corporations are as follows:

	Number of ordinary shares of RM 2 each			
	As at incorporation	Purchased	Sold	As at 31.12.2011
BNP Paribas SA.				
Dayakrishna Vaidynatha Chetti	892.76	603.18	-	1,495.94
Didier Raymond Marie Balme	776	1,000	-	1,776
Jean-Pierre Roger Beno Bernard	19,860	-	-	19,860

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (CONTINUED)

	Number of ordinary shares of EUR 2 each			
	As at incorporation	Purchased	Sold	As at 31.12.2011
BNP Paribas Malaysia Berhad.				
Dayakrishna Vaidynatha Chetti	1	-	(1)	-
Khairuddin Bin Mohd Rawi	1	-	(1)	-

	Number of employee share options			
	As at incorporation	Granted	Exercised	As at 31.12.2011
BNP Paribas SA.				
Dayakrishna Vaidynatha Chetti	5,625	980	-	6,605
Didier Raymond Marie Balme	85,640	-	(20,690)	64,950
Jean-Pierre Roger Beno Bernard	58,243	-	(16,551)	41,692

Other than as disclosed above, according to the Register of Directors' shareholdings, the Directors in office at the end of the financial period did not hold any interest in shares and share options, of the Bank and its related corporations during the financial period.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for bad and doubtful debts.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial period which secures the liability of any other person; or

(b) any contingent liability in respect of the Bank which has arisen since the end of the financial period other than in the ordinary course of banking business.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors is committed to ensuring the highest standards of corporate governance throughout the organisation with the objectives of safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices as set out in the Malaysian Code of Corporate Governance throughout the financial period.

The Board of Directors

The direction and control of the Bank rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Bank. The Board exercises independent oversight on the management and bears the overall accountability for the performance of the Bank and compliance with the principle of good governance.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer ("CEO") to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the longer-term strategic plans of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines.

The Board Committees, is responsible for the implementation of the strategies and internal control as well as monitoring performance. The Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

Board Balance

The Board comprises 6 directors, the majority of whom are Non-Executive Directors. The Directors who served since the incorporation of the company:

Members	Status of directorship
Dayakrishna Vaidynatha Chetti	Non-Independent Executive Director
Dato Abdullah Bin Mat Noh	Independent Non-Executive Director
Halim Bin Haji Din	Independent Non-Executive Director
Didier Raymond Marie Balme	Non-Independent Non-Executive Director
Jean-Pierre Roger Beno Bernard	Non-Independent Non-Executive Director
Khairuddin Bin Mohd Rawi	Director

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Roles and Responsibilities of the Board

The Board of Directors is ultimately responsible for the operations, conduct and the financial soundness of the Bank through competent management, reviewing and monitoring the objectives, strategies and business plans of the Bank, ensuring that proper controls are in place and that the business of the Bank is carried out with a high standard of integrity. The Board operates under an approved terms of reference which sets out their roles and responsibilities towards the Bank.

The Board meets at least once every two 2 months. During the financial period ended 31 December 2011, the Board met 5 times and the attendance at the Board meetings are as follows:-

Dayakrishna Vaidynatha Chetti	5/5
Dato Abdullah Bin Mat Noh	5/5
Halim Bin Haji Din	5/5
Didier Raymond Marie Balme	5/5
Jean-Pierre Roger Beno Bernard	5/5

Board Committees

Board Risk Committee

The Board Risk Committee is responsible for oversight of the CEO and senior management’s responsibility for assessing and managing the Bank’s credit risk, market risk, interest rate risk, investment risk, liquidity risk and reputational risk.

The Board Risk Committee meets at least once every quarter. During the financial period ended 31 December 2011, the Board Risk Committee met two (2) times and the attendance at the Board Risk Committee meetings are as follows:

Dato Abdullah Bin Mat Noh	2/2
Jean-Pierre Roger Bemo Bernard	2/2
Didier Raymond Marie Balme	2/2

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible 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 the CEO and key senior management officers. The Committee also reviews and endorses, where appropriate, the remuneration of the CEO and key senior management officers as recommended by the Bank’s regional management.

The Nomination and Remuneration Committee meets at least annually. During the financial period ended 31 December 2011, the Nomination and Remuneration Committee have not convened any meetings yet.

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

Audit Committee

The primary function of the Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control system and ensuring checks and balances with the Bank. The Committee also assists the Board of Directors in discharging its statutory duties and responsibilities.

The Audit Committee meets at least once every quarter. During the financial period ended 31 December 2011, the Audit Committee met three (3) times and the attendance at the Audit Committee meetings is as follows:

Dato Abdullah Bin Mat Noh	2/3
Halim Bin Haji Din	3/3
Didier Raymond Marie Balme	3/3
Jean-Pierre Roger Bemo Bernard	3/3

Internal Controls

Mechanisms are in place within the Bank to connect the oversight of the Board and the day to day functioning of the Bank's employees are intended to ensure that the Bank conducts its daily businesses in accordance with the Bank's objectives and policies and in compliance with the laws and regulations that govern the Bank's businesses. The Bank's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks.

Management reports

The Board received and reviewed regular reports from the management on key operational, finance, legal and compliance matters.

BUSINESS PLAN AND OUTLOOK FOR THE NEXT FINANCIAL YEAR

Business strategy for financial period ended 31 December 2011

BNP Paribas Malaysia's focus lies in wholesale banking where it is able to leverage on its parent's expertise to offer an extensive range of sophisticated products and solutions. The Bank's strategy since its start in June 2011 has been based on building a sustainable client franchise to whom the Bank can provide the above solutions. This was done by implementing a focused approach in marketing and onboarding new clients by targeting a select group of corporate including subsidiaries of multinationals, government and financial institutions as well as non bank financial institutions. Target clients are selected based on conservative risk and governance criteria as well as the value add the Bank can add with regards to the broader product mix and international network.

Outlook for 2012

In the context of the financial crisis and deleveraging of banks as well as new regulations impacting the financial industry, the Bank will maintain a very focused strategy in developing its business in Malaysia. The corporate activity will be prioritised towards core clients, advisory and transactional banking businesses. As for financial institutions, the Bank will continue to build upon its strong markets capabilities to service its clients and build long term partnerships. In view of the increasing prominence of Islamic finance and Malaysia's position as an international Islamic financial hub, the Group has also designated BNP Paribas Malaysia as its Islamic finance hub for the Asia-Pacific region. The Islamic finance business will be parked under a window of BNP Paribas Malaysia Berhad, under the Najmah's brand name. This business unit will focus on originating, structuring and marketing *Shariah*-compliant products for the Malaysian market as well as the Group's clients in the region.

RATINGS BY AN EXTERNAL RATING AGENCY

Details of the Bank's rating are as follow:

Name of rating agency	Date of the rating	Rating received
RAM Rating Services Berhad ("RAM Ratings")	March 2012	Long term – AA_2 Short term – P1 Outlook – Stable

Rating classification description

RAM Ratings has assigned respective long- and short-term financial institution ratings of AA_2 and P1 to BNP Paribas Malaysia Berhad ("BNP Paribas Malaysia" or "the Bank"); the long-term rating has a stable outlook. The Bank is a wholly owned subsidiary of BNP Paribas S.A. ("BNP Paribas" or "the Group"); BNP Paribas is the world's second-largest provider of financial services, with an asset base valued at €2 trillion as at end-December 2011. Given that the Bank is a start-up company with no operating track record, the assigned ratings reflect BNP Paribas Malaysia's strong reliance on its parent in terms of resources, franchise and financial flexibility.

RATINGS BY AN EXTERNAL RATING AGENCY (CONTINUED)

A financial institution with a long term rating of AA has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.

A financial institution with a short term rating of P1 has a strong capacity to meet its short-term financial obligations. This is the highest short term financial institution rating assigned by RAM Ratings.

ULTIMATE HOLDING CORPORATION

The Directors regard BNP Paribas SA., a corporation incorporated in France, as the ultimate holding corporation of the Bank.

AUDITORS

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution.

DATO ABDULLAH BIN MAT NOH
DIRECTOR

DAYAKRISHNA VAIDYNATHA CHETTI
DIRECTOR

Kuala Lumpur

Company No.

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BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 RM'000
ASSETS		
Cash and short-term funds	2	4,531
Deposits and placements with banks and other financial institutions	3	350,803
Derivative financial instruments	4	576
Financial assets available-for-sale	5	90,192
Loans and advances	6	24,647
Statutory deposits with Bank Negara Malaysia	7	-
Other assets	8	3,595
Property, plant and equipment	9	6,287
Intangible assets	10	198
Deferred tax assets	11	4,304
TOTAL ASSETS		485,133
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from customers	12	145,180
Deposits and placements of banks and other financial institutions	13	465
Derivative financial instruments	4	46
Other liabilities	14	10,255
Total liabilities		155,946
Share capital	15	350,000
Reserves	16	(20,813)
Shareholder's equity		329,187
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		485,133
COMMITMENTS AND CONTINGENCIES	26	360,343

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

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BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	Note	2011 RM'000
Interest income	17	6,717
Interest expense	18	(691)
Net interest income		6,026
Other operating income	19	1,372
Operating expenses	20	(32,028)
Allowances for losses on loans and advances	21	(375)
Loss before taxation		(25,005)
Taxation	23	4,276
Net loss for the financial period		(20,729)
Other comprehensive income:		
Financial assets available-for-sale		
- Net loss on revaluation of financial assets available-for-sale		(112)
- Income tax relating to component of other comprehensive income		28
Other comprehensive loss, net of tax		(84)
Total comprehensive loss		(20,813)

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

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BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	Share capital RM'000	Statutory reserve RM'000	Fair value reserve - available-for-sale securities RM'000	Retained earnings RM'000	Total RM'000
At date of incorporation	350,000	-	-	-	350,000
Net loss for the financial period	-	-	-	(20,729)	(20,729)
Other comprehensive loss	-	-	(84)	-	(84)
At 31 December 2011	350,000	-	(84)	(20,729)	329,187

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

BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	Note	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation		(25,005)
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of property, plant and equipment		1,150
Amortisation of intangible assets		49
Unrealised gain on foreign exchange	19	(5,555)
Unrealised gain on derivative financial instruments	19	(530)
OPERATING LOSS BEFORE WORKING CAPITAL CHANGES		(29,891)
Increase in financial assets available for sale		(90,304)
Increase in loans and advances		(24,647)
Increase in other assets		(3,595)
Increase in deposits from customers		150,735
Increase in deposits and placements of banks and other financial institutions		465
Increase in other liabilities		10,255
Cash generated from operating activities		13,018
Income taxes paid		-
Net cash generated from operating activities		13,018

BNP PARIBAS MALAYSIA BERHAD
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STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011 (CONTINUED)

	Note	2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment		(7,437)
Purchase of intangible assets		(247)
Net cash used in investing activities		(7,684)
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,334
CASH AND CASH EQUIVALENTS AT INCORPORATION		350,000
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD		355,334
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short term funds	2	4,531
Deposits and placements with banks and other financial institutions	3	350,803
		355,334

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements, unless otherwise stated.

A BASIS OF PREPARATION

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

The financial statements comply with the Financial Reporting Standards ("FRS"), the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia ("BNM") Guidelines and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in accounting policy Note I.

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

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank's financial period beginning on or after 1 January 2011 are as follows:

- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- Improvements to FRSs (2010)

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective.

The Bank will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on 1 January 2012

In the next financial year, the Bank will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

- MFRS 139 "Financial instruments: recognition and measurement" - BNM has removed the transitional provision for banking institutions on loan impairment assessment and provisioning to comply with the MFRS 139 requirements.

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

- Amendments to IC Interpretation 14 "MFRS 119 - The limit on a defined benefit assets, minimum funding requirements and their interaction" (effective from 1 July 2011) permits an entity to recognise the prepayments of contributions as an asset, rather than an expense in circumstances when the entity is subject to a minimum funding requirement and makes an early payment of contributions to meet those requirements.

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2013

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (“OCI”). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2013 (continued)

- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in ‘other comprehensive income’ (“OCI”) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

The adoption of the above revised MASB accounting standards is not expected to have any significant financial impact on the results of the Bank except for MFRS9 where financial assets currently classified as available for sale would need to be reclassified and measured accordingly.

B FINANCIAL ASSETS AND LIABILITIES

(a) Loans and receivables

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Loans and receivables (continued)

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

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

(b) Securities

(i) Categories of securities

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

- Financial assets at fair value through profit or loss

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

  - financial assets held for trading purposes;
  - financial assets that the Bank has designed, on initial recognition, at fair value through profit or loss using the fair value option available under FRS139.

  Securities in this category are measured at fair value at the balance sheet date. Transaction costs are directly posted in the profit and loss account. Changes in fair value (excluding accrued interest on fixed-income securities) are presented in the profit and loss account under “Net gain/loss on financial instruments at fair value through profit or loss”, along with dividends from variable-income securities and realised gains and losses on disposal.

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

- Loans and receivables

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

  These securities are measured and recognised as described in Note B(a).

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Securities (continued)

(i) Categories of securities (continued)

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

- Held-to-maturity financial assets

  Held-to-maturity financial assets are investments with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold until maturity. Hedges contracted to cover assets in this category against interest rate risk do not qualify for hedge accounting as defined in FRS139.

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

- Available-for-sale financial assets

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(c) Date of recognition for securities transactions

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

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

(d) Foreign currency transactions

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

- Monetary assets and liabilities expressed in foreign currencies

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

- Non-monetary assets and liabilities expressed in foreign currencies

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(e) Impairment of financial assets

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

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

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

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(e) Impairment of financial assets

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

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon an internal rating system based on historical data, adjusted as necessary to reflect circumstances prevailing at the balance sheet date. It enables the Bank to identify groups of counterparties which, as a result of events occurring since inception of the loans, have collectively acquired a probability of default at maturity that provides objective evidence of impairment of the entire portfolio, but without it being possible at that stage to allocate the impairment to individual counterparties. This assessment also estimates the amount of the loss on the portfolios in question, taking account of trends in the economic cycle during the assessment period. Changes in the amount of portfolio impairments are recognised in the profit and loss account under “Allowances for losses on loans and advances”.

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

Impairment of available-for-sale financial assets

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

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

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(f) Reclassification of financial assets

The only authorised reclassifications of financial assets are the following:

- For a non-derivative financial asset which is no longer held for the purposes of selling it in the near-term, out of “Financial assets at fair value through profit or loss” and into:

    - “Loans and receivables” if the asset meets the definition for this category and the Bank has the intention and ability to hold the asset for the foreseeable future or until maturity; or
    - Other categories only under rare circumstances when justified and provided that the reclassified assets meet the conditions applicable to the host portfolio.

- Out of “Available-for-sale financial assets” and into:

    - “Loans and receivables” with the same conditions as set out above for "Financial assets at fair value through profit or loss;
    - “Held-to-maturity financial assets,” for assets that have a maturity, or “Financial assets at cost,” for unlisted variable-income assets.

Financial assets are reclassified at fair value, or at the value calculated by a model, on the reclassification date. Any derivatives embedded in the reclassified financial assets are recognised separately and changes in fair value are recognised through profit or loss.

After reclassification, assets are recognised according to the provisions applied to the host portfolio. The transfer price on the reclassification date is deemed to be the initial cost of the asset for the purpose of determining any impairment.

In the event of reclassification from "available-for-sale financial assets" to another category, gains or losses previously recognised through equity are amortised to profit or loss over the residual life of the instrument using the effective interest rate method.

Any upward revisions to the estimated recoverable amounts are recognised through an adjustment to the effective interest rate as of the date on which the estimate is revised. Downward revisions are recognised through an adjustment to the financial asset's carrying amount.

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Derivative instruments and hedge accounting

All derivative instruments are recognised in the balance sheet on the trade date at the transaction price, and are remeasured to fair value on the balance sheet date.

- Derivatives held for trading purposes

  Derivatives held for trading purposes are recognised in the balance sheet in "Derivative financial asset" when their fair value is positive, and in "Derivative financial liability" when their fair value is negative. Realised and unrealised gains and losses are recognised in the profit and loss account on the line "Other operating income".

- Derivatives and hedge accounting

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

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

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Derivative instruments and hedge accounting (continued)

- Derivatives and hedge accounting (continued)

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

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

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

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Derivative instruments and hedge accounting (continued)

- Embedded derivatives

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

(h) Determination of fair value

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

Fair value is determined:

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

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

- Use of quoted prices in an active market

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

- Use of models to value unquoted financial instruments

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(h) Determination of fair value (continued)

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

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

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

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

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

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

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

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(i) Income and expenses arising from financial assets and financial liabilities

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

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

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

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

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

(j) Allowance for losses on loans and advances

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

B FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(k) Derecognition of financial assets and financial liabilities

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

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

(l) Offsetting financial assets and financial liabilities

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

Repurchase agreements and derivatives traded with clearing houses that meet the two criteria set out in the accounting standard are offset in the balance sheet.

C PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

Property, plant and equipment and intangible assets are depreciated or amortised using the straightline method over the useful life of the asset. Depreciation and amortisation expense is recognised in the profit and loss account under “Depreciation, amortisation and impairment of property, plant and equipment and intangible assets”.

C PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

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

The depreciation is made at the following rates:

Leasehold property	6 years
Office equipment and machinery	20%
Furniture, fixtures and fittings	20%
Computer equipment and software	33.33%
Computer hardware	20%

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

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

If there is an indication of impairment, the new recoverable amount of the asset is compared with the carrying amount. If the asset is found to be impaired, an impairment loss is recognised in the profit and loss account. This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment. Impairment losses are taken to the profit and loss account in “Depreciation, amortisation and impairment of property, plant and equipment and intangible assets”.

Gains and losses on disposals of property, plant and equipment and intangible assets used in operations are recognised in the profit and loss account in “Net gain on non-current assets”.

D LESSEE ACCOUNTING

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

- Finance leases

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

- Operating leases

  The asset is not recognised in the balance sheet of the lessee. Lease payments made under operating leases are taken to the profit and loss account of the lessee on a straight-line basis over the lease term.

E EMPLOYEE BENEFITS

- Short term benefits

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

- Defined contribution plans

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

E EMPLOYEE BENEFITS (CONTINUED)

- Employee leave entitlement

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

F PROVISIONS RECORDED UNDER LIABILITIES

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

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

G CURRENT AND DEFERRED TAX

Current tax expense is determined according to the Malaysian tax laws and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amount attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

H CASH FLOW STATEMENT

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

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

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of property, plant and equipment excluding investment property and property held under operating leases.

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

I CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the financial statements requires managers of core businesses and corporate functions to make assumptions and estimates that are reflected in the measurement of income and expense in the profit and loss account and of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. This requires the managers in question to exercise their judgement and to make use of information available at the date of the preparation of the financial statements when making their estimates. The actual future results from operations where managers have made use of estimates may in reality differ significantly from those estimates, mainly according to market conditions. This may have a material effect on the financial statements.

(a) Fair value of financial instruments

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

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

I CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Allowance for losses on loans and advances

The Bank makes allowance for losses on loans and advances based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer’s business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

1 GENERAL INFORMATION

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The Bank was incorporated on 13 October 2010 and started its operations in Malaysia on 1 June 2011. The registered office and the principal place of business of the Bank is located at Vista Tower, Level 48A, The Intermark, 348 Jalan Tun Razak, 50400 Kuala Lumpur.

The Bank is a wholly-owned subsidiary of BNP Paribas SA, a body corporate incorporated in France and is the ultimate holding company of the Bank.

The principal activities of the Bank are banking and related financial services. There have been no significant changes in the nature of the principal activities during the financial period.

2 CASH AND SHORT-TERM FUNDS

	2011 RM'000
Cash and balances with banks and other financial institutions	4,531
Money at call and deposit placements maturing within one month	-
	4,531

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Licensed banks	350,803

4 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments allow the Bank transfer, modify or reduce its foreign exchange and interest rate risks via hedge relationships. Most of Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates on indices. Also included under this heading are any derivatives which do not meet hedging requirements

	Notional amount	Fair values	
		Assets	Liabilities
	RM'000	RM'000	RM'000
At 31 December 2011			
Foreign exchange derivatives			
Currency forwards	14,869	100	1
Currency swaps	194,784	385	45
	209,653	485	46
Interest rate derivatives			
Interest rate swaps	100,000	91	-
	100,000	91	-
Total derivative assets/(liabilities)	309,653	576	46

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2011 RM'000
Unquoted securities (in Malaysia)	
Private debt securities	90,192
	90,192
Allowance for impairment losses	-
	90,192

6 LOANS AND ADVANCES

(i) Loans and advances analysed by type of loan are as follows:

Revolving credits	25,022
	25,022
Less: Allowance for losses on loans and advances:	
- Individual assessment	-
- Collective assessment	(375)
Total net loans and advances	24,647

(ii) The maturity structure of loans and advances are as follows:

Maturity within	
- one year	25,022
- one year to three years	-
- three years to five years	-
- over five years	-
	25,022

6 LOANS AND ADVANCES (CONTINUED)

	2011 RM'000
(iii) Loans and advances analysed by type of customers are as follows:	
Domestic business enterprises	
- Others	25,022
(iv) Loans and advances analysed by interest sensitivity are as follows:	
Variable rate	
- Cost-plus	25,022
(v) Loans and advances analysed by their economic purpose are as follows:	
Electricity, gas and water	25,022
(vi) Loans and advances analysed by their geographical distribution are as follows:	
In Malaysia	25,022
(vii) Impaired loans	
(a) Movements in impaired loans and advances are as follows:	
At 1 January	-
Classified as impaired during the financial period	-
Reclassified as performing during the financial period	-
Amount recovered	-
Amount written off	-
At 31 December	-
Individual assessment allowance	-
Net impaired loans and advances	-
Ratio of net impaired loans and advances to net loans and advances	0.00%

6 LOANS AND ADVANCES (CONTINUED)

(vii) Impaired loans (continued)

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

	2011 RM'000
Individual assessment allowance	
At 1 January	-
Allowance made during the financial period	-
Amount recovered	-
Amount written off	-
At 31 December	-
Collective assessment allowance	
At 1 January	-
Allowance made during the financial period	375
Write back made during the financial period	-
At 31 December	375
As % of gross loans and advances less individual assessment allowance	1.50%

7 STATUTORY DEPOSITS WITH BNM

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount of which is determined at set percentages of total eligible liabilities.

As of 31 December 2011, the Bank has RM nil statutory deposits with BNM.

8 OTHER ASSETS

	2011 RM'000
Other debtors, deposits and prepayments	3,595

9 PROPERTY, PLANT AND EQUIPMENT

	Office equipment and machinery RM'000	Renovation and installation RM'000	Furniture fixtures and fittings RM'000	Computer equipment RM'000	Total RM'000
2011					
Cost					
At incorporation	-	-	-	-	-
Additions	2,042	3,213	1,293	889	7,437
At 31 December	2,042	3,213	1,293	889	7,437
Accumulated depreciation					
At incorporation	-	-	-	-	-
Charge for the financial period	323	449	200	178	1,150
At 31 December	323	449	200	178	1,150
Net book value					
At 31 December	1,719	2,764	1,093	711	6,287

10 INTANGIBLE ASSETS

	Computer software RM'000	Total RM'000
2011		
Cost		
At incorporation	-	-
Additions	247	247
At 31 December	247	247
Accumulated depreciation		
At incorporation	-	-
Charge for the financial period	49	49
At 31 December	49	49
Net book value		
At 31 December	198	198

11 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	2011 RM'000
Tax losses	4,002
Collective assessment allowance	94
Excess of depreciation over capital allowances	(414)
Provisions	594
Financial assets available-for-sale	28
Deferred tax assets/(liabilities)	4,304

11 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial period comprise the following:

	Collective assessment allowance RM'000	Excess of depreciation over capital allowances RM'000	Financial assets available-for-sale RM'000	Provisions RM'000	Tax losses RM'000	Total RM'000
2011						
At incorporation	-	-	-	-	-	-
Charged to income statement	94	(414)	-	594	4,002	4,276
Charged to reserve	-	-	28	-	-	28
At 31 December	94	(414)	28	594	4,002	4,304

12 DEPOSITS FROM CUSTOMERS

(i) Deposits from customers analysed by type of deposits are as follows:

	2011 RM'000
Demand deposits	4,009
Fixed deposits	141,171
	145,180

Maturity structure of fixed deposits is as follows:

Due within six months	145,180
Six months to one year	-
More than one year	-
	145,180

12 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) Deposits from customers analysed by type of customers are as follows:

	2011 RM
Business enterprises	124,173
Others	21,007
	145,180

13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Other financial institutions	465

14 OTHER LIABILITIES

Other payables	2,010
Accruals and charges	8,245
	10,255

15 SHARE CAPITAL

Authorised:	
600,000,000 ordinary shares of RM1 each	
At incorporation/ 31 December	600,000
Issued and fully paid:	
350,000,000 ordinary shares of RM1 each	
At incorporation/ 31 December	350,000

16 RESERVES

(i) 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.

(ii) Fair value reserve – available for sale securities represent the unrealised fair value gain or loss on available for sale securities

Movement of the fair value reserve of available-for-sale securities is as follows:

	2011 RM'000
At 1 January	-
Unrealised loss on financial assets available-for-sale	(112)
Deferred taxation	28
Net change in revaluation reserve of financial assets available-for-sale	(84)
At 31 December	(84)

17 INTEREST INCOME

Loans and advances	
- Interest income other than recoveries from impaired loans	1,345
- Recoveries from impaired loans	-
Money at call and placements with financial institutions	4,527
Financial assets	
- Available-for-sale	845
	6,717

18 INTEREST EXPENSE

	2011 RM'000
Deposits from customers	534
Deposits and placements of banks and other financial institutions	157
	691

19 OTHER OPERATING INCOME

	2011 RM'000
Fee income:	
Guarantee fees	39
Other fee income	2
	41
Derivatives:	
- Realised loss	(2,973)
- Unrealised gain	530
Realised loss from held for trading	(364)
Other income:	
- Foreign exchange gain	
- Realised loss	(1,417)
- Unrealised gain	5,555
	1,372

20 OPERATING EXPENSES

	2011 RM'000
Personnel costs:	
- Wages, salaries and bonuses	9,035
- Defined contribution retirement plan	1,378
- Social security costs	14
- Recruitment fees	6,924
- Other staff related expenses	790
	18,141
Establishment costs:	
- Share of information technology costs	471
- Rental of premises	1,149
- Depreciation of property plant and equipment	1,150
- Amortisation of intangible assets	49
- Others	2,738
	5,557
Marketing expenses	
- Advertising	1,112
- Others	565
	1,677
Administration and general expenses:	
- Communication and transportation	430
- Legal and professional fees	3,663
- Other general expenses	2,560
	6,653
	32,028

The above expenditure includes the following statutory disclosures:

Directors' remuneration (Note 22)	2,470
Auditors' remuneration:	
- audit fees	85

The remuneration attributable to the Managing Director of the Bank, including benefits-in-kind during the period amounted to RM 1,803,000.

21 ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

	2011 RM'000
Allowance for losses on loans and advances:	
(a) Individual assessment allowance	
- Made during the financial period	-
- Written off	-
- Written back	-
(b) Collective assessment allowance	
- Made during the financial period	375
- Written back	-
Bad debts on loans and advances	
- Recovered	-
	375

22 DIRECTORS' REMUNERATION

	Salary and other remuneration RM'000	Benefits-In-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director/ Executive Director	909	255	639	1,803

	Fees remuneration RM'000	Benefits-In-kind (based on an estimated monetary value) RM'000	Others RM'000	Total RM'000
Non-Executive Directors	667	-	-	667

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

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

	2011
Executive Directors	
Above RM500,000	1
RM300,000 – RM500,000	-
RM100,000 – RM299,000	-
Non-Executive Directors	
Above RM100,000	2
RM50,000 – RM100,000	-
RM1 - RM49,999	-

23 TAXATION

(a) Tax expense for the financial period

	2011 RM'000
Current period tax	
- Malaysian income tax	-
- Over provision in respect of prior period	-
Deferred tax	
- Origination and reversal of temporary differences (Note 11)	4,276
	4,276

(b) Numerical reconciliation of income tax expense

The explanation on the relationship between tax expense and profit before tax is as follows:

	2011 RM'000
Profit before taxation	(25,005)
Tax calculated at a tax rate of 25%	(6,251)
Expenses not deductible for tax purposes	1,975
Over provision in respect of prior period	-
Other temporary differences not recognised in prior periods	-
Tax expense	(4,276)

24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

Name of related parties	Relationship
BNP Paribas, Paris	Ultimate holding corporation
BNP Paribas, Doha	Fellow subsidiary
BNP Paribas, Tokyo	Fellow subsidiary
BNP Paribas, Canada	Fellow subsidiary
BNP Paribas, New York	Fellow subsidiary
BNP Paribas, Hong Kong	Fellow subsidiary
BNP Paribas, London	Fellow subsidiary
BNP Paribas, Abu Dhabi	Fellow subsidiary
BNP Paribas, Singapore	Fellow subsidiary
BNP Paribas, Geneva	Fellow subsidiary
BNP Paribas, Mumbai	Fellow subsidiary
BNP Paribas, Vietnam	Fellow subsidiary

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes all the Directors and members of the Management Committee.

Set out below are other significant related party transactions and balances.

	2011	
	Related entities RM'000	Key management personnel RM'000
Significant related party transactions of the Bank:		
Income		
Interest on fixed deposit	4	-
	4	-
Expense		
Interest on current deposit	9	-
Interest on fixed deposit	37	-
Share of information technology costs	471	-
Directors' remuneration	-	2,470
	517	2,470

24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2011	
	Ultimate holding company	Related entities
	RM'000	RM'000
Related party balances of the Bank:		
Amount due from		
Current deposit	-	21,286
Cash and short-term funds	1,174	689
	1,174	21,975
Amount due to		
Current deposit	7	-
Fixed deposit	1,000	-
	1,007	-

Transactions with related parties are aggregated because these transactions are similar in nature and no single transaction with these parties is significant enough to warrant separate disclosure.

Key management compensation:

	2011
	RM'000
Salaries and other short-term employee benefits	2,113
Defined contribution plan	340
	2,453

Included in the above is the Executive Director's compensation which is disclosed in Note 22.

24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per BNM's revised "Guidelines on Credit Transactions and Exposures with Connected Parties", which became effective on 1 January 2011, are as follows:

	2011 RM'000
Outstanding credit exposures with connected parties	-
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	-
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	-

25 NON CANCELLABLE OPERATING LEASE COMMITMENTS

The Bank have entered into non-cancellable operating lease agreements for the use of buildings. These leases have an average life of 6 years with an option for cancellation every 3 years. There are no restrictions placed upon the Bank by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the balance sheet date but not recognised as liabilities are as follows:

	2011 RM'000
Not later than one year	1,539
Later than one year and not later than five years	6,413
	7,952

26 CAPITAL ADEQUACY

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

The capital adequacy ratios of the Bank are as follows:

	2011 RM'000
Tier-I capital	
Paid-up share capital	350,000
Retained earnings	(20,729)
Statutory reserve	-
	329,271
Deferred tax assets	(4,304)
Total Tier I capital	324,967
Tier-II capital	
Collective assessment allowance *	375
Total capital base	325,342
Core capital ratio	147.90%
Risk-weighted capital ratio	148.07%

* Excludes collective assessment allowance attributable to loans and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provision for Loans/Financing" issued on 8 January 2011 and subsequently updated on 26 January 2011 and 17 December 2011.

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	Principal RM'000	2011 Risk Weighted RM'000
Risk weight		
0%	290,773	-
20%	159,043	31,809
100%	77,290	77,290
		109,099
Risk-weighted assets for market risk		97,182
Risk-weighted assets for operational risk		13,459
		219,740

26 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet and counterparty risk as at 31 December 2011:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	35,075	35,075	35,075
Transaction-related contingent items	-	-	-
Short-term self-liquidating trade related contingencies	5,668	1,134	1,134
Irrevocable commitments to extend credit:			
- maturity less than one year	-	-	-
- maturity more than one year	9,947	1,989	1,989
Foreign exchange related contracts:			
- less than one year	209,653	1,776	389
- one year to less than five years	-	-	-
- more than five years	-	-	-
Interest rate related contracts:			
- less than one year	-	-	-
- one year to less than five years	100,000	2,000	400
- more than five years	-	-	-
	360,343	41,974	38,987

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

27 FINANCIAL RISK MANAGEMENT

The Bank has developed and implemented comprehensive policies and procedures to identify, mitigate and monitor risk across the entity which are based on BNP Paribas SA Group policies. These practices rely on constant communications, judgement and knowledge of products and markets by the people closest to them, combined with regular oversight by a central risk management group and senior management.

(i) Credit risk

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

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

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

The Bank follows the policies and practices established by BNP Paribas Group Credit Risk Policy and BNM’s Best Practices for the Management of Credit Risk, to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk

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

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

	Note	2011 RM'000
Assets		
Cash and short-term funds	2	4,531
Deposits and placements with banks and other financial institutions	3	350,803
Derivative financial instruments	4	576
Financial assets available-for-sale	5	90,192
Loans and advances	6	25,022
Statutory deposits with BNM	7	-
Other assets	8	3,595
Total assets*		474,719
Commitments and contingencies	26	41,971
Total credit exposure		516,690

* Excludes deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

Where financial instruments are recorded by fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by geographical sectors

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

								31.12.2011
	Cash and short term funds RM'000	Deposits and placements with financial institutions	Derivative financial instruments RM'000	Financial assets available-for-sale RM'000	Loans and advances RM'000	Other assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	2,598	329,517	576	90,192	25,022	3,595	451,500	41,971
United Kingdom	343	-	-	-	-	-	343	-
France	1,174	-	-	-	-	-	1,174	-
Hong Kong	1	-	-	-	-	-	1	-
Singapore	52	21,286	-	-	-	-	21,338	-
Others	363	-	-	-	-	-	363	-
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971

* Other assets exclude statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Concentration risk by industry sectors

Credit risk exposure analysed by industry sectors in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table. The industry sector exposure analysis is based on the industry sector of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

	31.12.2011							
	Cash and short term funds	Deposits and placements with financial institutions	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Government and Central Banks	773	290,000	-	-	-	-	290,773	-
Electricity, Gas and Water	-	-	-	-	25,022	-	25,022	-
Finance, insurance and business services	3,758	60,803	557	90,192	-	3,595	158,905	41,929
Manufacturing	-	-	19	-	-	-	19	42
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971
Assets not subject to credit risk	-	-	-	-	-	-	-	-
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971

* Excludes collective assessment allowance amounting to RM 375,000.
** Other assets exclude tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.
Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Loans and advances

Loans and advances are summarised as follows:

	2011
	RM'000
Neither past due nor impaired	25,022
Past due but not impaired	-
Individually impaired	-
Gross	25,022
Less: Allowance for impaired loans and advances	
- Individual assessment allowance	-
- Collective assessment allowance	(375)
Net	24,647

(a) Loans and advances neither past due nor impaired

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

	RM'000
2011 BNP Paribas Ratings	
4+ Above Average	25,022
	25,022

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Credit quality of financial assets

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

	Available for-sale		
	Private debt securities	Malaysian Government treasury bills and securities	Total
	RM'000	RM'000	RM'000
2011			
AA	90,192	-	90,192
	90,192	-	90,192

Financial effects of collaterals

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

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market risk

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

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

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

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

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

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

The VAR of the Bank at the end of the financial period, based on one-day time horizon and at 99% confidence level, is RM219,617. It represents the correlation and consequent diversification effects between risk types and portfolio types across trading and non-trading businesses. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market Risk (continued)

Interest rate risk

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

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

	31.12.2011							
	Non trading book							
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Trading book RM'000	Non-interest sensitive RM'000	Total RM'000
Assets								
Cash and short-term funds	4,531	-	-	-	-	-	-	4,531
Deposits and placements with banks and other financial institutions	350,803	-	-	-	-	-	-	350,803
Derivative financial instruments	-	-	-	-	-	576	-	576
Financial assets available-for-sale	90,192	-	-	-	-	-	-	90,192
Loans and advances^								
- Performing	25,022	-	-	-	-	-	(375)	24,647
- Non-performing	-	-	-	-	-	-	-	-
Statutory deposits with BNM	-	-	-	-	-	-	-	-
Other assets	3,595	-	-	-	-	-	-	3,595
Total assets	474,143	-	-	-	-	576	(375)	474,344

^ Includes individual assessment allowance and collective assessment allowance

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market Risk (continued)

Interest rate risk (continued)

								31.12.2011
	← Non trading book →							
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Trading book	Non-interest sensitive	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities								
Deposits from customers	125,180	20,000	-	-	-	-	-	145,180
Deposits and placements of banks and other financial institutions	465	-	-	-	-	-	-	465
Derivative financial instruments	-	-	-	-	-	46	-	46
Other liabilities	2,010	1,854	6,391	-	-	-	-	10,255
Total liabilities	127,655	21,854	6,391	-	-	46	-	155,946
Interest rate gap	346,488	(21,854)	(6,391)	-	-	530		

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Market Risk (continued)

Interest rate risk (continued)

The tables below summaries the effective average interest rate by major currencies for each class of financial assets and financial liabilities. The calculation of effective average interest rate excludes non-interest bearing financial assets and financial liabilities.

	2011			
	RM	USD	GBP	SGD
	%	%	%	%
Financial assets				
Cash and short-term funds	-	-	-	-
Deposits and placements with banks and other financial institutions	3.0424	0.2000	-	-
Financial assets available-for-sale	3.0967	-	-	-
Loans and advances	3.8700	-	-	-
Financial liabilities				
Deposits from customers	3.0442	0.5952	-	-
Deposits and placements of banks and other financial institutions	-	-	1.3000	0.3800

Currency risk

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

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

27 FOR THE FINANCIAL PERIOD FROM 13 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2011 (CONTINUED)

(ii) Market Risk (continued)

Currency risk (continued)

	RM RM'000	USD RM'000	EUR RM'000	Others RM'000	Total RM'000
2011					
Assets					
Cash and short-term funds	2,598	187	1,176	570	4,531
Deposits and placements with banks and other financial institutions	329,517	21,286	-	-	350,803
Derivative financial instruments	91	474	-	11	576
Financial assets available-for-sale	90,192	-	-	-	90,192
Loans and advances	24,647	-	-	-	24,647
Other assets	3,595	-	-	-	3,595
	450,640	21,947	1,176	581	474,344
Liabilities					
Deposits from customers	75,640	67,082	2,458	-	145,180
Deposits and placements of banks and other financial institutions	-	-	-	465	465
Derivative financial Instruments	-	46	-	-	46
Other liabilities	9,705	520	30	-	10,255
	85,345	67,648	2,488	465	155,946
Currency gap	365,295	(45,701)	(1,312)	116	

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as they fall due, such as upon the maturity of deposits and loan draw downs.

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

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

The table below analyses the Bank's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are in the contractual undiscounted cash flows.

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
2011						
Deposits from customers	125,180	20,153	-	-	-	145,333
Deposits and placements of banks and other financial institutions	466	-	-	-	-	466
Other liabilities	2,000	-	-	-	-	2,000
	127,646	20,153	-	-	-	147,799
Assets held to mitigate liquidity risk						
Cash and short-term funds	4,531	-	-	-	-	4,531
Deposits and placements with banks and other financial institutions	351,024	-	-	-	-	351,024
Financial assets available-for-sale	90,420	-	-	-	-	90,420
Net liquidity gap	318,329	(20,153)	-	-	-	298,176
Items not recognised in the statements of financial position						
Financial guarantees	40,744	-	-	-	-	40,744
Credit related commitments and contingencies	9,947	-	-	-	-	9,947
	50,691	-	-	-	-	50,691

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk (continued)

The table below analyses the Bank's derivative financial instruments based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the expected undiscounted cash flows.

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
2011						
Net-settled derivatives	-	(22)	35	149	-	162
Gross-settled derivatives						
- Receipts	208,341	838	972	-	-	210,151
- Payments	(208,095)	(589)	(969)	-	-	(209,653)
	246	227	38	149	-	660

(vi) Operational risk

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

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

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

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

28 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments not measured at fair value

(i) Cash and short term funds

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

(ii) Deposits and placements with banks and other financial Institutions

Deposits and placements of below one year are at carrying amounts while those maturing beyond one year have been valued based on discounted cashflows.

(iii) Loans and advances

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on discounted future cash flows of contractual instalment payments. In respect of nonperforming loans, the fair values are deemed to approximate the carrying values, net of specific allowance for bad and doubtful debts and financing.

(iv) Statutory Deposits with BNM

Statutory deposits with BNM are stated at carrying amounts.

(v) Deposits from customers

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

(vi) Deposits and placements of banks and other financial institutions

Deposits and placements of banks and other financial institutions are valued at carrying amounts.

(vii) Other liabilities

Other liabilities are stated at carrying amounts.

28 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Financial instruments measured at fair value

(i) Financial assets available-for-sale

The estimated fair value is based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the balance sheet date.

(ii) Derivative financial instruments

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

Effective 1 January 2011, the Bank adopted the amendment to FRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (ie. as prices) or indirectly (ie. derived from prices); and
(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents the Bank's financial assets and liabilities measured at fair value as at 31 December 2011:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Derivative financial instruments	-	576	-	576
Financial assets available-for-sale	-	90,192	-	90,192
Financial liabilities				
Derivative financial instruments	-	46	-	46

28 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Financial instruments measured at fair value (continued)

The fair value of financial instruments traded in active markets (such as financial assets held for trading and financial assets available-for-sale) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing of each date of statement of financial position. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. These investments are included in Level 2 and comprise debt investments and derivative financial instruments. In infrequent circumstances where the valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in Level 3.

29 COMPARATIVE INFORMATION

No comparative information was presented as this was the first financial statements to be issued.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 21 May 2012.

BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato Abdullah Bin Mat Noh and Dayakrishna Vaidynatha Chetti, being two of the Directors of BNP Paribas Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 11 to 72 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank for the financial period ended on that date in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and Bank Negara Malaysia Guidelines.

Signed on behalf of the Board of Directors in accordance with their resolution.

DATO ABDULLAH BIN MAT NOH DIRECTOR	DAYAKRISHNA VAIDYNATHA CHETTI DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Dayakrishna Vaidynatha Chetti, being the Officer primarily responsible for the financial management of BNP Paribas Malaysia Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 11 to 72 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.

DAYAKRISHNA VAIDYNATHA CHETTI

Subscribed and solemnly declared by the abovenamed Dayakrishna Vaidynatha Chetti at Kuala Lumpur in Malaysia on , before me.

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BNP PARIBAS MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 918091 T)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of BNP Paribas Malaysia Berhad, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 72.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia, and for such internal control as the directors determine are 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 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 judgement, 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 Bank'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.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER
OF BNP PARIBAS MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 918091 T)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of their financial performance and cash flows for the period then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/13 (J))
Chartered Accountant

Kuala Lumpur