

Company No.

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

**STATUTORY FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

Company No.

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

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

**DIRECTORS' REPORT**

The Directors hereby submit their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2009.

**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 China visa application services.

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

**FINANCIAL RESULTS**

	<u>Group</u> RM'000	<u>Bank</u> RM'000
Profit before taxation	19,673	20,066
Taxation	(5,476)	(5,430)
Net profit for the financial year	<u>14,197</u>	<u>14,636</u>

**DIVIDENDS**

The dividends on ordinary shares paid by the Bank since 31 December 2008 were as follows:

	RM'000
In respect of the financial year ended 31 December 2008, as shown in the Directors' report for that financial year:	
Final dividend of 3.00 sen less 25% tax paid on 28 April 2009	<u>6,840</u>

The Directors do not propose any dividend in respect of the current financial year at the forthcoming Annual General Meeting.

**CHANGES IN DEBT AND EQUITY SECURITIES**

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the period under review.

**RESERVES AND PROVISIONS**

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

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**DIRECTORS' REPORT (CONTINUED)**

**BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts, if any, had been written-off 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 the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Bank inadequate to any substantial extent.

**CURRENT ASSETS**

Before the financial statements of the Group and 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 the Bank had been written down to an amount which they might be expected so to realise.

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

**VALUATION METHODS**

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and 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 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 the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Group and 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 the Bank to meet their obligations when they fall due.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CHANGE OF CIRCUMSTANCES**

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and 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 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 the Bank for the current financial year in which this report is made.

**SUBSEQUENT EVENTS**

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

**DIRECTORS**

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

Zheng Jingbo  
Gao Xingmao  
Li Yuhua  
Du Chaohua  
Tan Sri Dato' Lim Guan Teik  
Tan Siak Tee

In accordance with Section 129 of the Companies Act, 1965, Y Bhg Tan Sri Dato' Lim Guan Teik retires but being eligible, offers himself for re-election.

In accordance with Article 76 of the Bank's Articles of Association, Mr Tan Siak Tee and Mr Du Chaohua retire but being eligible, offer themselves for re-election.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**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, no Director of the Bank has received or become entitled to receive a benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements, or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except the Directors received remuneration from related corporations in their capacities as executives of those related corporations.

**HOLDING COMPANIES**

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

**BUSINESS REVIEW 2009**

In the year 2009, the Group had continued to make efforts to increase its lending activities and focus on fee-based generating business.

**BUSINESS OUTLOOK FOR 2010**

The liberalisation of the financial service sector is expected to heat up competition in the banking industry as more new licences are expected to be issued to foreign players and merger of local banks to consolidate resources. With the expected changes to the local banking scenario, the Group would focus on some key areas to remain competitive to face further challenges. The Group is focusing on building the necessary infrastructure to cater for business expansion and provide better services to customers.

**RATINGS BY EXTERNAL RATING AGENCY**

The Bank is not rated by any external agency.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES**

**Zheng Jingbo – Non-Independent Executive Director/Chief Executive Officer**

Mr. Zheng Jingbo, People's Republic of China citizen, aged 52, was appointed to the Board in Year 2007 as an Executive Director representing Bank of China Limited. He obtained his Master in World Economy from East China University, Shanghai, China.

Mr. Zheng joined Bank of China Limited in 1978. He has been in the banking industry for more than 30 years. He has held several managerial positions during his tenure of employment involving in Corresponding Banking, International Settlement, Investment, Trust and Consultant business, Branch Management and Operations.

**Gao Xingmao – Non-Independent Non-Executive Director**

Mr. Gao Xingmao, People's Republic of China citizen, aged 57, graduated from Beijing University in 1978.

Mr. Gao joined Bank of China in 1978 working in the Credit Department. He was transferred to Bank of China Panama Representative Office in 1988 as Representative. He was promoted as Chief Representative in 1990 and General Manager of Bank of China Panama Branch in 1994.

Mr. Gao was transferred to Bank of China Head Office in 1995 as Manager of Credit Department and Manager of Corporate Banking Department.

Mr. Gao was appointed as Director to the Board of Directors of Bank of China (Russia) and Bank of China (Malaysia) in year 2004 and 2008 respectively.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Li Yuhua – Chairman, Non-Independent Non-Executive Director**

Mr. Li Yuhua, People's Republic of China citizen, aged 60, graduated from University of International Business and Economics (Former Beijing Institute of Foreign Trade) in 1976, was appointed to the Board in year 2007 as Chairman of the Board of Directors, representing Bank of China Limited.

Mr. Li joined Bank of China in 1976. He was promoted as Deputy Manager in 1985 and Manager in 1987 heading the protocol division. He was transferred to Bank of China Tokyo Branch in 1989 as Assistant General Manager and was later the Deputy General Manager of Bank of China Tokyo Branch responsible for the bank's operations and management.

In 1993, Mr. Li was transferred to the International Department of Bank of China Head Office as Deputy General Manager responsible for foreign correspondent banking.

In 1998, Mr. Li was again transferred to Bank of China Tokyo Branch as the General Manager of the branch responsible for the branch's overall performance and management.

**Du Chaohua – Non-Independent Non-Executive Director**

Mr. Du Chaohua, People's Republic of China citizen, aged 55, was appointed to the Board in Year 2007 representing Bank of China Limited. He is also a member of the Audit Committee of the Bank. He graduated from Tianjin Nankai University in October 1975.

Mr. Du joined Bank of China Trust and Consultancy Company in 1975. He was promoted to Deputy Manager in 1984 and Manager in 1987 heading the investment division. He was transferred to Bank of China Toronto representative office in 1988 as the Chief Representative and was later the Deputy General Manager of Bank of China (Canada) assisting in Branch Management.

Mr. Du was transferred to the International Division of Bank of China Head Office in 1995 responsible for foreign correspondent banking. He was transferred to the Financial Institution Division in 1998 in charge of correspondent banking.

In 2005, Mr. Du was promoted to be the Director of Financial Institution, Customer Relationship Management Division responsible for banking financial institutions in China and Asia.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Tan Sri Dato' Lim Guan Teik – Independent Non-Executive Director**

Tan Sri Dato' Lim Guan Teik, Malaysian, aged 75, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is also the chairman of the Bank's Audit Committee.

Tan Sri Dato' Lim obtained his Bachelor of Commerce from Nanyang University, Singapore. He has been appointed as the Chairman of Muda Holdings Berhad, a public listed company, since 1988. He was the Group Managing Director from 1983 until April 2004 when he relinquished this post in compliance with the best practices of the Malaysian Code on Corporate Governance. Tan Sri was also the Chairman of Unico Holdings Berhad. He retired from this position in 2009.

Tan Sri Dato' Lim has been actively involved in the paper industry and has more than 40 years experience in the commercial and industrial sector. He was the President of the Malaysian Pulp and Paper Manufacturers Association from 1980 to 1992 and is currently one of the Advisors of the Association. He was the President of both the Associated Chinese Chamber of Commerce and Industry Malaysia (ACCCIM) from 1995 to 2003 and The Kuala Lumpur and Selangor Chinese Chamber of Commerce and Industry (KLSCCCI) from 1998 to 2003. He is now the Honorary President of both ACCCIM and KLSCCCI.

**Tan Siak Tee – Independent Non-Executive Director**

Mr. Tan Siak Tee, Malaysian, aged 69, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is the chairman of the Bank's Integrated Risk Management Committee and Credit Risk Management Committee as well as an Audit Committee member of the Bank.

Mr. Tan obtained his Bachelor of Commerce degree from University of New South Wales, Australia. He is an Associate of the Institute of Chartered Accountants of Australia and the Institute of Chartered Secretaries and Administrators. He is also a member of the Malaysian Institute of Certified Public Accountants.

Mr. Tan started his career as an Auditor with Coopers and Lybrand, Sydney and later seconded to Coopers and Lybrand, Kuala Lumpur. He has extensive experience in banking industry. He was the Chief Internal Auditor for Malaysian operations in OCBC Bank and Chung Khiaw Bank for the period from 1969 to 1971 and 1971 to 1973 respectively. He joined Lee Wah Bank Limited in 1973 as Manager of Malaysia Central Office and was promoted to Director and Chief Executive Officer for Malaysian operations in 1975. He was made a Director and Chief Executive Officer in United Overseas Bank (M) Berhad ('UOB') for the period from 1994 to 1997 after Lee Wah Bank Malaysian Operations was incorporated in Malaysia in 1994. After his retirement from UOB Group, he became the Non-Executive Director in Asia Commercial Finance Berhad from 1997 to 1999. He joined the Bank in April 2000. His other directorships in public companies are as follows:

- Independent Non-Executive Director of Sun City Berhad, a public listed company.
- Independent Non-Executive Director of ACB Resources Berhad, a public company.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT**

**BOARD OF DIRECTORS**

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

**Roles and Responsibilities of the Board of Directors**

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

The major duties and responsibilities of the Board include:

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

**Board Meetings and Supply of Information to the Board**

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

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

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

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

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

The attendance of the Board of Directors' meetings held during 2009 is as follows:

Composition of Board of Director	Number of Board Meetings	
	Held	Attended
Zheng Jingbo, Executive Director	6	6
Gao Xingmao, Non Executive Director	6	6
Li Yuhua, Chairman/Non Executive Director	6	6
Du Chaohua, Non Executive Director	6	6
Tan Sri Dato' Lim Guan Teik, Non Executive Director	6	5
Tan Siak Tee, Non Executive Director	6	6

**Effectiveness of the Board of Directors**

1. Division of Responsibilities between the Chairman and Chief Executive Officer

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

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

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

2. Composition of the Board

The Board currently comprises personnel with differing expertise and of high standing in the society. The Board comprises 6 members, of whom one is Executive Director, and 2 out of 5 Non-Executive Directors are independent as defined under BNM Guidelines on Corporate Governance for Licensed Institutions ('BNM/GP1').

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

3. Appointments to the Board

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

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

One-third of the Directors for the time being must retire at each Annual General Meeting ('AGM') and if eligible, may offer themselves for re-election. The profiles of the members of the Board are set out on pages 5 to 7 of the Report.

4. Directors' Performance and Remuneration

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

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

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

5. Induction and Training

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

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

**INFORMATION ON COMMITTEES OF THE BANK**

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

The Bank has obtained BNM's approval to dispense with the establishment of Nominating, Remuneration and Risk Management Committees. Accordingly, the Board will undertake the responsibility for the roles and responsibilities expected of each of the committees as follows:

1. Nominating Committee

The proposed appointment of new member(s) of the Board, as well as the proposed re-appointment/ re-election of Directors seeking re-appointment / re-election 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 prior approval.

2. Remuneration Committee

The Board of Directors of the Bank will recommend on the policies and framework in relation to rewards and benefits of Directors to the holding company for approval. The functions of the holding company are to research and develop remuneration and benefits policies and to review the annual remuneration budget. The above requirement provides a formal, independent and transparent procedure for developing remuneration policy for Directors of the subsidiaries as well as ensuring that compensation is competitive and consistent with the objective and strategy of the holding company.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

**3. Risk Management Committee**

The Board meets periodically to oversee senior management's activities in managing credit risk, market risk, liquidity, operational, legal and other risk and to ensure that the risk management process of the Bank is in place and functioning.

The Board of Directors of the Bank has established the following committees to oversee the risk management, internal control and operations of the Bank:

(a) Integrated Risk Management Committee

The Integrated Risk Management Committee, headed by an independent director has been set up to monitor the various risk management functions of the Bank.

Currently, the committees coordinated by the Integrated Risk Management Committee are:

- (i) Assets and Liabilities Committee;
- (ii) Credit Risk Management Committee;
- (iii) Credit and Loan Committee;
- (iv) Anti-Money Laundering and Counter Financing of Terrorism Committee;
- (v) Operational Risk Management Committee.

The Committee shall meet on a quarterly basis or on a need basis.

(b) Assets and Liabilities Committee ('ALCO')

The ALCO is responsible for ensuring that the Bank's Balance Sheet is structured in a way that is consistent with both the Board-approved policy on acceptable interest rate risk levels and the Bank's overall business plan.

The ALCO shall meet monthly, or regularly as required, i.e., upon a significant change in the Bank's environment (either external or internal), which is expected to have an impact on the Bank's financial position.

(c) Credit Risk Management Committee ('CRM')

The objective of CRM is to assist the Board of Directors of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The CRM is an independent committee chaired by a director, without power to approve credit. The Committee is to assist the Board of Directors in carrying the supervision role of the Bank.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

3. Risk Management Committee (continued)

(c) Credit Risk Management Committee ('CRM') (continued)

The Committee comprised persons experienced in credit and risk management.

The CRM reports directly to the Board and meets on a quarterly basis or on a need basis.

(d) Credit and Loan Committee ('CLC')

The objective of the CLC is to assist the CEO of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The main functions of the CLC are the credit appraisal functions and the review functions.

The Committee shall conduct weekly meeting or on need basis.

(e) Anti-Money Laundering and Counter Financing of Terrorism ('AML/CFT') Committee

The objective of the AML/CFT Committee is to ensure the proper development, monitoring, compliance and avoid of all forms of Money Laundering and Terrorism Financing activities in the Bank, as well as to ensure the adoption of a coordinate approach in this regards.

The Committee shall meet on a quarterly basis or on a need basis.

(f) Operational Risk Management Committee ('ORMC')

The objective of the ORMC is to manage the operational risk associated with the bank's activities and to mitigate the risks accordingly.

So far, each department has identified the risk areas and a risk scorecard for each department has been developed to prevent/mitigate the risk areas. The risk scorecard is being reviewed periodically.

The Committee shall meet on a quarterly basis or on a need basis.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

4. Audit Committee

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

(a) Membership and Attendance

The Audit Committee ('AC') comprises the following members and details of attendance of each member at the AC meetings held during 2009 are as follows:

Composition of Audit Committee	Number of AC Meetings	
	Held	Attended
Tan Sri Dato' Lim Guan Teik Chairman/Independent Non-Executive Director	5	4
Tan Siak Tee Member/Independent Non-Executive Director	5	5
Du Chaohua Member/Non-Independent Non-Executive Director	5	5

(b) Composition and Terms of Reference

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

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

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)**

4. Audit Committee (continued)

(c) Roles and Responsibilities

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

(d) Key Internal Control Processes

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

- (i) The AC reviews internal control issues identified by the Internal Audit and Compliance Department, the external auditors, regulatory authorities, the auditors from the holding company and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the AC meetings are tabled to the Board of the Bank on a periodic basis;
- (ii) The Internal Audit and Compliance 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. Audits are carried out on all departments except the Information Technology Department where the audit would be covered by the auditors from the holding company. The frequency of the audit is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of the departments. The annual audit plan is reviewed and approved by the AC and the findings of the audits are submitted to the AC for review at their periodic meetings.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated 20 April 2010.

ZHENG JINGBO  
DIRECTOR

TAN SIAK TEE  
DIRECTOR

Kuala Lumpur  
20 April 2010

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2009**

	<u>Note</u>	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<b>ASSETS</b>				
Cash and short-term funds	2	808,721	808,720	383,464
Deposits and placements with banks and other financial institutions	3	30,000	30,000	100,000
Held-to-maturity securities	4	39,829	39,829	39,706
Loans and advances	5	704,575	704,575	741,932
Other assets	6	3,832	3,528	3,368
Amount due from subsidiary company	7	-	681	-
Deferred tax assets	8	5,017	5,017	4,920
Statutory deposits with Bank Negara Malaysia	9	-	-	-
Investment in subsidiary company	10	-	1,000	-
Property and equipment	11	6,002	5,035	2,079
Intangible assets	12	462	449	921
<b>TOTAL ASSETS</b>		<u><u>1,598,438</u></u>	<u><u>1,598,834</u></u>	<u><u>1,276,390</u></u>
<b>LIABILITIES AND EQUITY</b>				
Deposits from customers	13	600,058	600,499	363,737
Deposits and placements of banks and other financial institutions	14	611,912	611,912	534,410
Bills and acceptances payable	15	2,096	2,096	1,959
Other liabilities	16	20,398	19,960	19,066
Provision for taxation		327	327	974
Deferred tax liabilities	8	46	-	-
<b>TOTAL LIABILITIES</b>		<u><u>1,234,837</u></u>	<u><u>1,234,794</u></u>	<u><u>920,146</u></u>
Financed by:				
Share capital	17	304,000	304,000	304,000
Reserves	18	59,601	60,040	52,244
<b>TOTAL EQUITY</b>		<u><u>363,601</u></u>	<u><u>364,040</u></u>	<u><u>356,244</u></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>1,598,438</u></u>	<u><u>1,598,834</u></u>	<u><u>1,276,390</u></u>
<b>COMMITMENTS AND CONTINGENCIES</b>	30	<u><u>1,656,932</u></u>	<u><u>1,656,932</u></u>	<u><u>1,196,990</u></u>

Company No.

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

**INCOME STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

	<u>Note</u>	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Interest income	19	36,325	36,325	53,952
Interest expense	20	(14,756)	(14,756)	(28,063)
Net interest income		21,569	21,569	25,889
Other operating income	21	15,911	15,649	16,254
Other operating expenses	22	(18,726)	(18,071)	(16,174)
Write-back of/(allowance for) losses on loans and advances	24	919	919	(5,124)
Profit before taxation		19,673	20,066	20,845
Taxation	25	(5,476)	(5,430)	(5,585)
Net profit for the financial year		<u>14,197</u>	<u>14,636</u>	<u>15,260</u>
Earnings per share - basic/fully diluted (sen)	26	<u>4.7</u>	<u>4.8</u>	<u>5.0</u>
Dividend per ordinary share of 0.00 sen (2008: 3.00 sen) less income tax of 25% (2008: 25%)	27	<u>-</u>	<u>-</u>	<u>6,840</u>

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

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

	Issued and fully paid ordinary shares of <u>RM1 each</u> <u>Nominal</u> <u>value</u> RM'000	<u>Non-</u> <u>distributable</u> <u>Statutory</u> <u>reserves</u> RM'000	<u>Distributable</u> <u>Retained</u> <u>profits</u> RM'000	<u>Total</u> RM'000
<u>Group</u>				
At 1 January 2009	304,000	43,436	8,808	356,244
Net profit for the financial year	-	-	14,197	14,197
Total recognised income for the financial year	-	-	14,197	14,197
Transfer to statutory reserve	-	7,318	(7,318)	-
Dividends paid	-	-	(6,840)	(6,840)
At 31 December 2009	<u>304,000</u>	<u>50,754</u>	<u>8,847</u>	<u>363,601</u>
<u>Bank</u>				
At 1 January 2009	304,000	43,436	8,808	356,244
Net profit for the financial year	-	-	14,636	14,636
Total recognised income for the financial year	-	-	14,636	14,636
Transfer to statutory reserve	-	7,318	(7,318)	-
Dividends paid	-	-	(6,840)	(6,840)
At 31 December 2009	<u>304,000</u>	<u>50,754</u>	<u>9,286</u>	<u>364,040</u>

Company No.

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

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

	Issued and fully paid ordinary shares of <u>RM1 each</u> Nominal <u>value</u> RM'000	Non- distributable <u>Statutory</u> <u>reserves</u> RM'000	<u>Distributable</u> Retained <u>profits</u> RM'000	<u>Total</u> RM'000
<u>Bank</u>				
At 1 January 2008	304,000	35,805	7,590	347,395
Net profit for the financial year	-	-	15,260	15,260
Total recognised income for the financial year	-	-	15,260	15,260
Transfer to statutory reserve	-	7,631	(7,631)	-
Dividends paid	-	-	(6,411)	(6,411)
At 31 December 2008	<u>304,000</u>	<u>43,436</u>	<u>8,808</u>	<u>356,244</u>

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

**CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

	<u>Note</u>	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation		19,673	20,066	20,845
<i>Adjustments for:</i>				
Depreciation of property and equipment		658	642	399
Amortisation of intangible assets		482	481	450
Net gain on disposal of property and equipment		(16)	(16)	(5)
Amortisation of premium less accretion of discount		(124)	(124)	91
Allowance for losses on loans and advances		24	24	5,124
Write-back of allowance for losses on loans and advances		(943)	(943)	-
Interest income from held-to-maturity securities		(1,503)	(1,503)	(1,812)
Unrealised foreign exchange loss/(gain)		131	131	(726)
Property and equipment written off		20	20	119
Operating profit before changes in operating assets and liabilities		18,402	18,778	24,485
<b>DECREASE/(INCREASE) IN OPERATING ASSETS</b>				
Deposits and placements with banks and other financial institutions		70,000	70,000	(29,000)
Loans and advances		38,276	38,276	(370,344)
Other assets		(595)	(291)	1,899
Amount due from subsidiary company		-	(681)	-
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>				
Deposits from customers		236,321	236,762	(64,908)
Deposits and placements of banks and other financial institutions		77,502	77,502	281,561
Bills and acceptances payable		137	137	1,959
Other liabilities		1,332	894	(52,331)
Cash generated from/(used in) operating activities		441,375	441,377	(206,679)
Tax paid		(6,174)	(6,174)	(6,944)
Net cash generated from/(used in) operating activities		435,201	435,203	(213,623)

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

**CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

	<u>Note</u>	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment		(4,600)	(3,617)	(1,209)
Purchase of intangible assets		(23)	(9)	(231)
Proceeds from disposal of property and equipment		16	16	5
Net sale of held-to-maturity securities		-	-	15,327
Interest received on held-to-maturity securities		1,503	1,503	2,280
Investment in subsidiary company		-	(1,000)	-
		<u>          </u>	<u>          </u>	<u>          </u>
Net cash (used in)/generated from investing activities		<u>(3,104)</u>	<u>(3,107)</u>	<u>16,172</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid		(6,840)	(6,840)	(6,411)
		<u>          </u>	<u>          </u>	<u>          </u>
Net cash used in financing activities		<u>(6,840)</u>	<u>(6,840)</u>	<u>(6,411)</u>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR</b>				
		425,257	425,256	(203,862)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>				
		<u>383,464</u>	<u>383,464</u>	<u>587,326</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>				
	2	<u>808,721</u>	<u>808,720</u>	<u>383,464</u>

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

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

**A BASIS OF PREPARATION**

The financial statements of the Group and the Bank have been prepared in accordance with Financial Reporting Standards ('FRS'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for Entities Other than Private Entities, together with directives and guidelines issued by Bank Negara Malaysia ('BNM') and comply with the provisions of the Companies Act, 1965.

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

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 36.

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

There are no new accounting standards, amendments to published standards and interpretations to existing standards that are effective and applicable for the Group and the Bank for the financial period ended 31 December 2009.

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

- The revised FRS 3 "Business combinations" (effective prospectively from 1 July 2010). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)
- The revised FRS 101 "Presentation of financial statements" (effective from 1 January 2010) prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. 'Non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.
  - The revised FRS 127 "Consolidated and separate financial statements" (effective prospectively from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.
  - FRS 139 "Financial Instruments: Recognition and Measurement" (effective from 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted under strict circumstances. The amendments to FRS 139 provide further guidance on eligible hedged items. The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, the amendment concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The improvement to FRS 139 clarifies that the scope exemption in FRS 139 only applies to forward contracts but not options for business combinations that are firmly committed to being completed within a reasonable timeframe.
  - IC Interpretation 9 "Reassessment of Embedded Derivatives" (effective from 1 January 2010) requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
  - FRS 7 "Financial instruments: Disclosures" (effective from 1 January 2010) provides information to users of financial statements about an entity's exposure to risks and how the entity manages those risks. The improvement FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

- The Group has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the following standards and interpretations on the financial statements of the Group and Bank.
  - FRS 139, Amendments to FRS 139 on eligible hedged items, Improvement to FRS 139 and IC Interpretation 9
  - FRS 7 and Improvement to FRS 7

For banking institutions, BNM may prescribe the use of an alternative basis for collective assessment of impairment for a transitional period for purpose of complying with the collective assessment of impairment requirement in FRS 139.

- The amendment to FRS 1 "First-time adoption of financial reporting standards" and FRS 127 "Consolidated and separate financial statements: Cost of an investment in a subsidiary, jointly controlled entity or associate" (effective from 1 January 2010) allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from FRS 127 and requires investors to present dividends as income in the separate financial statements.
- The amendment to FRS 2 "Share-based payment: Vesting conditions and cancellations" (effective from 1 January 2010) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- The amendments to FRS 132 "Financial instruments: Presentation" and FRS 101(revised) "Presentation of financial statements" - "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2010) require entities to classify puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, if they have particular features and meet specific conditions.
- IC Interpretation 10 "Interim Financial Reporting and Impairment" (effective from 1 January 2010) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

- IC Interpretation 14 "FRS 119 The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2010) provides guidance on assessing the limit in FRS 119 on the amount of the surplus that can be recognised as an asset.

The following amendments are part of the MASB's improvements project:

- FRS 5 "Non-current assets held for sale and discontinued operations" clarifies that FRS 5 disclosures apply to non-current assets or disposal groups that are classified as held for sale and discontinued operations.
- FRS 107 "Statement of cash flows" clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.
- FRS 110 "Events after the balance sheet date" reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.
- FRS 116 "Property, plant and equipments" (consequential amendment to FRS 107 "Statement of cash flows") requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.
- FRS 117 "Leases" clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.
- FRS 118 "Revenue" provides more guidance when determining whether an entity is acting as a 'principal' or as an 'agent'.
- FRS 127 "Consolidated & separate financial statements" clarifies that where an investment in a subsidiary that is accounted for under FRS 139 is classified as held for sale under FRS 5, FRS 139 would continue to be applied.
- FRS 134 "Interim financial reporting" clarifies that basic and diluted earnings per share ("EPS") must be presented in an interim report only in the case when the entity is required to disclose EPS in its annual report.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**A BASIS OF PREPARATION (CONTINUED)**

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

The following amendments are part of the Malaysian Accounting Standards Board's ("MASB") improvements project (continued):

- FRS 136 "Impairment of assets" clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics. The improvement also clarifies that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use should be made.

The Group will apply these standards from financial periods beginning when effective. The adoption of these standards and amendments will not have significant impact on the results of the Group and the Bank except for FRS 139.

**B ECONOMIC ENTITIES IN THE GROUP**

The consolidated financial statements include the financial statements of the Bank and its subsidiary, made up to the end of the financial year.

Subsidiaries

Subsidiaries are all those corporations, partnerships, or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary, to ensure consistency with the policies adopted by the Group.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**B ECONOMIC ENTITIES IN THE GROUP (CONTINUED)**

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary is recognised in the consolidated income statement.

In the Group's financial statements, the investment in subsidiary is stated at cost less accumulated impairment loss. At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the investment is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement (refer to accounting policy Note K for impairment of non-financial assets)

**C RECOGNITION OF INTEREST INCOME ON LOANS AND ADVANCES**

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

Where an account becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing is reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans is recognised as income on cash basis.

Customers' account are classified as non-performing where repayments are in arrears for more than three (3) months for loans and overdrafts, and three (3) months after maturity date for trade bills, bankers' acceptances and trust receipt.

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

**D 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.

Dividends from securities are recognised when received.

Service fee classified in other income is recognised on the accrual basis.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**E SECURITIES PORTFOLIO**

The Group and the Bank classify securities portfolio into held-for-trading securities, available-for-sale securities and held-to-maturity securities. Management determines the classification of the securities at initial recognition, at the point when the transactions are entered into.

For initial recognition, all securities are measured at fair value, which corresponds to the transaction price or purchase consideration given (in the case of acquisition of securities) or received (in the case of securities sold). All securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group and the Bank have transferred substantially all risks and rewards of ownership.

Subsequent measurements for each type of securities are as follows:

(a) Held-for-trading securities

Held-for-trading ('HFT') securities held with the objective of short-term resale and/or with the intent of benefiting from actual or expected short-term price movement to lock in arbitrage profits. HFT securities are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value is recognised in the income statement.

The realised gains or losses on derecognition of HFT securities, which are derived on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

(b) Available-for-sale securities

Available-for-sale ('AFS') securities are financial assets that are not classified as HFT or held-to-maturity securities and are subsequently measured at fair value, with unrealised gains and losses arising from changes in fair value recognised in equity, net of income tax, until such securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are state at cost, less impairment losses.

Dividends on an AFS equity instrument are recognised in the income statement when the right to receive payment is established.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**E SECURITIES PORTFOLIO (CONTINUED)**

(c) Held-to-maturity securities

Held-to-maturity ('HTM') securities are securities with fixed or determinable payments and fixed maturity as well as positive intention and ability to hold to maturity.

HTM securities are measured at amortised cost using the effective yield method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

Any sale or reclassification of more than an insignificant amount of HTM securities before maturity during the current financial year or the last two preceding financial years will "taint" the entire category and result in the remaining held-to-maturity securities being reclassified to AFS securities. However, the "tainting" rules will not apply under the conditions stated in revised BNM/GP8.

**F LOANS AND ADVANCES**

Loans and advances include overdrafts, term loans, acceptances credit and staff loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loans and advances, and subsequently are carried at amortised cost, which is represented by the gross value of the outstanding balance, net of allowance for bad and doubtful debts and unearned interest.

**G PROPERTY AND EQUIPMENT**

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

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

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

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**G PROPERTY AND EQUIPMENT (CONTINUED)**

Repairs and maintenance are charged to the income statement 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 the income statement.

**H 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.

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

**I FINANCIAL LIABILITIES**

All non-trading financial liabilities are initially recognised at fair value, being the consideration received at transaction date.

Non-trading financial liabilities are derecognised when the obligations specified in the contracts are discharged or cancelled or expired.

**J IMPAIRMENT OF SECURITIES**

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

(a) Securities carried at amortised cost

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

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**J IMPAIRMENT OF SECURITIES (CONTINUED)**

(a) Securities carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. For HTM securities stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

(b) Securities carried at fair value

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

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

**K IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

**L DIVIDENDS PAYABLE**

Dividends on ordinary shares are recognised as liabilities in the period in which the dividends are declared.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**M      BILLS AND ACCEPTANCE PAYABLE**

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

**N      CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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

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

**O      FORWARD EXCHANGE CONTRACTS**

Immature forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the income statement for the financial year. Positive fair value is carried as assets and negative fair value is carried as liabilities.

**P      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 are presented in Ringgit Malaysia, which is the Group's and the Bank's functional and presentation 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 the income statement.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**Q CASH AND CASH EQUIVALENTS**

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

**R OPERATING LEASE**

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charge to the income statement on a straight line basis over the period of the lease.

**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, general allowance for loans and advances, specific allowance for loans and advances 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.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**T ALLOWANCE FOR BAD AND DOUBTFUL DEBTS**

Specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as bad or doubtful.

Write-back of specific allowance is permitted where there is cash inflow or enhancement in the value of security.

A general allowance is established to cover possible losses that are judged to be present in the lending portfolio at balance sheet date, but which have not been specifically identified as such.

An uncollectible loan and advances or portion of a loan and advances classified as bad is written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The Group's and the Bank's allowance for non-performing loans is in conformity with the minimum requirements of BNM's Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts ('Revised BNM/GP3'). The Group's and the Bank's non-performing loans classification policy is explained in accounting policy Note C.

**U PROVISIONS**

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

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

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**W FINANCIAL INSTRUMENTS**

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

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

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

Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

Financial instruments not recognised on the balance sheet

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. 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 the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement 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 deferred in equity. The deferred gains or losses are released to the income statement when the hedged cash flow items affect income. The ineffective part of any gain or loss is recognised in the income statement.

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

**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 China visa application services.

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is China Investment Corporation, 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:

Mezzanine Floor, Plaza OSK  
Jalan Ampang, 50450 Kuala Lumpur

**2 CASH AND SHORT-TERM FUNDS**

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Cash and balances with banks and other financial institutions	48,821	48,820	46,664
Money at call and deposit placements maturing within one month	<u>759,900</u>	<u>759,900</u>	<u>336,800</u>
	<u>808,721</u>	<u>808,720</u>	<u>383,464</u>

**3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>Group and Bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Bank Negara Malaysia	30,000	100,000
	<u>30,000</u>	<u>100,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

4 HELD-TO-MATURITY SECURITIES

	<u>Group and Bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<b>At amortised cost</b>		
Money market instrument:		
Malaysian Government Securities	39,672	39,672
Accretion of discounts	157	34
	<u>39,829</u>	<u>39,706</u>

5 LOANS AND ADVANCES

(i) By type

	<u>Group and Bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Overdrafts	48,650	46,785
Term loans		
- Housing loans	7,073	7,313
- Syndicated term loan	361,799	363,345
- Other term loans	129,680	171,283
Bills receivable	67,348	67,458
Trust receipts	6,392	5,546
Claims on customers under acceptance credits	47,325	38,169
Staff loans	2,613	2,837
Of which: RMnil (2008: RMnil) were to Directors		
Loans to banks and other financial institutions	51,487	58,196
	<u>722,367</u>	<u>760,932</u>
Less: Unearned interest and income	(302)	(591)
	<u>722,065</u>	<u>760,341</u>
Gross loans and advances	722,065	760,341
Allowance for bad and doubtful debts:		
- General	(17,466)	(17,466)
- Specific	(24)	(943)
	<u>704,575</u>	<u>741,932</u>
Total net loans and advances	<u>704,575</u>	<u>741,932</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

5 **LOANS AND ADVANCES (CONTINUED)**

(ii) By type of customer

	<u>Group and Bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2008</u>
	RM'000	RM'000
Domestic banking institutions	51,487	51,977
Domestic non-bank financial institutions	-	6,219
Domestic business enterprises		
- Small medium enterprises ('SME')	153,522	183,719
- Non-SME	163,805	139,838
Government and statutory bodies	-	52,563
Individuals	18,710	15,075
Foreign entities	334,541	310,950
	<u>722,065</u>	<u>760,341</u>

(iii) By interest rate sensitivity

Fixed rate		
- Housing loans	-	27
- Other fixed rate loan	3,438	2,837
Variable rate		
- BLR plus	174,268	189,909
- Cost plus	63,861	57,028
- Other variable rates	480,498	510,540
	<u>722,065</u>	<u>760,341</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

5 LOANS AND ADVANCES (CONTINUED)

(iv) By purpose

	<u>Group and Bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2008</u>
	RM'000	RM'000
Purchase of transport vehicles	47,743	51,702
Purchase of landed property		
- Residential	11,562	12,057
- Non-residential	73,229	80,950
Purchase of fixed assets other than land and building	824	-
Personal use	3,403	3,926
Construction	8,379	4,890
Working capital	446,445	536,162
Other purpose	130,480	70,654
	<u>722,065</u>	<u>760,341</u>

(v) Non-performing loans and advances ('NPLs')

(a) Movement in non-performing loans and advances

	<u>Group and Bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2008</u>
	RM'000	RM'000
At beginning of the financial year	6,219	7,103
Classified as non-performing during the financial year	67	-
Amount recovered	(6,219)	(884)
Amount written-off	-	-
	<u>67</u>	<u>6,219</u>
At end of the financial year	67	6,219
Specific allowance	(24)	(943)
	<u>43</u>	<u>5,276</u>
Net non-performing loans and advances	<u>43</u>	<u>5,276</u>
Ratio of net non-performing loans and advances to gross loans and advances less specific allowance	<u>0.01%</u>	<u>0.69%</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

5 **LOANS AND ADVANCES (CONTINUED)**

(v) **Non-performing loans and advances ('NPLs') (continued)**

(b) **Movement in allowance for bad and doubtful debts**

	<u>Group and Bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<u>General allowance</u>		
At beginning of the financial year	17,466	12,710
Allowance made during the financial year	-	4,756
At end of the financial year	<u>17,466</u>	<u>17,466</u>
As % of gross loans and advances less specific allowance	<u>2.42%</u>	<u>2.30%</u>
<u>Specific allowance</u>		
At beginning of the financial year	943	575
Allowance made during the financial year	24	368
Amount recovered	(943)	-
At end of the financial year	<u>24</u>	<u>943</u>
 (c) <b>NPLs by purpose</b>		
Purchase of residential property	67	-
Working capital	-	6,219
	<u>67</u>	<u>6,219</u>

6 **OTHER ASSETS**

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Interest receivable	1,401	1,401	1,039
Other debtors, deposits and prepayments	2,431	2,127	2,329
	<u>3,832</u>	<u>3,528</u>	<u>3,368</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**7 AMOUNT DUE FROM SUBSIDIARY COMPANY**

The amount due from subsidiary company is unsecured, interest free and have no fixed terms of repayments.

**8 DEFERRED TAX ASSETS/(LIABILITIES)**

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

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Deferred tax assets	5,017	5,017	4,920
Deferred tax liabilities	(46)	-	-
	<u>4,971</u>	<u>5,017</u>	<u>4,920</u>
At beginning of the financial year	4,920	4,920	3,598
Credited to income statements (Note 25)	51	97	1,322
At end of the financial year	<u>4,971</u>	<u>5,017</u>	<u>4,920</u>

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

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
At beginning of the financial year	4,920	4,920	3,598
Credited/(charged) to income statements (Note 25)	51	97	1,322
- property and equipment	(92)	(48)	(56)
- intangible assets	78	80	(3)
- general allowance on loans and advances	-	-	1,062
- provision for other liabilities	86	86	265
- specific allowance on loans and advances	(235)	(235)	235
- unrecognised foreign exchange gain	214	214	(181)
At end of the financial year	<u>4,971</u>	<u>5,017</u>	<u>4,920</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

8 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Subject to income tax:-			
<b>Deferred tax assets (before offsetting)</b>			
Specific allowance on loans and advances	-	-	235
General allowance on loans and advances	4,367	4,367	4,367
Provision for other liabilities	851	851	765
Unrealised foreign exchange loss	33	33	-
	<u>5,251</u>	<u>5,251</u>	<u>5,367</u>
Offsetting	(234)	(234)	(447)
<b>Deferred tax assets (after offsetting)</b>	<u><u>5,017</u></u>	<u><u>5,017</u></u>	<u><u>4,920</u></u>
<b>Deferred tax liabilities (before offsetting)</b>			
Property and equipment	(179)	(135)	(87)
Intangible assets	(101)	(99)	(179)
Unrealised foreign exchange gain	-	-	(181)
	<u>(280)</u>	<u>(234)</u>	<u>(447)</u>
Offsetting	234	234	447
<b>Deferred tax liabilities (after offsetting)</b>	<u><u>(46)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The amount of unutilised capital allowances (all of which have no expiry date) for which no deferred tax is recognised in the balance sheet are as follows:

	<u>Group</u> <u>2009</u> RM'000
Unutilised capital allowance	<u><u>146</u></u>

Deferred tax assets are not recognised as it is uncertain that future taxable profits will be available against which the deductible temporary differences can be utilised.

9 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

During the financial year, no statutory deposits were maintained with Bank Negara Malaysia as the total eligible liabilities of the Bank are nil in December 2009 (2008: nil).

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

10 INVESTMENT IN SUBSIDIARY COMPANY

	<u>Bank</u> <u>2009</u> RM'000
Unquoted shares, at cost, in Malaysia	<u>1,000</u>

The subsidiary of the Bank is as follow:

<u>Name</u>	<u>Country of</u> <u>Incorporation</u>	<u>Paid up</u> <u>Capital</u> RM	<u>Principal Activities</u>	<u>Percentage</u> <u>of equity held</u> <u>2009</u> %
China Visa Services (Malaysia) Sdn Bhd	Malaysia	1,000,000	China visa application Services	100

Note: The Company was incorporated on 24 April 2009.

11 PROPERTY AND EQUIPMENT

<u>Group</u>	<u>Computer</u> <u>equipment</u> RM'000	<u>Motor</u> <u>vehicles</u> RM'000	<u>Office</u> <u>equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Work-in-</u> <u>progress</u> RM'000	<u>Total</u> RM'000
<u>2009</u>						
<u>Cost</u>						
At 1 January	2,494	985	1,201	34	882	5,596
Additions	420	165	1,136	2,879	-	4,600
Disposal	-	-	(56)	-	-	(56)
Transfer	-	-	-	882	(882)	-
Write-offs	(256)	-	(99)	(28)	-	(383)
At 31 December	<u>2,658</u>	<u>1,150</u>	<u>2,182</u>	<u>3,767</u>	<u>-</u>	<u>9,757</u>
<u>Accumulated depreciation</u>						
At 1 January	2,233	334	937	13	-	3,517
Charge for the financial year	159	143	139	217	-	658
Disposals	-	-	(56)	-	-	(56)
Transfer	-	-	-	-	-	-
Write-offs	(256)	-	(99)	(9)	-	(364)
At 31 December	<u>2,136</u>	<u>477</u>	<u>921</u>	<u>221</u>	<u>-</u>	<u>3,755</u>
Net book value	<u>522</u>	<u>673</u>	<u>1,261</u>	<u>3,546</u>	<u>-</u>	<u>6,002</u>

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

11 **PROPERTY AND EQUIPMENT (CONTINUED)**

Bank

	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Renovation</u>	<u>Work-in- progress</u>	<u>Total</u>
<u>2009</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000

Cost

At 1 January	2,494	985	1,201	34	882	5,596
Additions	230	165	894	2,328	-	3,617
Disposal	-	-	(56)	-	-	(56)
Transfer	-	-	-	882	(882)	-
Write-offs	(256)	-	(99)	(28)	-	(383)
At 31 December	<u>2,468</u>	<u>1,150</u>	<u>1,940</u>	<u>3,216</u>	<u>-</u>	<u>8,774</u>

Accumulated depreciation

At 1 January	2,233	334	937	13	-	3,517
Charge for the financial year	149	143	138	212	-	642
Disposals	-	-	(56)	-	-	(56)
Transfer	-	-	-	-	-	-
Write-offs	(256)	-	(99)	(9)	-	(364)
At 31 December	<u>2,126</u>	<u>477</u>	<u>920</u>	<u>216</u>	<u>-</u>	<u>3,739</u>
Net book value	<u>342</u>	<u>673</u>	<u>1,020</u>	<u>3,000</u>	<u>-</u>	<u>5,035</u>

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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

11 **PROPERTY AND EQUIPMENT (CONTINUED)**

Bank

	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Renovation</u>	<u>Work-in- progress</u>	<u>Total</u>
<u>2008</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000

Cost

At 1 January	2,323	985	1,091	692	-	5,091
Additions	185	-	138	4	882	1,209
Disposal	-	-	(28)	-	-	(28)
Transfer	(14)	-	-	-	-	(14)
Write-offs	-	-	-	(662)	-	(662)
At 31 December	<u>2,494</u>	<u>985</u>	<u>1,201</u>	<u>34</u>	<u>882</u>	<u>5,596</u>

Accumulated depreciation

At 1 January	2,113	197	902	491	-	3,703
Charge for the financial year	134	137	63	65	-	399
Disposals	-	-	(28)	-	-	(28)
Transfer	(14)	-	-	-	-	(14)
Write-offs	-	-	-	(543)	-	(543)
At 31 December	<u>2,233</u>	<u>334</u>	<u>937</u>	<u>13</u>	<u>-</u>	<u>3,517</u>
Net book value	<u>261</u>	<u>651</u>	<u>264</u>	<u>21</u>	<u>882</u>	<u>2,079</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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12 INTANGIBLE ASSETS

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
<u>Computer Software</u>			
<u>Cost</u>			
At 1 January	2,983	2,983	2,738
Additions	23	9	231
Transfer	-	-	14
At 31 December	<u>3,006</u>	<u>2,992</u>	<u>2,983</u>
<u>Accumulated amortisation</u>			
At 1 January	2,062	2,062	1,598
Charge for the financial year	482	481	450
Transfer	-	-	14
At 31 December	<u>2,544</u>	<u>2,543</u>	<u>2,062</u>
Net book value	<u>462</u>	<u>449</u>	<u>921</u>

13 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Demand deposits	87,728	88,169	94,099
Savings deposits	20,461	20,461	18,579
Fixed deposits	490,269	490,269	249,456
Others	1,600	1,600	1,603
	<u>600,058</u>	<u>600,499</u>	<u>363,737</u>
Maturity structure of fixed deposits as follows:			
Due within six months	469,241	469,241	223,227
Six months to one year	20,712	20,712	26,229
One year to three year	316	316	-
	<u>490,269</u>	<u>490,269</u>	<u>249,456</u>

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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

13 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customer

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Government and statutory bodies	1,600	1,600	1,603
Business enterprises	424,444	424,885	235,973
Individuals	170,529	170,529	126,125
Others	3,485	3,485	36
	<u>600,058</u>	<u>600,499</u>	<u>363,737</u>

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Group and bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Licensed banks	611,912	534,410
	<u>611,912</u>	<u>534,410</u>

15 BILLS AND ACCEPTANCES PAYABLE

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

16 OTHER LIABILITIES

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Interest payable	1,544	1,544	3,718
Accrued expenses	3,908	3,792	4,470
Margin deposits	5,314	5,314	3,475
Other liabilities	9,632	9,310	7,403
	<u>20,398</u>	<u>19,960</u>	<u>19,066</u>

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**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

17 SHARE CAPITAL

Group and bank

	Number of ordinary share of RM1.00 each		Amount	
	<u>2009</u> RM'000	<u>2008</u> RM'000	<u>2009</u> RM'000	<u>2008</u> RM'000
Authorised:				
Ordinary shares of RM1 each	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>
Issued and fully paid:				
Ordinary shares of RM1 each	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>
Balance as at 31 December	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>

18 RESERVES

	<u>Group</u>	<u>Bank</u>	
	<u>2009</u> RM'000	<u>2009</u> RM'000	<u>2008</u> RM'000
Distributable:			
Retained profits	8,847	9,286	8,808
Non-distributable:			
Statutory reserves	<u>50,754</u>	<u>50,754</u>	<u>43,436</u>
	<u>59,601</u>	<u>60,040</u>	<u>52,244</u>

(a) Subject to agreement by Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits as at 31 December 2009.

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

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19 INTEREST INCOME

	<u>Group and bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Loans and advances		
- Interest income other than recoveries from NPLs	19,734	31,321
- Recoveries from NPLs	-	-
Money at call and deposit placement with financial institutions	14,965	20,910
Securities		
- Held-to-maturity securities	1,503	1,812
	<u>36,202</u>	<u>54,043</u>
Amortisation of premium less accretion of discount	124	(91)
Interest suspended	(1)	-
	<u>36,325</u>	<u>53,952</u>

20 INTEREST EXPENSE

	<u>Group and bank</u> <u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Deposits and placements of banks and other financial institutions	6,021	17,302
Deposits from customers	8,418	9,051
Others	317	1,710
	<u>14,756</u>	<u>28,063</u>

21 OTHER OPERATING INCOME

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Fees income:			
- Fee on loans and advances	1,698	1,698	1,422
- Service charges and fees	5,335	5,335	5,292
- Guarantee fees	2,260	2,260	1,899
	<u>9,293</u>	<u>9,293</u>	<u>8,613</u>
Foreign exchange income:			
- Realised	6,448	6,448	6,910
- Unrealised	(131)	(131)	726
Gain from disposal of property and equipment	16	16	5
Other income	285	23	-
	<u>15,911</u>	<u>15,649</u>	<u>16,254</u>

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22 OTHER OPERATING EXPENSES

	<u>Group</u>		<u>Bank</u>
	<u>2009</u>	<u>2009</u>	<u>2008</u>
	RM'000	RM'000	RM'000
<u>Personnel expenses</u>			
Salaries and wages (includes CEO/EDs)	6,872	6,722	5,183
Bonus	2,635	2,635	2,776
Defined contribution plan ('EPF')	1,169	1,155	1,099
Staff welfare expenses	314	281	211
Other personnel costs	598	556	672
	<u>11,588</u>	<u>11,349</u>	<u>9,941</u>
<u>Marketing expenses</u>			
Entertainment	373	365	421
Other	143	138	171
	<u>516</u>	<u>503</u>	<u>592</u>
<u>Establishment costs</u>			
Rental of premises	1,638	1,585	1,410
Depreciation of property and equipment (Note 11)	658	642	399
Amortisation of intangible assets (Note 12)	482	481	450
Repairs and maintenance	533	521	543
Property and equipment written off	20	20	119
Other establishment costs	1,007	951	624
	<u>4,338</u>	<u>4,200</u>	<u>3,545</u>
<u>Administration and general expenses</u>			
Insurance premium	281	281	278
Travelling and accommodation	252	239	256
Telecommunication and utilities	286	279	218
Printing, stationery and postage	633	597	655
Other administration and general expenses	832	623	689
	<u>2,284</u>	<u>2,019</u>	<u>2,096</u>
	<u>18,726</u>	<u>18,071</u>	<u>16,174</u>
The above expenditure includes the following statutory disclosures:			
Auditors' remuneration			
- statutory	114	106	81
- others	137	137	4
Directors' remuneration (Note 23)	1,167	1,167	678
Pre-operating expenses	423	-	-
	<u>18,726</u>	<u>18,071</u>	<u>16,174</u>

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23 DIRECTORS' REMUNERATION

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

Executive Directors

Zheng Jingbo

Non Executive Directors

Gao Xingmao

Li Yuhua

Du Chaohua

Tan Sri Dato' Lim Guan Teik

Tan Siak Tee

Group and Bank

	<u>2009</u>	<u>2008</u>
	RM'000	RM'000
<u>Executive Directors</u>		
- salary and other remuneration	658	383
- bonus	270	57
- benefits-in-kind	95	94
<u>Non Executive Directors</u>		
- fees	144	144
	<u>1,167</u>	<u>678</u>

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,022,619 (2008: RM534,092).

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

Group and Bank

	<u>Number of Directors</u>	
	<u>2009</u>	<u>2008</u>
<u>Executive Directors</u>		
RM500,000 – RM1,000,000	-	1
RM1,000,001 – RM1,500,000	1	-
<u>Non-Executive Directors</u>		
Below RM50,000	4	5
RM100,001 - RM150,000	1	1

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24 ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

	<u>Group and bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2008</u>
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and advances		
(a) Specific allowance		
- made during the financial year	24	368
- written-back	(943)	-
(b) General allowance		
- made during the financial year	-	4,756
	<u>(919)</u>	<u>5,124</u>

25 TAXATION

	<u>Group</u>	<u>Bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2009</u>	<u>2008</u>
	RM'000	RM'000	RM'000
Malaysian income tax:			
- Current tax	5,527	5,527	6,974
- Deferred tax (Note 8)	(51)	(97)	(1,322)
	<u>5,476</u>	<u>5,430</u>	<u>5,652</u>
Over provision in prior years	-	-	(67)
	<u>5,476</u>	<u>5,430</u>	<u>5,585</u>

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

	<u>Group</u>	<u>Bank</u>	<u>Bank</u>
	<u>2009</u>	<u>2009</u>	<u>2008</u>
	RM'000	RM'000	RM'000
Profit before taxation	<u>19,673</u>	<u>20,066</u>	<u>20,845</u>
Statutory tax rate in Malaysia (2009: 25%, 2008: 26%)	4,918	5,017	5,420
Tax effect in respect of:			
Non-allowable expenses	295	187	180
Non-taxable income	(4)	(4)	(1)
Over provision in prior years	-	-	(67)
Effect of changes in tax rate	-	-	197
Reversal of previously recognised deferred tax assets	230	230	-
Recognition of deferred tax previously not recognised	-	-	(144)
Other temporary differences not recognised	37	-	-
Tax expense	<u>5,476</u>	<u>5,430</u>	<u>5,585</u>

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26 EARNINGS PER SHARE

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

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Net profit attributable to equity holders of the Group/Bank	14,197	14,636	15,260
Weighted average number of ordinary shares in issue	304,000	304,000	304,000
Basic/fully diluted earnings per share (sen)	<u>4.7</u>	<u>4.8</u>	<u>5.0</u>

27 DIVIDENDS

Dividends declared or proposed for the respective financial year are as follows:

	<u>Group and Bank</u> <u>2009</u>		<u>Bank</u> <u>2008</u>	
	<u>Gross dividend per share</u> Sen	<u>Amount of dividend net of tax</u> RM'000	<u>Gross dividend per share</u> Sen	<u>Amount of dividend net of tax</u> RM'000
Ordinary shares:				
Proposed final dividend	-	-	3.00	6,840

The Directors do not propose any dividend in respect of the current financial year at the forthcoming Annual General Meeting.

Dividends recognised as distribution to ordinary equity holders of the Bank:

	<u>Group and Bank</u> <u>2009</u>		<u>Bank</u> <u>2008</u>	
	<u>Gross dividend per share</u> Sen	<u>Amount of dividend net of tax</u> RM'000	<u>Gross dividend per share</u> Sen	<u>Amount of dividend net of tax</u> RM'000
<u>Ordinary shares</u>				
Final dividend for 2008	3.00	6,840	-	-
Final dividend for 2007	-	-	2.85	6,411
	<u>3.00</u>	<u>6,840</u>	<u>2.85</u>	<u>6,411</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

28 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

<u>Related party</u>	<u>Relationship</u>
China Investment Corporation	Ultimate holding company
Bank of China Limited	Holding company
Bank of China (Sydney)	Fellow subsidiary
Bank of China (Toronto)	Fellow subsidiary
Bank of China (Tokyo)	Fellow subsidiary
Bank of China (Frankfurt)	Fellow subsidiary
Bank of China (Singapore)	Fellow subsidiary
Bank of China (London)	Fellow subsidiary
Bank of China (New York)	Fellow subsidiary
Bank of China (Hong Kong)	Fellow subsidiary
China Visa Services (Malaysia) Sdn Bhd	Subsidiary

(a) Related party transactions

Significant transactions of the Bank with its related parties are as follows:

<u>Group</u>	<u>Holding</u>	<u>Fellow</u>	<u>Key</u>
<u>2009</u>	<u>Company</u>	<u>Subsidiaries</u>	<u>management</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>personnel</u>
			<u>RM'000</u>
<b>INCOME</b>			
Interest income:			
- Deposits and placements with bank and other financial institution	8	50	-
- Housing loan	-	-	17
	<u>8</u>	<u>50</u>	<u>17</u>
<b>EXPENSES</b>			
Interest expenses:			
- Deposits and placements of banks and other financial institution	2,729	947	-
- Deposits from customer	-	-	19
	<u>2,729</u>	<u>947</u>	<u>19</u>

## BANK OF CHINA (MALAYSIA) BERHAD

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

## 28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (continued)

<u>Bank</u>	<u>Holding</u>	<u>Fellow</u>	<u>Key</u>
<u>2009</u>	<u>Company</u>	<u>Subsidiaries</u>	<u>management</u>
	RM'000	and subsidiary	personnel
		RM'000	RM'000
<b>INCOME</b>			
Interest income:			
- Deposits and placements with bank and other financial institution	8	50	-
- Housing loan	-	-	17
Other income	-	10	-
	<u>8</u>	<u>60</u>	<u>17</u>
<b>EXPENSES</b>			
Interest expenses:			
- Deposits and placements of banks and other financial institution	2,729	947	-
- Deposits from customer	-	-	19
	<u>2,729</u>	<u>947</u>	<u>19</u>
<b>Bank</b>			
<b>2008</b>			
<b>INCOME</b>			
Interest income:			
- Deposits and placements with bank and other financial institutions	88	895	-
- Housing loan	-	-	19
- Bill receivable	833	-	-
	<u>921</u>	<u>895</u>	<u>19</u>
<b>EXPENSES</b>			
Interest expenses:			
- Deposits and placements of banks and other financial institutions	14,357	25	-
- Deposits from customers	-	-	37
	<u>14,357</u>	<u>25</u>	<u>37</u>

The related party transactions are conducted at arm's length basis and on normal commercial terms, which are not more favourable than those generally available to the public.

Company No.

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

(b) Related party balances

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

<u>Group</u> <u>2009</u>	<u>Holding</u> <u>Company</u> RM'000	<u>Fellow</u> <u>subsidiaries</u> RM'000	<u>Key</u> <u>management</u> <u>personnel</u> RM'000
<b>AMOUNT DUE FROM</b>			
Advances	2,473	41,469	-
Housing loan	-	-	397
	<u>2,473</u>	<u>41,469</u>	<u>397</u>
<b>AMOUNT DUE TO</b>			
Deposits and placements of banks and other financial institutions	82,794	397,659	-
Deposits from customers	-	-	897
	<u>82,794</u>	<u>398,100</u>	<u>897</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

## 28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (continued)

	Holding Company RM'000	Fellow subsidiaries and subsidiary RM'000	Key management personnel RM'000
<u>Bank</u>			
<u>2009</u>			
AMOUNT DUE FROM			
Advances	2,473	41,469	-
Housing loan	-	-	397
Subsidiary	-	681	-
	<u>2,473</u>	<u>42,150</u>	<u>397</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	82,794	397,659	-
Deposits from customers	-	441	862
	<u>82,794</u>	<u>398,100</u>	<u>862</u>
<u>Bank</u>			
<u>2008</u>			
AMOUNT DUE FROM			
Advances	7,862	33,820	-
Housing loan	-	-	448
	<u>7,862</u>	<u>33,820</u>	<u>448</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	479,971	-	-
Deposits from customers	-	-	1,387
	<u>479,971</u>	<u>-</u>	<u>1,387</u>

There were no loans granted to the Directors of the Bank. The loans granted to other key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank.

Included in the table above are deposits payable to the Directors of the Group and of the Bank amounting to RM875,046 and RM791,411 respectively (2008: RM417,114).

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

(c) Key management personnel compensation

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

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Fees	144	144	144
Salaries and other short-term benefits	2,084	2,060	1,302
Benefits-in-kind	139	134	121
	<u>2,367</u>	<u>2,338</u>	<u>1,567</u>

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

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

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

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

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

	<u>2009</u>	<u>Bank</u> <u>2008</u>
Outstanding credit exposures with connected parties (RM'000)	249,353	179,179
Outstanding credit exposures with connected parties as a percentage of total credit exposures	18%	17%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	0%	0%

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30 **COMMITMENTS AND CONTINGENCIES**

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

The commitments and contingencies constitute the following:

	Group and Bank			Bank		
	2009			2008		
	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>
	<u>RM'000</u>	<u>equivalent</u>	<u>weighted</u>	<u>RM'000</u>	<u>equivalent</u>	<u>weighted</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>
Direct credit substitutes	2,826	2,826	600	2,226	2,226	2,226
Transaction-related contingent items	569,841	284,921	142,846	437,379	218,690	89,609
Short-term self liquidation trade related contingencies	5,835	1,167	470	4,242	848	848
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	566,547	113,309	93,979	375,670	75,134	70,460
- Maturity exceeding one year	487,608	243,804	157,875	349,980	174,990	88,266
Foreign exchange related contracts:						
- Less than one year	3,544	-	-	7,173	-	-
Others	20,731	-	-	20,320	-	-
	<u>1,656,932</u>	<u>646,027</u>	<u>395,770</u>	<u>1,196,990</u>	<u>471,888</u>	<u>251,409</u>

The credit equivalent amount is arrived at using the credit conversion factor as per BNM Guidelines.

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31 LEASE COMMITMENTS

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

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Not later than 1 year	1,690	1,097	1,316
Later than 1 year but not later than 5 years	1,874	777	1,085
	<u>3,564</u>	<u>1,874</u>	<u>2,401</u>

32 CAPITAL COMMITMENTS

	<u>Group</u> <u>2009</u> RM'000	<u>2009</u> RM'000	<u>Bank</u> <u>2008</u> RM'000
Capital expenditure for property and equipment			
- approved by the Board and contracted for	356	-	1,210
- approved by the Board but not contracted for	-	-	2,000
	<u>356</u>	<u>-</u>	<u>3,210</u>

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33 CAPITAL ADEQUACY

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

	<u>2009</u> RM'000	<u>2008</u> RM'000
<u>Tier-1 capital</u>		
Paid-up ordinary share capital	304,000	304,000
Retained profits	9,286	8,808
Other reserves	50,754	43,436
	<u>364,040</u>	<u>356,244</u>
Less: Deferred tax assets	(5,017)	(4,920)
Total tier-1 capital	<u>359,023</u>	<u>351,324</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts	17,466	17,466
Total tier-2 capital	17,466	17,466
Less:		
Investment in subsidiary company	(1,000)	-
Total capital base	<u>375,489</u>	<u>368,790</u>
<u>Capital ratios</u>		
<u>Before deducting proposed dividends</u>		
Core capital ratio	32%	37%
Risk-weighted capital ratio	33%	39%
<u>After deducting proposed dividends</u>		
Core capital ratio	32%	36%
Risk-weighted capital ratio	33%	38%

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33 CAPITAL ADEQUACY (CONTINUED)

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

	<u>2009</u> RM'000	<u>2008</u> RM'000
Credit risk	1,048,082	869,092
Market risk	2,548	1,131
Operational risk	73,113	70,953
	<u>1,123,743</u>	<u>941,176</u>

Pursuant to BNM's circular "Recognition of Deferred Tax Assets ('DTA') and treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred tax income/(expense) is excluded from the computation of Tier 1 capital and deferred tax assets is excluded from the calculation of risk weighted assets.

The Bank implemented Basel II – Risk Weighted Assets Computation under the BNM's Risk-weighted Capital Adequacy Framework ('RWCAF') with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and the basic indicator approach for operational risk.

The detailed disclosures on the risk-weighted assets, as set out in Notes 33 (c), (d), (e) are presented in accordance with para 4.3 of Bank Negara Malaysia's Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and Capital Adequacy Framework of Islamic Banks ('CAFIB') – Disclosure Requirements (Pillar 3), whereby such disclosures are effective for financial reports for periods beginning on or after 1 January 2008.

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33 CAPITAL ADEQUACY (CONTINUED)

- (c) The breakdown of risk-weighted assets ('RWA') by exposures in each major risk category for the current financial year are as follows:

<u>2009</u> Exposure class	<u>Gross</u> <u>exposure</u> RM'000	<u>Net</u> <u>exposure</u> RM'000	<u>Risk-</u> <u>weighted</u> <u>assets</u> RM'000	<u>Capital</u> <u>requirements</u> RM'000
<u>(i) Credit Risk</u>				
On-balance sheet exposure:				
Sovereigns & central banks	831,819	831,819	-	-
Banks, development financial institutions & MDBs*	95,463	95,463	34,539	2,763
Corporates	659,450	659,450	606,413	48,513
Residential mortgages	11,127	11,127	4,304	344
Other assets	12,447	12,447	7,056	564
Total on-balance sheet exposure	1,610,306	1,610,306	652,312	52,184
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	646,027	646,027	395,770	31,662
Total credit risk	2,256,333	2,256,333	1,048,082	83,846
		<u>Net long</u> <u>position</u> RM'000		
<u>(ii) Market Risk</u>				
Foreign currency risk	2,548		2,548	204
<u>(iii) Operational Risk</u>				
Total RWA and capital requirement			73,113	5,849
			1,123,743	89,899

\* Multi-lateral Development Banks ('MDBs')

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33 CAPITAL ADEQUACY (CONTINUED)

- (c) The breakdown of risk-weighted assets ('RWA') by exposures in each major risk category for the current financial year are as follows:

<u>2008</u> Exposure class	<u>Gross</u> <u>exposure</u> RM'000	<u>Net</u> <u>exposure</u> RM'000	<u>Risk-</u> <u>weighted</u> <u>assets</u> RM'000	<u>Capital</u> <u>requirements</u> RM'000
<u>(i) Credit Risk</u>				
On-balance sheet exposure:				
Sovereigns & central banks	480,723	480,723	-	-
Banks, development financial institutions & MDBs*	93,666	93,666	34,327	2,746
Corporates	697,252	697,252	575,418	46,033
Residential mortgages	11,110	11,110	4,323	346
Other assets	7,127	7,127	3,615	289
Total on-balance sheet exposure	<u>1,289,878</u>	<u>1,289,878</u>	<u>617,683</u>	<u>49,414</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	471,888	471,888	251,409	20,113
Total credit risk	<u>1,761,766</u>	<u>1,761,766</u>	<u>869,092</u>	<u>69,527</u>
<u>Net long position</u> RM'000				
<u>(ii) Market Risk</u>				
Foreign currency risk	<u>1,131</u>		1,131	90
<u>(iii) Operational Risk</u>				
Total RWA and capital requirement			<u>941,176</u>	<u>75,293</u>

\* Multi-lateral Development Banks ('MDBs')

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33 CAPITAL ADEQUACY (CONTINUED)

(d) The breakdown of credit risk exposures by risk weights for the current financial year are as follows:

2009  Supervisory Risk weights	← Exposures after Netting and Credit Risk Mitigation →					Total exposure after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
	Sovereigns and central banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Residential mortgages RM'000	Other assets RM'000		
0%	831,819	-	18,786	28	5,391	856,024	-
20%	-	43,976	51,852	-	-	95,828	19,165
35%	-	-	-	8,710	-	8,710	3,048
50%	-	504,583	38,000	2,896	-	545,479	272,740
100%	-	-	737,496	67	7,056	744,619	744,619
150%	-	-	5,673	-	-	5,673	8,510
<b>Total</b>	<b>831,819</b>	<b>548,559</b>	<b>851,807</b>	<b>11,701</b>	<b>12,447</b>	<b>2,256,333</b>	<b>1,048,082</b>
Risk weighted asset By exposure	-	261,086	775,377	4,563	7,056	1,048,082	
Average risk weight	-	47.6%	91.0%	39.0%	56.7%	46.5%	

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33 CAPITAL ADEQUACY (CONTINUED)

(d) The breakdown of credit risk exposures by risk weights for the current financial year are as follows:

2008  Supervisory Risk weights	← Exposures after Netting and Credit Risk Mitigation →					Total exposure after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
	Sovereigns and central banks RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Residential mortgages RM'000	Other assets RM'000		
0%	480,723	-	15,748	28	3,512	500,011	-
20%	-	113,500	123,046	-	-	236,546	47,309
35%	-	-	-	8,368	-	8,368	2,929
50%	-	368,491	37,155	3,171	-	408,817	204,409
100%	-	-	591,567	-	3,615	595,182	595,182
150%	-	-	12,842	-	-	12,842	19,263
<b>Total</b>	<b>480,723</b>	<b>481,991</b>	<b>780,358</b>	<b>11,567</b>	<b>7,127</b>	<b>1,761,766</b>	<b>869,092</b>
Risk weighted asset By exposure	-	206,946	654,016	4,515	3,615	869,092	
Average risk weight	-	42.9%	83.8%	39.0%	50.7%	49.3%	

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33 CAPITAL ADEQUACY (CONTINUED)

(e) The off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows:

	2009			2008		
	Principal	Credit	Risk	Principal	Credit	Risk
	RM'000	equivalent RM'000	weighted RM'000	RM'000	equivalent RM'000	weighted RM'000
Direct credit substitutes	2,826	2,826	600	2,226	2,226	2,226
Transaction-related contingent items	569,841	284,921	142,846	437,379	218,690	89,609
Short-term self liquidating trade related contingencies	5,835	1,167	470	4,242	848	848
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	566,547	113,309	93,979	375,670	75,134	70,460
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	487,608	243,804	157,875	349,980	174,990	88,266
	1,632,657	646,027	395,770	1,169,497	471,888	251,409

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34 **FINANCIAL INSTRUMENTS**

(a) **Financial risk management objectives and policies**

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

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

Credit Risk

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

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

Market Risk

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

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

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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) **Financial risk management objectives and policies (continued)**

Liquidity Risk

Liquidity risk is the potential inability of the Bank to meet its payment obligations. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown, guarantees etc.

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

Operational Risk

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

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

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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Interest rate risk

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

Group 2009	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<b>Assets</b>								
Cash and short-term funds	803,842	-	-	-	-	4,879	808,721	2.06%
Deposits and placement with banks and other financial institutions	-	30,000	-	-	-	-	30,000	2.11%
Held-to-maturity securities	-	-	-	39,829	-	-	39,829	4.09%
Loans and advances								
- performing	423,207	234,277	61,076	849	2,589	(17,466)	704,532	2.38%
- non-performing	-	-	-	-	-	43	43	
Other assets	-	-	-	-	-	3,832	3,832	
Deferred tax assets	-	-	-	-	-	5,017	5,017	
Property and equipment	-	-	-	-	-	6,002	6,002	
Intangible assets	-	-	-	-	-	462	462	
<b>Total assets</b>	<b>1,227,049</b>	<b>264,277</b>	<b>61,076</b>	<b>40,678</b>	<b>2,589</b>	<b>2,769</b>	<b>1,598,438</b>	

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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Interest rate risk (continued)

Group  
2009

<u>Liabilities</u>	Non Trading Book						<u>Total</u> RM'000	<u>Effective</u> <u>Interest Rate</u> %
	<u>Up to</u> <u>1 month</u> RM'000	<u>&gt;1 – 3</u> <u>months</u> RM'000	<u>&gt;3 – 12</u> <u>months</u> RM'000	<u>1 – 5</u> <u>years</u> RM'000	<u>Over</u> <u>5 years</u> RM'000	<u>Non-interest</u> <u>sensitive</u> RM'000		
Deposits from customers	470,798	16,521	26,763	316	-	85,660	600,058	1.84%
Deposits and placements of banks and other financial institutions	346,745	213,747	51,420	-	-	-	611,912	0.77%
Bills and acceptances payable	2,096	-	-	-	-	-	2,096	2.19%
Other liabilities	-	-	-	-	-	20,398	20,398	
Provision for taxation	-	-	-	-	-	327	327	
Deferred tax liabilities	-	-	-	-	-	46	46	
<b>Total liabilities</b>	<b>819,639</b>	<b>230,268</b>	<b>78,183</b>	<b>316</b>	<b>-</b>	<b>106,431</b>	<b>1,234,837</b>	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>363,601</b>	<b>363,601</b>	
<b>Total liabilities and equity</b>	<b>819,639</b>	<b>230,268</b>	<b>78,183</b>	<b>316</b>	<b>-</b>	<b>470,032</b>	<b>1,598,438</b>	
On balance sheet – interest rate gap	407,410	34,009	(17,107)	40,362	2,589	(467,263)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
<b>Total interest sensitivity gap</b>	<b>407,410</b>	<b>34,009</b>	<b>(17,107)</b>	<b>40,362</b>	<b>2,589</b>	<b>(467,263)</b>	<b>-</b>	

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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Interest rate risk (continued)

Bank 2009	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<u>Assets</u>								
Cash and short-term funds	803,842	-	-	-	-	4,878	808,720	2.06%
Deposits and placement with banks and other financial institutions	-	30,000	-	-	-	-	30,000	2.11%
Held-to-maturity securities	-	-	-	39,829	-	-	39,829	4.09%
Loans and advances								
- performing	423,207	234,277	61,076	849	2,589	(17,466)	704,532	2.38%
- non-performing	-	-	-	-	-	43	43	
Other assets	-	-	-	-	-	3,528	3,528	
Amount due from subsidiary company	-	-	-	-	-	681	681	
Deferred tax assets	-	-	-	-	-	5,017	5,017	
Investment in subsidiary company	-	-	-	-	-	1,000	1,000	
Property and equipment	-	-	-	-	-	5,035	5,035	
Intangible assets	-	-	-	-	-	449	449	
<b>Total assets</b>	<b>1,227,049</b>	<b>264,277</b>	<b>61,076</b>	<b>40,678</b>	<b>2,589</b>	<b>3,165</b>	<b>1,598,834</b>	

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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Interest rate risk (continued)**

Bank 2009	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<b>Liabilities</b>								
Deposits from customers	470,798	16,521	26,763	316	-	86,101	600,499	1.84%
Deposits and placements of banks and other financial institutions	346,745	213,747	51,420	-	-	-	611,912	0.77%
Bills and acceptances payable	2,096	-	-	-	-	-	2,096	2.19%
Other liabilities	-	-	-	-	-	19,960	19,960	
Provision for taxation	-	-	-	-	-	327	327	
<b>Total liabilities</b>	<b>819,639</b>	<b>230,268</b>	<b>78,183</b>	<b>316</b>	<b>-</b>	<b>106,388</b>	<b>1,234,794</b>	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>364,040</b>	<b>364,040</b>	
<b>Total liabilities and equity</b>	<b>819,639</b>	<b>230,268</b>	<b>78,183</b>	<b>316</b>	<b>-</b>	<b>470,428</b>	<b>1,598,834</b>	
On balance sheet – interest rate gap	407,410	34,009	(17,107)	40,362	2,589	(467,263)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
<b>Total interest sensitivity gap</b>	<b>407,410</b>	<b>34,009</b>	<b>(17,107)</b>	<b>40,362</b>	<b>2,589</b>	<b>(467,263)</b>	<b>-</b>	

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Interest rate risk (continued)

Bank 2008	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<u>Assets</u>								
Cash and short-term funds	378,482	-	-	-	-	4,982	383,464	3.30%
Deposits and placement with banks and other financial institutions	-	100,000	-	-	-	-	100,000	3.31%
Held-to-maturity securities	-	-	-	39,706	-	-	39,706	4.09%
Loans and advances								
- performing	551,630	192,109	7,519	97	2,767	(17,466)	736,656	4.38%
- non-performing	-	-	-	-	-	5,276	5,276	
Other assets	-	-	-	-	-	3,368	3,368	
Deferred tax assets	-	-	-	-	-	4,920	4,920	
Property and equipment	-	-	-	-	-	2,079	2,079	
Intangible assets	-	-	-	-	-	921	921	
<b>Total assets</b>	<b>930,112</b>	<b>292,109</b>	<b>7,519</b>	<b>39,803</b>	<b>2,767</b>	<b>4,080</b>	<b>1,276,390</b>	

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Interest rate risk (continued)

Bank 2008	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
<b>Liabilities</b>								
Deposits from customers	209,698	24,666	38,451	-	-	90,922	363,737	2.97%
Deposits and placements of banks and other financial institutions	357,688	176,722	-	-	-	-	534,410	2.47%
Bills and acceptances payable	1,959	-	-	-	-	-	1,959	3.65%
Other liabilities	-	-	-	-	-	19,066	19,066	
Provision for taxation	-	-	-	-	-	974	974	
<b>Total liabilities</b>	<b>569,345</b>	<b>201,388</b>	<b>38,451</b>	<b>-</b>	<b>-</b>	<b>110,962</b>	<b>920,146</b>	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>356,244</b>	<b>356,244</b>	
<b>Total liabilities and equity</b>	<b>569,345</b>	<b>201,388</b>	<b>38,451</b>	<b>-</b>	<b>-</b>	<b>467,206</b>	<b>1,276,390</b>	
On balance sheet – interest rate gap	360,767	90,721	(30,932)	39,803	2,767	(463,126)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
<b>Total interest sensitivity gap</b>	<b>360,767</b>	<b>90,721</b>	<b>(30,932)</b>	<b>39,803</b>	<b>2,767</b>	<b>(463,126)</b>	<b>-</b>	

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) Credit risk

Group  
2009

	Short-term funds and placements with financial institutions RM'000	Held- to-maturity securities RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Primary agriculture	-	-	40,747	-	40,747	4,166
Mining and quarrying	-	-	-	-	-	1,060
Manufacturing	-	-	66,498	-	66,498	166,270
Electricity, gas and water supply	-	-	27,425	-	27,425	17,140
Construction	-	-	8,994	-	8,994	68,189
Real estate	-	-	54,406	-	54,406	12,360
Wholesale and retail trade and restaurants and hotels	-	-	110,606	-	110,606	12,899
Transport, storage and communication	-	-	4,481	-	4,481	114,094
Finance, insurance and business services	43,977	-	54,005	-	97,982	247,349
Household	-	-	18,711	-	18,711	2,390
Government and government agencies	790,588	39,829	-	1,401	831,818	-
Education, health and others	-	-	1,651	-	1,651	110
Others	-	-	334,541	-	334,541	-
	<u>834,565</u>	<u>39,829</u>	<u>722,065</u>	<u>1,401</u>	<u>1,597,860</u>	<u>646,027</u>
Assets not subject to credit risk	4,156	-	-	13,912	18,068	-
	<u>838,721</u>	<u>39,829</u>	<u>722,065<sup>^</sup></u>	<u>15,313<sup>#</sup></u>	<u>1,615,928</u>	<u>646,027</u>

<sup>^</sup> Excludes general allowance and specific allowance amounting to RM 17,466,000 and RM24,000.

<sup>#</sup> Other assets include interest receivables, intangible assets, property and equipment and deferred tax assets.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

## 34 FINANCIAL INSTRUMENTS (CONTINUED)

## (c) Credit risk (continued)

Bank  
2009

	Short-term funds and placements with financial <u>institutions</u> RM'000	Held- to-maturity <u>securities</u> RM'000	Loans and <u>advances</u> RM'000	Other <u>assets</u> RM'000	On-balance <u>sheet total</u> RM'000	Commitments and <u>contingencies</u> RM'000
The following tables set out the credit risk concentrations by sector:						
Primary agriculture	-	-	40,747	-	40,747	4,166
Mining and quarrying	-	-	-	-	-	1,060
Manufacturing	-	-	66,498	-	66,498	166,270
Electricity, gas and water supply	-	-	27,425	-	27,425	17,140
Construction	-	-	8,994	-	8,994	68,189
Real estate	-	-	54,406	-	54,406	12,360
Wholesale and retail trade and restaurants and hotels	-	-	110,606	-	110,606	12,899
Transport, storage and communication	-	-	4,481	-	4,481	114,094
Finance, insurance and business services	43,977	-	54,005	-	97,982	247,349
Household	-	-	18,711	-	18,711	2,390
Government and government agencies	790,588	39,829	-	1,401	831,818	-
Education, health and others	-	-	1,651	-	1,651	110
Others	-	-	334,541	-	334,541	-
	<u>834,565</u>	<u>39,829</u>	<u>722,065</u>	<u>1,401</u>	<u>1,597,860</u>	<u>646,027</u>
Assets not subject to credit risk	4,155	-	-	14,309	18,464	-
	<u>838,720</u>	<u>39,829</u>	<u>722,065<sup>^</sup></u>	<u>15,710<sup>#</sup></u>	<u>1,616,324</u>	<u>646,027</u>

<sup>^</sup> Excludes general allowance and specific allowance amounting to RM 17,466,000 and RM24,000.

<sup>#</sup> Other assets include interest receivables, intangible assets, property and equipment and deferred tax assets.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) Credit risk (continued)

2008

	Short-term funds and placements with financial institutions RM'000	Held- to-maturity securities RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Primary agriculture	-	-	52,664	-	52,664	1,938
Mining and quarrying	-	-	-	-	-	60
Manufacturing	-	-	61,210	-	61,210	140,326
Electricity, gas and water supply	-	-	-	-	-	-
Construction	-	-	29,510	-	29,510	29,629
Real estate	-	-	57,108	-	57,108	5,871
Wholesale and retail trade and restaurants and hotels	-	-	118,198	-	118,198	8,996
Transport, storage and communication	-	-	3,037	-	3,037	48,827
Finance, insurance and business services	41,689	-	58,196	-	99,885	235,523
Household	-	-	15,075	-	15,075	241
Government and government agencies	439,978	39,706	52,563	1,039	533,286	-
Education, health and others	-	-	1,830	-	1,830	477
Others	-	-	310,950	-	310,950	-
	<u>481,667</u>	<u>39,706</u>	<u>760,341</u>	<u>1,039</u>	<u>1,282,753</u>	<u>471,888</u>
Assets not subject to credit risk	1,797	-	-	10,249	12,046	-
	<u>483,464</u>	<u>39,706</u>	<u>760,341<sup>^</sup></u>	<u>11,288<sup>#</sup></u>	<u>1,294,799</u>	<u>471,888</u>

<sup>^</sup> Excludes general allowance and specific allowance amounting to RM 17,466,000 and RM943,000.

<sup>#</sup> Other assets include interest receivables, intangible assets, property and equipment and deferred tax assets.

**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Liquidity risk**

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

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

The Bank has always complied with the liquidity compliance requirement as agreed by BNM under the first two time buckets for “up to 1 week” and “>1 week to 1 month”.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

35 **FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Where available, quoted and observable market prices are used as the measure 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.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires the fair value information to be disclosed. These include property and equipment, investment in subsidiary and associated companies and intangibles.

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

	<u>Group and Bank</u>		<u>Bank</u>	
	<u>2009</u>		<u>2008</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>amount</u>	<u>value</u>	<u>amount</u>	<u>value</u>
	RM	RM	RM	RM
<u>Financial assets</u>				
Held-to-maturity securities	<u>39,829</u>	<u>40,748</u>	<u>39,706</u>	<u>40,760</u>

**BANK OF CHINA (MALAYSIA) BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)****35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

(a) Deposits and placements with financial institutions

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

(b) Held-to-maturity securities

The estimated fair value is generally based on quoted and observable market prices.

(c) Loans and advances

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

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

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

(d) Deposits from customers

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

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

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

(f) Foreign exchange rate and interest rate contracts

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

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**BANK OF CHINA (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONTINUED)**

**36 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Allowances for losses on loans and advances

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

**37 COMPARATIVES**

There are no group comparative figures as this is the first financial period for which group statutory financial statements are prepared.

**38 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 20 April 2010.

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

We, Zheng Jingbo and Tan Siak Tee, being two of the Directors of Bank of China (Malaysia) Berhad state that, in the opinion of the Directors, the financial statements set out on pages 17 to 83 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2009 and of the results and cash flows of the Group and the Bank for the financial year ended on that date and in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 20 April 2010.

ZHENG JINGBO  
DIRECTOR

TAN SIAK TEE  
DIRECTOR

Kuala Lumpur  
20 April 2010

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

I, Cho Lai Kuan, 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 17 to 83 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

CHO LAI KUAN

Subscribed and solemnly declared by the abovenamed Cho Lai Kuan at Kuala Lumpur on 20 April 2010, before me.

COMMISSIONER FOR OATHS

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF BANK OF CHINA (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)  
(Company No. 511251 V)

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 83.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2009 and of its financial performance and cash flows for the year then ended.

**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF BANK OF CHINA (MALAYSIA) BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
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**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

**OTHER MATTERS**

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

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

SOO HOO KHOON YEAN  
(No. 2682/10/11 (J))  
Chartered Accountant

Kuala Lumpur  
20 April 2010