

Company No. 511251-V

BANK OF CHINA (MALAYSIA) BERHAD

(Company No. 511251-V)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 DECEMBER 2018

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

CONTENTS	PAGE
DIRECTORS' REPORT	1 - 30
STATEMENT BY DIRECTORS	31
STATUTORY DECLARATION	31
INDEPENDENT AUDITORS' REPORT	32 - 35
STATEMENTS OF FINANCIAL POSITION	36
STATEMENTS OF COMPREHENSIVE INCOME	37
STATEMENTS OF CHANGES IN EQUITY	38 - 39
STATEMENTS OF CASH FLOWS	40 - 42
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	43 - 68
NOTES TO THE FINANCIAL STATEMENTS	69 - 147

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

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 2018.

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.

Other information relating to the subsidiary is disclosed in Note 15 to the financial statements.

RESULTS

	<u>GROUP</u> RM'000	<u>BANK</u> RM'000
Profit before taxation	190,021	184,444
Taxation	<u>(46,387)</u>	<u>(41,749)</u>
Net profit for the financial year	<u>143,634</u>	<u>142,695</u>

DIVIDENDS

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

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

CHANGES IN DEBT AND EQUITY SECURITIES

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

RESERVES AND PROVISIONS

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

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.

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

DIRECTORS' REPORT (CONTINUED)

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 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 would 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 which 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.

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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

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

DIRECTORS

The Directors of the Bank and the subsidiary in office since the beginning of the financial year to the date of this report are:

The Bank

Zhu Yanlai (appointed on 1 October 2018)

Zhang Min (appointed on 15 January 2019)

Guan Xuefei (resigned on 15 January 2019)

Chai Woon Chew

Eugene Khoo Kong Hooi

Dato' Low Kian Chuan

The subsidiary

Qiu Hengchang

Chew Lee Lin

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.

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, none of the Directors 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 29 of the financial statements and of related corporations) by reason of a contract made by the Bank or a related corporation with the Directors 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 certain Directors received remuneration from the Bank or related corporations in their capacities as executives of the Bank or those related corporations.

HOLDING COMPANIES

The immediate holding company of the Bank is Bank of China (Hong Kong) Limited, which was incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Limited, both were incorporated in China.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW 2018

In year 2018, the Bank achieved satisfactory growth with major financial indicators remaining healthy. During the year, the Bank was appointed by The Labuan Financial Services Authority as RMB settlement bank in Labuan, which further strengthened the Bank's important role as a major RMB service provider for Malaysia as well as for the Asean region. Due to the Bank's strong capitalisation and healthy profitability, the Bank's long-term financial institution rating was upgraded from AA2 to AA1 by RAM Rating Services Berhad.

ECONOMIC OUTLOOK FOR 2019

Malaysia's near-term growth outlook remains resilient with sound macroeconomic fundamentals, stable financial conditions as well as broad-based and diversified economic structure. In year 2019, GDP growth rate is forecasted at 4.9%, largely supported by sound domestic demand. Nevertheless, as a highly open economy, Malaysia faces several risks relating to uncertainties in external environment, including trade tensions, volatility in global financial markets and oil prices which could have an adverse impact on Malaysia's economic growth.

BUSINESS PLAN 2019

In year 2019, the Bank will continue to enhance its products and services, and further leverage on the Bank of China's worldwide network to better serve its clients' needs in Malaysia and China.

In corporate and financial institutions businesses, Bank of China Group's expertise in cross border transactions will position the Bank well in helping its clients with projects related to the Belt and Road initiative. Benefited from closer working ties with its parent bank, the Bank will further develop its ability to provide more comprehensive financial solutions to local and international enterprises.

Furthermore, the Bank will widen its product range in personal banking, wealth management, as well as online-offline payment services, to offer its customers more options and improve customer experience. In achieving the Bank's business objectives, the Bank will commit more resources and efforts to strengthen its risk management and internal control system.

RATINGS BY EXTERNAL RATING AGENCY

RAM Rating Services Berhad ("RAM") has assigned Bank of China (Malaysia) Berhad's Financial Institution Ratings at AA1 and P1, with stable outlook, on 17 December 2018.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES

Zhu Yanlai – Non-Independent Non-Executive Director and Chairman

Madam Zhu Yanlai, Chinese, aged 65, was appointed to the Board as a Non-Independent Non-Executive Director and Chairman on 1 October 2018.

Madam Zhu was graduated from the Renmin University of China with Bachelor's Degree and Master's Degree in Philosophy. She has also obtained a Master's Degree in Sociology from the University of Regina in Canada.

She started her career as a lecturer in Renmin University of China in 1987 and was the visiting scholar of York University, Canada in year 1990. She was a manager in Royal Bank of Canada in year 1995 and an Associate in Nesbitt Burns, Bank of Montreal Group in year 1996.

Madam Zhu joined Bank of China Group in April 1997 as Senior Manager, Credit & Business Development Department of Bank of China (Canada). She was the Assistant General Manager, Credit Management & Business Department of Bank of China Hong Kong and Macau Regional Office since 1999 before taken up the role as General Manager, Economic & Strategic Planning Department of Bank of China (Hong Kong) Limited ("BOCHK") in year 2001. In year 2010, she was appointed as Assistant Chief Executive in addition to her role as General Manager, Economic & Strategic Planning Department of BOCHK. She was then appointed as Deputy Chief Executive (Strategic Planning and Management) in year 2013 and as an advisor of BOCHK from year 2015 until September 2018.

Madam Zhu has no family relationship with any Director of the Bank.

Zhang Min – Executive Director/Chief Executive Officer

Mr. Zhang Min, Chinese, aged 54, was appointed as Executive Director/Chief Executive Officer ("CEO") on 15 January 2019.

Mr. Zhang was graduated from Wuhan University, China with Bachelor degree in International Finance. He also obtained a Master degree in Finance from Xiamen University, China, and a Doctorate degree in Population, Resources and Environmental Economics from the Yunnan University, China.

Mr. Zhang has more than 30 years of experience in the banking industry, holding various positions and experience in international settlement, corporate banking, retail banking, financial market, risk management and banking branch management. Since joining BOC Group in year 1988, Mr. Zhang has held various management positions in Bank of China, Yunnan Branch as well as overseas experience in Bank of China, Jakarta Branch and BOCHK.

Mr. Zhang has no family relationship with any Director of the Bank.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Chai Woon Chew – Independent Non-Executive Director

Mr. Chai Woon Chew, Malaysian, aged 61, was appointed to the Board on 10 December 2012. He holds a Bachelor of Law (Hons) degree from the University of Buckingham, United Kingdom, Bachelor of Science (Hons) degree in Chemistry from University of Surrey, United Kingdom. He was called to the bar of England and Wales as 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, a legal firm in Kuala Lumpur.

Mr. Chai is also actively involved in social work. Currently, he is the Deputy Secretary General II of the Association of Chinese Chambers of Commerce and Industry of Malaysia. He has also assumed important roles in other associations.

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

Mr. Chai currently sits on the Board of KKB Engineering Berhad.

Mr. Chai has no family relationship with any Director of the Bank.

Eugene Khoo Kong Hooi – Independent Non-Executive Director

Mr. Eugene Khoo Kong Hooi, Malaysian, aged 53, was appointed to the Board on 9 January 2017. He holds a Bachelor of Economics degree (majoring in Accounting and Statistics) from Monash University, Australia and is a member of the Malaysian Institute of Accountants and Chartered Accountants Australia and New Zealand.

Mr. Eugene Khoo was the Group Chief Executive Officer of Ayer Holdings Berhad from year 2016 to 2018. He has more than 20 years working experience in the banking and finance industry having worked in corporate and investment banking - covering various areas including mergers and acquisitions, corporate banking, corporate finance, debt capital markets, equity capital markets and relationship management. He has worked on transactions with clients from small to large corporations in various countries covering a broad range of industry sectors. He started his career with an international accounting firm in 1989 where he subsequently obtained his qualification as a Chartered Accountant in Australia.

He is currently the President of the Malaysian Mergers & Acquisitions Association, a non-profit organisation which was set up to develop the mergers and acquisitions market in Malaysia.

Mr. Eugene Khoo has no family relationship with any Director of the Bank.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Dato' Low Kian Chuan – Independent Non-Executive Director

Dato' Low Kian Chuan, Malaysian, aged 59, was appointed to the Board on 10 August 2017. He holds a Bachelor of Arts (Economics) and Advance Diploma in Business Administration from Wilfrid Laurier University, Canada. He also obtained the Advance Marketing Strategies certificate from University of California, Berkeley.

He is currently the Managing Director of Low Fatt Group of companies which is involved in the integrated wood based activities. He formed his own company to venture into downstream processing and held positions as Executive Chairman cum Chief Executive Officer of Low Fatt Wood Industries Sdn. Bhd. in 1986. In 1996, he formed a joint venture company, Low Fatt Timber Resources Sdn. Bhd. with German counterparty in producing double glazed window and door. In 2016, Dato' Low acquired Maicador Sdn Bhd, an established engineering door company.

Dato' Low was a board member of Pembangunan Sumber Manusia Berhad ("HRDF") from year 2001 to 2003 and from year 2009 to 2017 and SME Corporation Malaysia from year 2009 to 2015.

He is currently the Executive Chairman of Maicador Sdn Bhd and the Executive Director of Amar Gaya Sdn. Bhd. He is also the chairman of the Malaysian Timber Council, the Secretary General of Associated Chinese Chambers of Commerce and Industry of Malaysia, the Treasurer General of National Chamber of Commerce and Industry Malaysia and a council member of Employment Insurance System.

Dato' Low has no family relationship with any Director of the Bank.

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.

The Bank has also taken the necessary steps to ensure conformity with Bank Negara Malaysia's ("BNM") Policy Document on Corporate Governance ("BNM CG Policy Document") issued on 3 August 2016.

1. Roles and Responsibilities of the Board of Directors

The Board of Directors ("the Board") 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, ensure maximisation of shareholder's value and safeguarding the stakeholder's 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:

- (i) Strategy and Planning

Set and oversee the implementation of business and risk objective and strategies and in doing so shall have regard to the long term viability of the Bank and reasonable standards of fair dealing.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

1. Roles and Responsibilities of the Board of Directors (Continued)

(ii) Risk Management and Internal Control

- Ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems that commensurate with the nature, scale and complexity of the business and structure of the Bank. Assess and manage risk-taking activities to align with the Bank's capacity to absorb losses and the long-term business viability. Ensure requirements in BNM's Policy Document on Risk Governance are at all times observed.

(iii) Disclosure of Information

Ensure reliable and transparent financial reporting process within the Bank. The Board is responsible to ensure the integrity and credibility of financial statement of the Bank.

(iv) Monitoring and Delegation of Authorities to Various Committees

The Board establishes and ensures the effective functioning of various board committees. Committee members are selected based on their expertise, interests and availability. Duties may be delegated to the board committees, however, the Board remains responsible for the decisions of the committees. The Board shall be regularly informed of each committee's activities, findings, conclusion and recommendations. The Board should review reports submitted by various committees, and provide guidance, when necessary.

(v) Supervision over Performance of Senior Management

Recommending or suggesting the candidates for CEO, Deputy/Assistant CEO of the Bank as well as their performance, remuneration, salary, bonus, transfer, retirement, reappointment etc. The Board shall ensure the operations of the Bank are conducted prudently, and within the framework of the relevant laws and policies.

(vi) Communications with Shareholders/Stakeholders

Manage the Bank's business in accordance with the rules stipulated in the Constitution, relevant laws and regulations. Maintain an effective communication policy that enables both the Board and Management to communicate effectively with its shareholders, the stakeholders and the public either through disclosure or annual general meeting ("AGM"). Promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Board Meetings and Supply of Information to the Board

The Board meets at least six (6) times a year to review the financial performance of the Bank and progress of the Bank's business operations, approve strategies, business plans and significant policies as well as to consider business and other proposals which require the Board's approval. Ad-hoc Board meetings may also be called to deliberate and assess corporate proposals or business issues that require the Board's immediate consideration/decision.

The attendance of Directors at a Board meeting by way other than physical presence, remains the exception rather than norm and is subject to appropriate safeguards to preserve the confidentiality of deliberations.

Board's approval for urgent matters may be obtained through written resolutions.

All Directors are supplied with information on a timely manner. The agenda for each Board meeting, together with detailed reports, proposal papers and supporting documents, are circulated to the Directors for their perusal well in advance of the Board meeting date to facilitate a meaningful deliberation of the Board. The Directors may request to be furnished with additional information or clarification. Relevant senior management officers are invited to attend Board meetings to provide the Board with detailed explanations and clarifications on proposals tabled to enable the Board to make an informed decision.

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

The Directors have ready and unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Company Secretary provides counsel to the Board on governance matters and facilitate effective information flows between the Board, the Board Committees and senior management. The Directors have the liberty to seek external professional advice if so required by them.

In respect of potential conflict of interest, the Board has on 9 December 2016 established a Policy on Managing Conflict of Interest of Directors to address Directors' actual and potential conflicts of interest. The Board is satisfied that there is no undue influence involved in all connected party transactions.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Board Meetings and Supply of Information to the Board (Continued)

Directors' attendance at the Board meetings held during the financial year ended 31 December 2018 is as reflected below:

Directors	Number of Meetings	
	Held	Attended
Zhu Yanlai (Chairman) Non-Independent Non-Executive Director (Appointed on 1 October 2018)	1	1
Guan Xuefei Non-Independent Non-Executive Director (Resigned on 15 January 2019)	8	8
Zhang Min Executive Director (Appointed on 15 January 2019)	-	-
Chai Woon Chew Independent Non-Executive Director	8	7
Eugene Khoo Kong Hooi Independent Non-Executive Director	8	8
Dato' Low Kian Chuan Independent Non-Executive Director	8	6

3. Effectiveness of the Board of Directors

(a) Division of Responsibilities Between the Chairman and CEO

The roles of the Chairman and CEO are separated, which is consistent with the principles of corporate governance as set out in BNM's CG Policy Document to institute an appropriate balance of power and authority. The Chairman, in leading the Board, is responsible for the effective overall functioning of the Board.

In fulfilling this role, the Chairman:-

- (i) ensures that appropriate procedures are in place to govern the Board's operation;
- (ii) ensures that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the Board, and that Directors receive the relevant information on a timely basis;
- (iii) encourages healthy discussion and ensure that dissenting views can be freely expressed and discussed; and
- (iv) leads efforts to address the Board's development needs.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

3. Effectiveness of the Board of Directors (Continued)

(a) Division of Responsibilities Between the Chairman and CEO (Continued)

The CEO, in leading the senior management, bears primary responsibility over the development and execution of the Bank's corporate and business strategy, and is ultimately responsible for managing the Bank's day-to-day operations. 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.

(b) Board Composition

The current Board comprises personnel with diverse experience with necessary skill and qualification. The Board comprises five (5) members, of whom three (3) are Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and one (1) Executive Director. The presence of a majority of Independent Non-Executive Directors provides effective check and balance in the functioning of the Board.

The three Independent Non-Executive Directors are free from any association or circumstances that may impair their exercise of independent judgement. They ensure a strong element of independence on the Board, both in thought and actions.

The profile of the Directors serving at the date of this report are set out on pages 5 to 7.

(c) Appointments and Re-election of Directors

The proposed appointment of new member(s) of the Board as well as the proposed re-appointment/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 comprise of directors who as a group provide a mixture of core competencies such as finance, accounting, legal and business management.

In accordance with the Constitution of the Bank, newly appointed Directors shall hold office only until the next AGM, and shall then be eligible for re-election. Additionally, one-third (1/3) of the Directors shall retire by rotation at each AGM. A retiring Director is eligible for re-election at the AGM.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

3. Effectiveness of the Board of Directors (Continued)

(d) Directors' Independence and Tenure

The Board Remuneration and Nomination Committee considers a strong element of independence on the Board vital for good corporate governance and it performs annual reviews of the independence of the Directors.

An Independent Non-Executive Director is defined as a Director who is independent of management and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank.

Independent Non-Executive Directors of the Bank exercise independent judgement and participated in the deliberations of the Board objectively with no individual or small group of individuals dominating the Board's decision making process. The number of Independent Non-Executive Directors on the Board of the Bank is in line with the requirement laid down in BNM's CG Policy Document that the board must have a majority of independent directors at all times.

The Bank has adopted a 9-year policy for tenure of Independent Directors. The tenure limits for the Independent Directors of the Bank should generally not exceed nine (9) years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Bank.

As at the date of this Statement, none of the Bank's Directors have served for a cumulative period of more than 9 years.

(e) Directors' Performance and Remuneration

The Board Remuneration and Nomination Committee 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 time, an annual assessment of individual directors, Board as a whole and Board Committees will be carried out by the Bank.

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

The Independent Directors are paid directors' fee with the shareholder's approval at the AGM.

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

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

3. Effectiveness of the Board of Directors (Continued)

(f) Induction and Training

All newly appointed directors will receive in-house orientation and education programmes to assist them to familiarise with the industry and the Bank within three months of their appointments. The programmes will 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.

During the financial year, the Directors attended training programmes, conferences, forums, seminars and briefings organised by professional bodies and regulatory authorities as well as those conducted in-house, included the following:-

- New Financial Hub in Central Eurasia: Investment and Financing Opportunities
- 2018 3rd Group-wide Compliance Refresher E-Learning (Risk Management, Anti-Money Laundering, Fair Hospitality Charter and Code of Banking Practice)
- 2018 4th Group-wide Compliance Refresher E-Learning (Personal Data (Privacy) Ordinance, Fraud and Malpractice Prevention and Staff Reporting of Irregularities, Technology Risk Management, Anti-Bribery and Anti-Corruption)
- MFRS9 Financial Instruments
- Battling Money Laundering & Terrorism & Financing in Malaysia
- BNM FIDE Forum dialogue with senior officials of Bank Negara Malaysia
- Fintech: Disruption to be Embraced?" - Demo Day and Dialogue with 10 Fintech Companies
- IT Security Awareness
- Asia Pacific Technology
- Managing Cyber Risks in Financial Institutions
- Digital Transformation
- Understanding Liquidity Risk Management in Banking
- Win the innovation race : unlocking the creative power of Asians by Professor Roy Chua
- Digital Leadership
- 1st PIDM-FIDE Forum Dialogue
- Blockchain in Financial Services Industry by IBM
- Chartered Banker Briefing
- IBM Think Malaysia
- Chartered Banker Ethics Masterclass
- FIDE Forum Workshop – Identifying the next board talent
- FIDE Core Programme
- CGCC World Chinese Entrepreneurs Summit "Belt & Road and Guangdong-HongKong-Macao Bay Area Opportunities"
- Orientation Programme

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

3. Effectiveness of the Board of Directors (Continued)

BOARD COMMITTEES

The Board has established Board Audit Committee ("BAC"), Board Risk Management Committee ("BRMC") and Board Remuneration and Nomination Committee ("BRNC") to complement the Board in the execution of its responsibilities. Each Board Committees has its terms of reference which set forth the responsibilities, authorities and functions of that Committee, in line with BNM's CG Policy Document.

The broad functions of the Board Committees are as follows:

1. Board Audit Committee

(a) Objective

The objective of the BAC is to assist the Board in fulfilling its oversight responsibility for the Bank and its subsidiary relating to:-

- the integrity of financial statements and the financial reporting process;
- the systems of internal control;
- the performance of internal audit functions and internal auditors;
- the appointment of external auditors and the evaluation of the external auditors' qualifications, independence and performance;
- the periodic review, where appropriate, and the annual audit of the Group's financial statements;
- compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures; and
- enhancing the corporate governance framework of the Group.

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

1. Board Audit Committee (Continued)

(b) Membership and Attendance

The BAC comprises only Non-Executive Directors with at least three members. Majority of the members (including the Chairman) shall be Independent Directors with at least one member being an Independent Director shall possess appropriate professional qualifications or accounting or related financial management expertise.

The attendance of each member at the BAC meeting held during the financial year ended 31 December 2018 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Eugene Khoo Kong Hooi (Chairman) (Independent Non-Executive Director)	5	5
Chai Woon Chew (Independent Non-Executive Director)	5	5
Guan Xuefei (Non-Independent Non-Executive Director) (Resigned on 15 January 2019)	5	5
Dato' Low Kian Chuan (Independent Non-Executive Director) (Appointed on 15 January 2019)	-	-

(c) Roles and Responsibilities

The BAC 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 BAC 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 BAC reviews internal control issues identified by the Internal Audit Department, the external auditors, regulatory authorities, the auditors from the holding companies and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the BAC meetings are tabled to the Board of the Bank on a periodic basis; and
- (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 BAC and the findings of the audits are submitted to the BAC for review at their periodic meetings.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

2. Board Risk Management Committee

(a) Objective

The objective of the BRMC is to support the Board in meeting the expectations on risk management as set out in BNM's Policy Document on Risk Governance. The BRMC assists the Board in overseeing the establishment of a robust risk management system and an effective framework to identify, monitor, control and report risk. The BRMC oversees the senior management's activities in managing credit, market, liquidity, operational, compliance, legal and other risks as well as to ensure that the integrated risk management function is in place and functioning according to its purposes.

(b) Membership and Attendance

The BRMC comprises Non-Executive Directors with at least three members and chaired by an Independent Non-Executive Director. The attendance of each member at the BRMC meetings held during the financial year ended 31 December 2018 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Chai Woon Chew (Chairman) (Independent Non-Executive Director)	6	6
Guan Xuefei (Non-Independent Non-Executive Director) (Resigned on 15 January 2019)	6	6
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	6	6
Zhu Yanlai (Non-Independent Non-Executive Director) (Appointed on 15 January 2019)	-	-

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

2. Board Risk Management Committee (Continued)

(c) Roles and Responsibilities

The BRMC shall be responsible, but are not limited, to the following:

- (i) to provide oversight and governance of risk in line with regulatory requirements;
- (ii) to oversee and advise the Board on high-level risk related matters. In order to fulfill the requirement, the BRMC shall oversee:-
 - current and forward looking risk exposures; and
 - Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and management of risk of the Bank.
- (iii) to oversee the overall management of all risks covering credit risk management, market risk management, operational risk management, liquidity risk management and compliance function (including Anti-Money Laundering and Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 – AMLATFPUAA 2001) of the Bank;
- (iv) to ensure infrastructure, resources and systems are in place for risk management, ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities;
- (v) to review management's periodic reports on risk exposure, risk portfolio composition and risk management activities, compliance report and AMLATFPUAA report;
- (vi) to advise the Board on risk appetite and tolerance in determining strategy. The BRMC has power delegated by the Board to set risk appetite, approve frameworks, policies and processes for managing risk and accept risks beyond the approval discretion provided to management;
- (vii) to oversee on the development and implementation of the stress testing programme;
- (viii) to review and assess adequacy of risk related policies and framework including Internal Capital Adequacy Assessment Process ("ICAAP") and Risk Appetite, Credit Risk, Operational Risk, Market Risk, Liquidity Risk and Compliance related policies and framework, in identifying, measuring, monitoring and controlling risk and to the extent to which these are operating effectively;
- (ix) to provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework; and
- (x) to review and recommend to the Board for approval on new products and ensure compliance with the prevailing guidelines issued by BNM and other regulatory bodies.

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee

(a) Objective

The objective of the BRNC is to support the Board in carrying out its functions of the appointment and removal of Directors and senior management; provide a formal and transparent procedure for the appointment and removal of Directors, senior management and company secretary as well as assessment of effectiveness of individual Directors, Board as a whole and performance of key senior management officers. In addition, the BRNC supports the Board in overseeing the design and operation of the remuneration system of the Bank; provides a formal and transparent procedure for developing remuneration policy for Directors, CEO, key senior management officers and material risk takers to ensure remuneration is competitive and consistent with the business objectives, risk strategies, corporate values and long-term interests of the Bank.

(b) Membership and Attendance

The BRNC comprises only Non-Executive Directors with a minimum of three members. The attendance of each member at the BRNC meetings held during the financial year ended 31 December 2018 is as reflected below:

Members	Number of Meetings	
	Held	Attended
Dato' Low Kian Chuan (Chairman) (Independent Non-Executive Director)	5	4
Chai Woon Chew (Independent Non-Executive Director)	5	5
Eugene Khoo Kong Hooi (Independent Non-Executive Director)	5	5

(c) Roles and Responsibilities

(i) Nomination

- establishing the minimum requirements on the skills, knowledge, experience, qualifications and other core competencies of a Director and the CEO;
- assessing and recommending to the Board the nominees for appointment of Director, Board Committee member and CEO;
- assessing and recommending to the Board, the re-appointment of Director/CEO upon expiry of their respective terms of appointment as approved by BNM;
- 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;

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(c) Roles and Responsibilities (Continued)

(i) Nomination (Continued)

- 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 Directors through annual review;
- 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 are approved by the full Board;
- recommending to the Board the removal of a Director/CEO/key senior management officers from the Board or management if they are ineffective, errant or negligent in discharging their responsibilities;
- review the results of the Board's performance evaluation process;
- ensuring that all Directors receive appropriate continuous training programme in order to keep abreast with the least developments in the industry;
- overseeing the appointment, management succession planning and performance evaluation of key senior management officers; and
- 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 Services Act 2013 ("FSA") and have complied with the fit and proper requirements.

(ii) Remuneration

- recommending to the Board a framework and developing a clear remuneration policy for Directors, CEO, Senior Management Officers and material risk takers for the full Board's approval. The remuneration framework supports the Bank's business objectives, risk strategies, corporate values and long-term interests, as well as reflects the responsibility and commitment which goes with Board membership and responsibilities of the CEO, Senior Management Officers and material risk takers;
- recommending to the Board appropriate 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 subsidise 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, benefit-in-kind and termination benefits;

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(c) Roles and Responsibilities (Continued)

(ii) Remuneration (Continued)

- recommending to the Board the appropriate level of remuneration packages for Non-Executive Directors and Independent Directors that is linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. The remuneration of each Board member may differ based on their level of expertise, knowledge and experience;
- recommending to the Board specific remuneration packages for the CEO, Senior Management Officers and material risk takers. The remuneration package is structured such that it is competitive and consistent with the Bank's business objectives, risk strategies, corporate values and long-term interests. Remuneration packages are drawn up in alignment with Parent Company's policies and guidelines to promote prudent risk-taking behavior and encourage individuals to act in the interests of the Bank as a whole. Remuneration and incentives are linked to contribution and level of accountabilities, to be adjusted symmetrical with all types of risk outcomes by weighing the time horizon of risks; and
- details of the remuneration (including benefits-in-kind) of the individual directors, CEO, Senior Management Officers and material risk takers are to be disclosed in Directors' Report section of the annual accounts according to the BNM's Corporate Governance Disclosures requirement.

(d) Overview of Remuneration System

- (i) The Remuneration System of Bank of China ("BOC") Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration with performance and risk factors closely. It serves to encourage staff to enhance their performance, and at the same time, to strengthen their awareness of risk so as to achieve sound remuneration management.
- (ii) The Remuneration and Incentive Policy of the BOC Group is generally in line with the broad principles set out in the:
 - Hong Kong Monetary Authority ("HKMA") "Guideline on a Sound Remuneration System" and applicable to the BOCHK and all of its subsidiaries (including the branches and institutions in and out of Hong Kong); and
 - Principle 8 of BNM's CG Guidelines for Licensed Institutions on the requirement of "a formal and transparent procedure for fixing the remuneration packages of Board Members, CEO and Senior Management and the remuneration policies and practices should be in line with the Licensed Institution's ethical values, objectives and culture".

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(d) Overview of Remuneration System (Continued)

- (iii) BOCHK Group Remuneration Policy sets out the components of remuneration; the governance and review mechanism for the remuneration of all employees of BOCHK Group including Bank of China (Malaysia) Berhad ("BOCM") which is a fully-owned subsidiary of BOCHK since 17 October 2016.

(e) Remuneration Governance

- (i) The Bank's Senior Management Members are responsible for the oversight of remuneration arrangements for all the Bank's local and expatriate employees in Malaysia, ensuring that a competitive remuneration structure is in place to attract and retain talents, consistent with the Bank's culture, objectives and strategy.
- (ii) As at 31 December 2018, the Senior Management Members of the Bank consist of one (1) CEO, three (3) Deputy CEO, one (1) Assistant CEO and one (1) Chief Risk Officer cum Chief Compliance Officer.

(f) Design and Structure of Remuneration Processes

- (i) BOC Group has implemented a Remuneration Policy globally within the Group, which covers all local and expatriate employees in Malaysia. The Remuneration Policy of the Bank is founded upon the Group Remuneration System and customised to be in line with Malaysia local market practice and standard regulations. The Remuneration Policy sets out the components of remuneration, the governance and review mechanism for the remuneration of all employees of the Bank and incorporates risk management in the performance management process and job design.
- (ii) The objective of the Remuneration Policy is to align remuneration management with risk management whilst providing proper structured remuneration and compensation to attract, retain and motivate high quality people to lead, manage and serve the Bank in a competitive environment and in the best interests of all stakeholders.
- (iii) The key features of the policy include the governance and review mechanism for remuneration mix of all employees of the Bank in line with the above mentioned objectives, and ensuring that remuneration is adjusted appropriately for the time horizon of risks undertaken.
- (iv) BOC Group implements Variable Pay Deferral Policy for Senior Management Members globally, which linked Remuneration and Incentives to contribution and level of accountabilities, to be adjusted symmetrical with all types of risk outcomes by weighing the time horizon of risks; whereby 59.9% of current year's Variable Pay to be vested the following year and the remaining 40.1% to be vested in equal amount over the subsequent 3 years.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(f) Design and Structure of Remuneration Processes (Continued)

- (v) After the Bank's acquisition by BOCHK, the BOCHK Group's Variable Pay Deferral Policy was revised to include the Bank in December 2016. The implementation will only come in force for year 2017 Variable Pay. Notable changes in the new policy include the threshold limit set for the application of variable pay deferral. The variable pay deferral ratio is set according to a matrix based on the total amount of variable pay and job grade. Partial variable pay will be vested in the following year and the deferred portion is vested in equal amount over the subsequent 3 years.
- (vi) For year 2018, BOCHK Group's Variable Pay Deferral Policy shall be adopted for Senior Management Members and relevant staff categories of the Bank.
- (vii) The Bank adopts a 'Balance Score Card' approach for its staff performance management, whereby the relevant compliance and risk management key performance indicators are embedded according to staff's position. The Balance Score Card sets out financial targets, customer targets, work progress targets and employee learning targets. Employee performance assessment shall include the assessment of the demonstration of their corporate values in our efforts to uphold professionalism and utmost integrity.
- (viii) The performance of Officers in risk and control functions is assessed based on their achievements and effectiveness in the performance of their job responsibilities in control functions. Their remuneration is set independent of the financial targets of businesses they oversee to ensure the effectiveness of their roles. There is no direct linkage of their remuneration with the business performance. Failure to detect, mitigate, control or manage risk however will have a direct bearing on their remuneration.
- (ix) The Bank may from time to time seek remuneration advice from external consultants such as FIDE FORUM of which the Bank is a member on the remuneration of Directors. FIDE FORUM is a non-profit organisation and the only alumni association that represents the interests of Directors of Financial Institutions in Malaysia.

(g) Accounting for Risk in Remuneration

- (i) Staff covered by the Remuneration Policy are assessed in relation to relevant risks comprising asset and liability risks, credit risks, market risks, operational risks, reputation risk and, importantly compliance and regulatory risks.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(g) Accounting for Risk in Remuneration (Continued)

(ii) In implementing remuneration measures, the key risk measures taken into account by the Bank include the following:

- Non-performing loan balance and ratio;
- Securities investment ratio and treasury portfolio limits;
- Compliance with applicable market risk, foreign exchange exposure, interest rate risk and liquidity limits;
- Internal control and operational risk management limits;
- Compliance with legal and regulatory requirements;
- Capital adequacy and Risk Adjusted Return On Capital ("RAROC"); and
- Impacts to reputational risk.

(iii) Performance against key risk measures applicable to individual staff is reviewed and assessed annually. Any risk deficiencies or breaches of limits or regulatory requirements on the part of any employee of the Bank will have a direct bearing upon that employee's remuneration and employment outcomes for the year under review.

(h) Linking Pay to Performance

(i) The remuneration package for all employees is composed of "fixed remuneration", "variable remuneration" and "benefit-in-kind".

(ii) Fixed remuneration, referred to as "base salary", is paid monthly and is a fixed amount which is reviewed annually with reference to various factors such as remuneration strategy, market pay trends and existing base salary levels. The fixed remuneration review budget is determined based on the affordability of the Group as well as the performance of the Bank, Business Units and individuals during the previous assessment year, factors which are measured in 'Balance Score Card' method adopted by the Bank.

(iii) Variable remuneration is also known as "short term incentives, annual bonus and long term incentives", which are determined annually in light of the Bank's annual performance assessment result. The size of variable remuneration and incentive pool is calculated with reference to a pre-defined formula provided by BOC Group.

(iv) Benefit-in-kind referred to all non-cash perquisites applicable to individual employee. The Bank's staff benefits are structured according to staff category.

(v) The Remuneration and Incentive for expatriate staff are aligned to BOC Group's Expatriate Staff Remuneration Policy.

(vi) The performance metrics of the Bank comprise of financial targets, strategy execution, risk management & compliance and staff management. The size of variable remuneration and incentive pool is directly linked to the achievement of the Bank performance metrics. The determinant factors of the overall pool are linked to business performance and profit.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(h) Linking Pay to Performance (Continued)

(vii) The performance of CEO is assessed based on achievement of organisation performance metrics (60%), board and group assessment (20%), strategy execution (10%) and employee satisfaction (10%). The other Senior Management Members are assessed by CEO and the respective business functions at group level according to the achievement of targets set (70%), Senior Management Assessment (20%) and Inter-department Assessment (10%). Further input from BOCHK shall be taken into account in determining the level of performance.

(viii) Allocation of individual variable remuneration is closely linked to the performance of the Business Unit and the individual employee. Risk factors are fully considered at each level of assessment and related risk measures are clearly stated on all Balance Score Cards to inculcate prudent risk management behaviour.

(ix) Every effort is made to ensure the performance metrics are objective, reliable and measurable to achieve the desired outcome. Immeasurable and "weak" performance metrics are tweaked accordingly to prevent weak linkage of remuneration to performance. Demerit system is also in place as punitive measure for non-compliance incidences.

(i) Impact of Longer Term Performance on Remuneration

(i) In order to align variable remuneration with the Bank's long-term performance and risk controls, Senior Management Member's variable remuneration is partially deferred over a four-year period. Risk assessment factors in the Balance Score Card appear as potential score reduction items. In the instance of zero breach of any risk control requirement, the total score will equate to zero and the employee's approved annual deferred variable remuneration amount will be paid out in full in the year of deferment.

(ii) Each year the deferred variable remuneration payout percentage depends on the deficiency ratio (reduced score over total score in the risk assessment section) of the individual's risk assessment factors. The lesser the deficiency ratio in the risk factor assessment, the higher the payout percentage of the deferred bonus of the assessment year.

(iii) Forfeiture of deferred variable remuneration payout or claw-back provisions of vested remuneration may apply where prior year failures, fraud, financial loss, breaches or non-compliances are detected subsequently. The quantum of forfeiture or claw-back depends on the magnitude of the incident.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(j) Forms of Variable Remuneration

- (i) The Bank offers its employees a performance bonus as variable remuneration and it is calculated and paid out annually in accordance with the performance assessment result provided by BOC Group.
- (ii) Majority of the employees' performance bonus is paid fully the following year. Senior Management Member's performance bonus is paid 59.9% during the 12 months following the assessment year with the remaining 40.1% deferred for review to be vested over the next three consecutive years.
- (iii) Total amount of remuneration received by CEO and Directors during the financial year ended 31 December 2018 are as follows:

	Wang Hongwei RM'000	Chai Woon Chew RM'000	Eugene Khoo Kong Hooi RM'000	Dato' Low Kian Chuan RM'000
Fixed Remuneration				
- Cash based (non-deferred)	998	130	130	88
Variable Remuneration				
- Cash based (non-deferred)	994	-	-	-
Benefits-in-kind	50	-	-	-
TOTAL	2,042	130	130	88

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

3. Board Remuneration and Nomination Committee (Continued)

(j) Forms of Variable Remuneration (Continued)

(iv) Total amount of remuneration awards in respect of Senior Management for the financial year ended 31 December 2018 are as follows:

	Senior Management RM'000
Fixed Remuneration	
- Cash based (non-deferred)	4,997
- Number of officers entitled	6
Variable Remuneration	
- Cash based (non-deferred)	2,979
- Number of officers entitled	6
Variable Remuneration	
- Cash based (deferred)	880
- Number of officers entitled	6
Benefits-in-kind	50
Total	8,906

(v) Summary of deferred remuneration for Senior Management:

	Senior Management RM'000
Variable Remuneration	
- Cash based (deferred)	2,423
- Number of officers entitled	9
Variable Remuneration	
- Cash based (deferred vested)	1,076
- Number of officers entitled	8

There is no reduction value of outstanding deferred remuneration in the year 2018 due to ex-post explicit or implicit adjustments. All risk measurements are met and deficiency ratio is zero.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

4. Risk Management and Internal Control

The Board is ultimately responsible for evaluating and determining the nature and extent of risks that the Bank is willing to take in achieving its strategic objectives, and ensuring that the Bank establishes and maintains appropriate and effective risk management and internal control systems. They oversee the Management in the design, implementation and monitoring of risk management and internal control systems, whereas Management is responsible for the day-to-day operations and risk management, and provide confirmation to the Board on the effectiveness of these systems. The Bank conducts regular review of the effectiveness of its risk management and internal control systems.

The Bank has established and implemented a comprehensive risk management framework, the key internal controls are summarised as follows:

- (i) A rational organisational structure with appropriate personnel is developed and whose responsibility, authority and accountability are clearly defined. The Bank has formulated policies and procedures to embed reasonable checks and balances for all operating units, safeguard the Bank's assets and adhere to relevant laws and regulations and risk management in its operations.
- (ii) The Management formulates and continuously monitors the implementation of the Bank's strategies, business plans and financial budgets. The accounting and management systems are in place to provide basis for evaluating financial and operational performance.
- (iii) The Bank has set up mechanisms to identify, evaluate and manage all major risk and has established corresponding internal control procedures and processes for internal control. The policies and procedures cover aspects of Credit, Operational, Market, Legal, Compliance, Liquidity, Interest Rate, Reputation and Strategy. There are also procedures for handling and dissemination of information.
- (iv) The Bank has established information technology governance structure that produces reports for management. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Bank's operation and performance. Proper communication channels and reporting mechanisms are in place to facilitate management of information.
- (v) The Bank's internal audit conducts independent reviews on all of the Bank's key activities.
- (vi) The Bank's internal audit follows up closely on the items that require attention and reports to the Management and BAC in a timely manner.
- (vii) The BAC reviews the reports submitted by external auditors to Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control. The Bank's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to Management and BAC.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

4. Risk Management and Internal Control (Continued)

The Bank continues to uphold good corporate governance practices and the internal control system is reviewed regularly. During the year of 2018, continuous improvements on the risk management policies and procedures have been undertaken by the Bank. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Bank has continuously undertaken on-going review on the effectiveness of the internal control mechanism. Areas for improvement have been identified and appropriate measures have been implemented.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board of Directors is assisted by the BAC to oversee the Bank's financial reporting process and the quality of its financial reporting, and present the Bank's financial performance and annual financial statements to BNM. 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 below in this report.

Internal Audit and Control

The Internal Audit reports functionally to the BAC 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. Status of actions taken or to be taken by the management are submitted to the BAC 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, BAC and the Board of Directors.

The BAC 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 BAC 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 attends the BAC meetings to facilitate the deliberation of audit reports. The minutes of the BAC meetings are subsequently tabled to the Board of Directors for information.

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

ACCOUNTABILITY AND AUDIT (CONTINUED)

Related Party Transactions

The details of personnels transactions with holding company, fellow subsidiaries, subsidiary, Directors and key management are set out under Note 33 to the financial statements.

Compliance with BNM'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 compliance in accordance with BNM's Guidelines on Financial Reporting.

Company No. 511251-V

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

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

Auditors' remuneration are disclosed in Note 28 to the financial statements.

In accordance with a resolution of the Board of Directors dated 29 April 2019.

CHAI WOON CHEW
DIRECTOR

DATO' LOW KIAN CHUAN
DIRECTOR

Kuala Lumpur
29 April 2019

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Chai Woon Chew and Dato' Low Kian Chuan, 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 36 to 147 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 2016 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 2018 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 29 April 2019.

CHAI WOON CHEW
DIRECTOR

DATO' LOW KIAN CHUAN
DIRECTOR

Kuala Lumpur
29 April 2019

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, Qiu Hengchang, 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 36 to 147 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.

QIU HENGCHANG

Subscribed and solemnly declared by the abovenamed Qiu Hengchang at Kuala Lumpur on 29 April 2019, before me.

COMMISSIONER FOR OATHS

511251-V

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 36 to 147.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

511251-V

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

Information other than the financial statements and auditors' report thereon (Continued)

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

511251-V

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

Auditors' responsibilities for the audit of financial statements (Continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

511251-V

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

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia

Lee Pei Yin
No. 03189/05/2019 J
Chartered Accountant

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	GROUP		BANK	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
ASSETS					
Cash and short-term funds	2	3,558,550	3,078,382	3,553,075	3,077,307
Deposits and placements with banks and other financial institutions	3	1,700,081	1,642,620	1,700,081	1,642,620
Derivative financial assets	4	454	275	454	275
Debt instruments at fair value through other comprehensive income ("FVOCI")	5	467,541	-	467,541	-
Equity instruments at FVOCI	6	14,936	-	14,936	-
Equity instrument at fair value through profit and loss ("FVTPL")	7	1,072	-	1,072	-
Debt instruments at amortised cost	8	655,390	-	655,390	-
Financial investments available-for-sale	9	-	409,228	-	409,228
Financial investments held-to-maturity	10	-	1,321,890	-	1,321,890
Loans and advances	11	6,693,130	5,881,389	6,693,130	5,881,389
Other assets	12	5,093	13,875	4,344	4,942
Tax recoverable		4,000	-	4,000	-
Deferred tax assets	13	17,233	5,997	16,959	5,807
Statutory deposits with Bank Negara Malaysia	14	98,000	112,300	98,000	112,300
Investment in a subsidiary	15	-	-	1,000	1,000
Property and equipment	16	59,977	62,678	58,956	61,040
Intangible assets	17	914	722	914	722
TOTAL ASSETS		13,276,371	12,529,356	13,269,852	12,518,520
LIABILITIES AND EQUITY					
Deposits from customers	18	8,356,277	8,223,878	8,369,316	8,230,906
Deposits and placements of banks and other financial institutions	19	1,954,232	1,465,999	1,954,232	1,465,999
Derivative financial liabilities	4	227	126	227	126
Other liabilities	20	151,352	166,286	147,744	163,435
Provision for taxation		500	1,000	-	500
Subordinated loan	21	1,287,303	1,258,626	1,287,303	1,258,626
TOTAL LIABILITIES		11,749,891	11,115,915	11,758,822	11,119,592
Share capital	22	760,518	760,518	760,518	760,518
Reserves	23	765,962	652,923	750,512	638,410
TOTAL EQUITY		1,526,480	1,413,441	1,511,030	1,398,928
TOTAL LIABILITIES AND EQUITY		13,276,371	12,529,356	13,269,852	12,518,520
COMMITMENTS AND CONTINGENCIES	35	4,896,737	4,724,674	4,896,737	4,724,674

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

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Note	GROUP		BANK	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating revenue	24	<u>622,119</u>	<u>537,384</u>	<u>608,494</u>	<u>522,236</u>
Interest income	25	524,457	431,748	524,457	431,748
Interest expense	26	<u>(293,128)</u>	<u>(227,926)</u>	<u>(293,128)</u>	<u>(227,926)</u>
Net interest income		231,329	203,822	231,329	203,822
Other operating income	27	97,662	105,636	84,037	90,488
Other operating expenses	28	<u>(138,894)</u>	<u>(120,964)</u>	<u>(130,852)</u>	<u>(113,416)</u>
Operating profit before allowance Allowance for impairment on loans and advances and other financial assets	30	<u>190,097</u>	<u>188,494</u>	<u>184,514</u>	<u>180,894</u>
Profit before taxation		190,021	157,555	184,444	149,955
Taxation	31	<u>(46,387)</u>	<u>(39,985)</u>	<u>(41,749)</u>	<u>(35,193)</u>
Profit for the financial year		143,634	117,570	142,695	114,762
Other comprehensive income: Items that will be reclassified subsequently to profit or loss when specific conditions are met: - Net fair value changes in debt instruments at FVOCI, net of tax		<u>6,446</u>	<u>1,163</u>	<u>6,446</u>	<u>1,163</u>
Total comprehensive income for the financial year, net of tax		<u>150,080</u>	<u>118,733</u>	<u>149,141</u>	<u>115,925</u>
Earnings per share - Basic/fully diluted (sen)	32	<u>18.89</u>	<u>15.46</u>		

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	←————— Non-distributable —————→					Distributable	
	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
GROUP							
Balance as at 31 December 2017	760,518	-	1,163	-	30,067	621,693	1,413,441
Effect of adopting <i>MFRS 9 Financial Instruments</i>	-	-	(1,163)	1,163	-	(37,625)	(37,625)
Effect of adopting <i>MFRS 9 Financial Instruments - OCI</i>	-	-	-	584	-	-	584
1 January 2018, as restated	760,518	-	-	1,747	30,067	584,068	1,376,400
Profit for the financial year	-	-	-	-	-	143,634	143,634
Other comprehensive income, net of tax	-	-	-	6,446	-	-	6,446
Total comprehensive income for the financial year, net of tax	-	-	-	6,446	-	143,634	150,080
Transfer from regulatory reserve to retained profits	-	-	-	-	(13,876)	13,876	-
At 31 December 2018	760,518	-	-	8,193	16,191	741,578	1,526,480
At 1 January 2017	760,518	279,786	-	-	26,948	227,456	1,294,708
Profit for the financial year	-	-	-	-	-	117,570	117,570
Other comprehensive income, net of tax	-	-	1,163	-	-	-	1,163
Total comprehensive income for the financial year, net of tax	-	-	1,163	-	-	117,570	118,733
Transfer to regulatory reserve	-	-	-	-	3,119	(3,119)	-
Transfer to statutory reserve	-	(279,786)	-	-	-	279,786	-
At 31 December 2017	760,518	-	1,163	-	30,067	621,693	1,413,441

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	←————— Non-distributable —————→					Distributable	
	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Fair value through other comprehensive reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
BANK							
Balance as at 31 December 2017	760,518	-	1,163	-	30,067	607,180	1,398,928
Effect of adopting <i>MFRS 9 Financial Instruments</i>	-	-	(1,163)	1,163	-	(37,623)	(37,623)
Effect of adopting <i>MFRS 9 Financial Instruments - OCI</i>	-	-	-	584	-	-	584
1 January 2018, as restated	760,518	-	-	1,747	30,067	569,557	1,361,889
Profit for the financial year	-	-	-	-	-	142,695	142,695
Other comprehensive income, net of tax	-	-	-	6,446	-	-	6,446
Total comprehensive income for the financial year, net of tax	-	-	-	6,446	-	142,695	149,141
Transfer from regulatory reserve to retained profits	-	-	-	-	(13,876)	13,876	-
At 31 December 2018	760,518	-	-	8,193	16,191	726,128	1,511,030
At 1 January 2017	760,518	279,786	-	-	26,948	215,751	1,283,003
Profit for the financial year	-	-	-	-	-	114,762	114,762
Other comprehensive income, net of tax	-	-	1,163	-	-	-	1,163
Total comprehensive income for the financial year, net of tax	-	-	1,163	-	-	114,762	115,925
Transfer to regulatory reserve	-	-	-	-	3,119	(3,119)	-
Transfer to statutory reserve	-	(279,786)	-	-	-	279,786	-
At 31 December 2017	760,518	-	1,163	-	30,067	607,180	1,398,928

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	<u>GROUP</u>		<u>BANK</u>	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		190,021	157,555	184,444	149,955
Adjustments for:					
Depreciation of property and equipment	28	7,286	4,673	6,595	4,085
Amortisation of intangible assets	28	434	219	434	219
Amortisation of premium less accretion of discount	25	1,406	888	1,406	888
Allowance for impairment on loans and advances and other financial assets		79	30,939	73	30,939
Interest income from debt instruments at FVOCI	25	(15,464)	-	(15,464)	-
Interest income from debt instruments at amortised cost	25	(25,007)	-	(25,007)	-
Interest income from financial investments held-to-maturity	25	-	(35,508)	-	(35,508)
Interest income from financial investments available-for-sale	25	-	(7,869)	-	(7,869)
Interest expense on subordinated loan	26	31,328	9,324	31,328	9,324
Unrealised foreign exchange loss	27	2,732	111	2,732	111
Unrealised loss on equity instrument at FVTPL	27	1,250	-	1,250	-
Net gain on revaluation of derivatives	27	(78)	(108)	(78)	(108)
Net gain on disposal of property and equipment	27	-	(2)	-	(2)
Dividend income from a subsidiary	27	-	-	(14,500)	(11,650)
Property and equipment written-off	28	294	701	293	686
Operating profit before changes in operating assets and liabilities		194,281	160,923	173,506	141,070
(INCREASE)/DECREASE IN OPERATING ASSETS					
Deposits and placements with banks and other financial institutions		(57,473)	(1,206,766)	(57,473)	(1,206,766)
Loans and advances		(857,304)	(729,081)	(857,304)	(729,081)
Other assets		5,813	(1,495)	(2,362)	6,629
Statutory deposits with Bank Negara Malaysia		14,300	(13,400)	14,300	(13,400)
		(700,383)	(1,789,819)	(729,333)	(1,801,548)

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
INCREASE/(DECREASE) IN OPERATING LIABILITIES					
Deposits from customers		132,399	1,874,644	138,410	1,873,156
Deposits and placements of banks and other financial institutions		488,233	111,539	488,233	111,539
Other liabilities		(20,984)	(46,366)	(21,741)	(46,695)
Subordinated loan		25,885	-	25,885	-
Cash generated from operating activities		(74,850)	149,998	(98,546)	136,452
Taxes paid		(52,461)	(43,692)	(47,740)	(38,769)
Net cash (used in)/generated from operating activities		(127,311)	106,306	(146,286)	97,683
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividend income received from a subsidiary		-	-	14,500	11,650
Purchase of property and equipment	16	(5,417)	(16,092)	(5,342)	(15,515)
Proceeds from disposal of property and equipment		-	8	-	8
Purchase of intangible assets	17	(88)	(244)	(88)	(244)
Purchases of debt instruments at FVOCI		(212,315)	-	(212,315)	-
Proceeds from debt instruments at FVOCI		150,000	-	150,000	-
Purchase of equity instruments at FVOCI		(1,800)	-	(1,800)	-
Purchases of debt instruments at amortised cost		(2,730,000)	-	(2,730,000)	-
Proceeds from debt instruments at amortised cost		3,395,000	-	3,395,000	-
Purchases of financial investments available-for-sale		-	(407,937)	-	(407,937)
Purchases of financial investments held-to-maturity		-	(4,790,000)	-	(4,790,000)
Proceeds from financial investments held-to-maturity		-	3,760,000	-	3,760,000
Interest received on debt instruments at FVOCI		14,146	-	14,146	-
Interest received on debt instruments at amortised cost		26,516	-	26,516	-
Interest received on financial investments available-for-sale		-	7,389	-	7,389
Interest received on financial investments held-to-maturity		-	31,497	-	31,497
Net cash generated from/(used in) investing activities		636,042	(1,415,379)	650,617	(1,403,152)

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceed from issuance of subordinated loan	21	-	1,254,725	-	1,254,725
Interest paid on subordinated loan		(28,536)	(5,423)	(28,536)	(5,423)
Net cash (used in)/generated from financing activities		(28,536)	1,249,302	(28,536)	1,249,302
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR					
		480,195	(59,771)	475,795	(56,167)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2017					
		3,078,355	3,138,153	3,077,280	3,133,474
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR					
	2	3,558,550	3,078,382	3,553,075	3,077,307
EFFECT OF ADOPTING MFRS 9					
			(27)		(27)
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2018, AS RESTATED					
			3,078,355		3,077,280

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

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 summary statements of financial position and summary statements of changes in equity comply with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The summary statements of financial position and summary statements of changes in equity of the Group and the Bank are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000").

The summary statements of financial position and summary statements of changes in equity should be read in conjunction with the audited annual financial statements of the Group and the Bank for the financial year ended 31 December 2018.

Changes in accounting policies

The Group and the Bank applied MFRS 15 and MFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time during the financial year, but do not have an impact on the consolidated financial statements of the Group and the Bank. The Group and the Bank has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

On 1 January 2018, the Group and the Bank adopted the following amendments to MFRS mandatory for annual financial periods beginning on or after 1 January 2018.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 140: <i>Transfers of Investment</i>	1 January 2018
Amendments to MFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
MFRS 9 <i>Financial Instruments</i>	1 January 2018
MFRS 15: <i>Revenue from Contracts with Customers</i>	1 January 2018
IC Int 22: <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)

MFRS 15 Revenue from Contracts with Customers ("MFRS 15")

MFRS 15 replaces MFRS 118 *Revenue* and MFRS 111 *Construction Contracts* and their related interpretations. MFRS 15 provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied.

This new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer. MFRS 15 is adopted based on cumulative effect method, which requires no restatement for comparative information of financial position. The application of this standard does not have a material impact on the Group's and the Bank's financial statements. Of the options provided by MFRS 15 on revenue recognition, the Bank adopted the option that best illustrates the transfer of control of promised service.

Service provided is recognised on over time method if the service is:

- i. simultaneously received with benefits is consumed by the customer as the Bank renders the service or;
- ii. no alternative use to the Bank and the Bank has enforceable right to payment for performance completed to date.

For such service where the revenue is recognised on over time method, input method or output method is determined whichever best reflects the pattern of transfer in control of promised service. For example, banker guarantee service uses input method as it reflects the ongoing service to be provided by the Bank to the customer throughout the guarantee period, despite payment is received. On the other hand, agent sales commission uses output method where payment is entitled as it reflects the substance in completion of in transfer of control of the service provided.

Service provided is recognised at a point in time method, if the service is not recognised on over time method. Such service is recognised as revenue, when customer obtains the control of the promised services and the Bank has satisfied the performance obligations. Example of such service includes remittance fees, handling fees, account service fees, etc.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)

MFRS 9 *Financial Instruments* ("MFRS 9")

The Group and the Bank have adopted MFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

The Bank did not early adopt MFRS 9 in previous period. As permitted by the transitional provisions of MFRS 9, the Group and the Bank have not restated comparative information for 2017 for financial instruments under the scope of MFRS 9. Any adjustments to the carrying amount of financial assets and liabilities at the date of transitional were recognised in the retained profits and other reserves as of 1 January 2018.

The adoption of MFRS 9 has resulted in changes in the Group's and the Bank's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of assets.

(a) Financial Assets - Classification and Measurements

New Classification Under MFRS 9

The adoption of MFRS 9 has changed the classification of financial assets under MFRS 139 *Financial Instruments: Recognition and Measurement* which comprise the financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS"), held-to-maturity ("HTM") and amortised cost, which have been replaced by the new classification as follows:

- Debts instruments at amortised cost;
- Debts instruments at fair value through other comprehensive income ("FVOCI"), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss upon derecognition; and
- Financial assets FVTPL.

New Measurement Under MFRS 9

- 1) FVOCI applies to debt instruments with contractual cash flows characteristics that are solely payments of principal and interest and business model whose objective is to both collect contractual cash flows and selling of financial assets.
- 2) Amortised cost applies to debt instruments with contractual cash flows characteristics that are solely payment of principal and interest and business model whose objective is to hold to collect contractual cash flows.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)

MFRS 9 Financial Instruments (Continued)

(a) Financial Assets - Classification and Measurements (Continued)

New Measurement Under MFRS 9 (Continued)

- 3) The table below summarises the measurement basis of the Group's and the Bank's financial assets and liabilities in accordance with MFRS 139 and MFRS 9 as at 1 January 2018:

	Measurement Category	
	Group and Bank	
	MFRS 139	MFRS 9
Financial assets		
Cash and short-term funds	Amortised cost	Amortised cost
Deposits and placements with banks and financial institutions	Amortised cost	Amortised cost
Derivative financial assets	FVTPL	FVTPL
Financial investments available-for-sale (Debt instruments)	FVOCI	FVOCI (with recycling)
Financial investments available-for-sale (Equity instruments)	Cost	FVOCI (without recycling)
Financial investments held-to-maturity	Amortised cost	Amortised cost
Financial assets at FVTPL	FVTPL	FVTPL
Loans and advances	Amortised cost	Amortised cost
Other assets	Amortised cost	Amortised cost
Statutory deposits with Bank Negara Malaysia	Amortised cost	Amortised cost
Financial liabilities		
Deposits from customers	Amortised cost	Amortised cost
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost
Derivative financial liabilities	FVTPL	FVTPL
Other liabilities	Amortised cost	Amortised cost
Subordinated loan	Amortised cost	Amortised cost

Changes in Classification and Measurement of Financial Instruments in the Group and the Bank upon adoption of MFRS 9

- 1) The adoption of MFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing MFRS 139's incurred loss approach with a forward-looking expected credit losses ("ECL") approach. MFRS 9 requires the Bank to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since its origination. If the financial asset meets the definition of purchased or originated credit impaired ("POCI"), the allowance is based on the change in the ECL over the life of the financial asset.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)

MFRS 9 *Financial Instruments* (Continued)

(a) Financial Assets - Classification and Measurements (Continued)

Changes in Classification and Measurements of Financial Instruments in the Group and the Bank upon adoption of MFRS 9 (Continued)

- 2) Cash and short term funds, securities purchased under resale agreement, deposit and placement with financial institutions, loans and advances and statutory deposits with Bank Negara Malaysia that have previously been measured as loans and receivables are now measured as amortised cost. The Group and the Bank intend to hold these assets to maturity to collect contractual cash flow.
- 3) Debt instruments that were previously classified as AFS and carried at fair value were assessed to have a business model of both collecting contractual cash flows and selling financial assets, and accordingly, are classified as FVOCI under MFRS 9.
- 4) The Group and the Bank have elected to apply FVOCI option for its equity instruments (mainly unquoted shares) that was previously classified as AFS at cost. The financial assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses to profit or loss.

(b) Financial Assets - Impairment

The Bank applies a 3 stages approach to measuring ECL on debts instruments accounted at amortised cost and FVOCI. The 3 stages ECL as described as below:

- Stage 1: When debts instruments are first recognised, the Bank recognises an allowance based on twelve-month ECL. Stage 1 includes facilities where credit risk has been improved and has been reclassified from stage 2.
- Stage 2: When debts instruments have shown a significant increase in credit risk since its origination, the Bank records an allowance for lifetime expected credit loss ("LTECL"). Stage 2 also include facilities, where credit risk has been improved and has been reclassified from stage 3.
- Stage 3: Debts instruments considered credit-impaired when the LTECL of the debt instruments are 100% defaulted.

The Group and Bank apply simplified approach for impairment allowance for other assets.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)**Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9**

A reconciliation between the carrying amounts under MFRS 139 to the balances reported under MFRS 9 as of 1 January 2018, as follows:

GROUP	31 December 2017 RM'000	Restatement upon adoption of MFRS 9			1 January 2018 RM'000
		Classification and measurement RM'000	Expected credit losses RM'000	Tax effects RM'000	
ASSETS					
Cash and short-term funds	3,078,382	-	(27)	-	3,078,355
Deposits and placements with banks and other financial institutions	1,642,620	-	(121)	-	1,642,499
Derivative financial assets	275	-	-	-	275
Debt instruments at FVOCI	-	406,776	-	-	406,776
Equity instrument at FVOCI	-	3,220	-	-	3,220
Debt instruments at amortised cost	-	1,321,890	-	-	1,321,890
Financial investments available-for-sale	409,228	(409,228)	-	-	-
Financial investments held-to-maturity	1,321,890	(1,321,890)	-	-	-
Loans and advances	5,881,389	-	(45,194)	-	5,836,195
Other assets	13,875	(16)	(3)	-	13,856
Tax recoverable	-	-	-	11,882	11,882
Deferred tax assets	5,997	-	-	(184)	5,813
Statutory deposits with Bank Negara Malaysia	112,300	-	-	-	112,300
Investment in a subsidiary	-	-	-	-	-
Property and equipment	62,678	-	-	-	62,678
Intangible assets	722	-	-	-	722
TOTAL ASSETS	12,529,356	752	(45,345)	11,698	12,496,461
LIABILITIES AND EQUITY					
Deposits from customers	8,223,878	-	-	-	8,223,878
Deposits and placements of banks and other financial institutions	1,465,999	-	-	-	1,465,999
Derivative financial liabilities	126	-	-	-	126
Other liabilities	166,286	(16)	4,162	-	170,432
Provision for taxation	1,000	-	-	-	1,000
Subordinated loan	1,258,626	-	-	-	1,258,626
TOTAL LIABILITIES	11,115,915	(16)	4,162	-	11,120,061
Share capital	760,518	-	-	-	760,518
Reserves	652,923	768	(49,507)	11,698	615,882
TOTAL EQUITY	1,413,441	768	(49,507)	11,698	1,376,400
EQUITY	12,529,356	752	(45,345)	11,698	12,496,461

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Changes in accounting policies (continued)**Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9 (Continued)**

A reconciliation between the carrying amounts under MFRS 139 to the balances reported under MFRS 9 as of 1 January 2018, as follows (continued):

BANK	31 December 2017 RM'000	Restatement upon adoption of MFRS 9			1 January 2018 RM'000
		Classification and measurement RM'000	Expected credit losses RM'000	Tax effects RM'000	
ASSETS					
Cash and short-term funds	3,077,307	-	(27)	-	3,077,280
Deposits and placements with banks and other financial institutions	1,642,620	-	(121)	-	1,642,499
Derivative financial assets	275	-	-	-	275
Debt instruments at FVOCI	-	406,776	-	-	406,776
Equity instrument at FVOCI	-	3,220	-	-	3,220
Debt instruments at amortised cost	-	1,321,890	-	-	1,321,890
Financial investments available-for-sale	409,228	(409,228)	-	-	-
Financial investments held-to-maturity	1,321,890	(1,321,890)	-	-	-
Loans and advances	5,881,389	-	(45,194)	-	5,836,195
Other assets	4,942	(16)	-	-	4,926
Tax recoverable	-	-	-	11,881	11,881
Deferred tax assets	5,807	-	-	(184)	5,623
Statutory deposits with Bank Negara Malaysia	112,300	-	-	-	112,300
Investment in a subsidiary	1,000	-	-	-	1,000
Property and equipment	61,040	-	-	-	61,040
Intangible assets	722	-	-	-	722
TOTAL ASSETS	12,518,520	752	(45,342)	11,697	12,485,627
LIABILITIES AND EQUITY					
Deposits from customers	8,230,906	-	-	-	8,230,906
Deposits and placements of banks and other financial institutions	1,465,999	-	-	-	1,465,999
Derivative financial liabilities	126	-	-	-	126
Other liabilities	163,435	(16)	4,162	-	167,581
Provision for taxation	500	-	-	-	500
Subordinated loan	1,258,626	-	-	-	1,258,626
TOTAL LIABILITIES	11,119,592	(16)	4,162	-	11,123,738
Share capital	760,518	-	-	-	760,518
Reserves	638,410	768	(49,504)	11,697	601,371
TOTAL EQUITY	1,398,928	768	(49,504)	11,697	1,361,889
TOTAL LIABILITIES AND EQUITY	12,518,520	752	(45,342)	11,697	12,485,627

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

A BASIS OF PREPARATION (CONTINUED)

Standards and IC interpretation issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
IC Int 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
MFRS 16: <i>Leases</i>	1 January 2019
Amendments to MFRS 9 <i>Financial Instruments - Prepayment Features with Negative Compensation</i>	1 January 2019
Annual Improvement to MFRS 2015-2017 Cycle	1 January 2019
Amendments to MFRS 3 <i>Business Combination</i> ("MFRS 3") - <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 - <i>Presentation of Financial Statements</i> ("MFRS 101") and 108 <i>Accounting Policies, Changes in Accounting Estimates and Error</i> ("MFRS 108") - <i>Definition of Material</i>	1 January 2020
Revised Conceptual Framework for Financial Reporting (the Conceptual Framework)	1 January 2020

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

IC Int 23: *Uncertainty over Income Tax Treatments*

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

MFRS 16 *Leases* ("MFRS 16")

MFRS 16 will replace MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease-Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

A BASIS OF PREPARATION (CONTINUED)

Standards and IC interpretation issued but not yet effective (continued)

MFRS 16 Leases (Continued)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. The assessment of the financial effects arising from the adoption of MFRS 16 are currently in its final stage. However, the impact is not expected to be significant.

Amendments to MFRS 9 - *Prepayment Features with Negative Compensation*

Under MFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

Effective for annual periods beginning on or after 1 January 2019.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of MFRS 9.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

A BASIS OF PREPARATION (CONTINUED)

Standards and IC interpretation issued but not yet effective (continued)

Annual Improvement to MFRS 2015-2017 Cycle

- a) MFRS 112 *Income Taxes* – Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

- b) MFRS 123 *Borrowing Costs* – *Borrowing costs eligible for capitalisation*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Amendments to MFRS 3 - *Definition of a Business*

Under MFRS 3 *Business Combination*, the amendments to the definition of a business is to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the following:

- Minimum requirements to be a business
- Market participants' ability to replace missing element;
- Assessing whether an acquired process is substantive;
- Narrowed the definitions of outputs; and
- Introduced an optional concentration test.

Effective for annual periods beginning on or after 1 January 2020.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

A BASIS OF PREPARATION (CONTINUED)

Standards and IC interpretation issued but not yet effective (continued)

Amendments to MFRS 101 and MFRS 108 - *Definition of Material*

Under MFRS 101 and MFRS 108, the amendemnets were made to align the definition of 'material' across the standards and to calrify certain aspects of the definition. The new definition states taht, 'Information is materila if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements make on the basis of those financial statemtns, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Effective for annual periods beginning on or after 1 January 2020.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Revised Conceptual Framework for Financial Reporting (the Conceptual Framework)

On 30 April 2018, MASB issued a revised Conceptual Framework for Financial Reporting. The purpose of the Conceptual Framework is, amongst others, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The main changes in the Conceptual Framework are as follows:

- Reintroduces the concept of stewardship and the information needed to assess management's stewardship
- Reintroduces the concept of prudence
- Defines the concept of measurement uncertainty
- Reinstates an explicit reference to the need to "faithfully represent the substance of the phenomena that is purports to represent"
- Made changes to the definitions of an asset and a liability

Effective for annual periods beginning on or after 1 January 2020.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 using the same reporting date as the Bank. Consistent accounting policies are applied for 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 shareholder's meetings.

A 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 a subsidiary that do not result in the Group losing control over the subsidiary is 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 subsidiary. The resulting difference is recognised directly in equity and attributed to owners of the Bank.

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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

B BASIS OF CONSOLIDATION (CONTINUED)

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.

In the Bank's separate financial statements, investment in a 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.

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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

B BASIS OF CONSOLIDATION (CONTINUED)

Subsidiary

A subsidiary is an investee over which the Group has control. A subsidiary is an entity over which the Group has control as defined:

- (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.

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 property and equipment.

Depreciation of property and equipment, except for freehold land 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 equipments	2.5 to 3 years
Motor vehicles	6 years
Office equipment	5 to 7 years
Renovation	5 years
Buildings	30 to 35 years

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

Freehold land is not depreciated.

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 indication exists, 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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 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 favourable, or an equity instrument of another enterprise.

(a) Recognition and initial measurement

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Bank has applied the practical expedient, the Group and the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. This assessment is performed at a portfolio level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Bank commit to purchase or sell the asset.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(b) Subsequent measurements

For purposes of subsequent measurement, financial assets are classified in four categories:

- i) Financial assets at amortised cost (debt instruments)
- ii) Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- iii) Financial assets designated at FVOCI without recycling of cumulative gains and losses upon derecognition (equity instruments)
- iv) Financial assets at FVTPL

(c) Classification

From 1 January 2018, the Group and the Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

(i) Debts instruments at amortised cost

The Group and the Bank measures financial assets at amortised cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(ii) Debt instruments at FVOCI with recycling

The Group and the Bank measure financial assets at amortised cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to holding to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

For debt instruments at FVOCI with recycling, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income ("OCI"). Upon derecognition, the cumulative fair value changes recognised in OCI is recycled to profit or loss.

The Group's and the Bank's debt instruments at FVOCI with recycling includes investments in quoted debt instruments included under other non-current financial assets.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(c) Classification (Continued)

(iii) Equity instruments at FVOCI without recycling

Upon initial recognition, the Group and the Bank can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI without recycling when they meet the definition of equity under *MFRS 132 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right of payment has been established, except when the Group and the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group and the Bank elected to classify irrevocably its non-listed equity investments under this category.

(iv) Financial assets at FVTPL

Financial assets at FVTPL 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 FVTPL 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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(c) Classification (Continued)

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, AFS or HTM (amortised cost), as explained in (v), (vi), (vii).

Management determines the classification of the financial assets at initial recognition, at the point when the transactions are entered into.

(v) 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.

(vi) HTM

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.

(vii) AFS

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, and recycled to profit or loss when these securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(d) De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual right to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

F IMPAIRMENT OF FINANCIAL ASSETS

The Group and the Bank recognise allowance for ECL for all financial assets classified as debt instruments not held FVTPL and FVOCI without recycling. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Bank expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there is a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other assets, the Group and the Bank apply a simplified approach in calculating ECL. Therefore, the Group and the Bank do not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

The Group and the Bank consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group and the Bank may also consider a financial asset to be in default when internal or external information indicates that the Group and the Bank are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

The impairment loss is charged to statement of comprehensive income 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 statement of comprehensive income 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 with original maturity of 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.

I FINANCIAL LIABILITIES

A financial liability 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.

The Group's and the Bank's holding in financial liabilities are 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 derecognised when extinguished. When an existing financial liability is replaced by another financial liability 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 statement of comprehensive income.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

I FINANCIAL LIABILITIES (CONTINUED)

(a) Financial liabilities at FVTPL

Financial liabilities at FVTPL 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 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.

Financial liabilities at FVTPL are initially recognised at fair value, and transaction costs are expensed in statement of comprehensive income. Financial liabilities at FVTPL or loss are subsequently stated at fair value, with any resultant gains or losses recognised in statement of comprehensive income.

(b) Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at FVTPL fall into this category. Financial liabilities measured at amortised cost are mainly 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.

Financial liabilities measured at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised costs using the effective interest method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised.

J SUBORDINATED LIABILITIES

Subordinated liabilities of the Group and the Bank are measured at amortised cost using the effective interest method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Interest expense on subordinated liabilities of the Group and the Bank are recognised on an accrual basis.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

K 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 15 Revenue from Contracts with Customers*, 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.

L 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 statement of comprehensive income 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 are depreciated over the shorter of the useful life of the asset and the lease term.

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

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

L LEASE (CONTINUED)

(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 statement of comprehensive income on the straight line basis over the lease period.

M PROVISIONS

Provisions, other than provisions 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.

N DIVIDENDS PAYABLE

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

O CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and the Bank do not recognise a contingent liability but disclose 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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

P RECOGNITION OF INTEREST INCOME

Interest income is recognised on an accrual basis using the effective interest method.

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.

Q 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.

Other income and any related costs are recognised on an accrual basis when the transactions have been carried out.

R 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.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

S 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.

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.

T 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 statement of comprehensive income in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

U DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Bank are parties to derivative financial instruments that comprise foreign currency related 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 profit or loss 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 statement of comprehensive income.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**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 immediate holding company of the Bank is Bank of China (Hong Kong) Limited, which is incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Ltd, both 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 Second Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur.

2. CASH AND SHORT-TERM FUNDS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	170,031	195,620	164,556	194,545
Money at call and deposit placements with original maturity within one month	<u>3,388,543</u>	<u>2,882,762</u>	<u>3,388,543</u>	<u>2,882,762</u>
	3,558,574	3,078,382	3,553,099	3,077,307
Less: allowance for ECL	<u>(24)</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
	<u><u>3,558,550</u></u>	<u><u>3,078,382</u></u>	<u><u>3,553,075</u></u>	<u><u>3,077,307</u></u>

Movements in allowance for impairment on cash and short-term funds:

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
As at 31 December 2017	-	-
Effect of adopting MFRS 9	<u>27</u>	-
1 January 2018, as restated	27	-
ECL allowance written-back during the financial year (Note 30)	<u>(3)</u>	-
At end of the financial year	<u><u>24</u></u>	<u><u>-</u></u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Licensed banks	1,700,093	1,642,620
	<u>1,700,093</u>	<u>1,642,620</u>
Less: allowance for ECL	(12)	-
	<u>1,700,081</u>	<u>1,642,620</u>

Movements in allowance for impairment on Deposits and Placements with Banks and Other Financial Institutions:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
As at 31 December 2017	-	-
Effect of adopting MFRS 9	121	-
1 January 2018, as restated	121	-
ECL allowance written-back during the financial year (Note 30)	(109)	-
At end of the financial year	<u>12</u>	<u>-</u>

4. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments 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 assets) and gross negative (derivative financial liabilities) fair values at the reporting date are analysed below.

	<u>GROUP AND BANK</u>		
	<u>Contract or underlying principal amount</u>	<u>Derivative financial assets</u>	<u>Derivative financial liabilities</u>
	RM'000	RM'000	RM'000
31 December 2018			
Foreign exchange related contracts:			
- spots/forwards	<u>142,455</u>	<u>454</u>	<u>(227)</u>
31 December 2017			
Foreign exchange related contracts:			
- spots/forwards	<u>89,664</u>	<u>275</u>	<u>(126)</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Money market instrument:		
Malaysian Government Securities	457,402	-
Unquoted securities		
Corporate bond	10,158	-
Less: allowance for ECL	(19)	-
	<u>10,139</u>	<u>-</u>
	<u>467,541</u>	<u>-</u>

Movements in allowance for impairment on Corporate Bond

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
As at 31 December 2017	-	-
Effect of adopting MFRS 9	-	-
1 January 2018, as restated	-	-
ECL allowance made during the financial year (Note 30)	19	-
At end of the financial year	<u>19</u>	<u>-</u>

6. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At fair value:		
Unquoted securities		
Shares of corporations in Malaysia	14,936	-
	<u>14,936</u>	<u>-</u>

7. EQUITY INSTRUMENT AT FAIR VALUE THROUGH PROFIT AND LOSS

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At fair value:		
Quoted securities		
Shares of corporation outside Malaysia	1,072	-
	<u>1,072</u>	<u>-</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

8. DEBT INSTRUMENTS AT AMORTISED COST

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At amortised cost:		
Money market instrument:		
Negotiable instruments of deposits	655,390	-
	<u>655,390</u>	<u>-</u>

9. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At fair value		
Money market instrument:		
Malaysian Government Securities	-	406,776
At cost		
Unquoted securities		
Shares of corporations in Malaysia	-	2,452
	<u>-</u>	<u>409,228</u>

The reclassification and measurement of financial investments available-for-sale upon the adoption of MFRS 9 are disclosed in Note A: Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9.

10. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Securities	-	85,984
Negotiable instruments of deposits	-	1,235,906
	<u>-</u>	<u>1,321,890</u>

The reclassification and measurement of financial investments held-to-maturity upon the adoption of MFRS 9 are disclosed in Note A: Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

11. LOANS AND ADVANCES(i) By type:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Overdrafts	502,703	675,435
Term loans		
- Housing loans	339,769	313,029
- Syndicated term loans	2,509,956	1,462,576
- Other term loans	1,457,758	1,456,743
Bills receivables	293,130	307,169
Trust receipts	17,201	33,779
Claims on customers under acceptance credits	511,745	556,804
Revolving credits	1,161,040	1,157,039
Staff loans	2,013	2,115
Gross loans and advances	<u>6,795,315</u>	<u>5,964,689</u>
Less: Loss allowance for ECL/impairment on loans and advances		
- Allowance for ECL	(102,185)	-
- Individual impairment allowance	-	(42,298)
- Collective impairment allowance	-	(41,002)
Total net loans and advances	<u><u>6,693,130</u></u>	<u><u>5,881,389</u></u>

(ii) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Malaysia	4,948,182	4,551,199
Other countries	1,847,133	1,413,490
Gross loans and advances	<u><u>6,795,315</u></u>	<u><u>5,964,689</u></u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

11. LOANS AND ADVANCES (CONTINUED)(iii) By interest rate sensitivity:

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
Fixed rate		
- Other fixed rate loans	1,193,769	1,301,585
Variable rate		
- Base lending rate/base rate plus	1,772,455	2,157,403
- Cost of funds plus	3,465,332	2,505,701
- Other variable rates	363,759	-
Gross loans and advances	<u>6,795,315</u>	<u>5,964,689</u>

(iv) By economic sector:

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
Primary agriculture	534,893	488,950
Mining and quarrying	604,244	56,025
Manufacturing	1,029,828	1,190,232
Electricity, gas and water supply	132,734	262,471
Construction	405,338	368,711
Real estate	1,539,053	1,261,115
Wholesale and retail trade and restaurants and hotels	220,067	319,462
Transport, storage and communication	116,993	197,958
Finance, insurance and business services	1,137,859	843,737
Education, health and others	279,685	86,750
Household	794,621	889,278
Gross loans and advances	<u>6,795,315</u>	<u>5,964,689</u>

(v) By residual contractual maturity - remaining:

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
Up to one month	1,462,601	1,368,043
More than one month to three months	1,141,951	1,081,217
More than three months to six months	362,361	348,739
More than six months to twelve months	133,066	42,320
More than twelve months	<u>3,695,336</u>	<u>3,124,370</u>
Gross loans and advances	<u>6,795,315</u>	<u>5,964,689</u>

The loans and advances were based on the remaining length of time that will be carried and from the report date to the expiry date of the contract created.

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

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. LOANS AND ADVANCES (CONTINUED)

(vi) Changes in gross loans and advances carrying amount

GROUP AND BANK
 31 December 2018

	12 months ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 31 December 2017	-	-	-	-
Effect of adopting MFRS 9	4,971,176	895,748	97,765	5,964,689
As at 1 January 2018, restated	4,971,176	895,748	97,765	5,964,689
Transferred to 12-month ECL (stage 1)	122,615	(122,615)	-	-
Transferred to lifetime ECL non-credit impaired (stage 2)	(426,330)	426,330	-	-
Transferred to lifetime ECL credit impaired (stage 3)	(6,681)	(4,439)	11,120	-
Changes due to change in credit risk	(1,693,728)	(340,764)	(15,127)	(2,049,619)
New loans originated or purchased	2,724,226	181,721	965	2,906,912
Bad debts written-off	-	-	(26,667)	(26,667)
Gross carrying amount as at 31 December 2018	5,691,278	1,035,981	68,056	6,795,315

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**11. LOANS AND ADVANCES (CONTINUED)**(vii) Credit impaired/impaired loans and advances:(a) Movements in credit impaired/impaired loans and advances:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At 1 January	97,765	111,234
Classified as credit impaired/impaired during the year	12,085	62,247
Reclassified as non-credit impaired/performing during the year	(15,127)	(72,287)
Amount recovered	-	(3,429)
Amount written-off	(26,667)	-
At 31 December	<u>68,056</u>	<u>97,765</u>
Individual impairment allowance	<u>(32,044)</u>	<u>(42,298)</u>
	<u>36,012</u>	<u>55,467</u>
Ratio of net impaired loans and advances to gross loans and advances less individual allowance for impairment	<u>0.532%</u>	<u>0.937%</u>

(ix) Credit Impaired/Impaired gross loans and advances(b) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Malaysia	<u>68,056</u>	<u>97,765</u>

(c) By economic sector:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Manufacturing	40,887	63,554
Construction	3,255	-
Wholesale and retail trade and restaurants and hotels	6,667	21,684
Transport, storage and communication	-	312
Finance, insurance and business services	-	305
Household	14,961	7,649
Real estate	2,286	4,261
	<u>68,056</u>	<u>97,765</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. LOANS AND ADVANCES (CONTINUED)

- (x) 12 month ECL (Stage 1) and Lifetime ECL (Non-credit Impaired / Stage 2) / Collective impairment allowance by sector:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Primary agriculture	2,530	4,349
Mining and quarrying	1,338	227
Manufacturing	23,665	7,112
Electricity, gas and water supply	2,953	2,205
Construction	2,920	2,997
Real estate	23,173	12,311
Wholesale and retail trade and restaurants and hotels	3,561	2,240
Transport, storage and communication	997	1,213
Finance, insurance and business services	1,660	3,167
Education, health and others	1,032	4,408
Household	6,312	773
	<u>70,141</u>	<u>41,002</u>

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**11. LOANS AND ADVANCES (CONTINUED)**(xi) Movements in allowance for impairment on loans and advances measured at amortised costGROUP AND BANK
31 December 2018

	12 months ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Total RM'000
As at 31 December 2017	-	-	-	41,002	42,298	83,300
Effect of adopting MFRS 9	29,456	45,216	53,822	(41,002)	(42,298)	45,194
1 January 2018, as restated	29,456	45,216	53,822	-	-	128,494
Transferred to 12 months ECL (stage 1)	3,663	(3,663)	-	-	-	-
Transferred to lifetime ECL non-credit impaired (stage 2)	(4,176)	4,176	-	-	-	-
Transferred to lifetime ECL credit impaired (stage 3)	(23)	(216)	239	-	-	-
New loans ECL	5,595	1,886	-	-	-	7,481
(Reversal)/provision during the year	(11,188)	7,421	4,650	-	-	883
Full settlement	(5,275)	(2,731)	-	-	-	(8,006)
Amounts written-off	-	-	(26,667)	-	-	(26,667)
Allowance for ECL as at 31 December 2018	18,052	52,089	32,044	-	-	102,185

* The opening balance for the collective impairment allowance measured under MFRS 139 is now presented as 12-months and ECL upon the adoption of MFRS 9, without restatement of comparative information for 2017 financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

12. OTHER ASSETS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Other receivables	1,249	9,775	905	1,263
Sundry deposits	2,909	3,020	2,500	2,604
Prepayments	487	705	482	700
Precious metal inventories	576	375	576	375
	<u>5,221</u>	<u>13,875</u>	<u>4,463</u>	<u>4,942</u>
Less: allowance for ECL	(128)	-	(119)	-
	<u>5,093</u>	<u>13,875</u>	<u>4,344</u>	<u>4,942</u>

Movements in allowance for impairment on other assets

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
As at 31 December 2017	-	-	-	-
Effect of adopting MFRS 9 1 January 2018, as restated	<u>19</u>	-	<u>16</u>	-
ECL allowance made during the financial year (Note 30)	234	-	228	-
Amounts written-off	<u>(125)</u>	-	<u>(125)</u>	-
At end of the financial year	<u>128</u>	-	<u>119</u>	-

13. DEFERRED TAX ASSETS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
As at 31 December 2017	5,997	4,738	5,807	4,553
Effect of adopting MFRS 9 1 January 2018, as restated	<u>(184)</u>	-	<u>(184)</u>	-
Recognised in profit or loss (Note 31)	13,456	1,626	13,372	1,621
Recognised in other comprehensive income	<u>(2,036)</u>	<u>(367)</u>	<u>(2,036)</u>	<u>(367)</u>
At 31 December 2018	<u>17,233</u>	<u>5,997</u>	<u>16,959</u>	<u>5,807</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13. DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets	20,757	8,214	20,482	8,010
Deferred tax liabilities	(3,524)	(2,217)	(3,523)	(2,203)
	<u>17,233</u>	<u>5,997</u>	<u>16,959</u>	<u>5,807</u>

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

Deferred tax assets

	<u>ECL</u>	<u>Provision for other liabilities</u>	<u>Total</u>
	RM'000	RM'000	RM'000
<u>GROUP</u>			
At 1 January 2017	-	6,684	6,684
Recognised in profit or loss	-	1,530	1,530
At 31 December 2017	-	8,214	8,214
Recognised in profit or loss	10,706	1,837	12,543
At 31 December 2018	<u>10,706</u>	<u>10,051</u>	<u>20,757</u>

Deferred tax liabilities

	<u>Revaluation reserve</u>	<u>Fair value through other comprehensive reserve</u>	<u>Accelerated capital allowances</u>	<u>Unrealised forex gains/ losses</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>GROUP</u>					
At 1 January 2017	-	-	791	1,155	1,946
Recognised in profit or loss	-	-	(70)	(26)	(96)
Recognised in other comprehensive income	367	-	-	-	367
At 31 December 2017	367	-	721	1,129	2,217
Effect of adopting MFRS 9 1 January 2018, as restated	(367)	551	-	-	184
Recognised in profit or loss	-	551	721	1,129	2,401
Recognised in other comprehensive income	-	-	(257)	(656)	(913)
At 31 December 2018	<u>-</u>	<u>2,036</u>	<u>-</u>	<u>-</u>	<u>2,036</u>
	<u>-</u>	<u>2,587</u>	<u>464</u>	<u>473</u>	<u>3,524</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13. DEFERRED TAX ASSETS (CONTINUED)

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

Deferred tax assets

	ECL	Provision for other liabilities	Total
	RM'000	RM'000	RM'000
BANK			
At 1 January 2017	-	6,496	6,496
Recognised in profit or loss	-	1,514	1,514
At 31 December 2017	-	8,010	8,010
Recognised in profit or loss	10,705	1,767	12,472
At 31 December 2018	10,705	9,777	20,482

Deferred tax liabilities

	Revaluation reserve	Fair value through other comprehensive reserve	Accelerated capital allowances	Unrealised forex gains/ losses	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
BANK					
At 1 January 2017	-	-	788	1,155	1,943
Recognised in profit or loss	-	-	(81)	(26)	(107)
Recognised in other comprehensive income	367	-	-	-	367
At 31 December 2017	367	-	707	1,129	2,203
Effect of adopting MFRS 9 1 January 2018, as restated	(367)	551	-	-	184
Recognised in profit or loss	-	-	(244)	(656)	(900)
Recognised in other comprehensive income	-	2,036	-	-	2,036
At 31 December 2018	-	2,587	463	473	3,523

In determining the Bank's tax charge for the year it involves estimation and judgement, which includes an interpretation of local tax law and an assessment of whether the tax authority will accept the position taken. The Bank provides for current tax liabilities at the best estimate based on all available evidence and the amount that is expected to be paid to the tax authority where and outflow is probable.

The recoverability of the Bank's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

15. INVESTMENT IN A SUBSIDIARY

	<u>BANK</u>	
	2018	2017
	RM'000	RM'000
Unquoted shares, at cost, in Malaysia	<u>1,000</u>	<u>1,000</u>

The subsidiary of the Bank is as follow:

<u>Name</u>	<u>Principal activity</u>	<u>Percentage of equity held</u>	
		2018	2017
		%	%
China Bridge (Malaysia) Sdn. Bhd.	Chinese visa application services	<u>100</u>	<u>100</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**16. PROPERTY AND EQUIPMENT**

<u>GROUP</u>	<u>Computer</u>	<u>Motor</u>	<u>Office</u>		<u>Freehold</u>		<u>ATM</u>	<u>Work-in-</u>	<u>Total</u>
<u>2018</u>	<u>equipment</u>	<u>vehicles</u>	<u>equipment</u>	<u>Renovations</u>	<u>land</u>	<u>Buildings</u>	<u>machine</u>	<u>progress</u>	
<u>COST</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	8,662	4,009	8,608	13,505	14,000	26,375	2,321	8,028	85,508
Additions	1,375	-	445	92	-	-	97	3,433	5,442
Reclassification/ Adjustments	(25)	-	1,531	3,727	-	-	642	(5,900)	(25)
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	-	(538)	(538)
Disposal	(20)	-	(23)	-	-	-	-	-	(43)
Write-offs	(174)	-	(210)	(434)	-	-	-	(274)	(1,092)
At 31 December	9,818	4,009	10,351	16,890	14,000	26,375	3,060	4,749	89,252
<u>ACCUMULATED DEPRECIATION</u>									
At 1 January	4,508	2,443	4,443	8,561	-	1,626	1,249	-	22,830
Charge for the financial year (Note 28)	2,084	417	1,224	1,950	-	788	823	-	7,286
Disposal	(20)	-	(23)	-	-	-	-	-	(43)
Write-offs	(167)	-	(201)	(430)	-	-	-	-	(798)
At 31 December	6,405	2,860	5,443	10,081	-	2,414	2,072	-	29,275
NET CARRYING AMOUNT	3,413	1,149	4,908	6,809	14,000	23,961	988	4,749	59,977

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**16. PROPERTY AND EQUIPMENT (CONTINUED)**

<u>GROUP</u>	<u>Computer</u>	<u>Motor</u>	<u>Office</u>		<u>Freehold</u>		<u>ATM</u>	<u>Work-in-</u>	<u>Total</u>
<u>2017</u>	<u>equipment</u>	<u>vehicles</u>	<u>equipment</u>	<u>Renovations</u>	<u>land</u>	<u>Buildings</u>	<u>machine</u>	<u>progress</u>	<u>RM'000</u>
<u>COST</u>	<u>RM'000</u>	<u>RM'000</u>	<u>and furniture</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	5,854	3,237	6,244	11,601	14,000	18,103	1,875	10,560	71,474
Additions	2,244	772	612	505	-	-	136	11,823	16,092
Reclassification/ Adjustments	988	-	2,022	2,084	-	8,272	310	(13,676)	-
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	-	(397)	(397)
Disposal	-	-	(179)	-	-	-	-	-	(179)
Write-offs	(424)	-	(91)	(685)	-	-	-	(282)	(1,482)
At 31 December	8,662	4,009	8,608	13,505	14,000	26,375	2,321	8,028	85,508
<u>ACCUMULATED DEPRECIATION</u>									
At 1 January	3,376	2,141	3,914	7,176	-	1,898	606	-	19,111
Charge for the financial year (Note 28)	1,542	302	786	1,672	-	(272)	643	-	4,673
Disposal	-	-	(173)	-	-	-	-	-	(173)
Write-offs	(410)	-	(84)	(287)	-	-	-	-	(781)
At 31 December	4,508	2,443	4,443	8,561	-	1,626	1,249	-	22,830
NET CARRYING AMOUNT	4,154	1,566	4,165	4,944	14,000	24,749	1,072	8,028	62,678

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**16. PROPERTY AND EQUIPMENT (CONTINUED)**

<u>BANK</u> <u>2018</u> <u>COST</u>	<u>Computer</u> <u>equipment</u> RM'000	<u>Motor</u> <u>vehicles</u> RM'000	<u>Office</u> <u>equipment</u> <u>and furniture</u> RM'000	<u>Renovations</u> RM'000	<u>Freehold</u> <u>land</u> RM'000	<u>Buildings</u> RM'000	<u>ATM</u> <u>machine</u> RM'000	<u>Work-in-</u> <u>progress</u> RM'000	<u>Total</u> RM'000
At 1 January	8,097	4,008	7,445	11,233	14,000	26,375	2,250	8,028	81,436
Additions	1,347	-	398	92	-	-	97	3,433	5,367
Reclassification/ Adjustments	(25)	-	1,531	3,727	-	-	642	(5,900)	(25)
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	-	(538)	(538)
Disposal	-	-	(23)	-	-	-	-	-	(23)
Write-offs	(174)	-	(196)	(434)	-	-	-	(274)	(1,078)
At 31 December	9,245	4,008	9,155	14,618	14,000	26,375	2,989	4,749	85,139
<u>ACCUMULATED DEPRECIATION</u>									
At 1 January	4,053	2,442	3,717	7,315	-	1,626	1,243	-	20,396
Charge for the financial year (Note 28)	2,045	417	1,049	1,496	-	788	800	-	6,595
Disposal	-	-	(23)	-	-	-	-	-	(23)
Write-offs	(167)	-	(188)	(430)	-	-	-	-	(785)
At 31 December	5,931	2,859	4,555	8,381	-	2,414	2,043	-	26,183
NET CARRYING AMOUNT	3,314	1,149	4,600	6,237	14,000	23,961	946	4,749	58,956

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**16. PROPERTY AND EQUIPMENT (CONTINUED)**

<u>BANK</u> <u>2017</u> <u>COST</u>	Computer equipment	Motor vehicles	Office equipment and furniture	Renovations	Freehold land	Buildings	ATM machine	Work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	5,281	3,236	5,222	9,580	14,000	18,103	1,875	10,560	67,857
Additions	2,142	772	533	489	-	-	65	11,514	15,515
Reclassification/ Adjustments	988	-	1,959	1,849	-	8,272	310	(13,378)	-
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	-	(397)	(397)
Disposal	-	-	(179)	-	-	-	-	-	(179)
Write-offs	(314)	-	(90)	(685)	-	-	-	(271)	(1,360)
At 31 December	8,097	4,008	7,445	11,233	14,000	26,375	2,250	8,028	81,436
<u>ACCUMULATED DEPRECIATION</u>									
At 1 January	2,834	2,140	3,337	6,343	-	1,898	606	-	17,158
Charge for the financial year (Note 28)	1,523	302	636	1,259	-	(272)	637	-	4,085
Disposal	-	-	(173)	-	-	-	-	-	(173)
Write-offs	(304)	-	(83)	(287)	-	-	-	-	(674)
At 31 December	4,053	2,442	3,717	7,315	-	1,626	1,243	-	20,396
NET CARRYING AMOUNT	4,044	1,566	3,728	3,918	14,000	24,749	1,007	8,028	61,040

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

17. INTANGIBLE ASSETS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Computer software</u>				
Cost:				
At 1 January	1,645	3,835	1,642	3,818
Additions	88	244	88	244
Transfer from property and equipment (Note 16)	538	397	538	397
Write-offs	-	(2,831)	-	(2,817)
At 31 December	<u>2,271</u>	<u>1,645</u>	<u>2,268</u>	<u>1,642</u>
Accumulated amortisation:				
At 1 January	923	3,535	920	3,518
Charge for the financial year (Note 28)	434	219	434	219
Write-offs	-	(2,831)	-	(2,817)
At 31 December	<u>1,357</u>	<u>923</u>	<u>1,354</u>	<u>920</u>
Net book value	<u>914</u>	<u>722</u>	<u>914</u>	<u>722</u>

18. DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Demand deposits	3,900,463	3,748,059	3,913,502	3,755,087
Savings deposits	220,092	198,438	220,092	198,438
Fixed deposits	4,033,289	4,075,045	4,033,289	4,075,045
Negotiable instruments of deposits	202,433	202,336	202,433	202,336
	<u>8,356,277</u>	<u>8,223,878</u>	<u>8,369,316</u>	<u>8,230,906</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

18. DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customers

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Government and statutory bodies	-	4,113	-	4,113
Business enterprises	4,485,510	4,645,161	4,498,549	4,652,189
Individuals	2,794,119	2,437,060	2,794,119	2,437,060
Others	1,076,648	1,137,544	1,076,648	1,137,544
	<u>8,356,277</u>	<u>8,223,878</u>	<u>8,369,316</u>	<u>8,230,906</u>

(iii) The maturity structure of fixed deposits and negotiable instruments of deposits are as follows:

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Due within six months	3,318,315	3,470,608	3,318,315	3,470,608
Six months to one year	914,953	803,484	914,953	803,484
One year to three years	2,454	3,289	2,454	3,289
	<u>4,235,722</u>	<u>4,277,381</u>	<u>4,235,722</u>	<u>4,277,381</u>

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
Bank Negara Malaysia	44,020	45,227
Licensed banks	1,909,810	1,419,335
Licensed investment banks	170	282
Licensed Islamic banks	229	1,152
Other financial institutions	3	3
	<u>1,954,232</u>	<u>1,465,999</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20. OTHER LIABILITIES

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Accrued expenses	39,292	32,978	38,064	31,866
Margin deposits	45,026	67,599	45,026	67,599
Other liabilities	60,984	65,709	58,604	63,970
Allowance for ECL on commitments and contingencies	6,050	-	6,050	-
	<u>151,352</u>	<u>166,286</u>	<u>147,744</u>	<u>163,435</u>

The margin deposits include interest bearing deposits amounting to RM19,983,000 (2017: RM23,249,000) with a range of interest between 0.30% - 3.15% (2017: 0.20% - 3.45%), and the non-interest bearing deposits amounting to RM25,043,000 (2017: RM44,350,000).

Movements in allowance for impairment on commitment and contingencies:

	<u>GROUP AND BANK</u>			
	2018			
	12 months ECL (Stage 1) RM'000	Lifetime ECL (non-credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 31 December 2017	-	-	-	-
Effect of adopting MFRS 9	3,720	441	1	4,162
1 January 2018, as restated	<u>3,720</u>	<u>441</u>	<u>1</u>	<u>4,162</u>
Transferred to 12 months ECL	40	(40)	-	-
Transfer to lifetime ECL non-credit impaired	(1,284)	1,284	-	-
New loans ECL	3,112	365	-	3,477
(Reversal)/provision during the year	(143)	(334)	2	(475)
Full settlement	(999)	(115)	-	(1,114)
Allowance for ECL as at 31 December 2018	<u>4,446</u>	<u>1,601</u>	<u>3</u>	<u>6,050</u>

The exposure at default of the commitments and contingencies are disclosed in Note 39 (b)(i).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

21. SUBORDINATED LOAN

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
At cost	1,254,725	1,254,725
Interest accrued	6,693	3,901
Foreign exchange difference	25,885	-
	<u>1,287,303</u>	<u>1,258,626</u>

On 26 July 2017, the Bank has issued an USD310 million subordinated loan (ten (10) years maturity, non-callable five (5) years) which bears interest rate equal to 0.30% plus 3-month USD LIBOR, payable 3 months in arrears.

The subordinated loan was approved by BNM for inclusion as Tier-2 capital of the Bank under BNM's capital adequacy regulations.

The tenor of the subordinated loan facility is the 10 years (non-callable five (5) years) from the drawdown date with interest payable in arrears, and is prepayable after five (5) years subject to BNM's approval and other conditions.

The subordinated loan constitutes a direct, unsecured and subordinated obligation of the Bank.

22. SHARE CAPITAL

	<u>Number of ordinary shares</u>		<u>Amount</u>	
	2018	2017	2018	2017
	'000	'000	RM'000	RM'000
<u>GROUP AND BANK</u>				
Issued and fully paid:				
At beginning and end of the financial year	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

23. RESERVES

(a) Retained profits

The Bank may distribute dividends out of its entire retained profits as at 31 December 2018 under the single tier system.

(b) Statutory reserve

The statutory reserve was maintained in compliance with Section 12 and Section 47(2)(F) of the Financial Services Act, 2013 and was not distributable as cash dividends. It has been transferred to retained profits pursuant to removal of reserve fund requirement by BNM effective 3 May 2017.

(c) Regulatory reserve

Under MFRS 9, the Bank must maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures in accordance with BNM's guidelines.

(d) Fair value through other comprehensive reserve

The fair reserve through other comprehensive reserve is in respect of unrealised fair value gains and losses on debt and equity instruments at FVOCI, net of tax.

24. OPERATING REVENUE

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

25. INTEREST INCOME

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Loans and advances		
- Interest income on non-impaired loans	295,964	260,813
- Interest income on impaired loans	7,561	5,728
Money at call and deposit placements with financial institutions	181,867	122,718
Debt instruments at FVOCI	15,464	-
Debt instruments at amortised cost	25,007	-
Financial investments held-to-maturity	-	35,508
Financial investments available-for-sale	-	7,869
	<u>525,863</u>	<u>432,636</u>
Amortisation of premium less accretion of discount	(1,406)	(888)
	<u><u>524,457</u></u>	<u><u>431,748</u></u>

26. INTEREST EXPENSE

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	23,171	15,588
Deposits from customers	238,062	202,150
Subordinated loan	31,328	9,324
Others	567	864
	<u>293,128</u>	<u>227,926</u>

27. OTHER OPERATING INCOME

	<u>GROUP</u>		<u>BANK</u>	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Fee income:				
- Fee on loans and advances	23,180	22,295	23,180	22,295
- Service charges and fees	51,941	44,177	4,014	2,663
- Guarantee fees	11,335	21,494	11,335	21,494
	<u>86,456</u>	<u>87,966</u>	<u>38,529</u>	<u>46,452</u>
Fee expense:				
- Commission related expenses	(19,594)	(14,505)	-	-
Net fee income	<u>66,862</u>	<u>73,461</u>	<u>38,529</u>	<u>46,452</u>
Foreign exchange gain/(loss):				
- Realised	34,254	31,527	34,254	31,527
- Unrealised	(2,732)	(111)	(2,732)	(111)
Net gain on revaluation of derivatives	78	108	78	108
Unrealised loss on equity instrument at FVTPL	(1,250)	-	(1,250)	-
Revenue from sale of precious metal products	405	610	405	610
Net gain on disposal of property and equipment	-	2	-	2
Other income:				
- Dividend income from a subsidiary	-	-	14,500	11,650
- Others	45	39	253	250
	<u>97,662</u>	<u>105,636</u>	<u>84,037</u>	<u>90,488</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

28. OTHER OPERATING EXPENSES

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Personnel expenses</u>				
Salaries and wages (includes CEO/ED)	53,357	42,821	50,624	40,486
Bonuses	25,194	24,590	24,120	23,761
Defined contribution plan ("EPF")	9,648	8,127	9,281	7,867
Staff welfare expenses	2,744	2,231	2,467	1,987
Other personnel costs	7,645	5,550	7,376	5,346
	<u>98,588</u>	<u>83,319</u>	<u>93,868</u>	<u>79,447</u>
<u>Marketing expenses</u>				
Entertainment	952	874	927	862
Other marketing	2,376	1,207	2,376	1,201
	<u>3,328</u>	<u>2,081</u>	<u>3,303</u>	<u>2,063</u>
<u>Establishment costs</u>				
Rental of premises	8,997	8,926	7,513	7,481
Depreciation of property and equipment (Note 16)	7,286	4,673	6,595	4,085
Amortisation of intangible assets (Note 17)	434	219	434	219
Repairs and maintenance	1,251	1,004	1,243	995
Property and equipment written-off	294	701	293	686
Information technology expenses	3,050	2,825	3,041	2,814
Other establishment costs	2,186	1,193	2,139	1,137
	<u>23,498</u>	<u>19,541</u>	<u>21,258</u>	<u>17,417</u>
<u>Administration and general expenses</u>				
Insurance premium	1,215	1,941	1,207	1,934
Travelling and accommodation	2,657	3,187	2,540	3,001
Telecommunication and utilities	1,263	1,208	1,119	1,079
Printing, stationery and postage	1,580	1,120	1,211	920
Legal and professional fees	534	1,983	529	1,320
Other administration and general expenses	5,894	6,091	5,480	5,742
	<u>13,143</u>	<u>15,530</u>	<u>12,086</u>	<u>13,996</u>
<u>Other expenses</u>				
Cost of sales of precious metal products	337	493	337	493
	<u>138,894</u>	<u>120,964</u>	<u>130,852</u>	<u>113,416</u>

The above expenditure includes the following statutory disclosures:

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Auditors' remuneration				
- current year audit	221	243	177	201
- overprovision in prior financial years	-	(3)	-	(3)
- regulatory-related services	585	116	585	116
- other services	30	99	18	88
Directors' remuneration (Note 29)	<u>348</u>	<u>2,365</u>	<u>348</u>	<u>2,365</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

29. DIRECTORS' REMUNERATION

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

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
<u>Executive Director</u>		
- salary and other remuneration	-	1,075
- bonus	-	932
- benefits-in-kind	-	50
	-	2,057
 <u>Non-Executive Directors</u>		
Fees		
- Datuk Ter Leong Yap	-	24
- Chai Woon Chew	130	120
- Eugene Khoo Kong Hooi	130	117
- Dato' Low Kian Chuan	88	47
	348	308
	348	2,365

The Executive Director's term completed on January 2018, the remuneration and benefits-in-kind attributable to the Executive Director of the Bank during the financial year is nil (2017: RM2,044,472).

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>Number of Directors</u>	
	2018	2017
<u>Executive Director</u>		
RM1,500,001 - RM2,000,000	-	-
RM2,000,001 - RM2,500,000	-	1
 <u>Non-Executive Directors</u>		
RM20,001 - RM100,000	1	2
RM100,001 - RM150,000	2	2

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

30. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES AND OTHER FINANCIAL ASSETS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(Write-back)/allowance for impairment on:				
Cash and short-term funds (Note 2)				
- Stage 1	(3)	-	(3)	-
Deposits and placements with banks and other financial institutions (Note 3)				
- Stage 1	(109)	-	(109)	-
Other assets (Note 12)				
- Stage 1	234	-	228	-
Loans and advances				
- Stage 1	(10,868)	-	(10,868)	-
- Stage 2	6,576	-	6,576	-
- Stage 3	4,650	-	4,650	-
Individual impairment allowance				
- made during the financial year	-	37,379	-	37,379
- written back during the financial year	-	(12,829)	-	(12,829)
Collective impairment allowance				
- made during the financial year	-	6,389	-	6,389
Bad debt recover during the financial year	(2,311)	-	(2,311)	-
Debt instruments at FVOCI (Note 5)				
- Stage 1	19	-	19	-
Commitments and contingencies				
- Stage 1	1,970	-	1,970	-
- Stage 2	(84)	-	(84)	-
- Stage 3	2	-	2	-
	<u>76</u>	<u>30,939</u>	<u>70</u>	<u>30,939</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

31. TAXATION

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tax expense for the financial year:				
- Malaysian income tax	59,911	41,400	54,910	36,600
- Foreign tax	39	134	39	134
Less : Double taxation relief	(29)	(100)	(29)	(100)
- Underprovision in prior financial years	(78)	177	201	180
	<u>59,843</u>	<u>41,611</u>	<u>55,121</u>	<u>36,814</u>
Deferred tax (Note 13):				
- Origination and reversal of temporary differences, net	(13,476)	(1,633)	(13,384)	(1,621)
- Underprovision in prior financial years	20	7	12	-
	<u>(13,456)</u>	<u>(1,626)</u>	<u>(13,372)</u>	<u>(1,621)</u>
Total tax expense	<u>46,387</u>	<u>39,985</u>	<u>41,749</u>	<u>35,193</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before taxation	<u>190,021</u>	<u>157,555</u>	<u>184,444</u>	<u>149,955</u>
Statutory tax rate in Malaysia, 24%	45,605	37,813	44,267	35,989
Tax effects in respect of:				
- Non-allowable expenses	862	2,070	739	1,786
- Non-taxable income	-	-	(3,480)	(2,796)
Effect of different tax rates in other countries	10	34	10	34
Effect of preferential tax rate	(32)	(116)	-	-
Underprovision in prior years:				
- Income tax	(78)	177	201	180
- Deferred tax	20	7	12	-
Tax expense	<u>46,387</u>	<u>39,985</u>	<u>41,749</u>	<u>35,193</u>

Domestic income tax is calculated at the Malaysian statutory tax rate at 24% on the estimated profit for the financial year.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

32. 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>GROUP</u>	
	2018	2017
	RM'000	RM'000
Net profit attributable to equity holder	143,634	117,570
Weighted average number of ordinary shares in issue	760,518	760,518
Basic/fully diluted earnings per share (sen)	<u>18.89</u>	<u>15.46</u>

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Parties are related to the Group and the Bank if the Group and the Bank have the ability directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice-versa, or where the Group and the Bank and the party are subject to common control or common significant influence.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group or of the Bank either direct or indirectly. The key management personnel includes the Directors and senior management of the Group and of the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions

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

<u>GROUP</u>	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	Key management <u>personnel</u> RM'000
<u>2018</u>				
INCOME				
Interest income:				
- Cash and short-term funds	83	741	-	-
- Deposits and placements with banks and other financial institutions	11,619	3,399	32	-
Fee income	-	1,064	-	-
	<u>11,702</u>	<u>5,204</u>	<u>32</u>	<u>-</u>
EXPENSES				
Interest expenses:				
- Deposits from customers	-	-	-	82
- Deposits and placements of banks and other financial institutions	11,238	40,003	69	-
- Subordinated loan	-	31,328	-	-
Personnel expenses	40	763	-	-
Marketing expenses	-	1	-	-
Establishment expenses	2,080	189	-	-
Administrative expenses	-	3	-	-
	<u>13,358</u>	<u>72,287</u>	<u>69</u>	<u>82</u>
<u>2017</u>				
INCOME				
Interest income:				
- Deposits and placements with banks and other financial institutions	4,912	9,522	7	-
	<u>4,912</u>	<u>9,522</u>	<u>7</u>	<u>-</u>
EXPENSES				
Interest expenses:				
- Deposits and placements of banks and other financial institutions	12,084	10,623	39	-
- Deposits from customers	-	-	-	88
- Subordinated loan	-	9,324	-	-
Administrative expenses	1,907	-	-	-
	<u>13,991</u>	<u>19,947</u>	<u>39</u>	<u>88</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (Continued)

<u>BANK</u>	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	<u>Subsidiary</u> RM'000	Key management <u>personnel</u> RM'000
<u>2018</u>					
INCOME					
Interest income:					
- Cash and short-term funds	83	741	-	-	-
- Deposits and placements with banks and other financial institutions	11,619	3,399	32	-	-
Fee income	-	1,064	-	-	-
Other operating income:					
- Dividend income	-	-	-	14,500	-
- Others	-	-	-	211	-
	<u>11,702</u>	<u>5,204</u>	<u>32</u>	<u>14,711</u>	<u>-</u>
EXPENSES					
Interest expenses:					
- Deposits from customers	-	-	-	-	82
- Deposits and placements of banks and other financial institutions	11,238	40,003	69	-	-
- Subordinated loan	-	31,328	-	-	-
Personnel expenses	40	763	-	-	-
Marketing expenses	-	1	-	-	-
Establishment expenses	2,080	189	-	-	-
Administrative expenses	-	3	-	-	-
	<u>13,358</u>	<u>72,287</u>	<u>69</u>	<u>-</u>	<u>82</u>
<u>2017</u>					
INCOME					
Interest income:					
- Deposits and placements with banks and other financial institutions	4,912	9,522	7	-	-
Other operating income:					
- Dividend income	-	-	-	11,650	-
- Others	-	-	-	211	-
	<u>4,912</u>	<u>9,522</u>	<u>7</u>	<u>11,861</u>	<u>-</u>
EXPENSES					
Interest expenses:					
- Deposits and placements of banks and other financial institutions	12,084	10,623	39	-	-
- Deposits from customers	-	-	-	-	88
- Subordinated loan	-	9,324	-	-	-
Administrative expenses	1,907	-	-	-	-
	<u>13,991</u>	<u>19,947</u>	<u>39</u>	<u>-</u>	<u>88</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances

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

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries</u> RM'000	Key management <u>personnel</u> RM'000
<u>GROUP</u>				
<u>2018</u>				
AMOUNT DUE FROM				
Cash and short-term funds	180,220	73,867	950	-
Deposits and placements with banks and other financial institutions	266,852	128	-	-
	<u>447,072</u>	<u>73,995</u>	<u>950</u>	<u>-</u>
AMOUNT DUE TO				
Deposits from customers	-	-	-	4,865
Deposits and placements of banks and other financial institutions	1,080,428	692,818	-	-
Subordinated loan	-	1,287,302	-	-
Other liabilities	2,080	19	-	-
	<u>1,082,508</u>	<u>1,980,139</u>	<u>-</u>	<u>4,865</u>
<u>2017</u>				
AMOUNT DUE FROM				
Cash and short-term funds	19,299	137,612	36	-
Deposits and placements with banks and other financial institutions	358,388	93,292	-	-
	<u>377,687</u>	<u>230,904</u>	<u>36</u>	<u>-</u>
AMOUNT DUE TO				
Deposits from customers	-	-	-	4,032
Deposits and placements of banks and other financial institutions	1,057,567	128,857	-	-
Subordinated loan	-	1,258,626	-	-
	<u>1,057,567</u>	<u>1,387,483</u>	<u>-</u>	<u>4,032</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (Continued)

	Penultimate holding company RM'000	Immediate holding company RM'000	Fellow subsidiaries RM'000	Subsidiary RM'000	Key management personnel RM'000
<u>BANK</u>					
<u>2018</u>					
AMOUNT DUE FROM					
Cash and short-term funds	180,220	73,867	950	-	-
Deposits and placements with banks and other financial institutions	266,852	128	-	-	-
	<u>447,072</u>	<u>73,995</u>	<u>950</u>	<u>-</u>	<u>-</u>
AMOUNT DUE TO					
Deposits from customers	-	-	-	13,039	4,865
Deposits and placements of banks and other financial institutions	1,080,428	692,818	-	-	-
Subordinated loan	-	1,287,302	-	-	-
Other liabilities	2,080	19	-	-	-
	<u>1,082,508</u>	<u>1,980,139</u>	<u>-</u>	<u>13,039</u>	<u>4,865</u>
<u>2017</u>					
AMOUNT DUE FROM					
Cash and short-term funds	19,299	137,612	36	-	-
Deposits and placements with banks and other financial institutions	358,388	93,292	-	-	-
	<u>377,687</u>	<u>230,904</u>	<u>36</u>	<u>-</u>	<u>-</u>
AMOUNT DUE TO					
Deposits from customers	-	-	-	7,028	4,032
Deposits and placements of banks and other financial institutions	1,057,567	128,857	-	-	-
Subordinated loan	-	1,258,626	-	-	-
	<u>1,057,567</u>	<u>1,387,483</u>	<u>-</u>	<u>7,028</u>	<u>4,032</u>

Included in the table above are deposits from the Directors of the Group and of the Bank is nil (2017: RM591,000).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Intercompany charges breakdown by geographical distribution:

i) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Other countries	3,076	1,907

(d) Key management personnel compensation

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

	<u>GROUP</u>		<u>BANK</u>	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Fees	348	308	348	308
Salaries and other short-term benefits	9,540	8,395	8,856	8,395
EPF	359	377	359	377
Benefits-in-kind	83	64	50	64
	<u>10,330</u>	<u>9,144</u>	<u>9,613</u>	<u>9,144</u>

Included in the above table are Directors' remuneration as disclosed in Note 29.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

34. CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

Connected parties refer to Directors, controlling shareholder, executive officers, officers who are responsible for or have 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, the Bank is required to disclose the following information:

	<u>GROUP AND BANK</u>	
	2018 RM'000	2017 RM'000
Outstanding credit exposures with connected parties	<u>1,394,983</u>	<u>1,554,022</u>
Outstanding credit exposures with connected parties as a percentage of total credit exposures	17%	20%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	<u>Nil</u>	<u>Nil</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**35. 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.

The commitments and contingencies constitute the following:

	GROUP AND BANK					
	31 December 2018			31 December 2017		
	Principal RM'000	Credit* equivalent RM'000	Risk weighted RM'000	Principal RM'000	Credit* equivalent RM'000	Risk weighted RM'000
Direct credit substitutes	2,136	2,136	2,136	47,144	47,144	47,144
Transaction-related contingent items	2,480,797	1,240,398	656,134	2,420,967	1,210,484	1,029,664
Short-term self-liquidation trade related contingencies	132,751	26,550	26,223	166,406	33,281	20,184
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,603,671	320,734	295,055	1,749,285	349,857	303,756
- Maturity exceeding one year	534,907	267,453	241,417	251,208	125,604	114,359
Foreign exchange related contracts:						
- Less than one year	142,455	1,508	973	89,664	532	170
Unutilised credit card lines	20	4	3	-	-	-
Total	<u>4,896,737</u>	<u>1,858,783</u>	<u>1,221,941</u>	<u>4,724,674</u>	<u>1,766,902</u>	<u>1,515,277</u>

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

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

36. LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rental of premises and equipment on hire, all of which are classified as operating leases. The future minimum lease payments under non-cancellable operating leases as follows:

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Not later than 1 year	6,245	8,240	5,398	6,820
Later than 1 year but not later than 5 years	3,437	4,374	3,398	3,521
	<u>9,682</u>	<u>12,614</u>	<u>8,796</u>	<u>10,341</u>

37. CAPITAL COMMITMENTS

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Capital expenditure for property and equipment				
- approved by the Board and contracted for	<u>3,248</u>	<u>2,236</u>	<u>3,248</u>	<u>2,236</u>

38. CAPITAL ADEQUACY

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

The total capital and capital adequacy ratio of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components) Policy issued on 2 February 2018. The Framework sets the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which a financial institution is required to operate. The framework has been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision ("BCBS").

The Group and the Bank have adopted the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The capital buffers shall comprises sum of the following:

- Capital Conservation Buffer ("CCB") of 2.5% phased-in from 2016 to 2019 [2017: +1.25%; 2018: +1.875%; 2019: +2.5%]; and
- Countercyclical Capital Buffer ("CCyB"), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive).

The minimum regulatory capital adequacy ratios for year 2018 are as follows:

CET 1 Capital Ratio (including CCB and CCyB)	6.375% (5.750% in the year 2017)
Tier 1 Capital Ratio (including CCB and CCyB)	7.875% (7.250% in the year 2017)
Total Capital Ratio (including CCB and CCyB)	9.875% (9.250% in the year 2017)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

38. CAPITAL ADEQUACY (CONTINUED)

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

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Common Equity Tier 1 ("CET 1") Capital</u>				
Paid-up ordinary share capital	760,518	760,518	760,518	760,518
Retained profits	741,578	621,693	726,128	607,180
Regulatory reserve	16,191	30,067	16,191	30,067
Fair value through other comprehensive reserve	8,193	-	8,193	-
Revaluation reserve	-	1,163	-	1,163
	<u>1,526,480</u>	<u>1,413,441</u>	<u>1,511,030</u>	<u>1,398,928</u>
Regulatory adjustment applied in the calculation of CET 1 Capital				
- Deferred tax assets	(17,233)	(5,997)	(16,959)	(5,807)
- 55% of cumulative gains of debt instruments at FVOCI	(4,506)	(641)	(4,506)	(641)
- Regulatory reserve attributable to financial assets	(16,191)	(30,067)	(16,191)	(30,067)
	<u>(37,930)</u>	<u>(36,705)</u>	<u>(37,656)</u>	<u>(36,515)</u>
Total CET 1 Capital/Total Tier 1 Capital	<u>1,488,550</u>	<u>1,376,736</u>	<u>1,473,374</u>	<u>1,362,413</u>
<u>Tier-2 Capital</u>				
General provision *	92,562	71,047	92,553	71,047
Subordinated loan	1,280,610	1,254,725	1,280,610	1,254,725
Less: Investment in a subsidiary company	-	-	(1,000)	(1,000)
Total Tier-2 Capital	<u>1,373,172</u>	<u>1,325,772</u>	<u>1,372,163</u>	<u>1,324,772</u>
Total Capital Base	<u>2,861,722</u>	<u>2,702,508</u>	<u>2,845,537</u>	<u>2,687,185</u>
	<u>GROUP</u>		<u>BANK</u>	
	2018	2017	2018	2017
<u>Capital ratios</u>				
CET 1 Capital Ratio	17.722%	17.095%	17.648%	17.016%
Tier 1 Capital Ratio	17.722%	17.095%	17.648%	17.016%
Total Capital Ratio	34.070%	33.558%	34.084%	33.561%

*General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach for credit risk.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

38. CAPITAL ADEQUACY (CONTINUED)

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

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Credit risk	7,825,343	7,543,439	7,822,480	7,540,958
Market risk	16,273	9,033	16,273	9,033
Operational risk	557,978	500,873	509,932	456,835
	<u>8,399,594</u>	<u>8,053,345</u>	<u>8,348,685</u>	<u>8,006,826</u>

39. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The objectives of the Group's and the Bank's financial risk management are 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 the immediate holding company, Bank of China (Hong Kong) Limited approve the extent of the Group's and 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 Group and the Bank.

(b) Credit risk

(i) ECL models application

The Group and the Bank adopted general approach for ECL models for financial assets and simplified approach for other assets, with ECL is computed or measured based on the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate or an approximation thereof, after incorporating the components of Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD").

The details of these three components are as below:

- PD is an estimate of the likelihood of default over a given time horizon, either over the next 12 months, or over the remaining lifetime of the obligation.
- LGD is an estimation of loss the Group and the Bank will incur given the default of borrower. It is the difference between the exposure at the point of default and the cashflow that Group and the Bank are expected to receive, including from the realisation of any collateral, and discounted back to the point of default. LGD is calculated on a 12-month or lifetime basis.
- EAD which includes on-balance sheet and off-balance sheet exposures, is an estimation of exposures at the point of a future default date, taking into account the expected changes in the exposures up to the point of future default including repayments, additional drawdown on committed facility, and additional headroom before default. EAD will be computed when commitment is recognised. For off-balance sheet exposure, the regulatory prescribed credit conversion factor ("CCF") used.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) ECL models application (continued)

The Bank's portfolio is segmented into two portfolios, i.e. Corporate (Non-retail portfolio inclusive of Financial Institution portfolio) and Retail portfolio.

The PD and LGD are proxied to peer banks and Parent Bank to perform benchmarking approach to derive MFRS 9 PD and LGD for respective portfolios. Each facility's expected lifetime and EAD are used for estimating the ECL.

The ECL estimation method adopted by the Bank is by stages and summarised as below:

- Stage 1: 12-month ECL is provided for performing financial assets on a collective basis.
- Stage 2: Lifetime ECL is provided for financial assets with significant increase in credit risk ("SICR") since its initial recognition on a collective basis.
- Stage 3: Lifetime ECL is estimated on an individual basis using Discounted Cash Flow ("DCF") approach with post-haircut collateral value being applied as prudent measures.

Lifetime ECL is provided for other asset based on simplified approach.

Forward-looking information

The Group and the Bank incorporated forward-looking factors in the ECL estimation by including the use of macroeconomic variables ("MEV") information.

The Group and the Bank proxied the MEV incorporated in the ECL models to those applied by BOCHK, the Parent Bank. The Group and the Bank substituted the proxied MEV with Malaysia's macroeconomic data. Management has consulted with Business Units to conclude that the proxied MEV are relevant to BOCM's loans and advances and other financial assets portfolios.

A correlation analysis is applied to determine the correlation between Parent Bank's MEV and BOCM's MEV. The correlation analysis indicated the MEV resulted in "strong" to "moderate" correlation between the two countries.

Amongst the MEV selected by the Group and the Bank comprises GDP (ranging 4.8%-5.1%), unemployment rate (ranging 2.75%-3.15%), House Price Index (ranging 151.13-165.95) and Consumer Price Index (ranging of 110.44-113.56); based on the probability weighted scenario of Good, Neutral and Downturn.

These MEV and their associated impacts on the PD, LGD and EAD vary by financial instruments. Hence, local's expert judgement is applied in this process.

There is no change in the estimation techniques or significant assumptions made during the reporting period since the adoption of MFRS 9.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) ECL models application (continued)

Stage Determination

Stage determination is determined at borrower level and it is based on the worst stage amongst the facilities.

The Bank considers the PD upon initial recognition of the financial asset (Stage 1) and whether there has been a SICR (Stage 2) on an on-going basis throughout each reporting period since its recognition.

Financial asset is classified as impaired (Stage 3) when it meets the definition of default as below:

- where the principal or interest or both of the loan is past due for more than 90 days or 3 months. In the case of revolving facilities, (e.g. overdraft facilities), the facility shall be classified as impaired when the outstanding amount exceeds the approved limit for a period of more than 90 days or 3 months; or
- where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less and the loan exhibits weaknesses in accordance with Bank's Credit Risk Measurement Framework that would render the account as impaired; or
- where repayments are scheduled on intervals of 3 months or longer, the loan/financing is classified as impaired as soon as a default occurs; or
- when the loan is classified as rescheduled and restructured in the Central Credit Reference Information System ("CCRIS") in accordance with regulatory requirements.

SICR

The Group and the Bank determine the exposures of financial instruments to have significantly increased in credit risk when the financial instruments trigger the quantitative, qualitative or backstop criteria.

Exposures of financial instruments will be classified under Stage 2 based on the following criteria:

- exposures with days-past-due ("DPD") more than 30 days; or
- loan is classified as Special Mention account; or
- significant downgrade in credit risk rating since its recognition (applicable to corporate customers which are risk graded); or
- loans rescheduled and restructured by Agensi Kaunseling and Pengurusan Kredit ("AKPK").

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) ECL models application (continued)

Credit quality of financial assets

The table below shows credit quality of the Group's and the Bank's financial assets based on the following risk grades:

Risk Grades	Definition
Performing	Borrower is able to honour contracts and there is no reason to doubt that the loan principal and interest cannot be repaid fully and timely.
Special Mention	Borrower's credit risk profile is weak, or 1 or more of the borrower loan account has been overdue for 8 to 90 days. Despite borrower is currently capable of repaying loan principal and interest, there are symptoms or factors that may have an adverse impact in the future repayment ability.
Sub-standard	Impaired loans in arrears for 91 to 180 days. Refer to credit facilities involve more than a normal risk of loss due to one or combination of factors namely rescheduling and restructuring of credit facility due to credit deterioration, sporadic delays in debt servicing, unfavourable financial condition, insufficient operating cashflow to meet current debt commitments, insufficient security or other adverse factors which give rise to some doubt on the ability of the borrower and guarantor to comply with the present and / or revised repayment terms.
Doubtful	Impaired loans in arrears for more than 180 days. Refer to credit facilities where full collection is improbable.
Bad	Refer to credit facilities which are deemed uncollectible and worthless.

The table below shows the Group's and the Bank's gross loans and advances and their associated commitment and contingency, based on the following risk grades:

<u>Loan & Advances (On Balance Sheet)</u>	<u>GROUP AND BANK</u>				2017 Total RM'000
	2018			Total	
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	RM'000	
Pass	5,691,279	508,228	-	6,199,507	5,379,486
Special Mention	-	527,752	-	527,752	487,438
Substandard	-	-	9,425	9,425	6,860
Doubtful	-	-	5,670	5,670	47,113
Loss	-	-	52,961	52,961	43,792
	<u>5,691,279</u>	<u>1,035,980</u>	<u>68,056</u>	<u>6,795,315</u>	<u>5,964,689</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(i) ECL models application (continued)

Credit quality of financial assets (continued)

The table below shows the Group's and the Bank's gross loans and advances and their associated commitment and contingency, based on the following risk grades (continued):

<u>Commitment and Contingency</u>	<u>GROUP AND BANK</u> 2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Pass	1,774,985	69,181	-	1,844,166	1,757,740
Special Mention	-	13,099	-	13,099	8,352
Substandard	-	-	-	-	3
Doubtful	-	-	-	-	269
Loss	-	-	10	10	6
	<u>1,774,985</u>	<u>82,280</u>	<u>10</u>	<u>1,857,275</u>	<u>1,766,370</u>

The table below shows credit quality of the Group's and the Bank's other debt instruments (including short term fund, interbank lending and debt instrument), based on Investment Grade and Non-Investment Grade:

<u>Other Debt Instruments</u>	<u>GROUP AND BANK</u> 2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Investment Grade	1,292,754	-	-	1,292,754
Total	<u>1,292,754</u>	<u>-</u>	<u>-</u>	<u>1,292,754</u>

The table below shows credit quality of the Group's and the Bank's other assets, based on ageing matrix:

<u>Other Assets</u>	<u>GROUP</u> 2018 RM'000	<u>BANK</u> 2018 RM'000
Aged more than 365 days	64	62
Aged between 181 - 365 days	87	86
Aged between 91 - 180 days	55	54
Aged 90 days or less	499	187
Total	<u>705</u>	<u>389</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(ii) Maximum exposure to credit risk

For financial assets recognised in the statements 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.

	<u>GROUP</u>		<u>BANK</u>	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<u>Items recognised in the statements of financial position</u>				
Cash and short-term funds (exclude cash in hand)	3,534,568	3,060,018	3,529,095	3,058,945
Deposits and placements with banks and other financial institutions	1,700,081	1,642,620	1,700,081	1,642,620
Debt instruments at FVOCI	467,541	-	467,541	-
Equity instruments at FVOCI	14,936	-	14,936	-
Equity instrument at FVTPL	1,072	-	1,072	-
Debt instruments at amortised cost	655,390	-	655,390	-
Financial investments AFS	-	409,228	-	409,228
Financial investments HTM	-	1,321,890	-	1,321,890
Loans and advances	6,693,130	5,881,389	6,693,130	5,881,389
Statutory deposits with Bank Negara Malaysia	98,000	112,300	98,000	112,300
Derivative financial assets	454	275	454	275
	<u>13,165,172</u>	<u>12,427,720</u>	<u>13,159,699</u>	<u>12,426,647</u>
<u>Items not recognised in the statements of financial position</u>				
Contingent liabilities	2,615,684	2,634,517	2,615,684	2,634,517
Credit commitments	2,138,598	2,000,493	2,138,598	2,000,493
Foreign exchange related contracts	142,455	89,664	142,455	89,664
Total maximum credit risk exposure	<u>18,061,909</u>	<u>17,152,394</u>	<u>18,056,436</u>	<u>17,151,321</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 Bank is 67% (2017: 56%). The financial effect of collateral held for the other financial assets are insignificant.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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

<u>GROUP</u> <u>2018</u>	Short-term funds and placements with financial institutions RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	-	-	534,893	-	534,893	37,256
Mining and quarrying	-	-	-	-	-	-	604,244	-	604,244	58,870
Manufacturing	-	-	-	-	1,072	-	1,029,828	-	1,030,900	486,720
Electricity, gas and water supply	-	-	-	-	-	-	132,734	-	132,734	87,378
Construction and real estate	-	-	-	-	-	-	1,944,391	-	1,944,391	644,002
Wholesale, retail trade and restaurants and hotels	-	-	-	-	-	-	220,067	-	220,067	33,889
Transport, storage and communication	-	-	-	-	-	-	116,993	-	116,993	101,241
Finance, insurance and business services	2,855,842	-	-	25,094	-	655,390	1,137,859	-	4,674,185	368,624
Household	-	-	-	-	-	-	794,621	454	795,075	8,856
Government and government agencies	2,378,843	-	-	457,402	-	-	-	98,000	2,934,245	-
Education, health and others	-	-	-	-	-	-	279,685	-	279,685	31,947
	5,234,685	-	-	482,496	1,072	655,390	6,795,315	98,454	13,267,412	1,858,783
Non-financial assets	23,982	-	-	-	-	-	-	87,345	111,327	-
	5,258,667 [^]	-	-	482,496 [^]	1,072	655,390	6,795,315 [^]	185,799 [#]	13,378,739	1,858,783 [*]

[^] Excludes allowance for ECL.[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.^{*} Credit equivalent amount as disclosed in Note 39.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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

<u>GROUP</u>	Short-term funds and placements with financial institutions	Financial investments AFS	Financial investments HTM	Debt and equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Loans and advances	Other assets	On-balance sheet total	Commitments and Contingencies
<u>2017</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	-	-	-	-	488,950	-	488,950	50,436
Mining and quarrying	-	-	-	-	-	-	56,025	-	56,025	3,058
Manufacturing	-	-	-	-	-	-	1,190,232	-	1,190,232	484,541
Electricity, gas and water supply	-	-	-	-	-	-	262,471	-	262,471	90,015
Construction and real estate	-	-	-	-	-	-	1,629,826	-	1,629,826	618,086
Wholesale, retail trade and restaurants and hotels	-	-	-	-	-	-	319,462	-	319,462	53,343
Transport, storage and communication	-	-	-	-	-	-	197,958	-	197,958	122,512
Finance, insurance and business services	1,863,891	2,452	1,235,906	-	-	-	843,737	275	3,946,261	319,463
Household	-	-	-	-	-	-	889,278	-	889,278	25,346
Government and government agencies	2,838,747	406,776	85,984	-	-	-	-	112,300	3,443,807	-
Education, health and others	-	-	-	-	-	-	86,750	-	86,750	102
	4,702,638	409,228	1,321,890	-	-	-	5,964,689	112,575	12,511,020	1,766,902
Non-financial assets	18,364	-	-	-	-	-	-	83,272	101,636	-
	4,721,002	409,228	1,321,890	-	-	-	5,964,689 [^]	195,847 [#]	12,612,656	1,766,902 [*]

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM41,001,851 and RM42,297,780 respectively.

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

^{*} Credit equivalent amount as disclosed in Note 39.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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

<u>BANK</u> <u>2018</u>	Short-term funds and placements with financial institutions RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	-	-	534,893	-	534,893	37,256
Mining and quarrying	-	-	-	-	-	-	604,244	-	604,244	58,870
Manufacturing	-	-	-	-	1,072	-	1,029,828	-	1,030,900	486,720
Electricity, gas and water supply	-	-	-	-	-	-	132,734	-	132,734	87,378
Construction and real estate	-	-	-	-	-	-	1,944,391	-	1,944,391	644,002
Wholesale, retail trade and restaurants and hotels	-	-	-	-	-	-	220,067	-	220,067	33,889
Transport, storage and communication	-	-	-	-	-	-	116,993	-	116,993	101,241
Finance, insurance and business services	2,850,369	-	-	25,094	-	655,390	1,137,859	454	4,669,166	368,624
Household	-	-	-	-	-	-	794,621	-	794,621	8,856
Government and government agencies	2,378,843	-	-	457,402	-	-	-	98,000	2,934,245	-
Education, health and others	-	-	-	-	-	-	279,685	-	279,685	31,947
	5,229,212	-	-	482,496	1,072	655,390	6,795,315	98,454	13,261,939	1,858,783
Non-financial assets	23,980	-	-	-	-	-	-	86,292	110,272	-
	5,253,192 [^]	-	-	482,496 [^]	1,072	655,390	6,795,315 [^]	184,746 [#]	13,372,211	1,858,783 [*]

[^] Excludes allowance for ECL.[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets, derivative financial assets and tax recoverable.^{*} Credit equivalent amount as disclosed in Note 39.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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

<u>BANK</u> <u>2017</u>	Short-term funds and placements with financial institutions RM'000	Financial investments AFS RM'000	Financial investments HTM RM'000	Debt and equity instruments at FVOCI RM'000	Equity instrument at FVTPL RM'000	Debt instruments at amortised cost RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	-	-	-	-	488,950	-	488,950	50,436
Mining and quarrying	-	-	-	-	-	-	56,025	-	56,025	3,058
Manufacturing	-	-	-	-	-	-	1,190,232	-	1,190,232	484,541
Electricity, gas and water supply	-	-	-	-	-	-	262,471	-	262,471	90,015
Construction and real estate	-	-	-	-	-	-	1,629,826	-	1,629,826	618,086
Wholesale, retail trade and restaurants and hotels	-	-	-	-	-	-	319,462	-	319,462	53,343
Transport, storage and communication	-	-	-	-	-	-	197,958	-	197,958	122,512
Finance, insurance and business services	1,862,818	2,452	1,235,906	-	-	-	843,737	275	3,945,188	319,463
Household	-	-	-	-	-	-	889,278	-	889,278	25,346
Government and government agencies	2,838,747	406,776	85,984	-	-	-	-	112,300	3,443,807	-
Education, health and others	-	-	-	-	-	-	86,750	-	86,750	102
	4,701,565	409,228	1,321,890	-	-	-	5,964,689	112,575	12,509,947	1,766,902
Non-financial assets	18,362	-	-	-	-	-	-	73,511	91,873	-
	4,719,927	409,228	1,321,890	-	-	-	5,964,689 [^]	186,086 [#]	12,601,820	1,766,902 [*]

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM41,001,851 and RM42,297,780 respectively.[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative financial assets.^{*} Credit equivalent amount as disclosed in Note 39.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(iv) Collateral

The Group and the Bank grant credit facilities based on the credit standing of the customer, legitimate loan purpose, source of repayment, debt servicing ability, collateral(s), guarantees and etc. as the credit risk mitigant(s) ("CRM"). The credit facilities may be granted unsecured premised on the merit of the customer's credibility.

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:

No	Types of Collaterals
1	Fixed Deposit, Cash Margin
2	Property / Land
3	Quoted Share
4	Bond
5	Standby Letter by Financial Institution
6	Others (e.g. Machinery, Vessels, Assignment of proceeds, etc.)

The Group and the Bank also accept guarantees from individuals, corporates and institutional customers to mitigate credit risk subject to internal guidelines on eligibility.

Valuation report of property by panel valuer is required by the Group and the Bank to ensure the value is fair unless is exempted by the Group and the Bank. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value. The estimated market value of the collateral as at reporting date being RM26.8 billion; of which RM0.4 billion being collateral of financial assets that are impaired.

(v) Loans and advances

Loans and advances are summarised as follows:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Neither past due nor impaired	6,572,111	5,550,162
Past due but not impaired	155,148	316,762
Impaired	68,056	97,765
Gross loans and advances	<u>6,795,315</u>	<u>5,964,689</u>
Less: Allowance for ECL	(102,185)	-
Individual impairment allowance	-	(42,298)
Collective impairment allowance	-	(41,002)
Net loans and advances	<u><u>6,693,130</u></u>	<u><u>5,881,389</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

Loans and advances neither past due nor impaired

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

- “AAA – A” refers to customers with a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- “BBB – B” refers to customers with acceptable credit status, relatively low probability of default within the next year, acceptable repayment capability and some credit risk.
- “CCC – C” refers to customers with a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant increase in credit risks.

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>	
	2018	2017
	RM'000	RM'000
AAA - A	4,246,179	2,797,663
BBB - B	1,424,460	1,730,755
CCC - C	54,601	123,151
Unrated	846,871	898,592
	<u>6,572,111</u>	<u>5,550,161</u>

Loans and advances classified as non-rated mainly comprise of personal loans and other loans which are not rated under the above internal credit grading model.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

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. Stage 3 ECL allowance is generally raised at 90 days past due and any other events occurred as per the policies.

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Between 1 – 30 days past due	66,749	91,150
Between 31 – 60 days past due	62,688	14,981
Between 61 – 90 days past due	25,711	210,631
	<u>155,148</u>	<u>316,762</u>

Loans and advances impaired

Loans and advances that are individually determined to be impaired as at 31 December 2018 and 31 December 2017 are as follows:

	<u>GROUP AND BANK</u>	
	2018	2017
	RM'000	RM'000
Corporate	53,095	90,116
Individual	14,961	7,649
	<u>68,056</u>	<u>97,765</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(v) Loans and advances (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 2018, based on Moody's ratings or their equivalent:

	Cash and short-term funds	Deposits and placements with banks and other financial institutions ("FIs")	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Financial investments AFS	Financial investments HTM	Other assets
<u>GROUP</u> <u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/Aa2/A-/A	1,055,556	1,700,081	-	-	-	605,036	-	-	-
A1/A2	-	-	-	-	-	-	-	-	-
A3/Baa1/BBB+	100,168	-	10,139	14,936	-	50,354	-	-	-
Baa2/Baa3/BBB	-	-	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB	-	-	-	-	-	-	-	-	-
Unrated									
- Bank Negara Malaysia/ sovereign	2,378,843	-	457,402	-	-	-	-	-	98,000
- Others	23,983	-	-	-	1,072	-	-	-	454
	<u>3,558,550</u>	<u>1,700,081</u>	<u>467,541</u>	<u>14,936</u>	<u>1,072</u>	<u>655,390</u>	<u>-</u>	<u>-</u>	<u>98,454</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**39. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

Financial assets other than loans and advances (continued)

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Financial investments AFS	Financial investments HTM	Other assets
<u>GROUP</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>									
Aa3/Aa2/A-/A	137,612	93,291	-	-	-	-	-	-	-
A1/A2	81,571	624,889	-	-	-	-	-	-	-
A3/Baa1/BBB+	2,074	401,816	-	-	-	-	-	-	-
Baa2/Baa3/BBB	-	522,624	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB	13	-	-	-	-	-	-	-	-
Unrated									
- Bank Negara Malaysia/ sovereign	2,838,747	-	-	-	-	-	409,228	1,321,890	112,300
- Others	18,365	-	-	-	-	-	-	-	275
	<u>3,078,382</u>	<u>1,642,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>409,228</u>	<u>1,321,890</u>	<u>112,575</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**39. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

Financial assets other than loans and advances (Continued)

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Financial investments AFS	Financial investments HTM	Other assets
<u>BANK</u> <u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/Aa2/A-/A	1,050,084	1,700,081	-	-	-	605,036	-	-	-
A1/A2	-	-	-	-	-	-	-	-	-
A3/Baa1/BBB+	100,168	-	10,139	14,936	-	50,354	-	-	-
Baa2/Baa3/BBB	-	-	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB/BB-	-	-	-	-	-	-	-	-	-
Unrated									
- Bank Negara Malaysia/ sovereign	2,378,843	-	457,402	-	-	-	-	-	98,000
- Others	23,980	-	-	-	1,072	-	-	-	454
	<u>3,553,075</u>	<u>1,700,081</u>	<u>467,541</u>	<u>14,936</u>	<u>1,072</u>	<u>655,390</u>	<u>-</u>	<u>-</u>	<u>98,454</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**39. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(v) Loans and advances (Continued)

Financial assets other than loans and advances (Continued)

	Cash and short-term funds	Deposits and placements with banks and other FIs	Debt instruments at FVOCI	Equity instruments at FVOCI	Equity instrument at FVTPL	Debt instruments at amortised cost	Financial investments AFS	Financial investments HTM	Other assets
<u>BANK</u> <u>2017</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Aa3/Aa2/A-/A	137,612	93,291	-	-	-	-	-	-	-
A1/A2	81,571	624,889	-	-	-	-	-	-	-
A3/Baa1/BBB+	1,002	401,816	-	-	-	-	-	-	-
Baa2/Baa3/BBB	-	522,624	-	-	-	-	-	-	-
Ba1/Ba2/BB+/BB/BB-	13								
Unrated									
- Bank Negara Malaysia/ sovereign	2,838,747	-	-	-	-	-	409,228	1,321,890	112,300
- Others	18,362	-	-	-	-	-	-	-	275
	<u>3,077,307</u>	<u>1,642,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>409,228</u>	<u>1,321,890</u>	<u>112,575</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk

Liquidity risk is the potential inability of the Group and the Bank to meet its payment obligations. The Group and the Bank are 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 Group and the Bank are to ensure that the Group and the Bank are able to meet its financial obligations, whether such obligations are scheduled or unforeseen. The Group and the Bank have set liquidity risk appetites and established necessary management action triggers to manage its liquidity risk for regulatory compliance and to meet holding companies expectations. Necessary policies and procedures, including the escalation processes are established to promote effective oversight of the liquidity risk. In addition, the Group and the Bank have also formulated a Contingency Funding Plan to manage potential liquidity crisis.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2018 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>GROUP</u> <u>2018</u>	Within 1 week RM'000	>1 week to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	Over 1 year RM'000	Total RM'000
Cash and short-term funds	1,458,509	2,100,065	-	-	-	-	3,558,574 [^]
Deposits and placements with banks and other financial institutions	100,325	465,705	1,134,063	-	-	-	1,700,093 [^]
Derivative financial assets	174	5	180	95	-	-	454
Financial investments	404,722	151,172	171,427	-	80,852	330,785	1,138,958 [^]
Gross loans and advances	685,586	777,014	1,141,951	362,361	133,066	3,695,337	6,795,315 [^]
Other assets	279	1,353	248	666	21,234	161,565	185,345 [#]
Total assets	2,649,595	3,495,314	2,447,869	363,122	235,152	4,187,687	13,378,739
Deposits from customers	4,512,354	1,142,120	835,995	948,401	914,953	2,454	8,356,277
Deposits and placements of banks and other financial institutions	738,744	380,321	835,167	-	-	-	1,954,232
Derivative financial liabilities	38	3	133	53	-	-	227
Other liabilities	82,961	22,252	-	34,410	6,179	-	145,802 [^]
Provision for taxation	-	-	-	-	500	-	500
Subordinated loan	-	-	-	-	-	1,287,303	1,287,303
Total liabilities	5,334,097	1,544,696	1,671,295	982,864	921,632	1,289,757	11,744,341
Net liquidity gap - Total assets less total liabilities	(2,684,502)	1,950,618	776,574	(619,742)	(686,480)	2,897,930	1,634,398

[^] Excludes allowance for ECL.[#] Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and tax recoverable.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2017 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>GROUP</u> <u>2017</u>	<u>Within</u> <u>1 week</u> RM'000	<u>>1 week</u> <u>to 1 month</u> RM'000	<u>>1-3</u> <u>months</u> RM'000	<u>>3-6</u> <u>months</u> RM'000	<u>>6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	633,767	2,444,615	-	-	-	-	3,078,382
Deposits and placements with banks and other financial institutions	-	-	1,642,620	-	-	-	1,642,620
Derivative financial assets	193	-	82	-	-	-	275
Financial investments	203,640	452,891	992,815	81,772	-	-	1,731,118
Gross loans and advances	860,023	508,020	1,081,217	348,739	42,320	3,124,370	5,964,689 [^]
Other assets	9,782	99	255	390	6,026	179,020	195,572 [#]
Total assets	1,707,405	3,405,625	3,716,989	430,901	48,346	3,303,390	12,612,656
Deposits from customers	4,508,283	1,147,876	1,085,666	675,280	803,484	3,289	8,223,878
Deposits and placements of banks and other financial institutions	330,023	269,458	619,504	-	41,563	205,451	1,465,999
Derivatives financial liabilities	45	-	81	-	-	-	126
Other liabilities	104,167	12,582	14,068	-	36,469	-	167,286
Subordinated loan	-	-	-	-	-	1,258,626	1,258,626
Total liabilities	4,942,518	1,429,916	1,719,319	675,280	881,516	1,467,366	11,115,915
Net liquidity gap - Total assets less total liabilities	(3,235,113)	1,975,709	1,997,670	(244,379)	(833,170)	1,836,024	1,496,741

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM41,001,851 and RM42,297,780 respectively.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2018 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>BANK</u> <u>2018</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>>1-3</u> <u>months</u> <u>RM'000</u>	<u>>3-6</u> <u>months</u> <u>RM'000</u>	<u>>6-12</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	1,453,034	2,100,065	-	-	-	-	3,553,099 [^]
Deposits and placements with banks and other financial institutions	100,325	465,705	1,134,063	-	-	-	1,700,093 [^]
Derivative financial assets	174	5	180	95	-	-	454
Financial investments	404,722	151,172	171,427	-	80,852	330,785	1,138,958 [^]
Gross loans and advances	685,586	777,014	1,141,951	362,361	133,066	3,695,337	6,795,315 [^]
Other assets	279	620	248	666	20,959	161,520	184,292 [#]
Total assets	2,644,120	3,494,581	2,447,869	363,122	234,877	4,187,642	13,372,211
Deposits from customers	4,525,393	1,142,120	835,995	948,401	914,953	2,454	8,369,316
Deposits and placements of banks and other financial institutions	738,744	380,321	835,167	-	-	-	1,954,232
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	82,961	20,411	-	33,270	5,052	-	141,694 [^]
Subordinated loan	-	-	-	-	-	1,287,303	1,287,303
Total liabilities	5,347,136	1,542,855	1,671,295	981,724	920,005	1,289,757	11,752,772
Net liquidity gap - Total assets less total liabilities	(2,703,016)	1,951,726	776,574	(618,602)	(685,128)	2,897,885	1,619,439

[^] Excludes allowance for ECL.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non-financial instruments) as at 31 December 2017 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guidelines on Financial Reporting:

<u>BANK</u> <u>2017</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	632,693	2,444,614	-	-	-	-	3,077,307
Deposits and placements with banks and other financial institutions	-	-	1,642,620	-	-	-	1,642,620
Derivative financial assets	193	-	82	-	-	-	275
Financial investments	203,640	452,891	992,815	81,772	-	-	1,731,118
Gross loans and advances	860,023	508,020	1,081,217	348,739	42,320	3,124,370	5,964,689 [^]
Other assets	1,270	99	251	390	5,835	177,966	185,811 [#]
Total assets	1,697,819	3,405,624	3,716,985	430,901	48,155	3,302,336	12,601,820
Deposits from customers	4,515,311	1,147,876	1,085,666	675,280	803,484	3,289	8,230,906
Deposits and placements of banks and other financial institutions	330,023	269,458	619,504	-	41,563	205,451	1,465,999
Derivatives financial liabilities	45	-	81	-	-	-	126
Other liabilities	103,981	10,927	14,068	-	34,959	-	163,935
Subordinated loan	-	-	-	-	-	1,258,626	1,258,626
Total liabilities	4,949,360	1,428,261	1,719,319	675,280	880,006	1,467,366	11,119,592
Net liquidity gap - Total assets less total liabilities	(3,251,541)	1,977,363	1,997,666	(244,379)	(831,851)	1,834,970	1,482,228

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM41,001,851 and RM42,297,780 respectively.

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

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (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 is based on undiscounted basis and do not agree to the balances reported in the statements of financial position.

<u>GROUP</u>	Within <u>1 week</u>	>1 week <u>to 1 month</u>	>1-3 <u>months</u>	>3-6 <u>months</u>	>6-12 <u>months</u>	Over <u>1 year</u>	<u>Total</u>
<u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities</u>							
Deposits from customers	4,525,458	1,143,742	856,477	956,973	932,165	2,523	8,417,338
Deposits and placements of banks and other financial institutions	738,738	380,822	837,860	-	-	-	1,957,420
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	89,011	22,266	-	34,410	6,179	-	151,866
Subordinated loan	-	-	-	-	-	1,314,706	1,314,706
	<u>5,353,245</u>	<u>1,546,833</u>	<u>1,694,470</u>	<u>991,436</u>	<u>938,344</u>	<u>1,317,229</u>	<u>11,841,557</u>
<u>2017</u>							
<u>Financial liabilities</u>							
Deposits from customers	4,508,413	1,149,957	1,092,133	683,449	823,358	3,385	8,260,695
Deposits and placements of banks and other financial institutions	330,023	269,668	825,109	-	41,979	212,849	1,679,628
Derivatives financial liabilities	45	-	81	-	-	-	126
Other liabilities	104,167	12,582	14,099	-	36,469	-	167,317
Subordinated loan	-	-	-	-	-	1,291,949	1,291,949
	<u>4,942,648</u>	<u>1,432,207</u>	<u>1,931,422</u>	<u>683,449</u>	<u>901,806</u>	<u>1,508,183</u>	<u>11,399,715</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (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 amounts disclosed in respect of such contracts are the fair values. The balances in the table below is based on undiscounted basis and do not agree to the balances reported in the statements of financial position.

<u>BANK</u>	Within <u>1 week</u>	>1 week <u>to 1 month</u>	>1-3 <u>months</u>	>3-6 <u>months</u>	>6-12 <u>months</u>	Over <u>1 year</u>	<u>Total</u>
<u>2018</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities</u>							
Deposits from customers	4,512,418	1,143,742	856,477	956,973	932,165	2,523	8,404,298
Deposits and placements of banks and other financial institutions	738,738	380,822	837,860	-	-	-	1,957,420
Derivatives financial liabilities	38	3	133	53	-	-	227
Other liabilities	89,011	20,420	-	33,270	5,052	-	147,753
Subordinated loan	-	-	-	-	-	1,314,706	1,314,706
	<u>5,340,205</u>	<u>1,544,987</u>	<u>1,694,470</u>	<u>990,296</u>	<u>937,217</u>	<u>1,317,229</u>	<u>11,824,404</u>
<u>2017</u>							
<u>Financial liabilities</u>							
Deposits from customers	4,515,441	1,149,957	1,092,133	683,449	823,358	3,385	8,267,723
Deposits and placements of banks and other financial institutions	330,023	269,668	825,109	-	41,979	212,849	1,679,628
Derivatives financial liabilities	45	-	81	-	-	-	126
Other liabilities	103,981	10,928	14,099	-	34,959	-	163,967
Subordinated loan	-	-	-	-	-	1,291,949	1,291,949
	<u>4,949,490</u>	<u>1,430,553</u>	<u>1,931,422</u>	<u>683,449</u>	<u>900,296</u>	<u>1,508,183</u>	<u>11,403,393</u>

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

	<u>2018</u>			<u>2017</u>		
	Less <u>than 1 year</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000	Less <u>than 1 year</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
Direct credit substitutes	2,136	-	2,136	47,144	-	47,144
Transaction-related contingent items	968,386	1,512,411	2,480,797	907,077	1,513,890	2,420,967
Short-term self-liquidating trade-related contingencies	132,751	-	132,751	166,406	-	166,406
Irrevocable commitments to extend credit	1,603,671	534,907	2,138,578	1,749,285	251,208	2,000,493
Foreign exchange related contracts	142,455	-	142,455	89,664	-	89,664
Unutilised credit card lines	20	-	20	-	-	-
	<u>2,849,419</u>	<u>2,047,318</u>	<u>4,896,737</u>	<u>2,959,576</u>	<u>1,765,098</u>	<u>4,724,674</u>

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

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market Risk

Market risk is the risk of potential losses resulting from the changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in the market risk factors such as foreign exchange rates, interest rates, credit spreads, equity prices, commodities prices and their associated volatility.

The Bank's RMICC is responsible for the oversight of market risk management of the Bank and executing the BRMC and Board's mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy to govern BOCM's market risk governance structure, risk identification, measurement, monitoring and reporting processes. Various market risk indicators (e.g. Foreign Exchange Net Open Position, Value-at-Risk, Price Value of Basis Point, Stop Loss, etc) are regularly measured and monitored, in order to proactively manage the fluctuations of market interest rates and foreign exchange rates.

The Group's and the Bank's interest rate risk are 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 loss for the financial year end is estimated at RM11.9 million (2017: RM5.8 million).

The Group's and the Bank's foreign exchange risk are 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 Group's and 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 RM648,000 (2017: RM539,000) to the Group and the Bank.

The Group and the Bank are exposed to commodity price risk mainly related to bullion. The Group and the Bank manage such risk together with foreign exchange risk. An increase or decrease of 1% in market price would impact the fair value by RM6,073 (2017: RM3,322).

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks indicating the effective interest rate ("EIR") at the reporting date. 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.

<u>GROUP</u> <u>2018</u>	←————— Non-trading book —————→					Non-interest sensitive RM'000	Total RM'000	EIR %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Assets								
Cash and short-term funds	3,506,955	-	-	-	-	51,595	3,558,550	3.31
Deposits and placements with banks and other financial institutions	566,030	1,134,063	-	-	-	(12)	1,700,081	3.71
Derivative financial assets	-	-	-	-	-	454	454	
Debt instruments at FVOCI	-	70,858	80,852	315,850	-	(19)	467,541	3.56
Equity instruments at FVOCI	-	-	-	-	-	14,936	14,936	
Equity instrument at FVTPL	-	-	-	-	-	1,072	1,072	
Debt instruments at amortised cost	554,822	100,568	-	-	-	-	655,390	3.65
Loans and advances								
- non-impaired	2,501,290	365,786	165,150	630,661	3,064,372	(70,141)	6,657,118	4.69
- impaired	68,056	-	-	-	-	(32,044)	36,012	
Other assets	-	-	-	-	-	5,093	5,093	
Tax recoverable	-	-	-	-	-	4,000	4,000	
Deferred tax assets	-	-	-	-	-	17,233	17,233	
Property and equipment	-	-	-	-	-	59,977	59,977	
Intangible assets	-	-	-	-	-	914	914	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,000	98,000	
Total assets	7,197,153	1,671,275	246,002	946,511	3,064,372	151,058	13,276,371	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2018</u>	←————— Non-trading book —————→					Non-interest sensitive	<u>Total</u> RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Liabilities								
Deposits from customers	3,811,088	835,995	1,863,354	2,454	-	1,843,386	8,356,277	2.49
Deposits and placements of banks and other financial institutions	890,985	835,167	-	-	-	228,080	1,954,232	1.79
Derivatives financial liabilities	-	-	-	-	-	227	227	
Other liabilities	12,590	-	-	-	-	138,762	151,352	
Provision for taxation	-	-	-	-	-	500	500	
Subordinated loan	-	-	-	-	1,287,303	-	1,287,303	2.81
Total liabilities	4,714,663	1,671,162	1,863,354	2,454	1,287,303	2,210,955	11,749,891	
Total equity	-	-	-	-	-	1,526,480	1,526,480	
Total liabilities and equity	4,714,663	1,671,162	1,863,354	2,454	1,287,303	3,737,435	13,276,371	
On balance sheet - interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2017</u>	←————— Non-trading book —————→					<u>Non-interest</u> <u>sensitive</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>	<u>EIR</u> <u>%</u>
	<u>Up to 1 month</u> <u>RM'000</u>	<u>>1-3 months</u> <u>RM'000</u>	<u>>3-12 months</u> <u>RM'000</u>	<u>>1-5 years</u> <u>RM'000</u>	<u>Over 5 years</u> <u>RM'000</u>			
Assets								
Cash and short-term funds	3,023,836	-	-	-	-	54,546	3,078,382	3.07
Deposits and placements with banks and other financial institutions	-	1,642,620	-	-	-	-	1,642,620	3.04
Derivative financial assets	-	-	-	-	-	275	275	
Financial investments available-for-sale	-	-	152,284	254,492	-	2,452	409,228	3.39
Financial investments held-to-maturity	654,078	667,812	-	-	-	-	1,321,890	3.39
Loans and advances								
- non-impaired	3,363,157	1,499,661	518,338	485,653	115	(41,002)	5,825,922	4.74
- impaired	97,765	-	-	-	-	(42,298)	55,467	
Other assets	-	-	-	-	-	13,875	13,875	
Deferred tax assets	-	-	-	-	-	5,997	5,997	
Property and equipment	-	-	-	-	-	62,678	62,678	
Intangible assets	-	-	-	-	-	722	722	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	112,300	112,300	
Total assets	7,138,836	3,810,093	670,622	740,145	115	169,545	12,529,356	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>GROUP</u> <u>2017</u>	←————— Non-trading book —————→					Non-interest sensitive RM'000	Total RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Liabilities								
Deposits from customers	2,322,623	883,329	1,478,763	3,289	-	3,535,874	8,223,878	2.44
Deposits and placements of banks and other financial institutions	279,452	619,503	41,563	205,452	-	320,029	1,465,999	1.03
Derivatives financial liabilities	-	-	-	-	-	126	126	
Other liabilities	6,612	-	-	-	-	159,674	166,286	
Provision for taxation	-	-	-	-	-	1,000	1,000	
Subordinated loan	-	-	-	-	1,258,626	-	1,258,626	
Total liabilities	2,608,687	1,502,832	1,520,326	208,741	1,258,626	4,016,703	11,115,915	
Total equity	-	-	-	-	-	1,413,441	1,413,441	
Total liabilities and equity	2,608,687	1,502,832	1,520,326	208,741	1,258,626	5,430,144	12,529,356	
On balance sheet - interest sensitivity gap	4,530,149	2,307,261	(849,704)	531,404	(1,258,511)	(5,260,599)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	4,530,149	2,307,261	(849,704)	531,404	(1,258,511)	(5,260,599)	-	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2018</u>	← Non-trading book →					Non-interest sensitive RM'000	Total RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Assets								
Cash and short-term funds	3,506,955	-	-	-	-	46,120	3,553,075	3.31
Deposits and placements with banks and other financial institutions	566,030	1,134,063	-	-	-	(12)	1,700,081	3.71
Derivative financial assets	-	-	-	-	-	454	454	
Debt instruments at FVOCI	-	70,858	80,852	315,850	-	(19)	467,541	3.56
Equity instruments at FVOCI	-	-	-	-	-	14,936	14,936	
Equity instrument at FVTPL	-	-	-	-	-	1,072	1,072	
Debt instruments at amortised cost	554,822	100,568	-	-	-	-	655,390	3.65
Loans and advances								
- non-impaired	2,501,290	365,786	165,150	630,661	3,064,372	(70,141)	6,657,118	4.69
- impaired	68,056	-	-	-	-	(32,044)	36,012	
Other assets	-	-	-	-	-	4,344	4,344	
Deferred tax assets	-	-	-	-	-	16,959	16,959	
Tax recoverable	-	-	-	-	-	4,000	4,000	
Property and equipment	-	-	-	-	-	58,956	58,956	
Intangible assets	-	-	-	-	-	914	914	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,000	98,000	
Total assets	7,197,153	1,671,275	246,002	946,511	3,064,372	144,539	13,269,852	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2018</u>	←————— Non-trading book —————→					Non-interest sensitive RM'000	Total RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Liabilities								
Deposits from customers	3,811,088	835,995	1,863,354	2,454	-	1,856,425	8,369,316	2.49
Deposits and placements of banks and other financial institutions	890,985	835,167	-	-	-	228,080	1,954,232	1.79
Derivatives financial liabilities	-	-	-	-	-	227	227	
Other liabilities	12,590	-	-	-	-	135,154	147,744	
Provision for taxation	-	-	-	-	-	-	-	
Subordinated loan	-	-	-	-	1,287,303	-	1,287,303	2.81
Total liabilities	4,714,663	1,671,162	1,863,354	2,454	1,287,303	2,219,886	11,758,822	
Total equity	-	-	-	-	-	1,511,030	1,511,030	
Total liabilities and equity	4,714,663	1,671,162	1,863,354	2,454	1,287,303	3,730,916	13,269,852	
On balance sheet - interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,482,490	113	(1,617,352)	944,057	1,777,069	(3,586,377)	-	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk

<u>BANK</u> <u>2017</u>	←————— Non-trading book —————→					Non-interest sensitive RM'000	Total RM'000	<u>EIR</u> %
	<u>Up to 1 month</u> RM'000	<u>>1-3 months</u> RM'000	<u>>3-12 months</u> RM'000	<u>>1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
Assets								
Cash and short-term funds	3,023,836	-	-	-	-	53,471	3,077,307	3.07
Deposits and placements with banks and other financial institutions	-	1,642,620	-	-	-	-	1,642,620	3.04
Derivative financial assets	-	-	-	-	-	275	275	
Financial investments available-for-sale	-	-	152,284	254,492	-	2,452	409,228	3.39
Financial investments held-to-maturity	654,078	667,812	-	-	-	-	1,321,890	3.39
Loans and advances								
- non-impaired	3,363,157	1,499,661	518,338	485,653	115	(41,002)	5,825,922	4.74
- impaired	97,765	-	-	-	-	(42,298)	55,467	
Other assets	-	-	-	-	-	4,942	4,942	
Deferred tax assets	-	-	-	-	-	5,807	5,807	
Property and equipment	-	-	-	-	-	61,040	61,040	
Intangible assets	-	-	-	-	-	722	722	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	112,300	112,300	
Total assets	7,138,836	3,810,093	670,622	740,145	115	158,709	12,518,520	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

Company No. 511251-V

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

Interest rate risk (Continued)

<u>BANK</u> <u>2017</u>	Non-trading book					Non-interest sensitive RM'000	Total RM'000	<u>EIR</u> %
	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	2,322,623	883,329	1,478,763	3,289	-	3,542,902	8,230,906	2.44
Deposits and placements of banks and other financial institutions	279,452	619,503	41,563	205,452	-	320,029	1,465,999	1.13
Derivatives financial liabilities	-	-	-	-	-	126	126	
Other liabilities	6,612	-	-	-	-	156,823	163,435	
Provision for taxation	-	-	-	-	-	500	500	
Subordinated loan	-	-	-	-	1,258,626	-	1,258,626	
Total liabilities	2,608,687	1,502,832	1,520,326	208,741	1,258,626	4,020,380	11,119,592	
Total equity	-	-	-	-	-	1,398,928	1,398,928	
Total liabilities and equity	2,608,687	1,502,832	1,520,326	208,741	1,258,626	5,419,308	12,518,520	
On balance sheet - interest sensitivity gap	4,530,149	2,307,261	(849,704)	531,404	(1,258,511)	(5,260,599)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	4,530,149	2,307,261	(849,704)	531,404	(1,258,511)	(5,260,599)	-	

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in all activities, products and services of financial institutions and can transverse multiple activities and business lines within the bank. It includes a wide spectrum of heterogeneous risk such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

To manage operational risk, the Bank has established “Three lines of defense” to manage operational risk events, where:

First line of defense – Business and functional lines are primarily responsible in managing operational risk of their respective businesses and functions.

Second line of defense – perform reviewing and identification and management of major operational risk by business and functional lines as well as integrating operational risks at the enterprise level.

Third line of defense – provide regular reviews and assessments of the operational risk management framework, processes and systems.

Risk Management and Internal Control Committee (“RMICC”) is a risk governance committee accountable in overseeing the enterprise wide operational risk function. The committee is responsible to monitor and deliberate on operational risk issues specific to the business or functional lines, and promote risk ownership and management by the business and functional lines.

40. 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 Measurement* 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 financial instruments.

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.

Level 3 – Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 financial statements 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.

(a) Financial instruments carried at fair value

As at 31 December 2018, the Group and the Bank only have fair valued financial instruments that falls under Level 1, Level 2 and Level 3 as listed below:

	<u>GROUP AND BANK</u>							
	<u>2018</u>				<u>2017</u>			
	Valuation Technique				Valuation Technique			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets								
Debt instruments at FVOCI	457,402	10,139	-	467,541	-	-	-	-
Equity instruments at FVOCI	-	-	14,936	14,936	-	-	-	-
Equity instrument at FVTPL	1,072	-	-	1,072	-	-	-	-
Financial investments AFS	-	-	-	-	406,776	2,452	-	411,680
Derivative financial assets	-	454	-	454	-	275	-	275
	<u>458,474</u>	<u>10,593</u>	<u>14,936</u>	<u>484,003</u>	<u>406,776</u>	<u>2,727</u>	<u>-</u>	<u>411,955</u>
Financial liabilities								
Derivative financial liabilities	-	227	-	227	-	126	-	126

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments carried at fair value (Continued)

(i) Debt instruments at FVOCI

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. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can be reliably measured are measured at cost.

(ii) Equity instruments at FVOCI

The Bank derived the fair value of the unquoted equity investments based on the “revised net assets” method. The revised net assets were obtained based on the fair value net assets as derived in the investee’s latest publicly available audited financial statement of these investments.

Cagamas Holdings Berhad’s shares is revalued based on fair value of net tangible asset approach. The net tangible asset is inclusive of retained profits of Cagamas Holdings Berhad’s subsidiary, Cagamas MBS Berhad, in which is subject to discretionary bonus fees to Lembaga Pembiayaan Perumahan Sektor Awam (“LPPSA”) upon full settlement of residential mortgage-backed securities (“RMBS”) and Islamic residential mortgage-backed securities (“IRMBS”). The payment of discretionary bonus fees is done via payment of dividend on redeemable preference shares (“RPS”) held by Skim Rumah Pertamaku (My First Home Scheme) (“SRP”) in trust.

(iii) Equity instrument at FVTPL

The estimated fair value of shares is valued based on quoted and observable market prices and classified under Level 1 of the fair value hierarchy.

(iv) Derivative financial assets and liabilities

The fair values of derivative assets and liabilities are from foreign exchange related contracts. These are the estimated amounts the Group and the Bank would receive or pay to terminate the contracts at the reporting date.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments not carried at fair value (Continued)

(i) Debt instruments at amortised cost

The estimated fair value of negotiable instruments of deposits is based on market yield of similar assets and classified under Level 2 of the fair value hierarchy.

(ii) Precious metal inventories

The fair values of financial assets are determined by quoted market prevailing prices of the respective precious metals as quoted by the London Bullion Market Association.

(iii) 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 one year approximate the carrying amounts. For deposits and placements of banks and other financial institutions with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing market interest rates for deposits and placements with similar remaining period to maturities.

(iv) Deposits from customers

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

(c) Fair values of other financial instruments carried at cost or amortised cost

Cash and short-term funds and deposits and placements with banks and other financial institutions, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts in the statements of financial position due to their short-term maturity.

The fair value of fixed rate loans and advances are estimated based on discounted cash flows using prevailing market rates of loans and advances of similar credit risks and maturity. The fair value of the fixed rate loans are approximate their carrying amounts due to their short-term maturity.

For fair values of variable rate loans and advances, the fair values are estimated to approximate their carrying amounts.

The fair value of other financial assets approximates their carrying amounts due to their short term in nature.

(d) Subordinated loan

The fair value of subordinated loan is estimated by discounting the expected future cash flows using the applicable prevailing interest rates for similar instruments as at reporting date.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

41. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Allowance for impairment on loans and advances

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that underlie the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. These estimates require The Bank's management to exercise their judgment in the process of applying the Group's and the Bank's accounting policies. Although these estimates and judgment are based on the management's best knowledge of current and expected events. 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 continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances.

The Group and the Bank adopt a forward-looking approach in making allowance for impairment on ECL for assets and financial instruments. The management is guided by the relevant Bank Negara Malaysia guidelines and accounting standards in making judgement on the future and key factors in estimation of the amount and timing of the cash flows arising from impairment on loans and advances. Amongst the factors considered are the Group's and the Bank's aggregate loan exposures, the realisable values of the underlying collaterals, the customers' credit risk rating, –the capacity to generate sufficient cash flows to service debt obligations.

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 may use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data that have an impact on the current conditions and irrelevant data are removed.

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 economic variables such as Gross Domestic Product, unemployment rates, property prices, or other relevant factors and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to enhance accuracy of the estimates by minimizing the variance between estimated and actual outcomes.

The amounts of allowances for impairment on ECL recognised by the Group and the Bank are as disclosed in Note 11.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

41. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

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 40.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors 29 April 2019.