

Company No.

511251	V
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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

Director's Report and Audited Financial Statements

31 December 2013

Company No.

511251

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and related financial services. The principal activity of the subsidiary is that of providing Chinese visa application services.

There were no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	<u>Group</u> RM'000	<u>Bank</u> RM'000
Profit before taxation	80,085	72,936
Taxation	(23,225)	(21,190)
Net profit for the financial year	<u>56,860</u>	<u>51,746</u>

DIVIDENDS

No dividends has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not recommend any dividend in respect of the current financial year.

CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the current financial year.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

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DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and 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 there were no bad debts and adequate allowance had been made for doubtful debts.

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

CURRENT ASSETS

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

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and 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 of the Group and of the Bank 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 Group and of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

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DIRECTORS' REPORT (CONTINUED)

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Bank for the financial year 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 year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that requires disclosure or adjustments to the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of the last report and at the date of this report are as follows:

Zheng Weiping
Datuk Ter Leong Yap
Liu Lijing
Chai Woon Chew, Michael
Wang Hongwei
Tan Siak Tee (Retired on 28 June 2013)

In accordance with Article 76 of the Bank's Articles of Association, Zheng Weiping and Liu Lijing retires but being eligible, offers themselves for re-election.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, none of the Directors in office at the end of the financial year held any interest in shares of the Bank and its related corporations.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary 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.

During and at the end of the financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by Directors, or the fixed salary of a full time employee of the Bank as disclosed in Note 23 of the financial statements and of related corporations) 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 except the Directors received remuneration from related corporations in their capacities as executives of those related corporations.

HOLDING COMPANIES

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is China Investment Corporation, both of which were incorporated in China.

BUSINESS REVIEW 2013

In 2013, the Bank enhanced and refined trade finance business with the introduction of supply chain financing concept; specialised and structured trade financing on niche market such as receivables financing, bill negotiation and discounting. At the same time, the Bank was aggressively promoting Reminbi ('RMB') products including off-shore and on-shore foreign trade loan, loan against counter guarantee within holding company's group and other financial institutions, one-stop service provider for all banking matters related to business in China. The Bank will continue to actively collaborate with local authority to attract foreign investment.

BUSINESS OUTLOOK FOR 2014

Global economic activity is forecasted to strengthen moderately to be supported by substantially easing of fiscal consolidation and highly accommodative monetary policy in United States and Europe. Malaysia's gross domestic product ("GDP") is estimated to expand strongly driven by domestic demand which mainly supported by growth in private investment and resilient private consumption. With better global growth prospects, Malaysia's macroeconomic fundamentals would remain strong. Underpinned by strong growth of economies, Malaysian banking system is expected to remain resilient. The Bank will remain focus on managing and monitoring risk and expenses with continuous enhancement to the Bank IT system to strengthen the delivery infrastructure in order to provide quality products and services to customers as well as to attract new potential customers.

RATINGS BY EXTERNAL RATING AGENCY

The Bank is not rated by any external agency.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES

Zheng Weiping – Chairman, Non-Independent Non-Executive Director

Mdm. Zheng Weiping, Chinese Citizen, aged 61, was appointed to the Board in year 2012 as Chairman of the Bank, representing Bank of China Limited. She completed her studies in International Finance in year 1986 at The People's University of China (Renmin University of China).

Mdm. Zheng started her career as an officer at Bank of China Limited and she was responsible for the non-trade foreign exchange rate and interest rate management. In the progress of the transformation of Bank of China Limited from a specialist foreign exchange bank into state-owned commercial bank, she had actively participated in deposit related business development and Asset and Liability Management. She was promoted as the Manager/Deputy General Manager of Planning and Co-ordination Department in year 1986 and 1997, respectively. She was in charge of the Product Management Division which focuses on deposit management, business impact analysis and market risk management. The department had undergone restructuring in 1997 and she was assigned the role of Deputy General Manager of Asset and Liability Department, responsible for the business strategic planning, product management and market risk management. In addition, she also assumed the Chief Secretary role of the Interest Rate Committee at The Association of Banks in China.

Mdm. Zheng was transferred to Bank of China Ltd, Singapore Branch in 2004 as a Deputy General Manager to oversee Retail Banking, Treasury Department and all sub-branches in Singapore.

Mdm. Zheng was appointed as the Director to the board of director of Bank of China Nominee (Pte) Ltd in 2007.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Datuk Ter Leong Yap – Independent Non-Executive Director

Datuk Ter Leong Yap, Malaysian, aged 50, was appointed to the Board in year 2010 as an Independent Non-Executive Director of the Bank. He has no family relationship with any director of the Bank. He graduated from University of Malaya with a Bachelor degree in Mechanical Engineering.

Datuk Ter is the Executive Chairman and founder of Sunsuria Group of Companies and Top-Mech Group of Companies. In 1997, Top-Mech was awarded Pioneer Status by the Malaysian Government for becoming the first manufacturer of hoist and lifting equipment in Malaysia.

Datuk Ter is also actively involved in social work. Currently, he is the President of Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor, Deputy President of The Associated Chinese Chambers of Commerce and Industry of Malaysia ('ACCCIM'), Chairman of Socio Economic Research Committee of ACCCIM, Honorary Member, Malaysia-China Business Council and Committee Member of REHDA. He is also the Malaysia's representative for Malaysia-Singapore Business Council as well as the Honorary President of Young Malaysians Movement Malaysia. In addition, he also sits in the Board of School Directors as Vice Chairman, Board of Directors of Hin Hua High School Klang, Director of Kuen Cheng High School Kuala Lumpur and Director of Pin Hwa High School Klang. He has been appointed as Director to the Board of Director of University Kebangsaan Malaysia.

In 2002, Datuk Ter was conferred the AMN honour by the Yang Dipertuan Agong for his contributions to the society. In 2008, he was awarded the Top Best 50 Outstanding Malaysian Hokkien Award.

In 2011, he was conferred the Panglima Jasa Negara (P.J.N), by His Majesty, Yang Di-Pertuan Agong Tuanku Mizan Zainal Abidin.

His other directorships in public company is Malaysia Aica Berhad.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Liu Lijing – Non-Independent Non-Executive Director

Mdm. Liu Lijing, Chinese Citizen, aged 59 was appointed to the Board in 2012 as a Non-Executive Director representing Bank of China Limited. She has obtained her degree from the university of International Business and Economics, Beijing in January 1978.

Mdm. Liu joined Bank of China Limited immediately after she graduated from the university. She started her career as an executive at the Institute of International Finance Research Division, Head Office, Bank of China Limited for America and Asia regions. She was in this Division for nine years performing international finance and economic study and research for Asia and Japan.

She was transferred to Bank of China, Tokyo Branch in 1987 and was involved in international trade finance operations and was transferred back to the Institute of International Finance Research Division, Head Office, Bank of China Ltd for America and Asia Region Department after a year. She was promoted to the position of Deputy Head of the said department and subsequently Head of the Department, responsible for the analysis of the economic conditions and market trend of Asia and Japan to provide support in business strategies planning, projecting future economic trend movements and overall management of the department.

In December 1992, Mdm Liu was transferred to Japan, Osaka Branch as Head of Personal Banking Department and Deputy Branch Manager responsible for the personal banking business development and overall management of the branch.

In 1997, Mdm Liu was assigned the role of Deputy Director of the Institute of International Finance Research Division, Head Office, Bank of China Limited, responsible for international finance and economic research for Asia and Japan and the other administrative work of the Institution. She was in this position for eight years before her next posting.

She was transferred to Japan, Tokyo Branch in March 2005 as the Deputy General Manager of Tokyo Branch. She headed various job functions including International Trade Finance, Interbank Clearing, Marketing, Internal Audit, Risk Management and Legal and Compliance.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Chai Woon Chew, Michael – Independent Non-Executive Director

Mr Michael Chai, Malaysian, aged 56, is a lawyer and was appointed to the Board in year 2012 as an Independent Non-Executive Director of the Bank. He has no family relationship with any director of the Bank. He holds a Bachelor of Law (Hons) degree from the University of Surrey, United Kingdom and is a Barrister-at-Law at Lincoln's Inn London, United Kingdom.

He was admitted to the Higher Court of Malaya as an Advocate and Solicitor. He is currently the chief executive partner of Messrs. Michael Chai Ken (formerly known as Michael Chai & Co), a legal firm in Kuala Lumpur.

Mr Chai is also actively involved in social work. Currently, he is the Chairman for the Legal Affairs Committee of the Association of Chinese Chambers of Commerce and Industry of Malaysia. He has also assumed important roles in other associations.

Mr Chai was conferred the K.M.N and J.M.W. both honour by Yang Dipertuan Agong for his contributions to the society.

His other directorships in public companies are as follows:

- Minetech Resources Berhad
- KKB Engineering Berhad

Wang Hongwei – Non-Independent Executive Director/Chief Executive Officer

Mr. Wang Hongwei, Chinese Citizen, aged 51, was appointed to the Board in year 2013 as an Executive Director representing Bank of China Limited. He obtained his MBA from Dongbei University of Finance and Economics in June 2004.

He started his career with Bank of China, Dalian Branch, International Trade Settlement Division in December 1983. Since then, he has held various positions at the Branch and was promoted to Director General of the Division in October 1997.

In 1999, Mr. Wang was transferred to Bank of China, London Branch as Manager of Trade Financing Department for 4 years. He was transferred to Bank of China Liaoning Branch as Deputy General Manager of Corporate Business Division in 2003. Mr. Wang was assigned the role of General Manager of Electronic Bank Department, Bank of China, Liaoning Branch in 2005. He was in this position for 2 years before his appointment as the General Manager of Bank of China, Yingkou Branch in 2007.

He was transferred to Bank of China (Zambia) Limited in February 2010 as the General Manager (CEO). Mr. Wang was appointed as CEO of Bank of China (Malaysia) Berhad since January 2013.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

Adherence to the highest standards of corporate governance continues to be the cornerstone of the Bank's corporate culture.

Roles and Responsibilities of the Board of Directors

The Board of Directors of the Bank plays a critical role in ensuring sound and prudent policies and practices of the Bank. The Board carries ultimate responsibility for the proper stewardship of the Bank, ensures maximisation of shareholder's value and safeguarding the stakeholders' interests. It needs to oversee the affairs, establishing, amongst others, the corporate values, vision and strategy that will direct the activities of the Bank. It also provides effective check and balance mechanism in the overall management of the Bank.

The major duties and responsibilities of the Board include:

1. Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them;
2. Prescribes minimum standards and establishes policies on the management of credit risks and other key areas of the Bank's operations;
3. Regular oversight of the Bank's business operations and performance, and ensuring that the infrastructure, internal controls, and risk management processes are well in place to assess and manage business risks. The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia ('BNM') in the guidelines and directives issued from time to time.

Board Meetings and Supply of Information to the Board

Board meetings are held regularly, 6 times a year, whereby reports on the progress of the Bank's business operations and minutes of the meetings of Audit Committee and other committees set up by the Bank to oversee various risks undertaken are tabled for review by Members of the Board. The Board meetings are convened to review and approve the Bank's quarterly financial statements, deliberate on the performance of the Bank and to provide policy direction and guidance for the management.

The agenda for every Board meeting, together with Management reports, proposal papers and supporting documents, are furnished to all the Members of the Board for their perusal well in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making by the Directors.

Minutes of Board meetings are circulated to all Directors for their perusal prior to confirmation of minutes at the following Board meeting.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors, including policy guidelines issued by BNM that concern the Bank or the discharge of their duties as Directors of a financial institution. Every member of the Board has ready and unrestricted access to the advice and services of the Company Secretary and the Directors have the liberty to seek external professional advice if so required by them.

The attendance of the Board of Directors' meetings held during 2013 is as follows:

Composition of Board of Director	Number of Board Meetings	
	Held	Attended
Datuk Ter Leong Yap Independent Non-Executive Director	6	6
Zheng Weiping Chairman/ Non-Independent Non-Executive Director	6	6
Liu Lijing Non-Independent Non-Executive Director	6	6
Chai Woon Chew, Michael Independent Non-Executive Director	6	6
Wang Hong Wei Non-Independent Executive Director	6	5
Tan Siak Tee (Retired on 28 June 2013) Independent Non-Executive Director	3	3

Effectiveness of the Board of Directors

1. **Division of Responsibilities Between the Chairman and Chief Executive Officer**

The roles of the Chairman and the Chief Executive Officer ('CEO') are distinct and separate, with each having her and his respective scope of duties and responsibilities, to ensure a proper balance of power and authority.

The Chairman of the Board is a Non-Executive Director and her main responsibility is to lead and manage the work of the Board in order to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. Together with the rest of the Non-Executive and Independent Directors, she leads the discussions on the strategies and policies recommended by the Management.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

1. Division of Responsibilities Between the Chairman and Chief Executive Officer (continued)

The responsibilities for the day-to-day management of the Bank rest with the CEO. He is accountable for leading the management team, implementing the policies or decisions approved by the Board. He is also responsible for charting the future direction of the Bank for the Board's consideration and approval.

The Board considers and approves a set of expectations on the CEO. This subsequently acts as a yardstick against which his performance will be measured, evaluated and rewarded.

2. Composition of the Board

The Board currently comprises personnel with differing expertise and of high standing in the society. The Board comprises 5 members, of whom one is Executive Director, and 2 out of 4 Non-Executive Directors are independent as defined under BNM Guidelines on Corporate Governance for Licensed Institutions.

There is effective check and balance on the Board, with four-fifth of the Board Members being Non-Executive Directors and the Independent Directors consisted of more than one-third of the Board members.

3. Appointments to the Board

The proposed appointment of new member(s) of the Board or the re-election of Directors at the General Meeting of the Bank, are assessed and recommended by the Board and approved by the holding company before the application on the proposed appointment is submitted to BNM for approval. The selection criteria with regard to the desired candidate encompass the combination of competencies, the minimum qualifications specified by regulatory authorities and relevant experience.

The Board of Directors has a broad range of skills and credentials. Each brings a high degree of independent judgement and knowledge to the Board's discussions. They are individuals of high calibre and social standing with backgrounds in banking, law, accounting and economics.

One-third of the Directors for the time being must retire at each Annual General Meeting ('AGM') and if eligible, may offer themselves for re-election. The profiles of the members of the Board are set out on pages 5 to 8 of the Report.

4. Directors' Performance and Remuneration

The holding company will carry out assessment on the performance of the Board annually. The members of the Board will be assessed based on the specific criteria set as well as the performance assessment of the Bank as a whole. At the same, an annual assessment of individual directors, Board as a whole and Board Committees will be carried out by the Bank.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

4. Directors' Performance and Remuneration (continued)

The Board will recommend on the policies and framework in relation to rewards and benefits of Directors to the holding company for approval.

The Independent Directors who had served for the financial year are paid annual directors' fee with the shareholder's approval at the AGM.

The appointment, compensation and benefits of the CEO will be assessed by the holding company and the Board based on the qualification, experience and achievement of targets set.

5. Induction and Training

The newly appointed Directors will receive in-house orientation and education programmes to assist them to familiarise with the industry and the Bank within 3 months of the appointment. The programmes should cover at a minimum the nature of business, the corporate strategy of the Bank, responsibilities and duties of the Board as a whole, an overview of the risks of the businesses, the risk management strategy of the Bank, legal requirements and financial overview of the Bank.

The Bank and the Holding Company would ensure that all Directors receive continuous training in order to keep abreast with latest developments in the industry, particularly on relevant new laws, regulations and the changing risk factors from time to time.

INFORMATION ON COMMITTEES OF THE BANK

The Board has established Board Committees as well as various Management Committees to assist the Board in the running of the Bank.

The Board Committee and Management Committees in the Bank are as follows:

Board Committees

- Audit Committee
- Board Risk Committee
- Board Nominating Committee
- Board Remuneration Committee

Management Committees

- Risk Management and Internal Control Committee
- Business Development Committee
- Credit and Loan Committee
- Information technology Steering Committee
- Bulk Purchase management procurement Committee

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

The roles and responsibilities of the Board Committees are as follows:

1. **Audit Committee**

The Board has approved the establishment of Audit Committee and its terms of reference.

(a) **Membership and Attendance**

The Audit Committee ('AC') comprises the following members and details of attendance of each member at the AC meetings held during 2013 are as follows:

Composition of Audit Committee	Number of AC Meetings	
	Held	Attended
Chai Woon Chew, Michael Chairman (since 28 June 2013) / Member/Independent Non-Executive Director	5	5
Datuk Ter Leong Yap Member/Independent Non-Executive Director	5	5
Liu Lijing Member/Non-Independent Non-Executive Director	5	5
Tan Siak Tee (Retired on 28 June 2013) Chairman/Independent Non-Executive Director	2	2

(b) **Composition and Terms of Reference**

The AC shall comprise only Non-Executive Directors with at least (3) three members but not more than (5) five members, of which the majority should be Independent Directors. At least one member should have accounting expertise or experience in the field of finance.

The AC members shall elect a Chairman among them who is an Independent Non-Executive Director.

A minimum of (4) four meetings per year are planned although meetings may be called at any time at the Chairman's discretion. Meeting includes by way of physical presence and telephone/video conferencing.

The quorum shall be not less than (2) two.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

1. Audit Committee (continued)

(c) Roles and Responsibilities

The AC is given full authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive director to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The AC should have full and unrestricted access to information and be able to obtain independent professional advice.

(d) Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- (i) The AC reviews internal control issues identified by the Internal Audit Department, the external auditors, regulatory authorities, the auditors from the holding company and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the AC meetings are tabled to the Board of the Bank on a periodic basis;
- (ii) The Internal Audit Department of the Bank monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. The frequency of the audit is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of the departments. The annual audit plan is reviewed and approved by the AC and the findings of the audits are submitted to the AC for review at their periodic meetings.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

2. Board Risk Committee

The Board has approved the establishment of Board Risk Committee and its terms of reference.

(a) Membership and Attendance

The Board Risk Committee ('BRC') comprises the following members and details of attendance of each member at the BRC meetings held during 2013 are as follows:

Composition of Board Risk Committee	Number of Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman (since 28 June 2013) / Member/Independent Non-Executive Director	5	5
Liu Li Jing Member/Non-Independent Non-Executive Director	5	5
Chai Woon Chew, Michael Member/Independent Non-Executive Director	5	5
Tan Siak Tee (Retired on 28 June 2013) Chairman/Independent Non-Executive Director	2	2

(b) Composition and Terms of Reference

The BRC shall comprise only non-executive directors with at least 3 members. The committee shall be chaired by an independent director.

The committee shall hold regular meetings, at least once every quarter and should report regularly to the Board.

The quorum shall be three (3) persons.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

2. Board Risk Committee (continued)

(c) Objective

The objective of BRC is to oversee the senior's management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the integrated risk management functions within the Bank is in place and effectively discharged.

(d) Roles and responsibilities

The BRC shall be responsible for:

- (i) reviewing and recommending risk management strategies, policies and risk tolerance for board's approval;
- (ii) reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and to the extent to which these are operating effectively;
- (iii) ensuring infrastructure, resources and systems are in place for risk management that is, ensuring that the staff responsible for implementing risk management systems perform those duties independently of the bank's risk taking activities; and
- (iv) reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Board Nominating Committee

(a) Membership and Attendance

Board Nominating Committee ('BNC') comprises the following members and details of attendance of each member at the BNC meetings held during 2013 are as follows:

Composition of Board Nominating Committee	Number of BNC Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	4	3
Liu Lijing Member/Non-Independent Non-Executive Director	4	4
Chai Woon Chew, Michael Member/ Independent Non-Executive Director	1	1
Tan Siak Tee (Retired on 28 June 2013) Member/Independent Non-Executive Director	2	2

(b) Composition

The BNC shall consists of a minimum of five (5) members. At least four (4) is non-executive directors. The committee is chaired by either the chairman of the board or an independent non-executive director.

In order to avoid conflict of interest, a member of the committee shall abstain from participating in discussions and decisions on matters involving him.

Meeting to be held as and when required and the full committee meets at least once a year.

The quorum shall consist of a least three (3) persons comprising any of the Committee Chairman and Members.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Board Nominating Committee (continued)

(c) Objective

The objective of the committee is to provide a formal and transparent procedure for the appointment of directors and CEO as well as assessment of effectiveness of individual directors, board as a whole and performance of CEO and key senior management officers.

(d) Roles and responsibilities

The BNC shall be responsible for:

- (i) establishing the minimum requirements on the skills, knowledge, experience, qualifications and other core competencies of a Director and the CEO;
- (ii) assessing and recommending to the Board the nominees for appointment of Director, Board Committee member and CEO;
- (iii) assessing and recommending to the Board, the re-appointment of Director/CEO upon expiry of their respective terms of appointment as approved by BNM;
- (iv) on an annual basis, reviewing the required mix of skills, experience and core competencies within the Board and make recommendations to the board with regards to any changes;
- (v) overseeing the overall composition of the board, in terms of the appropriate size and skills, and the balance between executive director, non-executive directors and independent director through annual review;
- (vi) recommending to the board the removal of a director or CEO from the board or management if the director or CEO is ineffective, errant and negligent in discharging his responsibilities;
- (vii) establishing a mechanism for the formal assessment on the effectiveness of the board as a whole and the contribution of each director to the effectiveness of the board, the contribution of the board's various committees and the performance of the CEO. Annual assessment is conducted based on objective performance criteria. Such performance criteria is approved by the full board;
- (viii) review the results of the Board performance evaluation process;
- (ix) ensuring that all directors receive an appropriate continuous training programme in order to keep abreast with the least developments in the industry;

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Board Nominating Committee (continued)

(d) Roles and responsibilities (continued)

- (x) overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- (xi) recommending to the board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities; and
- (xii) assessing on an annual basis, to ensure that the directors and key senior management officers are not disqualified under Section 59(1) of the Financial and Services Act ('FSA') 2013.

4. Board Remuneration Committee

(a) Membership and Attendance

Board Remuneration Committee ('BRC') comprises the following members and details of attendance of each member at the BRC meetings held during 2013 are as follows:

Composition of Board Remuneration Committee	Number of Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	4	3
Liu Lijing Member/Non-Independent Non-Executive Director	4	4
Chai Woon Chew, Michael Member/ Independent Non-Executive Director	1	1
Tan Siak Tee (Retired on 28 June 2013) Member/Independent Non-Executive Director	2	2

BANK OF CHINA (MALAYSIA) BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

4 Board Remuneration Committee (continued)

(b) Composition

The BRC comprises at least 3 members of non-executive directors and chaired by an independent director. In order to avoid conflict of interest, a member of the committee is to abstain from participating in discussions and decisions on matters involving him.

The full committee meets at least once a year to review the remuneration packages of the directors, CEOs and key senior management officers.

(c) Objectives

The objective of the BRC is to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer, and key senior management officers (which includes Deputy Chief Executive Officer and Assistant Chief Executive Officer) and to ensure that compensation is competitive and consistent with the Bank culture, objectives and strategy.

(d) Roles and Responsibilities

The BRC is responsible for:

- (i) recommending a framework and developing a clear policy of remuneration for directors, CEO and key senior management officers for the full Board's approval;
- (ii) determining the balance of remuneration package, which should be sufficient to attract and retain directors of caliber, and yet not excessive to the extent the Bank's funds are used to subsidize the excessive remuneration package. The framework covers all aspects of remuneration such as the remuneration and employment conditions of the industry including director's fees, salaries, allowances, bonuses, share options, benefits-in-kind ('BIK') and termination benefits;
- (iii) recommending specific remuneration packages for the CEO and key senior management officers;
- (iv) details of the remuneration (including benefits-in-kind) of the individual directors, CEO and key senior management officers are submitted together with the submission of the annual financial reports of the Bank to BNM.

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BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

ACCOUNTABILITY AND AUDIT

Financial Reporting

The annual financial statements and quarterly results are reviewed by the Audit Committee and approved by the Board of Directors for Bank Negara Malaysia's clearance prior to public release. A Statement of Responsibility by Directors in respect of preparing the annual audited financial statements of the Group and of the Bank is set out on page 23 of this financial statements.

Internal Audit and Control

The Internal Audit reports functionally to the Audit Committee of the Bank. Its function is independent of the activities or operations of other operating units of the Bank and its subsidiary.

The Internal Audit function undertakes regular reviews of the Group's and of the Bank's operations and the systems of internal control. Regular reviews are performed on the business processes to examine and evaluate the adequacy and efficiency of financial and operating controls. Significant risks and non-compliance impacting the Group and the Bank are highlighted and where applicable, recommendations are provided to improve on the effectiveness of risk management, internal control system and governance processes. Management follows through and reviews the status of actions on recommendations made by the internal auditors. Statuses of actions taken or to be taken by the Management are submitted to the Audit Committee for deliberation. Reviews by Internal Audit are carried out on units that are identified using risk-based approach taking into consideration input from the Management, Audit Committee and the Board of Directors.

The Audit Committee meets on a scheduled basis to review issues identified in audit reports prepared by Internal Audit and further evaluates the effectiveness and adequacy of the Group's and of the Bank's internal control system. The Audit Committee has active oversight on Internal Audit's independence, scope of work and resources. It also reviews the Internal Audit function, the scope of the annual audit plan and frequency of the internal audit activities. The Chief Internal Auditor attended the Audit Committee meetings to facilitate the deliberation of audit reports. The minutes of the Audit Committee meetings are subsequently tabled to the Board of Directors for information.

Related Party Transaction

The details of the transaction with holding companies, fellow subsidiaries, subsidiary, directors and key management are set out under note 27 to the financial statements.

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

In the preparation of the financial statements of the Group and of the Bank, the directors have taken reasonable steps to ensure that Bank Negara Malaysia's Guidelines on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for financial institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 9 May 2014.

CHAI WOON CHEW, MICHAEL
DIRECTOR

WANG HONGWEI
DIRECTOR

Kuala Lumpur
9 May 2014

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

We, Chai Woon Chew, Michael and Wang Hongwei, being two of the Directors of Bank of China (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 26 to 114 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2013 and of their financial performance and cash flows for the financial year then ended.

In accordance with a resolution of the Board of Directors dated 9 May 2014.

CHAI WOON CHEW, MICHAEL
DIRECTOR

WANG HONGWEI
DIRECTOR

Kuala Lumpur
9 May 2014

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

I, Cho Lai Kuan, being the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 26 to 114 are, to the best of my knowledge and belief, 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.

CHO LAI KUAN

Subscribed and solemnly declared by the abovenamed Cho Lai Kuan at Kuala Lumpur on 9 May 2014, before me.

COMMISSIONER FOR OATHS

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

Report on the financial statements

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise statements of financial position as at 31 December 2013 of the Group and of the Bank, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 26 to 114.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other matters

- 1. The financial statements of Bank of China (Malaysia) Berhad for the financial year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 20 June 2013.
- 2. This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Chan Hooi Lam
No.2844/02/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
9 May 2014

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
ASSETS					
Cash and short-term funds	2	4,463,675	1,929,445	4,461,023	1,929,298
Deposits and placements with banks and other financial institutions	3	1,347,112	564,549	1,347,112	564,549
Derivative assets	4	1,222	629	1,222	629
Held-to-maturity securities	5	252,459	61,157	252,459	61,157
Loans and advances	6	2,796,973	1,945,141	2,796,973	1,945,141
Other assets	7	13,926	18,126	13,109	17,700
Tax recoverable		-	5,233	-	5,020
Deferred tax assets	8	3,580	3,042	3,503	2,907
Statutory deposit with Bank Negara Malaysia	9	77,800	40,200	77,800	40,200
Investment in a subsidiary	10	-	-	1,000	1,000
Property and equipment	11	16,357	7,652	13,647	6,763
Intangible assets	12	108	212	106	212
TOTAL ASSETS		8,973,212	4,575,386	8,967,954	4,574,576
LIABILITIES					
Deposits from customers	13	3,205,471	2,198,567	3,213,514	2,204,289
Deposits and placements of banks and other financial institutions	14	5,073,592	1,848,736	5,073,592	1,848,736
Derivative liabilities	4	712	866	712	866
Other liabilities	15	175,624	67,698	173,139	66,395
Provision for taxation		1,434	-	961	-
TOTAL LIABILITIES		8,456,833	4,115,867	8,461,918	4,120,286
EQUITY					
Share capital	16	304,000	304,000	304,000	304,000
Reserves	17	212,379	155,519	202,036	150,290
TOTAL EQUITY		516,379	459,519	506,036	454,290
TOTAL LIABILITIES AND EQUITY		8,973,212	4,575,386	8,967,954	4,574,576
COMMITMENTS AND CONTINGENCIES	28	2,601,513	2,162,787	2,601,513	2,162,787

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Operating revenue	18	298,797	198,691	286,170	193,768
Interest income	19	256,288	160,813	256,288	160,813
Interest expense	20	(157,323)	(98,601)	(157,323)	(98,601)
Net interest income		98,965	62,212	98,965	62,212
Other operating income	21	42,509	37,878	29,882	32,955
Other operating expenses	22	(56,244)	(38,789)	(50,766)	(34,660)
Operating profit		85,230	61,301	78,081	60,507
Allowance for impairment on loans and advances	24	(5,145)	(4,317)	(5,145)	(4,317)
Profit before taxation		80,085	56,984	72,936	56,190
Taxation	25	(23,225)	(14,871)	(21,190)	(13,251)
Profit for the financial year, representing total comprehensive income for the financial year		56,860	42,113	51,746	42,939
Earnings per share - basic/fully diluted (sen)	26	18.7	13.9		

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

	<u>Share capital</u> RM'000	<u>Non- distributable statutory reserves</u> RM'000	<u>Distributable retained profits</u> RM'000	<u>Total</u> RM'000
<u>Group</u>				
At 1 January 2013	304,000	93,688	61,831	459,519
Total comprehensive income for the year	-	-	56,860	56,860
Transfer to statutory reserve	-	25,873	(25,873)	-
At 31 December 2013	<u>304,000</u>	<u>119,561</u>	<u>92,818</u>	<u>516,379</u>
At 1 January 2012	304,000	72,218	41,188	417,406
Total comprehensive income for the year	-	-	42,113	42,113
Transfer to statutory reserve	-	21,470	(21,470)	-
At 31 December 2012	<u>304,000</u>	<u>93,688</u>	<u>61,831</u>	<u>459,519</u>

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	<u>Sharel capital</u> RM'000	<u>Non- distributable statutory reserves</u> RM'000	<u>Distributable retained profits</u> RM'000	<u>Total</u> RM'000
<u>Bank</u>				
At 1 January 2013	304,000	93,688	56,602	454,290
Total comprehensive income for the year	-	-	51,746	51,746
Transfer to statutory reserve	-	25,873	(25,873)	-
At 31 December 2013	<u>304,000</u>	<u>119,561</u>	<u>82,475</u>	<u>506,036</u>
<u>Bank</u>				
At 1 January 2012	304,000	72,218	35,133	411,351
Total comprehensive income for the year	-	-	42,939	42,939
Transfer to statutory reserve	-	21,470	(21,470)	-
At 31 December 2012	<u>304,000</u>	<u>93,688</u>	<u>56,602</u>	<u>454,290</u>

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		80,085	56,984	72,936	56,190
<i>Adjustments for:</i>					
Depreciation of property and equipment	22	1,989	1,601	1,801	1,377
Amortisation of intangible assets	22	107	113	106	109
Amortisation of premium less accretion of discount	19	249	222	249	222
Allowance for impairment on loans and advances	24	5,145	4,317	5,145	4,317
Interest income from held-to-maturity securities	19	(4,859)	(2,162)	(4,859)	(2,162)
Unrealised foreign exchange (gain)/loss	21	(4,457)	662	(4,457)	662
Net (gain)/loss on revaluation of derivatives	21	(747)	230	(747)	230
Property and equipment written off	22	614	2	-	2
Dividend income	21	-	-	-	(5,800)
Operating profit before changes in operating assets and liabilities		78,126	61,969	70,174	55,147
(INCREASE)/DECREASE IN OPERATING ASSETS					
Deposits and placements with banks and other financial institutions		(782,563)	(341,263)	(782,563)	(341,263)
Loans and advances		(856,977)	(502,789)	(856,977)	(502,789)
Other assets		8,657	(5,669)	9,048	(5,707)
Statutory deposit with Bank Negara Malaysia		(37,600)	(22,500)	(37,600)	(22,500)
INCREASE IN OPERATING LIABILITIES					
Deposits from customers		1,006,904	679,580	1,009,225	678,592
Deposits and placements of banks and other financial institutions		3,224,856	861,757	3,224,856	861,757
Other liabilities		107,926	32,223	106,744	32,031
Cash generated from operating activities		2,749,329	763,308	2,742,907	755,268
Tax paid		(17,096)	(19,174)	(15,805)	(17,067)
Net cash generated from operating activities		2,732,233	744,134	2,727,102	738,201

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividend income received from subsidiary		-	-	-	5,800
Purchase of property and equipment	11	(11,308)	(1,867)	(8,685)	(1,831)
Purchase of intangible assets	12	(3)	(316)	-	(316)
Purchase of held-to-maturity securities		(506,680)	(215,802)	(506,680)	(215,802)
Proceeds from maturity of held-to-maturity securities		317,000	195,000	317,000	195,000
Interest received on held-to-maturity securities		2,988	1,998	2,988	1,998
Net cash used in investing activities		<u>(198,003)</u>	<u>(20,987)</u>	<u>(195,377)</u>	<u>(15,151)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR					
		2,534,230	723,147	2,531,725	723,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR					
		<u>1,929,445</u>	<u>1,206,298</u>	<u>1,929,298</u>	<u>1,206,248</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR					
	2	<u><u>4,463,675</u></u>	<u><u>1,929,445</u></u>	<u><u>4,461,023</u></u>	<u><u>1,929,298</u></u>

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

A BASIS OF PREPARATION

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2013, the Group and the Bank adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2013.

- (i) Financial year beginning on/after 1 January 2013
- Amendments to MFRS 101: *Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on/after 1 July 2012)
 - MFRS 3 *Business Combinations* (IFRS 3 Business Combinations issued by IASB in March 2004)
 - MFRS 127 *Consolidated and Separate Financial Statements* (IAS 27 revised by IASB in December 2003)
 - MFRS 10 *Consolidated Financial Statements*
 - MFRS 11 *Joint Arrangements*
 - MFRS 12 *Disclosure of Interests in Other Entities*
 - MFRS 13 *Fair Value Measurement*
 - MFRS 119 *Employee Benefits* (IAS 19 as amended by IASB in June 2011)
 - MFRS 127 *Separate Financial Statements* (IAS 27 as amended by IASB in May 2011)
 - MFRS 128 *Investment in Associate and Joint Ventures* (IAS 28 as amended by IASB in May 2011)
 - IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface*
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
 - Annual Improvements 2009-2011 Cycle
 - Amendments to MFRS 1: *Government Loans*

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and of the Bank other than the new disclosures under MFRS 13 mainly in Note 34.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and of the Bank but not yet effective are as described below.

These standards and amendments will be applied in the respective effective periods set out below:

(ii) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132, *Financial Instruments: Presentation* (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.
- Amendment to MFRS10, *Consolidated Financial Statements* defines an investment entity and require a parent that is an investment entity to measures its investment in particular subsidiaries at fair value through profit or loss in accordance with MFRS 9 *Financial Instruments* instead of consolidating those subsidiaries in its consolidated and separate financial statements.

(iii) Effective date to be announced by the Malaysian Accounting Standards Board

- MFRS 9, *Financial Instruments* (effective date to be announced) replaces IAS 139 or MFRS 139, *Financial Instruments: Recognition and Measurement* in stages MFRS 9 has a single measurement model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business models for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising 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").
- The new hedge accounting model under MFRS 9, together with corresponding disclosures about risk management activity under MFRS 7 were developed in response to concerns raised by prepares of financial statements about the difficulty of appropriately reflecting their risk management activities.
- On 24 July 2013, the International Accounting Standards Board ("IASB") tentatively decided to defer the mandatory effective date of IFRS 9 and that the mandatory effective date should be left open pending finalisation of the impairment methodology, and classification and measurement requirements. Nevertheless, IFRS 9 would still be available early adoption. IFRS 7 or MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

The above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Group and of the Bank in the year of initial application except for MFRS 9. The Group and the Bank will assess the impact when the full standard of IFRS 9 or MFRS 9 is ready.

B BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at the reporting date. The financial statements of the subsidiary used in the preparation of the consolidated financial statements is prepared for the same reporting date as the Bank. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Bank controls an investee if and only if the Bank has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting rights of an investee, the Bank considers the following in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee:

- (i) The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- (ii) Potential voting rights held by the Bank, other vote holders or other parties;
- (iii) Rights arising from other contractual arrangements; and
- (iv) Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiary is consolidated when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Bank.

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B BASIS OF CONSOLIDATION (CONTINUED)

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for recognition and measurement of impairment loss on goodwill is set out in Note G below.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

B BASIS OF CONSOLIDATION (CONTINUED)

Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

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

C PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property and equipment is calculated to write-down the costs of the property and equipment, or their revalued amounts, to their residual values on a straight line basis over their estimated useful lives as follows:

Computer equipment	2.5 to 3 years
Motor vehicles	6 years
Office equipment	5 to 7 years
Renovation	5 to 10 years

Depreciation on work-in-progress commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

At each reporting date, the Group and the Bank assess whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. See Note G in summary of significant accounting policies on impairment of non-financial assets.

Repairs and maintenance are charged to profit or loss during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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D INTANGIBLE ASSETS

Computer Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives of 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred.

E FINANCIAL ASSETS

(a) Classification

The Group and the Bank classify financial assets into financial assets at fair value through profit or loss, available-for-sale securities, loans and receivables and held-to-maturity securities. The classification depends on the purpose for which the financial assets were required. Management determines the classification of the financial assets at initial recognition, at the point when the transactions are entered into.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets is managed and its performance evaluated on a fair value basis; or
- the assets include embedded derivatives and such derivatives are required to be recognised separately

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

(iii) Held-to-maturity

Held-to-maturity ('HTM') are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold to maturity. If the Group or the Bank were to sell other than an insignificant amount of financial investments HTM, the whole category would be tainted and reclassified as available-for-sale.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(a) Classification (continued)

(iv) Available-for-sale

Available-for-sale ('AFS') financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories, and are subsequently measured at fair value, with unrealised gains and losses arising from changes in fair value recognised in equity, net of income tax, until such securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date that an asset is delivered to or by the Group and the Bank.

Financial instruments are initially recognised at their fair value plus transaction costs directly attributable to the acquisition or issuance of the instruments. For financial instruments classified as fair value through profit and loss, transaction costs are expensed off.

(c) Subsequent measurement

AFS financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of AFS financial assets are recognised in other comprehensive income, except for impairment losses (see accounting policy Note F) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Dividend income on AFS equity instruments are recognised separately in profit or loss when the right to receive payment is established.

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired or have been transferred and either:

- (a) substantially all risks and rewards of ownership have been transferred; or
- (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of asset has been transferred.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

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F IMPAIRMENT OF FINANCIAL ASSETS

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

The criteria that the Group and the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group or the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Assets carried at amortised cost

Loans and advances

The Group and the Bank first assess whether objective evidence of impairment exists individually for all loans and advances.

If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed loans and advances, or loans and advances that have been individually evaluated, but not considered to be individually impaired, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan and advances' carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the loan and advances is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If the loan and advances has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

Loans and advances (continued)

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

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

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

Where a loan and advances is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loan are classified in "impairment losses on loans and advances". Recoveries in full or in part of amounts previously written off are credited to profit or loss in "impairment losses on loans and advances".

Held-to-maturity

If there is objective evidence that an impairment loss on HTM securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a HTM security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(b) Assets carried at fair value

When a decline in fair value of AFS securities has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in profit or loss.

If, in subsequent periods, the fair value of a debts instrument classified as AFS increase and the increase can be objectively related to an event occurring after the impairment was recognised in profit or loss, that portion of impairment loss is reversed through profit or loss. For equity instruments, no reversal of impairment loss through profit or loss is allowed when there is an increase in fair value of the equity instrument in subsequent period.

G IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash generating units).

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount, other than goodwill, is recognised in profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

H CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short-term commitments and are readily convertible into cash without significant risk of change in value.

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I FINANCIAL LIABILITIES

The Group's and the Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

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

(b) Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers and bills and acceptances payable.

Bills and acceptance payable represent the Group's and the Bank's own bills and acceptances rediscounted and outstanding in the market.

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J FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Group or the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the fair value of the guarantee obligation. No receivable for the future premiums is recognised.

The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation in accordance with MFRS 118 *Revenue*, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Group and the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

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K LEASE

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(a) Finance leases

Leases of assets where the Group and the Bank have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group and of the Bank in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

(b) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period.

L PROVISIONS

Provisions, other than provision for bad and doubtful debts, are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Where the Group and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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M DIVIDENDS PAYABLE

Dividends on ordinary shares are recognised as liabilities when shareholders' right to receive the dividend is established.

N CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and the Bank do not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and of the Bank. The Group and the Bank do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

O RECOGNITION OF INTEREST INCOME

Interest income is recognised on an accrual basis using the effective interest method. Interest income on housing loans and term loans is recognised by reference to monthly rest periods.

The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Group and the Bank reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Interest income from securities portfolio is recognised on an accrual basis using the effective interest method. The interest income includes coupons earned/accrued and accretion/amortisation of discount/premium on these securities.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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P RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Q CURRENCY TRANSLATIONS

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group and the Bank operate (the 'functional currency'). The financial statements of the Group and the Bank are presented in Ringgit Malaysia, which is also the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

R INCOME TAX

Current tax

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operate and include all taxes based upon the taxable profits for the financial year.

Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities 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 the transaction affects neither accounting nor taxable profit or loss.

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

Deferred tax is recognised on temporary differences principally arising from depreciation of property and equipment, amortisation of intangible assets and provision for other liabilities.

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 the deferred tax liability is settled.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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R INCOME TAX (CONTINUED)

Deferred tax (continued)

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.

S EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Bank pay fixed contributions to the national pension scheme, the Employees' Provident Fund ("EPF") and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group's and the Bank's contributions to the defined contribution plan are charged to profit or loss in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

T FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favorable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Financial instruments recognised in the statement of financial position

The particular recognition method adopted for financial instruments recognised in the statement of financial position is disclosed in the individual accounting policy statements associated with each item.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

T FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not recognised in the statement of financial position

The Group and the Bank are parties to financial instruments that comprise foreign currency forward contracts. These instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. If hedge accounting is applied, the Group and the Bank designate certain derivatives as either:

Fair value hedge

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss to offset the value change on the hedging instrument.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective are recorded in OCI and deferred in equity. The deferred gains or losses are released to the income statement when the hedged cash flow items affect profit or loss. The ineffective part of any gain or loss is recognised in profit or loss immediately.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses accumulated in the equity are recycled to profit or loss when the foreign operation is partially disposed or sold.

Derivatives that do not qualify for hedge accounting

For derivative instruments that do not qualify for hedge accounting, their changes in the fair values are recognised immediately in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

1 GENERAL INFORMATION

The principal activities of the Bank are commercial banking and related financial services. The principal activity of the subsidiary is that of providing Chinese visa application services.

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is China Investment Corporation, both of which were incorporated in China.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is Mezzanine Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	<u>Group</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Cash and balances with banks and other financial institutions	573,565	143,278
Money at call and deposit placements maturing within one month	3,890,110	1,786,167
	<u>4,463,675</u>	<u>1,929,445</u>
	<u><u>4,463,675</u></u>	<u><u>1,929,445</u></u>
	<u>Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Cash and balances with banks and other financial institutions	570,913	143,131
Money at call and deposit placements maturing within one month	3,890,110	1,786,167
	<u>4,461,023</u>	<u>1,929,298</u>
	<u><u>4,461,023</u></u>	<u><u>1,929,298</u></u>

Company No.

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Bank Negara Malaysia	-	65,005
Other financial institutions	1,347,112	499,544
	<u>1,347,112</u>	<u>564,549</u>

4 DERIVATIVE ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges and also transacted for proprietary trading purposes.

The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the reporting date are analysed below.

	<u>Group and Bank</u>		
	<u>Contract or underlying principal amount</u>	<u>Derivative assets</u>	<u>Derivative liabilities</u>
	RM'000	RM'000	RM'000
31 December 2013			
Foreign exchange related contract: -forward/swaps	327,624	1,222	(712)
	<u>327,624</u>	<u>1,222</u>	<u>(712)</u>
31 December 2012			
Foreign exchange related contract: -forward/swaps	651,493	629	(866)
	<u>651,493</u>	<u>629</u>	<u>(866)</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

5 HELD-TO-MATURITY SECURITIES

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	207,435	41,101
Negotiable instruments of deposits	45,024	20,056
	<u>252,459</u>	<u>61,157</u>

6 LOANS AND ADVANCES

At amortised cost

(i) By type

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Overdrafts	343,045	226,199
Term loans		
- Housing loans	89,179	23,751
- Syndicated term loan	338,493	268,477
- Other term loans	1,025,562	726,897
Bills receivable	384,888	423,934
Trust receipts	2,322	7,535
Claims on customers under acceptance credits	181,220	103,127
Revolving credits	455,735	122,202
Staff loans	2,494	2,192
Loans to banks and other financial institutions	-	61,647
Total gross loans and advances	<u>2,822,938</u>	<u>1,965,961</u>
Allowance for bad and doubtful debts:		
- Collective impairment allowance	(25,066)	(20,809)
- Individual impairment allowance	(899)	(11)
Total net loans and advances	<u>2,796,973</u>	<u>1,945,141</u>

(ii) By geographical distribution

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Malaysia	2,377,536	1,402,636
Other countries	445,402	563,325
	<u>2,822,938</u>	<u>1,965,961</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

6 **LOANS AND ADVANCES (CONTINUED)**

(iii) By interest rate sensitivity

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Fixed rate		
- Other fixed rate loan	356,935	383,560
Variable rate		
- BLR plus	1,466,242	951,303
- Cost plus	542,644	277,198
- Other variable rates	457,117	353,900
	<u>2,822,938</u>	<u>1,965,961</u>

(iv) By purpose

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Purchase of securities	116,156	29,168
Purchase of transport vehicles	21	48
Purchase of landed property		
- Residential	103,715	36,996
- Non-residential	552,755	423,739
Purchase of fixed assets other than land and building	6,416	7,824
Personal use	87,151	66,290
Construction	70,669	16,274
Working capital	1,833,903	1,211,630
Other purpose	52,152	173,992
	<u>2,822,938</u>	<u>1,965,961</u>

(v) By residual contractual maturity - remaining

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Up to one month	436,719	542,400
More than one month to three months	516,867	187,219
More than three months to six months	52,388	396,713
More than six months to twelve months	37,723	127,236
More than twelve months	1,779,241	712,393
	<u>2,822,938</u>	<u>1,965,961</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

6 **LOANS AND ADVANCES (CONTINUED)**

(vi) **Impaired loans and advances**

(a) **Movement in impaired loans and advances**

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
At 1 January	14,072	93
Classified as impaired during the year	59	34,262
Amount recovered	(1,790)	(20,283)
	<u>12,341</u>	<u>14,072</u>
At 31 December	12,341	14,072
Individual impairment allowance	(899)	(11)
	<u>11,442</u>	<u>14,061</u>
Ratio of net impaired loans and advances to gross loans and advances less individual allowance for impairment	<u>0.405%</u>	<u>0.715%</u>

(b) **By geographical**

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Malaysia	<u>12,341</u>	<u>14,072</u>

(c) **By purpose**

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Purchase of landed property - residential	133	87
Working capital	12,208	13,985
	<u>12,341</u>	<u>14,072</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

6 LOANS AND ADVANCES (CONTINUED)

(vii) Movements in impairment allowance for loans and advances

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Individual impairment allowance</u>		
At 1 January	11	11
Allowance made during the financial year (Note 24)	888	-
	<u>899</u>	<u>11</u>
At 31 December	<u><u>899</u></u>	<u><u>11</u></u>
<u>Collective impairment allowance</u>		
At 1 January	20,809	16,492
Allowance made during the financial year (Note 24)	4,257	6,320
Write back during the financial year	-	(2,003)
	<u>25,066</u>	<u>20,809</u>
At 31 December	<u><u>25,066</u></u>	<u><u>20,809</u></u>

7 OTHER ASSETS

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Other receivables	11,740	16,452	11,497	16,204
Sundry deposits	1,947	1,306	1,373	1,128
Prepayments	239	368	239	368
	<u>13,926</u>	<u>18,126</u>	<u>13,109</u>	<u>17,700</u>
	<u><u>13,926</u></u>	<u><u>18,126</u></u>	<u><u>13,109</u></u>	<u><u>17,700</u></u>

8 DEFERRED TAX ASSETS/(LIABILITIES)

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January	3,042	5,504	2,907	5,478
Recognised in profit or loss (Note 25)	538	(2,462)	596	(2,571)
	<u>3,580</u>	<u>3,042</u>	<u>3,503</u>	<u>2,907</u>
At 31 December	<u><u>3,580</u></u>	<u><u>3,042</u></u>	<u><u>3,503</u></u>	<u><u>2,907</u></u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

8 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movement in deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets

<u>Group</u>	<u>Provision for other liabilities</u> RM'000	<u>Collective impairment allowance for loans and advances</u> RM'000	<u>Unrealised forex gains/losses</u> RM'000	<u>Total</u> RM'000
At 1 January 2012	1,869	4,123	-	5,992
Recognised in profit or loss	1,352	(4,123)	398	(2,373)
At 31 December 2012	3,221	-	398	3,619
Recognised in profit or loss	2,032	-	(398)	1,634
At 31 December 2013	<u>5,253</u>	<u>-</u>	<u>-</u>	<u>5,253</u>

Deferred tax liabilities

<u>Group</u>	<u>Accelerated capital allowances</u> RM'000	<u>Unrealised forex gains/losses</u> RM'000	<u>Total</u> RM'000
At 1 January 2012	488	-	488
Recognised in profit or loss	89	-	89
At 31 December 2012	577	-	577
Recognised in profit or loss	(41)	1,137	1,096
At 31 December 2013	<u>536</u>	<u>1,137</u>	<u>1,673</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

8 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movement in deferred tax assets and liabilities during the financial year are as follows:

Deferred tax assets

	<u>Provision for other liabilities</u> RM'000	<u>Collective impairment allowance for loans and advances</u> RM'000	<u>Unrealised forex gains/losses</u> RM'000	<u>Total</u> RM'000
<u>Bank</u>				
At 1 January 2012	1,755	4,123	-	5,878
Recognised in profit or loss	1,287	(4,123)	398	(2,438)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	3,042	-	398	3,440
Recognised in profit or loss	2,028	-	(398)	1,630
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	<u>5,070</u>	<u>-</u>	<u>-</u>	<u>5,070</u>

Deferred tax liabilities

	<u>Accelerated capital allowances</u> RM'000	<u>Unrealised forex gains/losses</u> RM'000	<u>Total</u> RM'000
<u>Bank</u>			
At 1 January 2012	400	-	400
Recognised in profit or loss	133	-	133
	<hr/>	<hr/>	<hr/>
At 31 December 2012	533	-	533
Recognised in profit or loss	(103)	1,137	1,034
	<hr/>	<hr/>	<hr/>
At 31 December 2013	<u>430</u>	<u>1,137</u>	<u>1,567</u>

Presented after appropriate offsetting as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Deferred tax asset	3,580	3,042	3,503	2,907
Deferred tax liability	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

9 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994). The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

10 INVESTMENT IN A SUBSIDIARY

	<u>2013</u> RM'000	<u>Bank</u> <u>2012</u> RM'000
Unquoted shares, at cost, in Malaysia	1,000	1,000

The subsidiary of the Bank is as follow:

<u>Name</u>	<u>Principal Activities</u>	<u>Percentage of equity held</u>	
		<u>2013</u> %	<u>2012</u> %
China Bridge (Malaysia) Sdn Bhd	Chinese visa application services	100	100

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

11 PROPERTY AND EQUIPMENT

<u>Group</u>	Computer <u>equipment</u>	Motor <u>vehicles</u>	Office <u>equipment</u>	<u>Renovation</u>	Work-in- <u>progress</u>	<u>Total</u>
<u>2013</u> <u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	3,815	1,665	3,413	5,578	1,082	15,553
Additions	890	282	588	857	8,691	11,308
Reclassification	10	-	49	775	(834)	-
Write-offs	-	-	(100)	(969)	-	(1,069)
At 31 December	<u>4,715</u>	<u>1,947</u>	<u>3,950</u>	<u>6,241</u>	<u>8,939</u>	<u>25,792</u>
<u>Accumulated</u> <u>depreciation</u>						
At 1 January	3,089	1,051	2,026	1,735	-	7,901
Charge for the financial year	441	239	571	738	-	1,989
Reclassification	4	-	(4)	-	-	-
Write-offs	-	-	(81)	(374)	-	(455)
At 31 December	<u>3,534</u>	<u>1,290</u>	<u>2,512</u>	<u>2,099</u>	<u>-</u>	<u>9,435</u>
Net book value	<u>1,181</u>	<u>657</u>	<u>1,438</u>	<u>4,142</u>	<u>8,939</u>	<u>16,357</u>
<u>2012</u> <u>Cost</u>						
At 1 January	3,212	1,493	3,115	5,329	670	13,819
Additions	603	172	430	250	412	1,867
Write-offs	-	-	(132)	(1)	-	(133)
At 31 December	<u>3,815</u>	<u>1,665</u>	<u>3,413</u>	<u>5,578</u>	<u>1,082</u>	<u>15,553</u>
<u>Accumulated</u> <u>depreciation</u>						
At 1 January	2,750	800	1,684	1,197	-	6,431
Charge for the financial year	339	251	473	538	-	1,601
Write-offs	-	-	(131)	-	-	(131)
At 31 December	<u>3,089</u>	<u>1,051</u>	<u>2,026</u>	<u>1,735</u>	<u>-</u>	<u>7,901</u>
Net book value	<u>726</u>	<u>614</u>	<u>1,387</u>	<u>3,843</u>	<u>1,082</u>	<u>7,652</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

11 **PROPERTY AND EQUIPMENT (CONTINUED)**

<u>Bank</u>						
<u>2013</u>	<u>Computer</u>	<u>Motor</u>	<u>Office</u>	<u>Renovation</u>	<u>Work-in-</u>	<u>Total</u>
<u>Cost</u>	<u>equipment</u>	<u>vehicles</u>	<u>equipment</u>	<u>RM'000</u>	<u>progress</u>	<u>RM'000</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>		<u>RM'000</u>	<u>RM'000</u>
At 1 January	3,564	1,665	3,037	4,609	1,082	13,957
Addition	542	281	515	858	6,489	8,685
Reclassification	-	-	60	774	(834)	-
Write-offs	-	-	(9)	-	-	(9)
At 31 December	<u>4,106</u>	<u>1,946</u>	<u>3,603</u>	<u>6,241</u>	<u>6,737</u>	<u>22,633</u>
<u>Accumulated</u>						
<u>depreciation</u>						
At 1 January	2,876	1,051	1,818	1,449	-	7,194
Charge for the	409	238	504	650	-	1,801
financial year						
Write-offs	-	-	(9)	-	-	(9)
At 31 December	<u>3,285</u>	<u>1,289</u>	<u>2,313</u>	<u>2,099</u>	<u>-</u>	<u>8,986</u>
Net book value	<u>821</u>	<u>657</u>	<u>1,290</u>	<u>4,142</u>	<u>6,737</u>	<u>13,647</u>
<u>2012</u>						
<u>Cost</u>						
At 1 January	2,974	1,493	2,762	4,360	670	12,259
Additions	590	172	407	250	412	1,831
Write-offs	-	-	(132)	(1)	-	(133)
At 31 December	<u>3,564</u>	<u>1,665</u>	<u>3,037</u>	<u>4,609</u>	<u>1,082</u>	<u>13,957</u>
<u>Accumulated</u>						
<u>depreciation</u>						
At 1 January	2,599	800	1,541	1,008	-	5,948
Charge for the	277	251	408	441	-	1,377
financial year						
Write-offs	-	-	(131)	-	-	(131)
At 31 December	<u>2,876</u>	<u>1,051</u>	<u>1,818</u>	<u>1,449</u>	<u>-</u>	<u>7,194</u>
Net book value	<u>688</u>	<u>614</u>	<u>1,219</u>	<u>3,160</u>	<u>1,082</u>	<u>6,763</u>

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12 INTANGIBLE ASSETS

	Group		Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
<u>Computer Software</u>				
<u>Cost</u>				
At 1 January	3,332	3,016	3,318	3,002
Additions	3	316	-	316
At 31 December	3,335	3,332	3,318	3,318
<u>Accumulated amortisation</u>				
At 1 January	3,120	3,007	3,106	2,997
Charge for the financial year	107	113	106	109
At 31 December	3,227	3,120	3,212	3,106
Net book value	108	212	106	212

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Demand deposits	333,458	195,003	341,501	200,725
Savings deposits	77,822	40,325	77,822	40,325
Fixed deposits	2,794,191	1,961,639	2,794,191	1,961,639
Others	-	1,600	-	1,600
	<u>3,205,471</u>	<u>2,198,567</u>	<u>3,213,514</u>	<u>2,204,289</u>

(ii) By type of customers

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	-	10,765	-	10,765
Business enterprises	1,078,557	1,283,008	1,078,557	1,288,730
Individuals	1,197,219	831,686	1,197,219	831,686
Others	929,695	73,108	937,738	73,108
	<u>3,205,471</u>	<u>2,198,567</u>	<u>3,213,514</u>	<u>2,204,289</u>

(iii) Maturity structure of fixed deposits

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Due within six months	2,168,754	1,403,760	2,168,754	1,403,760
Six months to one year	624,936	519,575	624,936	519,575
One year to three year	501	38,304	501	38,304
	<u>2,794,191</u>	<u>1,961,639</u>	<u>2,794,191</u>	<u>1,961,639</u>

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14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Bank Negara Malaysia	912,552	520,015
Licensed banks	4,064,666	1,327,582
Licensed investment banks	92,700	37
Licensed Islamic banks	3,670	567
Other financial institutions	4	535
	<u>5,073,592</u>	<u>1,848,736</u>

15 OTHER LIABILITIES

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Accrued expenses	18,872	10,791	17,319	10,029
Margin deposits	10,243	21,215	10,243	21,215
Other liabilities	146,509	35,692	145,577	35,151
	<u>175,624</u>	<u>67,698</u>	<u>173,139</u>	<u>66,395</u>

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16 SHARE CAPITAL

	Group		Bank	
	Number of ordinary share of RM1.00 each		Amount	
	2013	2012	2013 RM'000	2012 RM'000
At 1 January/ 31 December				
Authorised:				
Ordinary shares of RM1 each	304,000	304,000	304,000	304,000
Issued and fully paid:				
Ordinary shares of RM1 each	304,000	304,000	304,000	304,000

17 RESERVES

(a) Retained profits

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

As at 31 December 2013, the Bank has sufficient tax credit under Section 108 to frank the payment of dividends up to RM47,467,000 out of its retained profits. Section 108 will be deemed nil effective from 1 January 2014 after the Bank transitions to Single Tier Dividend System.

(b) Statutory reserve

The statutory reserve is maintained in compliance with Section 47 of the Financial Services Act, 2013 and is not distributable as cash dividends.

18 OPERATING REVENUE

Operating revenue comprises interest income, gross fee and gross commission income, investment income and other income.

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19 INTEREST INCOME

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Loans and advances		
- Interest income on non-impaired loans	111,406	94,053
- Interest income on impaired loans	934	1,078
Money at call and deposit placements with financial institutions	139,338	63,742
Securities		
- Held-to-maturity securities	4,859	2,162
	<u>256,537</u>	<u>161,035</u>
Amortisation of premium less accretion of discount	(249)	(222)
Total interest income	<u><u>256,288</u></u>	<u><u>160,813</u></u>

20 INTEREST EXPENSE

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	88,340	42,729
Deposits from customers	68,935	55,781
Others	48	91
	<u>157,323</u>	<u>98,601</u>

21 OTHER OPERATING INCOME

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Fee income:				
- Fee on loans and advances	10,447	7,575	10,447	7,575
- Service charges and fees	25,459	24,116	4,959	6,124
- Guarantee fees	4,333	3,482	4,333	3,482
	<u>40,239</u>	<u>35,173</u>	<u>19,739</u>	<u>17,181</u>
Fee expense				
- Commission related expenses	(7,753)	(7,149)	-	-
Net fee income	<u>32,486</u>	<u>28,024</u>	<u>19,739</u>	<u>17,181</u>
Foreign exchange income:				
- Realised	4,747	10,624	4,747	10,624
- Unrealised	4,457	(662)	4,457	(662)
Gain/(loss) on revaluation of derivatives	747	(230)	747	(230)
Other income				
- Dividend income	-	-	-	5,800
- Others	72	122	192	242
	<u>42,509</u>	<u>37,878</u>	<u>29,882</u>	<u>32,955</u>

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22 OTHER OPERATING EXPENSES

	Group		Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
<u>Personnel expenses</u>				
Salaries and wages (includes CEO/EDs)	18,902	13,892	17,507	12,291
Bonus	8,433	6,700	7,847	5,884
Defined contribution plan ('EPF')	3,136	2,669	2,961	2,517
Staff welfare expenses	1,041	822	898	710
Other personnel costs	3,309	1,276	3,053	1,107
	34,821	25,359	32,266	22,509
<u>Marketing expenses</u>				
Entertainment	952	644	912	600
Other	456	253	448	243
	1,408	897	1,360	843
<u>Establishment costs</u>				
Rental of premises	5,192	3,660	3,857	3,043
Depreciation of property and equipment (Note 11)	1,989	1,601	1,801	1,377
Amortisation of intangible assets (Note 12)	107	113	106	109
Repairs and maintenance	498	604	469	597
Property and equipment written off (Note 11)	614	2	-	2
Information technology expenses	5,429	1,579	5,419	1,571
Other establishment costs	593	329	488	253
	14,422	7,888	12,140	6,952
<u>Administration and general expenses</u>				
Insurance premium	287	200	285	194
Travelling and accommodation	1,125	1,052	1,069	986
Telecommunication and utilities	837	601	734	556
Printing, stationery and postage	725	648	635	590
Legal and professional fees	439	283	269	276
Other administration and general expenses	2,180	1,861	2,008	1,754
	5,593	4,645	5,000	4,356
	56,244	38,789	50,766	34,660

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22 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosures:

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration				
- audit	160	262	123	225
- regulatory-related services	20	20	20	20
- other services	21	20	12	20
Directors' remuneration (Note 23)	1,411	1,322	1,411	1,322
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

23 DIRECTORS' REMUNERATION

The details of remuneration receivable by Directors of the Bank during the financial year are as follows:

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
<u>Executive Directors</u>		
- salary and other remuneration	646	563
- bonus	460	472
- benefits-in-kind	80	77
	<u> </u>	<u> </u>
	1,186	1,112
	<u> </u>	<u> </u>
<u>Non Executive Directors</u>		
Fees		
- Tan Siak Tee	65	130
- Datuk Ter Leong Yap	74	80
- Chai Woon Chew, Michael	86	-
	<u> </u>	<u> </u>
	225	210
	<u> </u>	<u> </u>
	1,411	1,322
	<u> </u>	<u> </u>

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,186,139 (2012: RM1,111,880).

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23 DIRECTORS' REMUNERATION (CONTINUED)

The number of Directors of the Bank whose total remuneration including benefits-in-kind for the financial year falls into the following remuneration bands:

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
<u>Executive Directors</u>		
RM500,001 – RM1,000,000	2	-
RM1,000,001 – RM1,500,000	-	1
<u>Non-Executive Directors</u>		
RM50,001 – RM100,000	3	1
RM100,001 - RM150,000	-	1

24 ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Allowance for impaired loans and advances		
(a) Individual impairment allowance		
- made during the financial year (Note 6)	888	-
(b) Collective impairment allowance		
- made during the financial year (Note 6)	4,257	6,320
- written back	-	(2,003)
	<u>5,145</u>	<u>4,317</u>

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25 TAXATION

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Tax expense for the financial year :				
- Malaysian income tax	21,552	11,227	19,579	9,440
- Foreign tax	7,558	2,053	7,558	2,053
Less : Double taxation relief	(5,167)	(1,011)	(5,167)	(1,011)
- (Over)/under provision in prior financial years	(180)	140	(184)	198
	<u>23,763</u>	<u>12,409</u>	<u>21,786</u>	<u>10,680</u>
Deferred tax (Note 8):				
- Origination and reversal of temporary differences, net	(725)	2,462	(771)	2,571
- Under provision in prior financial years	187	-	175	-
	<u>(538)</u>	<u>2,462</u>	<u>(596)</u>	<u>2,571</u>
Total tax expense	<u><u>23,225</u></u>	<u><u>14,871</u></u>	<u><u>21,190</u></u>	<u><u>13,251</u></u>

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

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit before taxation	<u>80,085</u>	<u>56,984</u>	<u>72,936</u>	<u>56,190</u>
Statutory tax rate in Malaysia (2013: 25%, 2012: 25%)	20,021	14,246	18,234	14,048
Tax effect in respect of:				
Non-allowable expenses	806	485	574	455
Non-taxable income	-	(1,042)	-	(2,492)
Effect of different tax rates in other countries	2,391	1,042	2,391	1,042
(Over)/under provision in prior years:				
- Income tax	(180)	140	(184)	198
- Deferred tax	187	-	175	-
Tax expense	<u><u>23,225</u></u>	<u><u>14,871</u></u>	<u><u>21,190</u></u>	<u><u>13,251</u></u>

Company No.

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26 EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Group have been calculated based on the net profit attributable to equity holder of the Group and weighted average number of ordinary shares in issue during the financial year.

	<u>2013</u>	<u>Group</u> <u>2012</u>
	RM'000	RM'000
Net profit attributable to equity holder	56,860	42,113
Weighted average number of ordinary shares in issue	304,000	304,000
Basic/fully diluted earnings per share (sen)	<u>18.7</u>	<u>13.9</u>

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The related parties that have transactions and their relationship with the Group and the Bank are as follows:

<u>Related party</u>	<u>Relationship</u>
China Investment Corporation	Ultimate holding company
Bank of China Limited	Holding company
Bank of China (Toronto) Limited	Fellow subsidiary
Bank of China (Hong Kong) Limited	Fellow subsidiary
China Bridge (Malaysia) Sdn Bhd	Subsidiary

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

(a) Related party transactions (continued)

The following significant transactions between the Group and related parties took place at terms agreed between parties during the financial year.

<u>Group</u>	<u>Holding Company</u> RM'000	<u>Fellow subsidiaries</u> RM'000	<u>Key management personnel</u> RM'000
<u>2013</u>			
INCOME			
Interest income:			
- Deposits and placements with banks and other financial institutions	111,504	940	-
- Housing loan	-	-	18
	<u>111,504</u>	<u>940</u>	<u>18</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institutions	26,979	-	-
- Deposits from customers	-	-	55
Administrative expenses	-	826	-
	<u>26,979</u>	<u>826</u>	<u>55</u>

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

(a) Related party transactions (continued)

<u>Group</u>	<u>Holding Company</u> RM'000	<u>Fellow subsidiaries</u> RM'000	<u>Key management personnel</u> RM'000
<u>2012</u>			
INCOME			
Interest income:			
- Deposits and placements with banks and other financial institutions	32,502	538	-
- Housing loan	-	-	10
	<u>32,502</u>	<u>538</u>	<u>10</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institutions	20,044	-	-
- Deposits from customers	-	-	52
Administrative expenses	-	794	-
	<u>20,044</u>	<u>794</u>	<u>52</u>

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NOTES TO THE FINANCIAL STATEMENTS
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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

(a) Related party transactions (continued)

	<u>Holding Company</u> RM'000	<u>Fellow subsidiaries</u> RM'000	<u>Subsidiary</u> RM'000	<u>Key management personnel</u> RM'000
<u>Bank</u>				
<u>2013</u>				
INCOME				
Interest income:				
- Deposits and placements with banks and other financial institutions	111,504	940	-	-
- Housing loan	-	-	-	8
Other income	-	-	120	-
	<u>111,504</u>	<u>940</u>	<u>120</u>	<u>8</u>
EXPENSES				
Interest expenses:				
- Deposits and placements of banks and other financial institutions	26,979	-	-	-
- Deposits from customers	-	-	-	51
Administrative expenses	-	826	-	-
	<u>26,979</u>	<u>826</u>	<u>-</u>	<u>51</u>
<u>2012</u>				
INCOME				
- Deposits and placements with banks and other financial institutions	32,502	538	-	-
- Housing loan	-	-	-	10
Other income	-	-	5,920	-
	<u>32,502</u>	<u>538</u>	<u>5,920</u>	<u>10</u>
EXPENSES				
Interest expenses:				
- Deposits and placements of banks and other financial institutions	20,044	-	-	-
- Deposits from customers	-	-	-	37
Administrative expenses	-	794	-	-
	<u>20,044</u>	<u>794</u>	<u>-</u>	<u>37</u>

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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

(a) Related party balances (continued)

Significant outstanding balances of the Group with its related parties are as follows:

<u>Group</u>	<u>Holding Company</u> RM'000	<u>Fellow subsidiaries</u> RM'000	<u>Key management personnel</u> RM'000
<u>2013</u>			
AMOUNT DUE FROM			
Cash and short-term funds	3,310,096	147,971	-
Deposits and placements with banks and other financial institutions	1,347,112	-	-
Housing loan	-	-	758
	<u>4,657,208</u>	<u>147,971</u>	<u>758</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	1,936,245	-	-
Deposits from customers	-	-	1,247
	<u>1,936,245</u>	<u>-</u>	<u>1,247</u>
<u>2012</u>			
AMOUNT DUE FROM			
Cash and short-term funds	776,662	100,249	-
Deposits and placements with banks and other financial institutions	331,515	88,637	-
Housing loan	-	-	529
	<u>1,108,177</u>	<u>188,886</u>	<u>529</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	755,343	-	-
Deposits from customers	-	-	1,812
	<u>755,343</u>	<u>-</u>	<u>1,812</u>

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NOTES TO THE FINANCIAL STATEMENTS
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27 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

(a) Related party balances (continued)

Significant outstanding balances of the Bank with its related parties are as follows (continued) :

<u>Bank</u>	<u>Holding Company</u>	<u>Fellow subsidiaries</u>	<u>Subsidiary</u>	<u>Key management personnel</u>
<u>2013</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
AMOUNT DUE FROM				
Cash and short-term funds	3,310,096	147,971	-	-
Deposits and placements with banks and other financial institutions	1,347,112	-	-	-
Housing loan	-	-	-	483
	<u>4,657,208</u>	<u>147,971</u>	<u>-</u>	<u>483</u>
AMOUNT DUE TO				
Deposits and placements of banks and other financial institution	1,936,245	-	-	-
Deposits from customers	-	-	8,043	914
	<u>1,936,245</u>	<u>-</u>	<u>8,043</u>	<u>914</u>
<u>2012</u>				
AMOUNT DUE FROM				
Cash and short-term funds	776,662	100,249	-	-
Deposits and placements with banks and other financial institutions	331,515	88,637	-	-
Housing loan	-	-	-	229
	<u>1,108,177</u>	<u>188,886</u>	<u>-</u>	<u>229</u>
AMOUNT DUE TO				
Deposits and placements of banks and other financial institution	755,343	-	-	-
Deposits from customers	-	-	5,722	1,425
	<u>755,343</u>	<u>-</u>	<u>5,722</u>	<u>1,425</u>

Included in the table above are deposits payable to the Directors of the Group and of the Bank amounting to RM799,000 and RM509,000 respectively (31 December 2012: RM1,368,000 and RM984,000).

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

(b) Key management personnel compensation

The remuneration of Directors and other key management personnel ⁽¹⁾ during the financial year are as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Fees	225	210	225	210
Salaries and other short-term benefits	3,638	3,715	2,965	2,662
Defined contribution plan ('EPF')	56	57	56	57
Benefits-in-kind	124	172	124	146
	<u>4,043</u>	<u>4,154</u>	<u>3,370</u>	<u>3,075</u>

Included in the above table are Directors' remuneration as disclosed in Note 23.

(1) Key management personnel include the Directors of the Group and of the Bank and senior management of the Group and of the Bank.

28 **CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES**

Connected parties refer to director, controlling shareholder, executive officer, officer who is responsible for or has the authority to appraise and/or approve credit transactions or review the status of existing credit transactions and any transactions that involve their close relative and any firm, partnerships, companies or any legal entities controlled by them.

Pursuant to BNM's Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008, the Bank is required to disclose the following information:

	<u>Group and Bank</u>	
	<u>(RM'000)</u>	<u>(RM'000)</u>
	<u>2013</u>	<u>2012</u>
Outstanding credit exposures with connected parties	526,124	352,460
Outstanding credit exposures with connected parties as a percentage of total credit exposures	13%	15%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	0%	0%

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29 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions, and hence are not provided for in the financial statements.

The commitments and contingencies constitute the following:

	Group and Bank					
	2013			2012		
	<u>Principal</u> RM'000	<u>Credit</u> <u>equivalent</u> RM'000	<u>Risk</u> <u>weighted</u> RM'000	<u>Principal</u> RM'000	<u>Credit</u> <u>equivalent</u> RM'000	<u>Risk</u> <u>weighted</u> RM'000
Direct credit substitutes	71,170	71,170	55,410	-	-	-
Transaction-related contingent items	1,107,380	553,690	212,149	749,679	374,840	187,821
Short-term self liquidation trade related contingencies	4,289	858	858	12,511	2,502	2,502
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	926,666	185,333	172,243	446,220	89,244	89,050
- Maturity exceeding one year	147,312	73,656	65,970	297,957	148,979	142,590
Foreign exchange related contracts:						
- Less than one year	327,624	2,179	436	651,493	7,691	1,538
Others	17,072	-	-	4,927	-	-
	<u>2,601,513</u>	<u>886,886</u>	<u>507,066</u>	<u>2,162,787</u>	<u>623,256</u>	<u>423,501</u>

The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.

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30 LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the cancellable long term commitments is as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	6,060	3,125	4,181	2,490
Later than 1 year but not later than 5 years	7,490	2,782	4,928	1,578
	<u>13,550</u>	<u>5,907</u>	<u>9,109</u>	<u>4,068</u>

31 CAPITAL COMMITMENTS

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property and equipment - approved by the Board and contracted for	<u>7,616</u>	<u>1,176</u>	<u>7,616</u>	<u>1,176</u>

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32 CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and of the Bank are as follows:

With effect from 1 January 2013, the capital adequacy ratios of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework issued on 28 November 2012. The Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. The framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The risk-weighted assets of the Group and of the Bank has adopted the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The minimum regulatory capital adequacy ratios are as follows:

Calendar Year	Common Equity Tier 1 ("CET1") Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
2013*	3.5%	4.5%	8.0%
2014*	4.0%	5.5%	8.0%
2015	4.5%	6.0%	8.0%

* transitional arrangements according to BNM Guidelines

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
<u>Common Equity Tier 1 (CET 1) Capital</u>				
Paid-up ordinary share capital	304,000	304,000	304,000	304,000
Retained profits	92,818	61,831	82,475	56,602
Statutory reserve	119,561	93,688	119,561	93,688
	<u>516,379</u>	<u>459,519</u>	<u>506,036</u>	<u>454,290</u>
Less: Deferred tax assets*	(3,580)	(3,042)	(3,503)	(2,907)
Total CET 1 Capital / Total Tier 1 Capital	<u>512,799</u>	<u>456,477</u>	<u>502,533</u>	<u>451,383</u>
<u>Tier-2 capital</u>				
Collective impairment allowance	25,066	20,809	25,066	20,809
Total Tier-2 Capital	25,066	20,809	25,066	20,809
Less:				
Investment in subsidiary company	-	-	(1,000)	(1,000)
Total Capital Base	<u>537,865</u>	<u>477,286</u>	<u>526,599</u>	<u>471,192</u>

*Under Bank Negara Malaysia Guideline, deferred tax assets shall be deducted in the calculation of CET1 Capital.

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32 CAPITAL ADEQUACY (CONTINUED)

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
<u>Capital ratios</u>				
CET 1 Capital Ratio	13.597%	17.490%	13.415%	17.426%
Tier 1 Capital Ratio	13.597%	17.490%	13.415%	17.426%
Total Capital Ratio	<u>14.262%</u>	<u>18.287%</u>	<u>14.058%</u>	<u>18.191%</u>

(b) Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	<u>Group</u>		<u>Bank</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	RM'000	RM'000	RM'000	RM'000
Credit risk	3,560,008	2,458,594	3,555,948	2,457,036
Market risk	17,576	9,936	17,576	9,936
Operational risk	193,733	141,441	172,464	123,294
	<u>3,771,317</u>	<u>2,609,971</u>	<u>3,745,988</u>	<u>2,590,266</u>

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33 **FINANCIAL RISK MANAGEMENT**

(a) **Financial risk management**

The objectives of the Bank's financial risk management is to establish an integrated risk management system which will help evaluate risk with reward and maximise income within an acceptable risk level through risk identification, measurement, monitoring and management.

The Board of Directors and our holding company, Bank of China Limited approves the extent of the Bank's risk appetite in the pursuit of agreed business strategies and objectives. The Board of Directors also approves risk limits and regularly reviews major policies designed to control risk within the Bank.

(b) **Credit Risk**

Credit risk is the risk of financial loss that results from customers failing to meet their obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank. The Board of Directors of the Bank approves major policies and limits that govern monitoring of the credit risk. The Board of Directors delegates authorities to the Risk Management and Internal Control Committee ('RMICC') for overseeing the credit risk of the Bank.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and industry segments. Such risks are monitored on a regular basis and are subject to annual or more frequent review. Limits on the single customer, by group of customers, by industry sectors and other procedures set by the relevant authorities and holding company were adopted by the Bank for monitoring of the credit risks.

Maximum exposure to credit risk

For financial assets recognised in the statement of financial position, the maximum exposure to credit risk before taking account of any collateral held or credit enhancements equals their carrying amount in the statement of financial position. For financial guarantees and similar contract granted, it is the maximum amount that the Group and the Bank would have to pay if the guarantees were called upon. For credit related commitments and contingents that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

Maximum exposure to credit risk (continued)

	<u>2013</u>	<u>Group</u> <u>2012</u>
	RM'000	RM'000
<u>Items recognised in the statements of financial position</u>		
Cash and short-term funds	4,463,675	1,929,445
Deposits and placements with banks and other financial institutions	1,347,112	564,549
Held-to-maturity securities	252,459	61,157
Loans and advances	2,796,973	1,945,141
Other assets	13,926	18,126
Derivative assets	1,222	629
	<u>8,875,367</u>	<u>4,519,047</u>
<u>Items not recognised in the statements of financial position</u>		
Contingent liabilities	1,182,839	762,190
Credit commitments	1,073,978	744,177
Foreign exchange related contracts	327,624	651,493
	<u>11,459,808</u>	<u>6,676,907</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

Maximum exposure to credit risk (continued)

	<u>2013</u>	<u>Bank</u>
	RM'000	2012
		RM'000
<u>Items recognised in the statements</u>		
<u>of financial position</u>		
Cash and short-term funds	4,461,023	1,929,298
Deposits and placements with banks and other financial institutions	1,347,112	564,549
Held-to-maturity securities	252,459	61,157
Loans and advances	2,796,973	1,945,141
Other assets	13,109	17,700
Derivative assets	1,222	629
	<u>8,871,898</u>	<u>4,518,474</u>
<u>Items not recognised in the statements</u>		
<u>of financial position</u>		
Contingent liabilities	1,182,839	762,190
Credit commitments	1,073,978	744,177
Foreign exchange related contracts	327,624	651,493
	<u>11,456,339</u>	<u>6,676,334</u>

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans and advances for the Group and of the Bank is 85% (31 December 2012: 91%). The financial effect of collateral held for the other financial assets are insignificant.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit risk (continued)

The following tables set out the credit risk concentrations by sector:

<u>Group</u> <u>2013</u>	Short-term funds and placements with financial <u>institutions</u> RM'000	Held- to-maturity <u>securities</u> RM'000	Loans and <u>advances</u> RM'000	Other <u>assets</u> RM'000	On-balance <u>sheet total</u> RM'000	Commitments and <u>contingencies</u> RM'000
Primary agriculture	-	-	139,992	-	139,992	13,103
Mining and quarrying	-	-	28,045	-	28,045	7,928
Manufacturing	-	-	602,817	-	602,817	127,067
Electricity, gas and water supply	-	-	-	-	-	2,257
Construction	-	-	277,384	-	277,384	168,656
Real estate	-	-	570,594	-	570,594	26,249
Research and Development	-	-	1,729	-	1,729	21
Wholesale and retail trade and restaurants and hotels	-	-	125,708	-	125,708	28,121
Transport, storage and communication	-	-	66,422	-	66,422	342,349
Finance, insurance and business services	4,807,835	45,024	103,752	1,222	4,957,833	15,618
Household	-	-	359,025	-	359,025	71,743
Government and government agencies	988,534	207,435	-	77,847	1,273,816	-
Education, health and others	-	-	4,257	-	4,257	876
Others	-	-	543,213	-	543,213	82,898
	<u>5,796,369</u>	<u>252,459</u>	<u>2,822,938</u>	<u>79,069</u>	<u>8,950,835</u>	<u>886,886</u>
Assets not subject to credit risk	14,418	-	-	33,924	48,342	-
	<u>5,810,787</u>	<u>252,459</u>	<u>2,822,938[^]</u>	<u>112,993[#]</u>	<u>8,999,177</u>	<u>886,886</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM25,066,172 and RM898,666 respectively.

[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative assets and tax recoverable.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit risk (continued)

The following tables set out the credit risk concentrations by sector (continued):

<u>Group</u> <u>2012</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> RM'000	<u>Held-</u> <u>to-maturity</u> <u>securities</u> RM'000	<u>Loans and</u> <u>advances</u> RM'000	<u>Other</u> <u>assets</u> RM'000	<u>On-balance</u> <u>sheet total</u> RM'000	<u>Commitments</u> <u>and</u> <u>contingencies</u> RM'000
Primary agriculture	-	-	87,933	-	87,933	7,052
Mining and quarrying	-	-	13,409	-	13,409	1,518
Manufacturing	-	-	374,602	-	374,602	92,290
Electricity, gas and water supply	-	-	20,836	-	20,836	5,486
Construction	-	-	155,326	-	155,326	118,426
Real estate	-	-	275,981	-	275,981	66,675
Research and Development	-	-	1,905	-	1,905	6
Wholesale and retail trade and restaurants and hotels	-	-	112,600	-	112,600	32,777
Transport, storage and communication	-	-	45,071	-	45,071	159,928
Finance, insurance and business services	1,394,242	20,056	137,907	629	1,552,834	22,270
Household	-	-	186,609	-	186,609	55,503
Government and government agencies	1,085,057	41,101	-	40,200	1,166,358	-
Education, health and others	-	-	4,693	-	4,693	120
Others	-	-	549,089	-	549,089	61,205
	<u>2,479,299</u>	<u>61,157</u>	<u>1,965,961</u>	<u>40,829</u>	<u>4,547,246</u>	<u>623,256</u>
Assets not subject to credit risk	14,695	-	-	34,265	48,960	-
	<u>2,493,994</u>	<u>61,157</u>	<u>1,965,961[^]</u>	<u>75,094[#]</u>	<u>4,596,206</u>	<u>623,256</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM20,809,045 and RM11,266 respectively.

[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative assets and tax recoverable.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Credit risk (continued)**

The following tables set out the credit risk concentrations by sector (continued):

<u>Bank</u> <u>2013</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> <u>RM'000</u>	<u>Held-</u> <u>to-maturity</u> <u>securities</u> <u>RM'000</u>	<u>Loans and</u> <u>advances</u> <u>RM'000</u>	<u>Other</u> <u>assets</u> <u>RM'000</u>	<u>On-balance</u> <u>sheet total</u> <u>RM'000</u>	<u>Commitments</u> <u>and</u> <u>contingencies</u> <u>RM'000</u>
Primary agriculture	-	-	139,992	-	139,992	13,103
Mining and quarrying	-	-	28,045	-	28,045	7,928
Manufacturing	-	-	602,817	-	602,817	127,067
Electricity, gas and water supply	-	-	-	-	-	2,257
Construction	-	-	277,384	-	277,384	168,656
Real estate	-	-	570,594	-	570,594	26,249
Research and Development	-	-	1,729	-	1,729	21
Wholesale and retail trade and restaurants and hotels	-	-	125,708	-	125,708	28,121
Transport, storage and communication	-	-	66,422	-	66,422	342,349
Finance, insurance and business services	4,805,186	45,024	103,752	1,222	4,955,184	15,618
Household	-	-	359,025	-	359,025	71,743
Government and government agencies	988,534	207,435	-	77,847	1,273,816	-
Education, health and others	-	-	4,257	-	4,257	876
Others	-	-	543,213	-	543,213	82,898
	<u>5,793,720</u>	<u>252,459</u>	<u>2,822,938</u>	<u>79,069</u>	<u>8,948,186</u>	<u>886,886</u>
Assets not subject to credit risk	14,415	-	-	31,318	45,733	-
	<u>5,808,135</u>	<u>252,459</u>	<u>2,822,938[^]</u>	<u>110,387[#]</u>	<u>8,993,919</u>	<u>886,886</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM25,066,172 and RM898,666 respectively.

[#] Other assets include intangible assets, property and equipment, investment in subsidiary, statutory deposits with BNM, deferred tax assets, derivative assets and tax recoverable.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit risk (continued)

The following tables set out the credit risk concentrations by sector (continued):

<u>Bank</u> <u>2012</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> <u>RM'000</u>	<u>Held-</u> <u>to-maturity</u> <u>securities</u> <u>RM'000</u>	<u>Loans and</u> <u>advances</u> <u>RM'000</u>	<u>Other</u> <u>assets</u> <u>RM'000</u>	<u>On-balance</u> <u>sheet total</u> <u>RM'000</u>	<u>Commitments</u> <u>and</u> <u>contingencies</u> <u>RM'000</u>
Primary agriculture	-	-	87,933	-	87,933	7,052
Mining and quarrying	-	-	13,409	-	13,409	1,518
Manufacturing	-	-	374,602	-	374,602	92,290
Electricity, gas and water supply	-	-	20,836	-	20,836	5,486
Construction	-	-	155,326	-	155,326	118,426
Real estate	-	-	275,981	-	275,981	66,675
Research and Development	-	-	1,905	-	1,905	6
Wholesale and retail trade and restaurants and hotels	-	-	112,600	-	112,600	32,777
Transport, storage and communication	-	-	45,071	-	45,071	159,928
Finance, insurance and business services	1,394,096	20,056	137,907	629	1,552,688	22,270
Household	-	-	186,609	-	186,609	55,503
Government and government agencies	1,085,057	41,101	-	40,200	1,166,358	-
Education, health and others	-	-	4,693	-	4,693	120
Others	-	-	549,089	-	549,089	61,205
	<u>2,479,153</u>	<u>61,157</u>	<u>1,965,961</u>	<u>40,829</u>	<u>4,547,110</u>	<u>623,256</u>
Assets not subject to credit risk	14,694	-	-	33,602	48,296	-
	<u>2,493,847</u>	<u>61,157</u>	<u>1,965,961[^]</u>	<u>74,431[#]</u>	<u>4,595,396</u>	<u>623,256</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM20,809,045 and RM11,266 respectively.

[#] Other assets include intangible assets, property and equipment, investment in subsidiary, statutory deposits with BNM, deferred tax assets, derivative assets and tax recoverable.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Credit risk (continued)**

Collateral

Where possible, the Bank takes collateral as a secondary recourse to the borrower. Collaterals include properties, debentures, stock and shares, fixed deposits and cash margin.

Loans and advances

Loans and advances are summarised as follows:

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Neither past due nor impaired	2,781,797	1,938,326
Past due but not impaired	28,800	13,563
Impaired	12,341	14,072
	<u>2,822,938</u>	<u>1,965,961</u>
Gross loans and advances		
Less: Individual impairment allowance	(899)	(11)
Collective impairment allowance	(25,066)	(20,809)
	<u>2,796,973</u>	<u>1,945,141</u>
Net loans and advances		

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33 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Loans and advances (continued)

(i) Loans and advances neither past due nor impaired

Gross loans and advances which are neither past due nor impaired are identified into the following credit levels:

- "AAA – A" refers to customers have a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- "BBB – B" refers to customers have a good credit status, relatively low probability of default within the next year, guaranteed repayment capability and uncertainties in their risk.
- "CCC – C" refers to customers have a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant credit risks.
- "D" refers to customers have defaulted by the time of rating. Customers that have defaulted are directly rated D.

The following table sets out an analysis of loans and advances by internal credit grading which are neither past due nor impaired.

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
AAA – A	1,115,280	536,538
BBB – B	796,197	676,210
CCC – C	74,587	526,450
Unrated	795,733	199,128
	<u>2,781,797</u>	<u>1,938,326</u>

Loans and advances classified as non-rated mainly comprise of personal loans, cash backed facilities and other non-rated loans.

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33 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Loans and advances (continued)

(ii) Loans and advances past due but not impaired

The following table sets out the ageing of loans and advances which are past due and for which no individual impairment allowance has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a loan is impaired. Individual impairment allowance is generally raised at 90 days past due and any other events occurred as per the policies.

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Between 1 – 30 days past due	878	1,749
Between 31 – 60 days past due	18,824	7,160
Between 61 – 90 days past due	9,098	4,654
	<u>28,800</u>	<u>13,563</u>

(iii) Loans and advances impaired

Loans and advances that are individually determined to be impaired as at 31 December 2013 are as follows:

	<u>Group and Bank</u>	
	<u>2013</u>	<u>2012</u>
Corporate	12,208	13,985
Individual	133	87
	<u>12,341</u>	<u>14,072</u>

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NOTES TO THE FINANCIAL STATEMENTS
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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Credit risk (continued)**

Financial assets other than loans and advances

All financial assets other than loans and advances for the Group and the Bank were neither past due nor impaired.

The tables below presents an analysis of financial assets other than loans and advances by rating agency designation as at 31 December 2013, based on Moody's ratings or their equivalent:

<u>Group</u>	Cash and short term funds	Deposits and placements with banks and other FIs	Held-to maturity securities	Other assets
<u>2013</u>	RM'000	RM'000	RM'000	RM'000
Aa3/A-/A	147,972	-	-	-
A1/BBB+	3,310,096	1,347,112	-	-
A3	2,655	-	45,024	-
Unrated				
- Bank Negara Malaysia/sovereign	988,534	-	207,435	77,800
- Others	14,418	-	-	1,222
	<u>4,463,675</u>	<u>1,347,112</u>	<u>252,459</u>	<u>79,022</u>
<u>2012</u>	Cash and short term funds	Deposits and placements with banks and other FIs	Held-to maturity securities	Other assets
	RM'000	RM'000	RM'000	RM'000
Aa3/A-/A	1,961	-	-	-
A1/BBB+	862,546	499,544	20,056	-
A3	30,191	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	1,020,052	65,005	41,101	40,200
- Others	14,695	-	-	629
	<u>1,929,445</u>	<u>564,549</u>	<u>61,157</u>	<u>40,829</u>

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33 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk (continued)

Financial assets other than loans and advances (continued)

<u>Bank</u>	Cash and short term funds	Deposits and placements with banks and other FIs	Held-to maturity securities	Other assets
<u>2013</u>	RM'000	RM'000	RM'000	RM'000
Aa3/A-/A	147,972	-	-	-
A1/BBB+	3,310,096	1,347,112	-	-
A3	6	-	45,024	-
Unrated				
- Bank Negara Malaysia/sovereign	988,534	-	207,435	77,800
- Others	14,415	-	-	1,222
	<u>4,461,023</u>	<u>1,347,112</u>	<u>252,459</u>	<u>79,022</u>
<u>2012</u>				
Aa3/A-/A	1,961	-	-	-
A1/BBB+	862,401	499,544	20,056	-
A3	30,191	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	1,020,052	65,005	41,101	40,200
- Others	14,693	-	-	629
	<u>1,929,298</u>	<u>564,549</u>	<u>61,157</u>	<u>40,829</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk**

Liquidity risk is the potential inability of the Bank to meet its payment obligations. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives.

The objective of the liquidity policy of the Bank is to ensure that the Bank is able to meet its financial obligations, whether such obligations are scheduled or unforeseen. The Bank has set a limit on the minimum proportion of maturing funds available to meet such calls, and complies with the limits set by Bank Negara Malaysia under the Liquidity Framework and relevant procedures set by the holding company.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2013 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM's guideline on Financial Reporting:

<u>Group</u> <u>2013</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	2,112,078	2,351,597	-	-	-	-	4,463,675
Deposits and placements with banks and other financial institutions	-	-	347,693	-	999,419	-	1,347,112
Derivative assets	794	-	-	428	-	-	1,222
Held-to-maturity securities	-	46,490	513	445	-	205,011	252,459
Gross loans and advances	351,202	85,518	516,866	52,389	37,722	1,779,241	2,822,938
Other assets	11,596	52	692	-	3,580	95,851	111,771
Total assets	2,475,670	2,483,657	865,764	53,262	1,040,721	2,080,103	8,999,177
Deposits from customers	956,514	942,512	347,211	333,796	624,937	501	3,205,471
Deposits and placements of banks and other financial institutions	642,473	2,083,895	342,872	590,320	1,414,032	-	5,073,592
Derivative liabilities	712	-	-	-	-	-	712
Other liabilities	152,018	6,405	70	-	18,565	-	177,058
Total liabilities	1,751,717	3,032,812	690,153	924,116	2,057,534	501	8,456,833
Net liquidity gap- Total assets less total liabilities	723,953	(549,155)	175,611	(870,854)	(1,016,813)	2,079,602	542,344

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2012 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM's guideline on Financial Reporting:

<u>Group</u> <u>2012</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	890,816	1,038,629	-	-	-	-	1,929,445
Deposits and placements with banks and other financial institutions	-	-	213,452	351,097	-	-	564,549
Derivative assets	360	249	20	-	-	-	629
Held-to-maturity securities	10,023	10,034	520	-	-	40,580	61,157
Gross loans and advances	232,805	309,595	187,219	396,713	127,236	712,393	1,965,961
Other assets	16,442	377	-	-	9,191	48,455	74,465
Financial assets	1,150,446	1,358,884	401,211	747,810	136,427	801,428	4,596,206
Deposits from customers	456,237	717,679	215,129	251,642	519,575	38,305	2,198,567
Deposits and placements of banks and other financial institutions	114,640	938,004	82,392	559,916	153,784	-	1,848,736
Derivative liabilities	4	380	42	440	-	-	866
Other liabilities	13,615	43,278	811	-	9,994	-	67,698
Financial liabilities	584,496	1,699,341	298,374	811,998	683,353	38,305	4,115,867
Net liquidity gap- financial assets less financial liabilities	565,950	(340,457)	102,837	(64,188)	(546,926)	763,123	480,339

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2013 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM's guideline on Financial Reporting:

<u>Bank</u> <u>2013</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	2,109,426	2,351,597	-	-	-	-	4,461,023
Deposits and placements with banks and other financial institutions	-	-	347,693	-	999,419	-	1,347,112
Derivative assets	794	-	-	428	-	-	1,222
Held-to-maturity securities	-	46,490	513	445	-	205,011	252,459
Gross loans and advances	351,202	85,518	516,866	52,389	37,722	1,779,241	2,822,938
Other assets	11,250	52	692	-	3,503	93,668	109,165
Financial assets	2,472,672	2,483,657	865,764	53,262	1,040,644	2,077,920	8,993,919
Deposits from customers	964,557	942,512	347,211	333,796	624,937	501	3,213,514
Deposits and placements of banks and other financial institutions	642,473	2,083,895	342,872	590,320	1,414,032	-	5,073,592
Derivative liabilities	712	-	-	-	-	-	712
Other liabilities	150,566	6,416	20	30	17,068	-	174,100
Financial liabilities	1,758,308	3,032,823	690,103	924,146	2,056,037	501	8,461,918
Net liquidity gap- financial assets less financial liabilities	714,364	(549,166)	175,661	(870,884)	(1,015,393)	2,077,419	532,001

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2012 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM's guideline on Financial Reporting:

<u>Bank</u> <u>2012</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	890,669	1,038,629	-	-	-	-	1,929,298
Deposits and placements with banks and other financial institutions	-	-	213,452	351,097	-	-	564,549
Derivative assets	360	249	20	-	-	-	629
Held-to-maturity securities	10,023	10,034	520	-	-	40,580	61,157
Gross loans and advances	232,805	309,595	187,219	396,713	127,236	712,393	1,965,961
Other assets	16,195	377	-	-	9,055	48,175	73,802
Financial assets	1,150,052	1,358,884	401,211	747,810	136,291	801,148	4,595,396
Deposits from customers	461,959	717,679	215,129	251,642	519,575	38,305	2,204,289
Deposits and placements of banks and other financial institutions	114,640	938,004	82,392	559,916	153,784	-	1,848,736
Derivative liabilities	4	380	42	440	-	-	866
Other liabilities	13,610	42,757	-	-	10,028	-	66,395
Financial liabilities	590,213	1,698,820	297,563	811,998	683,387	38,305	4,120,286
Net liquidity gap- financial assets less financial liabilities	559,839	(339,936)	103,648	(64,188)	(547,096)	762,843	475,110

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values. The balances in the table below will not agree to the balances reported in the statements of financial position.

<u>Group</u> <u>2013</u>	<u>Within</u> <u>1 week</u> RM'000	<u>>1 week</u> <u>to 1 month</u> RM'000	<u>>1 to 3</u> <u>months</u> RM'000	<u>>3 to 6</u> <u>months</u> RM'000	<u>>6 to 12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	956,655	944,081	349,131	340,172	641,142	536	3,231,717
Deposits and placements of banks and other financial institutions	642,633	2,086,564	344,334	598,103	1,449,573	-	5,121,207
Derivative liabilities	712	-	-	-	-	-	712
Other liabilities	152,017	6,401	70	-	3,235	-	161,723
	<u>1,752,017</u>	<u>3,037,046</u>	<u>693,535</u>	<u>938,275</u>	<u>2,093,950</u>	<u>536</u>	<u>8,515,359</u>

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The balances in the table below will not agree to the balances reported in the statements of financial position.

<u>Group</u> <u>2012</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1 to 3 <u>months</u> RM'000	>3 to 6 <u>months</u> RM'000	>6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	456,302	718,722	216,305	248,214	539,147	40,791	2,219,481
Deposits and placements of banks and other financial institutions	114,665	940,460	81,365	568,008	157,801	-	1,862,299
Derivative liabilities	866	-	-	-	-	-	866
Other liabilities	14,542	42,244	-	-	-	-	56,786
	<u>586,375</u>	<u>1,701,426</u>	<u>297,670</u>	<u>816,222</u>	<u>696,948</u>	<u>40,791</u>	<u>4,139,432</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The balances in the table below will not agree to the balances reported in the statements of financial position.

<u>Bank</u> <u>2013</u>	<u>Within</u> <u>1 week</u> RM'000	<u>>1 week</u> <u>to 1 month</u> RM'000	<u>>1 to 3</u> <u>months</u> RM'000	<u>>3 to 6</u> <u>months</u> RM'000	<u>>6 to 12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	964,698	944,081	349,131	340,172	641,142	536	3,239,760
Deposits and placements of banks and other financial institutions	642,633	2,086,564	344,334	598,103	1,449,573	-	5,121,207
Derivative liabilities	712	-	-	-	-	-	712
Other liabilities	150,566	6,411	20	30	2,942	-	159,969
	<u>1,758,609</u>	<u>3,037,056</u>	<u>693,485</u>	<u>938,305</u>	<u>2,093,657</u>	<u>536</u>	<u>8,521,648</u>

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NOTES TO THE FINANCIAL STATEMENTS
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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Liquidity Risk (continued)**

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The balances in the table below will not agree to the balances reported in the statements of financial position.

<u>Bank</u> <u>2012</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1 to 3 <u>months</u> RM'000	>3 to 6 <u>months</u> RM'000	>6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	462,024	718,722	216,305	248,214	539,147	40,791	2,225,203
Deposits and placements of banks and other financial institutions	114,665	940,460	81,365	568,008	157,801	-	1,862,299
Derivative liabilities	866	-	-	-	-	-	866
Other liabilities	13,993	42,159	30	30	40	-	56,252
	<u>591,548</u>	<u>1,701,341</u>	<u>297,700</u>	<u>816,252</u>	<u>696,988</u>	<u>40,791</u>	<u>4,144,620</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	2013			2012		
	<u>Less than 1 year</u> RM'000	<u>Over 1 year</u> RM'000	<u>Total</u> RM'000	<u>Less than 1 year</u> RM'000	<u>Over 1 year</u> RM'000	<u>Total</u> RM'000
Direct credit substitutes	-	71,170	71,170	-	-	-
Transaction-related contingent items	731,480	375,900	1,107,380	271,193	478,486	749,679
Short-term self-liquidating trade-related contingencies	4,289	-	4,289	12,511	-	12,511
Irrevocable commitments to extend credit	926,666	147,312	1,073,978	446,220	297,957	744,177
Foreign exchange related contracts	327,624	-	327,624	651,493	-	651,493
	<u>1,990,059</u>	<u>594,382</u>	<u>2,584,441</u>	<u>1,381,417</u>	<u>776,443</u>	<u>2,157,860</u>

The above commitments and contingencies are available for draw down or could be called upon within a period of less than one year.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market Risk**

Market risk arises from adverse movements in the level and volatility of market factors such as interest rates, foreign exchange rates which will have an effect on the balance sheet structure in terms of liquidity and funding.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates and foreign exchange rates on its financial position and cash flow. Interest margins may increase as a results of such changes but may reduce or create losses in the event that unexpected movements arise. RMICC of the Bank monitor the interest rate risk and currency risk on a regular basis.

The Bank's interest rate risk is monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. Sensitivity is measured using the Earnings-at-Risk ('EaR') methodology. An increase or decrease by 25 basis points, the impact of increase/decrease on the Group's and the Bank's post-tax profit for the financial year end is estimated at RM3.2 million (2012: RM2.9 million).

The Bank's foreign exchange risk is managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The mismatch between currencies mainly arises from the Bank's short term foreign currencies lending and borrowing. The financial impact of appreciation or depreciation by 1% for each foreign currency exposure would result in a post-tax profit/loss of RM260,000 (2012 : RM46,000) to the Group and the Bank.

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. Included in the tables are the Group's and the Bank's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the Group and the Bank may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

Group 2013	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	4,445,183	-	-	-	-	18,492	4,463,675	4.09%
Deposits and placement with banks and other institution	-	347,693	999,419	-	-	-	1,347,112	5.31%
Derivative assets	-	-	-	-	-	1,222	1,222	
Held-to-maturity securities	46,490	513	445	205,011	-	-	252,459	3.26%
Loans and advances								
- non-impaired	1,781,603	638,674	388,535	204	1,581	(25,066)	2,785,531	5.28%
- impaired	12,341	-	-	-	-	(899)	11,442	
Other assets	-	-	-	-	-	13,926	13,926	
Deferred tax assets	-	-	-	-	-	3,580	3,580	
Property and equipment	-	-	-	-	-	16,357	16,357	
Intangible assets	-	-	-	-	-	108	108	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	77,800	77,800	
Total assets	6,285,617	986,880	1,388,399	205,215	1,581	105,520	8,973,212	

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Group 2013	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	1,571,241	347,210	958,734	498	-	327,788	3,205,471	2.86%
Deposits and placements of banks and other financial institutions	2,688,680	342,874	2,004,352	-	-	37,686	5,073,592	2.90%
Derivative liabilities	-	-	-	-	-	712	712	
Other liabilities	-	-	-	-	-	175,624	175,624	
Provision for taxation	-	-	-	-	-	1,434	1,434	
Total liabilities	4,259,921	690,084	2,963,086	498	-	543,244	8,456,833	
Total equity	-	-	-	-	-	516,379	516,379	
Total liabilities and equity	4,259,921	690,084	2,963,086	498	-	1,059,623	8,973,212	
On balance sheet – interest rate gap	2,025,696	296,796	(1,574,687)	204,717	1,581	(954,103)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,025,696	296,796	(1,574,687)	204,717	1,581	(954,103)	-	

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Group 2012	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,914,066	-	-	-	-	15,379	1,929,445	3.55%
Deposits and placement with banks and other institution	-	213,452	351,097	-	-	-	564,549	3.77%
Derivative assets	-	-	-	-	-	629	629	
Held-to-maturity securities	20,057	520	-	40,580	-	-	61,157	3.53%
Loans and advances								
- non-impaired	1,401,178	157,755	390,764	230	1,962	(20,809)	1,931,080	4.82%
- impaired	14,072	-	-	-	-	(11)	14,061	
Other assets	-	-	-	-	-	23,359	23,359	
Deferred tax assets	-	-	-	-	-	3,042	3,042	
Property and equipment	-	-	-	-	-	7,652	7,652	
Intangible assets	-	-	-	-	-	212	212	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	40,200	40,200	
Total assets	3,349,373	371,727	741,861	40,810	1,962	69,653	4,575,386	

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Group 2012	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	985,052	215,129	769,616	38,305	-	190,465	2,198,567	2.99%
Deposits and placements of banks and other financial institutions	1,052,644	82,392	713,700	-	-	-	1,848,736	2.73%
Derivative liabilities	-	-	-	-	-	866	866	
Other liabilities	-	-	-	-	-	67,698	67,698	
Provision for taxation	-	-	-	-	-	-	-	
Total liabilities	2,037,696	297,521	1,483,316	38,305	-	259,029	4,115,867	
Total equity	-	-	-	-	-	459,519	459,519	
Total liabilities and equity	2,037,696	297,521	1,483,316	38,305	-	718,548	4,575,386	
On balance sheet – interest rate gap	1,311,677	74,206	(741,455)	2,505	1,962	(648,895)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	1,311,677	74,206	(741,455)	2,505	1,962	(648,895)	-	

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Bank 2013	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	4,442,533	-	-	-	-	18,490	4,461,023	4.09%
Deposits and placement with banks and other institution	-	347,693	999,419	-	-	-	1,347,112	5.31%
Derivative assets	-	-	-	-	-	1,222	1,222	
Held-to-maturity securities	46,490	513	445	205,011	-	-	252,459	3.26%
Loans and advances								
- non-impaired	1,781,603	638,674	388,535	204	1,581	(25,066)	2,785,531	5.28%
- impaired	12,341	-	-	-	-	(899)	11,442	
Other assets	-	-	-	-	-	13,109	13,109	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Deferred tax assets	-	-	-	-	-	3,503	3,503	
Property and equipment	-	-	-	-	-	13,647	13,647	
Intangible assets	-	-	-	-	-	106	106	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	77,800	77,800	
Total assets	6,282,967	986,880	1,388,399	205,215	1,581	102,912	8,967,954	

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33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Bank
2013

<u>Liabilities</u>	<u>Non Trading Book</u>						<u>Total</u> RM'000	<u>Effective</u> <u>Interest Rate</u> %
	<u>Up to</u> <u>1 month</u> RM'000	<u>>1 – 3</u> <u>months</u> RM'000	<u>>3 – 12</u> <u>months</u> RM'000	<u>>1 – 5</u> <u>years</u> RM'000	<u>Over</u> <u>5 years</u> RM'000	<u>Non-interest</u> <u>sensitive</u> RM'000		
Deposits from customers	1,571,241	347,210	958,734	498	-	335,831	3,213,514	2.86%
Deposits and placements of banks and other financial institutions	2,688,680	342,874	2,004,352	-	-	37,686	5,073,592	2.90%
Derivative liabilities	-	-	-	-	-	712	712	
Other liabilities	-	-	-	-	-	173,139	173,139	
Provision for taxation	-	-	-	-	-	961	961	
Total liabilities	4,259,921	690,084	2,963,086	498	-	548,329	8,461,918	
Total equity	-	-	-	-	-	506,036	506,036	
Total liabilities and equity	4,259,921	690,084	2,963,086	498	-	1,054,365	8,967,954	
On balance sheet – interest rate gap	2,023,046	296,796	(1,574,687)	204,717	1,581	(951,453)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,023,046	296,796	(1,574,687)	204,717	1,581	(951,453)	-	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Bank 2012	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,913,921	-	-	-	-	15,377	1,929,298	3.55%
Deposits and placement with banks and other financial institutions	-	213,452	351,097	-	-	-	564,549	3.77%
Derivative assets	-	-	-	-	-	629	629	
Held-to-maturity securities	20,057	520	-	40,580	-	-	61,157	3.53%
Loans and advances								
- non-impaired	1,401,178	157,755	390,764	230	1,962	(20,809)	1,931,080	4.82%
- impaired	14,072	-	-	-	-	(11)	14,061	
Other assets	-	-	-	-	-	22,720	22,720	
Deferred tax assets	-	-	-	-	-	2,907	2,907	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Property and equipment	-	-	-	-	-	6,763	6,763	
Intangible assets	-	-	-	-	-	212	212	
Statutory Deposits with Bank Negara Malaysia	-	-	-	-	-	40,200	40,200	
Total assets	3,349,228	371,727	741,861	40,810	1,962	68,988	4,574,576	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market risk (continued)**

Interest rate risk (continued)

Bank 2012	Non Trading Book					Non-interest sensitive RM'000	Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000			
Liabilities								
Deposits from customers	985,052	215,129	769,616	38,305	-	196,187	2,204,289	2.99%
Deposits and placements of banks and other financial institutions	1,052,644	82,392	713,700	-	-	-	1,848,736	2.73%
Derivative liabilities	-	-	-	-	-	866	866	
Other liabilities	-	-	-	-	-	66,395	66,395	
Provision for taxation	-	-	-	-	-	-	-	
Total liabilities	2,037,696	297,521	1,483,316	38,305	-	263,448	4,120,286	
Total equity						454,290	454,290	
Total liabilities and equity	2,037,696	297,521	1,483,316	38,305	-	717,738	4,574,576	
On balance sheet – interest rate gap	1,311,532	74,206	(741,455)	2,505	1,962	(648,750)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	1,311,532	74,206	(741,455)	2,505	1,962	(648,750)	-	

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33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Operational Risk

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. RMICC of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management and disaster recovery plan. Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results independently to the Audit Committee of the Bank.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

MFRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. *MFRS 13 Fair Value Measure* also requires the hierarchical disclosure for financial instruments of which their fair values are disclosed. The following levels of hierarchy are used for determining the disclosing the fair value of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instrument issued by certain governments.

Level 2 – Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

Level 3 – Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measures of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

34 **FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Financial instruments measured at fair value

As at 31 December 2013, the Group and the Bank only have fair valued financial instruments that falls under level 2 as listed below:

	<u>Group and Bank</u>	
	<u>31 December</u> <u>2013</u> RM'000	<u>31 December</u> <u>2012</u> RM'000
Level 2		
Financial assets		
Derivative assets	1,222	629
	<u> </u>	<u> </u>
Financial liabilities		
Derivative liabilities	712	866
	<u> </u>	<u> </u>

Financial instruments not measured at fair value

A range of methodologies and assumptions had been used in deriving the fair values of the Group's and the Bank's financial instruments at the reporting date. The total fair value by each class of financial instruments is not materially different from the total carrying amount, except for the following financial assets:

	<u>Group and Bank</u>			
	<u>2013</u>		<u>2012</u>	
	<u>Carrying</u> <u>amount</u> RM'000	<u>Fair</u> <u>value</u> RM'000	<u>Carrying</u> <u>amount</u> RM'000	<u>Fair</u> <u>value</u> RM'000
Financial assets				
Held-to-maturity securities				
- Level 1	207,435	205,081	41,101	41,157
- Level 2	45,024	45,021	20,056	20,056
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>252,459</u>	<u>250,102</u>	<u>61,157</u>	<u>61,213</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

34 **FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair values are based on the following methodologies and assumptions:

(a) **Deposits and placements with financial institutions**

For deposits and placements with financial institutions with maturities of less than six months, the carrying amount is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(b) **Held-to-maturity securities**

The estimated fair value of Malaysian Government Securities is generally based on quoted and observable market prices and classified under level 1 of the fair value hierarchy. The estimated fair value of negotiable instruments of deposits is based on market yield of similar assets and classified under level 2.

(c) **Loans and advances**

For floating rate loans, the carrying amount is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities. The fair value of the fixed rate loans are generally a reasonable estimate of fair value.

The fair values of impaired floating and fixed rate loans are represented by their carrying value, net of individual allowance, being the expected recoverable amount.

(d) **Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are a reasonable estimate of their fair value. For deposits with maturities of six months or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(e) **Deposits and placements of banks and other financial institutions**

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying amounts. For deposits and placements with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturities.

(f) **Foreign exchange rate and interest rate contracts**

The fair values of foreign exchange rate, interest rate and equity contracts are the estimated amounts the Group and the Bank would receive or pay to terminate the contracts at the reporting date.

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35 **CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. In the case where the Group and the Bank have no entity-specific loss experience or insufficient experience, the Group and the Bank use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as change in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Fair value of financial instruments

The majority of the Group's and the Bank's financial instruments reported at fair value are based on quoted and observable market prices. Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more details in Note 33.

36 **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 9 May 2014.