Company No.

511251	V

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

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Company No.	
511251	V

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

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Company No.

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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 2010.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before taxation	31,842	22,912
Taxation	(9,970)	(7,665)
Net profit for the financial year	21,872	15,247

DIVIDENDS

No dividends has been paid or declared by the Bank as at 31 December 2010.

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

CHANGES IN DEBT AND EQUITY SECURITIES

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

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.

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	
Du Chaohua	
Tan Siak Tee	
Zhang Lianli	(Appointed on 16 April 2010)
Ter Liang Yap	(Appointed on 12 October 2010)
Li Yuhua	(Resigned on 16 April 2010)
Tan Sri Dato' Lim Guan Teik	(Retired on 20 May 2010)

In accordance with Section 129 of the Companies Act, 1965, Mr Tan Siak Tee retires but being eligible, offers himself for re-election.

In accordance with Article 82 of the Bank's Articles of Association, Mr Ter Leong Yap retires but being eligible, offers himself for re-election.

In accordance with Article 76 of the Bank's Articles of Association, Mr Gao Xingmao retire by rotation and, being eligible, offer themselves for re-election.

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 2010

In the year 2010, the Group had focused in marketing for more Small and Medium Enterprise (“SME”) loans, at the same time continues to promote its fee base generating products and grow its customer base and deposits base.

BUSINESS OUTLOOK FOR 2011

In view of the global economic slowdown, the Group expects a very challenging operating environment. The Group is focusing on deepen customer relationship with the valued clientele, continued prudence expansion and healthy development of the Group’s strategic business direction, which enhance shareholder value and improves profitability and to place greater emphasis on risk management to maintain superior asset quality especially in the current globe adverse economic conditions.

RATINGS BY EXTERNAL RATING AGENCY

The Bank is not rated by any external agency.

DIRECTORS' PROFILES

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

Mr. Zheng Jingbo, People’s Republic of China citizen, aged 53, 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 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 58, was appointed to Board in Year 2008 representing Bank of China Limited. He was 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 in Russia in year 2004.

DIRECTORS' PROFILES (CONTINUED)

Du Chaohua – Non-Independent Non-Executive Director

Mr. Du Chaohua, People's Republic of China citizen, aged 56, 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.

Zhang Lianli – Chairman, Non-Independent Non-Executive Director

Mr Zhang Lianli, People's Republic of China citizen, aged 58, was appointed to the Board in Year 2010 as Chairman of the Bank, representing Bank of China Limited. He obtained his Bachelor of Arts from Nankai University, Tianjin, People's Republic of China in year 1977. He has also obtained his Certificate in Advanced Banking Management Programme from National University of Singapore and Management Training Programme of Singapore in 1995 and 1997 respectively.

Mr. Zhang started his career as an officer/Assistant Manager of the Banking Department of Bank of China, Head Office in 1977 responsible for the retail banking operations of the department. He was promoted as the Deputy Manager/manager of International Department in year 1983 and 1985 respectively responsible for the overall management of retail banking of all domestic and overseas branches. he was transferred to the Credit Card Department in 1989 responsible for the credit card business, planning, development and operations of the Credit Card Centre in Head Office and overseas branches. He was promoted as the Assistant General Manager and Deputy General Manager of Bank of China, Singapore Branch in year 1991 and 1995 respectively, responsible for the retail banking, credit card centre and oversees all sub-branches in Singapore. He was also in charge of the security company and nominees company.

He was the CEO/Executive Director of Bank of China (Malaysia) Berhad ('BOCM') upon its inception in year 2000.

Mr. Zhang resigned from the position of CEO/Executive Director of BOCM in 2007. He was transferred to Bank of China, Head Office heading the Bank card Center.

DIRECTORS' PROFILES (CONTINUED)

Tan Siak Tee – Independent Non-Executive Director

Mr. Tan Siak Tee, Malaysian, aged 70, 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 and Audit Committee.

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.

Ter Leong Yap – Independent Non-Executive Director

Mr. Ter Leong Yap, Malaysian, aged 47, was appointed to the Board in year 2010 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 member of the Audit Committee of the Bank. He graduated from University of Malaya with a Bachelor degree in Mechanical Engineering.

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

Mr. Ter is also actively involved in social work. Currently, he is the Deputy President of Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor, Treasurer of The Association of Chinese Chambers of Commerce and Industry of Malaysia ('ACCCIM'), Chairman of Socio Economic Research of Committee of ACCCIM, Committee Member of United Overseas Committee of China's National and REHDA, Wilayah Persekutuan (KL) Branch. He is also the Malaysia's representative for Malaysia-Singapore Business Council as well as the Honorary President of Young Malaysians Movement Malaysia. In addition, he also sits in the Board of School Directors as Vice Chairman, Board of Directors of Hin Hua High School Klang, Director of Kuen Cheng High School Kuala Lumpur and Director of Pin Hwa High School Klang.

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

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

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

The attendance of the Board of Directors' meetings held during 2010 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
Du Chaohua, Non Executive Director	6	6
Tan Sri Dato' Lim Guan Teik, Non Executive Director	2	2
Tan Siak Tee, Non Executive Director	6	6
Zhang Lianli, Chairman/Non Executive Director	5	4
Ter Leong Yap, Non Executive Director	2	1
Li Yuhua, Chairman/Non Executive Director	1	1

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.

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.

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.

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.

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.

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 2010 are as follows:

Composition of Audit Committee	**Number of AC Meetings**	
	Held	**Attended**
Tan Sri Dato’ Lim Guan Teik Ex-Chairman/Independent Non-Executive Director	2	2
Tan Siak Tee Chairman/Member/Independent Non-Executive Director	6	6
Du Chaohua Member/Non-Independent Non-Executive Director	6	6
Gao Xingmao Member/Non-Independent Non-Executive Director	3	3
Ter Leong Yap Member/Non-Independent Non-Executive Director	1	0

(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.

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.

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 10 May 2011.

ZHENG JINGBO DIRECTOR	TAN SIAK TEE DIRECTOR

Kuala Lumpur
10 May 2011

Company No.

511251	V

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
ASSETS					
Cash and short-term funds	2	1,173,318	808,721	1,173,316	808,720
Deposits and placements with banks and other financial institutions	3	-	30,000	-	30,000
Held-to-maturity securities	4	40,225	39,829	40,225	39,829
Loans and advances	5	943,863	704,575	943,863	704,575
Other assets	6	24,984	3,832	24,484	3,528
Amount due from a subsidiary	7	-	-	-	681
Deferred tax assets	8	5,557	5,017	5,557	5,017
Statutory deposits with Bank Negara Malaysia	9	2,100	-	2,100	-
Investment in a subsidiary company	10	-	-	1,000	1,000
Property and equipment	11	8,063	6,002	6,715	5,035
Intangible assets	12	52	462	43	449
TOTAL ASSETS		2,198,162	1,598,438	2,197,303	1,598,834
LIABILITIES AND EQUITY					
Deposits from customers	13	815,682	600,058	823,114	600,499
Deposits and placements of banks and other financial institutions	14	940,417	611,912	940,417	611,912
Bills and acceptances payable	15	-	2,096	-	2,096
Other liabilities	16	54,617	20,398	52,859	19,960
Provision for taxation		1,946	327	1,626	327
Deferred tax liabilities		27	46	-	-
TOTAL LIABILITIES		1,812,689	1,234,837	1,818,016	1,234,794
Financed by:					
Share capital	17	304,000	304,000	304,000	304,000
Reserves	18	81,473	59,601	75,287	60,040
TOTAL EQUITY		385,473	363,601	379,287	364,040
TOTAL LIABILITIES AND EQUITY		2,198,162	1,598,438	2,197,303	1,598,834
COMMITMENTS AND CONTINGENCIES	30	1,428,641	1,656,932	1,428,641	1,656,932

Company No.

511251	V

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Interest income	19	46,051	36,325	46,051	36,325
Interest expense	20	(19,614)	(14,756)	(19,614)	(14,756)
Net interest income		26,437	21,569	26,437	21,569
Other operating income	21	32,792	15,911	20,821	15,649
Other operating expenses	22	(27,363)	(18,726)	(24,322)	(18,071)
Operating profit		31,866	18,754	22,936	19,147
(Allowance for)/write back of impairment on loans and advances	24	(24)	919	(24)	919
Profit before taxation		31,842	19,673	22,912	20,066
Taxation	25	(9,970)	(5,476)	(7,665)	(5,430)
Total comprehensive income for the financial year		21,872	14,197	15,247	14,636
Earnings per share - basic/fully diluted (sen)	26	7.2	4.7	5.0	4.8

Company No.

511251	V

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Issued and fully paid ordinary shares of RM1 each	Non-distributable	Distributable	
		Nominal value	Statutory reserves	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000
Group					
At 1 January 2010					
- as previously reported		304,000	50,754	8,847	363,601
- effect of adopting FRS 139	37	-	-	-	-
At 1 January 2010 as restated		304,000	50,754	8,847	363,601
Profit for the financial year		-	-	21,872	21,872
Total comprehensive income for the year		-	-	21,872	21,872
Transfer to statutory reserve		-	7,624	(7,624)	-
At 31 December 2010		304,000	58,378	23,095	385,473
Group					
At 1 January 2009		304,000	43,436	8,808	356,244
Profit for the financial year		-	-	14,197	14,197
Total comprehensive income for the year		-	-	14,197	14,197
Transfer to statutory reserve		-	7,318	(7,318)	-
Dividends paid		-	-	(6,840)	(6,840)
At 31 December 2009		304,000	50,754	8,847	363,601

Company No.

511251	V

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

	Note	Issued and fully paid ordinary shares of RM1 each Nominal value RM'000	Non-distributable Statutory reserves RM'000	Distributable Retained profits RM'000	Total RM'000
Bank					
At 1 January 2010					
- as previously reported		304,000	50,754	9,286	364,040
- effect of adopting FRS 139	37	-	-	-	-
At 1 January 2010 as restated		304,000	50,754	9,286	364,040
Profit for the financial year		-	-	15,247	15,247
Total comprehensive income for the year		-	-	15,247	15,247
Transfer to statutory reserve		-	7,624	(7,624)	-
Dividends paid		-	-	-	-
At 31 December 2010		304,000	58,378	16,909	379,287
Bank					
At 1 January 2009		304,000	43,436	8,808	356,244
Profit for the financial year		-	-	14,636	14,636
Total comprehensive income for the year		-	-	14,636	14,636
Transfer to statutory reserve		-	7,318	(7,318)	-
Dividends paid		-	-	(6,840)	(6,840)
At 31 December 2009		304,000	50,754	9,286	364,040

Company No.

511251	V

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

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		31,842	19,673	22,912	20,066
Adjustments for:					
Depreciation of property and equipment		1,315	658	1,077	642
Amortisation of intangible assets		419	482	415	481
Gain on disposal of property and equipment		-	(16)	-	(16)
Amortisation of premium less accretion of discount		(129)	(124)	(129)	(124)
Allowance for/(write-back of) losses on loans and advances		24	(919)	24	(919)
Interest income from held-to-maturity securities		(1,502)	(1,503)	(1,502)	(1,503)
Unrealised foreign exchange (gain)/loss		(1,146)	131	(1,146)	131
Property and equipment written off		-	20	-	20
Operating profit before changes in operating assets and liabilities		30,823	18,402	21,651	18,778
(INCREASE)/DECREASE IN OPERATING ASSETS					
Deposits and placements with banks and other financial institutions		30,098	70,000	30,098	70,000
Loans and advances		(239,312)	38,276	(239,312)	38,276
Other assets		(21,517)	(595)	(21,338)	(291)
Amount due from a subsidiary		-	-	681	(681)
Statutory deposits with Bank Negara Malaysia		(2,100)	-	(2,100)	-
INCREASE/(DECREASE) IN OPERATING LIABILITIES					
Deposits from customers		214,530	236,321	221,521	236,762
Deposits and placements of banks and other financial institutions		328,055	77,502	328,055	77,502
Bills and acceptances payable		(2,096)	137	(2,096)	137
Other liabilities		35,763	1,332	34,443	894
Cash generated from operating activities		374,244	441,375	371,603	441,377
Tax paid		(8,910)	(6,174)	(6,906)	(6,174)
Net cash generated from operating activities		365,334	435,201	364,697	435,203

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

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

		Group		Bank	
	Note	2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(3,376)	(4,600)	(2,740)	(3,617)
Purchase of intangible assets		(9)	(23)	(9)	(9)
Proceeds from disposal of property and equipment		-	16	-	16
Interest received on held-to-maturity securities		1,502	1,503	1,502	1,503
Investment in subsidiary		-	-	-	(1,000)
Net cash (used in)/generated from investing activities		(1,883)	(3,104)	(1,247)	(3,107)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		-	(6,840)	-	(6,840)
Net cash used in financing activities		-	(6,840)	-	(6,840)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		363,451	425,257	363,450	425,256
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		808,721	383,464	808,720	383,464
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2	1,172,172	808,721	1,172,170	808,720

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

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

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Bank's financial year beginning on or after 1 January 2010 are as follows:

- FRS 7 Financial instruments: Disclosures and the related Amendments
- FRS 101 Presentation of financial statements (revised)
- FRS 123 "Borrowing Costs"
- FRS 139 Financial instruments : Recognition and Measurements
- 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
- Amendments to FRS 132 Financial Instruments: Presentation and FRS 101(revised) "Presentation of financial statements" – " Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives"
- IC Interpretation 10 "Interim Financial Reporting and Impairment"

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and the Bank is set out in Note 37.

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

The Group and the Bank will apply the following new standards, amendments to standards and interpretations from annual period beginning on or after 1 July 2010:

- The revised FRS 3 "Business combinations" (effective prospectively from 1 July 2010) 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.

- The revised FRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

- The revised FRS 127 "Consolidated and separate financial statements" (applies prospectively to transactions with non-controlling interests 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. When this standard is effective, all earnings and losses of the subsidiary are attributed of losses to the non-controlling interest result in debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated. 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.

- Amendment to FRS 7 "Financial instruments: Disclosures" and FRS 1 "First-time adoption of financial reporting standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

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 and the Bank will apply the following new standards, amendments to standards and interpretations from annual period beginning on or after 1 July 2010 (continued):

- Amendment to FRS 132 “Financial instruments: Presentation” on classification of right issues (effective from 1 March 2010) addresses accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity instruments instead of as derivative liabilities, regardless of the currency in which the exercise price is denominated. Currently, these issues are accounted for as derivative liabilities.

- IC Interpretation 4 “Determining whether an arrangement contains a lease” (effective from 1 January 2011) requires the Group and the Bank to identify any arrangement that does not take the legal form of lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangement are, or contain, lease. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 “Leases” should be applied to the lease element of the arrangement.

Improvements to FRSs:

- FRS 3 “Business combinations” (effective from 1 January 2011)
  - Clarifies that the choice of measuring non-controlling interests a fair value or at the proportionate share of the acquiree’s net assets applies only to instruments that represent present ownership interests and entities their holders to a proportionate share of the net assets in the event of liquidation.
  - Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application od FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance witht eh guidance in FRS3 (2005)

- FRS 101 “Presentation of financial statements” (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement fo changes in equity or in the notes to the financial statements.

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 and the Bank will apply the following new standards, amendments to standards and interpretations from annual period beginning on or after 1 July 2010 (continued):

Improvements to FRSs (continued):

- FRS 138 “Intangible Assets” (effective from 1 July 2010 clarifies that a group of complementary intangible assets acquired in a business combination may be recognised as a single asset if each asset has similar useful lives.

- IC Interpretation 9 “Reassessment of Embedded Derivatives” (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.

The adoption of the above standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank is not expected to have any significant financial impact on the results of the Group and the Bank.

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.

B ECONOMIC ENTITIES IN THE GROUP (CONTINUED)

Subsidiaries (continued)

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.

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 profit or loss attributable to the parents.

In the Bank's separate 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 G for impairment of non-financial assets)

C PROPERTY AND EQUIPMENT

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

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

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

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 G in summary of significant accounting policies on impairment of non-financial assets.

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.

D INTANGIBLE ASSETS

Computer Software

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

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

E FINANCIAL ASSETS

(a) Classification

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

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

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

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

(ii) Loan and receivables

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

(iii) Held-to-maturity

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

E FINANCIAL ASSETS (CONTINUED)

(a) Classification (continued)

(iv) Available-for-sale

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

(b) Recognition and initial measurement

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

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

(c) Subsequent measurement

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

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

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

Dividends on an AFS equity instrument are recognised separately in profit or loss when the Group's right to receive payment is established.

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

E FINANCIAL ASSETS (CONTINUED)

<u>Change in accounting policy</u>

The Group and the Bank have changed its accounting policy for financial assets upon adoption of FRS 139 on 1 January 2010. Upon adoption of FRS 139, interest receivables previously classified under other assets are now reclassified into the respective category of financial assets.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of the current financial year. Comparatives have not been restated. Refer to Note 37 for the impact of this change in accounting policy.

F IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost

Loan and advances

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

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

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

In accordance with the transitional provisions under the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans and advances, net of individual assessment impairment allowance.

The Group and the Bank have adopted the transitional provisions under the Amendments to FRS 139 and the collective assessment impairment allowance of the Group and the Bank have been determined based on the transitional arrangement issued by BNM.

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

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

F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

Held to maturity

If there is objective evidence that an impairment loss on HTM securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash 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.

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 profit or loss. For HTM securities stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

(b) Assets carried at fair value

When a decline in fair value of AFS securities has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in 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.

G IMPAIRMENT OF NON-FINANCIAL ASSETS

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

The impairment loss is charged to 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.

H 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.

I FINANCIAL LIABILITIES

The Group's and the Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

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

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

(b) Other liabilities measured at amortised cost

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

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

<u>Change in accounting policy</u>

Upon adoption of FRS 139, interest payables previously classified under other liabilities are now reclassified into the respective class of financial liabilities.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits. Comparatives have not been restated.

Refer to Note 37 for the impact of this change in accounting policy.

J FINANCIAL GUARANTEE CONTRACTS

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

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

The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with FRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

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

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

K LEASE

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

(a) Finance leases

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

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

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

(b) Operating leases

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

L PROVISIONS

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

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

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

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

M DIVIDENDS PAYABLE

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

N CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

O RECOGNITION OF INTEREST INCOME

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

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

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

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

<u>Change in accounting policy</u>

The Group and the Bank have changed its accounting policy for interest income recognition upon adoption of FRS 139 on 1 January 2010. Previously, interest income is recognised based on contractual interest rate. Upon adoption of FRS 139, interest income is now recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or when appropriate, a shorter period to the net carrying amount.

The Group and the Bank have applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 January 2010 and recording any adjustments to opening retained profits. Upon adoption of FRS139, the Group and the Bank has quantified that there is no significant financial impact on the results of the Group and the Bank.

P RECOGNITION OF FEES AND OTHER INCOME

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

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

Q CURRENCY TRANSLATIONS

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group and the Bank operate (the "functional currency"). The financial statements 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.

R INCOME TAX

Current tax

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

Deferred tax

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

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

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

S EMPLOYEE BENEFITS

Short-term employee benefits

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

Post-employment benefits - defined contribution plans

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

The Group's and the Bank's contributions to the defined contribution plan are charged to 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.

T FINANCIAL INSTRUMENTS

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

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

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

Financial instruments recognised 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.

T FINANCIAL INSTRUMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

1 GENERAL INFORMATION

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

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central SAFE Investments Limited, 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

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	174,518	48,821	174,516	48,820
Money at call and deposit placements maturing within one month	997,654	759,900	997,654	759,900
	1,172,172	808,721	1,172,170	808,720
Interest receivable	1,146	-	1,146	-
	1,173,318	808,721	1,173,316	808,720

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2010	2009
	RM'000	RM'000
Bank Negara Malaysia	-	30,000
	-	30,000

4 HELD-TO-MATURITY SECURITIES

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	39,672	39,672
Accretion of discounts less amortisation of premium	286	157
Interest receivable	267	-
	40,225	39,829

5 LOANS AND ADVANCES

At amortised cost

(i) By type

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Overdrafts	119,139	48,650
Term loans		
- Housing loans	9,546	7,073
- Syndicated term loan	248,139	361,799
- Other term loans	373,653	129,680
Bills receivable	-	67,348
Trust receipts	9,568	6,392
Claims on customers under acceptance credits	93,872	47,325
Staff loans	2,210	2,613
Loans to banks and other financial institutions	108,457	51,487
	964,584	722,367
Less: Unearned interest and income	(381)	(302)
Total Gross loans and advances	964,203	722,065
Allowance for bad and doubtful debts:		
- Collective impairment allowance	(17,466)	-
- Individual impairment allowance	(2,874)	-
- General allowance	-	(17,466)
- Specific allowance	-	(24)
Total net loans and advances	943,863	704,575

5 LOANS AND ADVANCES (CONTINUED)

(ii) By geographical distribution

	Group and Bank	
	2010	2009
	RM'000	RM'000
Malaysia	733,900	439,258
Other countries	230,303	282,807
	964,203	722,065

(iii) By interest rate sensitivity

	2010	2009
Fixed rate		
- Housing loans	-	-
- Other fixed rate loan	3,047	3,438
Variable rate		
- BLR plus	479,016	174,268
- Cost plus	110,851	63,861
- Other variable rates	371,289	480,498
	964,203	722,065

(iv) By purpose

	2010	2009
Purchase of securities	30,167	-
Purchase of transport vehicles	31	47,743
Purchase of landed property		
- Residential	15,308	11,562
- Non-residential	181,567	73,229
Purchase of fixed assets other than land and building	836	824
Personal use	17,333	3,403
Construction	11,358	8,379
Working capital	579,930	446,445
Other purpose	127,673	130,480
	964,203	722,065

5 LOANS AND ADVANCES (CONTINUED)

(v) By residual contractual maturity

	Group and Bank	
	2010	2009
	RM'000	RM'000
Up to one month	396,571	281,298
More than one month to three months	170,177	237,937
More than three months to six months	12,099	63,602
More than six months to twelve months	-	-
More than twelve months	385,356	139,228
	964,203	722,065

(vi) Impaired loans and advances

(a) Movement in impaired loans and advances

	Group and Bank	
	2010	2009
	RM'000	RM'000
At beginning of the financial year		
- as previously reported	67	6,219
- effect of adopting FRS139	2,867	-
As restated	2,934	6,219
Classified as impaired during the year	66	67
Amount recovered	(36)	(6,219)
Amount written-off	(43)	-
At end of the financial year	2,921	67
Individual impairment allowance/specific allowances	(2,874)	(24)
Net impaired loans and advances	47	43
Ratio of net impaired loans and advances to gross loans and advances less allowance for impairment	0.00%	0.01%

(b) By geographical

	Group and Bank	
	2010	2009
	RM'000	RM'000
Malaysia	2,921	67
Other countries	-	-
	2,921	67

5 LOANS AND ADVANCES (CONTINUED)

(vi) Impaired loans and advances (continued)

(c) By purpose

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Purchase of residential property	58	67
Working capital	2,863	-
	2,921	67

(vii) Movements in allowance for impaired for loans and advances

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Individual impairment allowance		
At the beginning of the financial year		
- as previously reported	-	-
- effect of adoption FRS 139	2,887	-
As restated	2,887	-
Allowance made during the financial year	32	-
Amount recovered	(37)	-
Amount written off	(8)	-
At end of the financial year	2,874	-
Collective impairment allowance		
At beginning of the financial year		
- as previously reported	-	-
- effect of adoption FRS139	17,466	-
As restated/At the end of the financial year	17,466	-

5 LOANS AND ADVANCES (CONTINUED)

(vii) Movements in allowance for impaired for loans and advances (continued)

	Group and Bank	
	2010	2009
	RM'000	RM'000
Specific allowance		
At beginning of the financial year		
- as previously reported	24	943
- effect of adoption FRS139	(24)	-
As restated	-	943
Allowance made during the financial year	-	24
Amount written off	-	(943)
At end of the financial year	-	24
General allowance		
At the beginning of the financial year		
- as previously reported	17,466	17,466
- effect of adoption FRS 139	(17,466)	-
As restated	-	17,466
As % of gross loans and advances less specific allowance	-	2.42%

6 OTHER ASSETS

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Interest receivable	-	1,401	-	1,401
Other debtors, deposits and prepayments	24,984	2,431	24,484	2,127
	24,984	3,832	24,484	3,528

7 AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary 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.

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	5,557	5,017	5,557	5,017
Deferred tax liabilities	(27)	(46)	-	-
	5,530	4,971	5,557	5,017
At beginning of the financial year	4,971	4,920	5,017	4,920
Credited to income statements (Note 25)	559	51	540	97
At end of the financial year	5,530	4,971	5,557	5,017

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

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
At beginning of the financial year	4,971	4,920	5,017	4,920
Credited/(charged) to income statements (Note 25)	559	51	540	97
- property and equipment	(411)	(92)	(332)	(48)
- intangible assets	88	78	88	80
- provision for other liabilities	665	86	567	86
- specific allowance on loans and advances	-	(235)	-	(235)
- unrecognised foreign exchange gain	217	214	217	214
At end of the financial year	5,530	4,971	5,557	5,017

8 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Subject to income tax:-				
General allowance on loans and advances	4,367	4,367	4,367	4,367
Provision for other liabilities	1,516	851	1,418	851
Unrealised foreign exchange loss	250	33	250	33
	6,133	5,251	6,035	5,251
Offsetting	(576)	(234)	(478)	(234)
Deferred tax assets (after offsetting)	5,557	5,017	5,557	5,017
Property and equipment	(590)	(179)	(467)	(135)
Intangible assets	(13)	(101)	(11)	(99)
	(603)	(280)	(478)	(234)
Offsetting	576	234	478	234
Deferred tax liabilities (after offsetting)	(27)	(46)	-	-

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

	Group	
	2010	2009
	RM'000	RM'000
Unutilised capital allowance	-	146

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

9 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	Group and Bank	
	2010	2009
	RM'000	RM'000
Statutory Deposits with Bank Negara Malaysia	2,100	-
	2,100	-

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

10 INVESTEMENT IN A SUBSIDIARY

	Bank 2010 RM'000	Bank 2009 RM'000
Unquoted shares, at cost, in Malaysia	1,000	1,000

The subsidiary of the Bank is as follow:

Name	Principal Activities	Percentage of equity held 2010 %	Percentage of equity held 2009 %
China Visa Services (Malaysia) Sdn Bhd	Chinese visa application services	100	100

11 PROPERTY AND EQUIPMENT

Group

2010	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Work-in-progress RM'000	Total RM'000
Cost						
At 1 January	2,658	1,150	2,182	3,767	-	9,757
Additions	439	483	937	1,517	-	3,376
Reclassification	(5)	-	5	-	-	-
Write-offs	-	-	(1)	-	-	(1)
At 31 December	3,092	1,633	3,123	5,284	-	13,132
Accumulated depreciation						
At 1 January	2,136	477	921	221	-	3,755
Charge for the financial year	286	222	349	458	-	1,315
Write-offs	-	-	(1)	-	-	(1)
At 31 December	2,422	699	1,269	679	-	5,069
Net book value	670	934	1,854	4,605	-	8,063

11 PROPERTY AND EQUIPMENT

Group

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

11 PROPERTY AND EQUIPMENT (CONTINUED)

Bank

2010	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Work-in-progress RM'000	Total RM'000
Cost						
At 1 January	2,468	1,150	1,940	3,216	-	8,774
Additions	417	483	750	1,090	-	2,740
Transfer from/(to)	-	-	(8)	-	-	(8)
Write-offs	-	-	(1)	-	-	(1)
At 31 December	2,885	1,633	2,681	4,306	-	11,505
Accumulated depreciation						
At 1 January	2,126	477	920	216	-	3,739
Charge for the financial year	221	222	274	360	-	1,077
Transfer from/(to)	-	-	(25)	-	-	(25)
Write-offs	-	-	(1)	-	-	(1)
At 31 December	2,347	699	1,168	576	-	4,790
Net book value	538	934	1,513	3,730	-	6,715

11 PROPERTY AND EQUIPMENT (CONTINUED)

Bank

2009	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Work-in-progress RM'000	Total 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	2,468	1,150	1,940	3,216	-	8,774
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)
Write-offs	(256)	-	(99)	(9)	-	(364)
At 31 December	2,126	477	920	216	-	3,739
Net book value	342	673	1,020	3,000	-	5,035

12 INTANGIBLE ASSETS

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Computer Software				
Cost				
At 1 January	3,006	2,983	2,992	2,983
Additions	9	23	9	9
At 31 December	3,015	3,006	3,001	2,992
Accumulated amortisation				
At 1 January	2,544	2,062	2,543	2,062
Charge for the financial year	419	482	415	481
At 31 December	2,963	2,544	2,958	2,543
Net book value	52	462	43	449

13 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Demand deposits	129,803	87,728	137,235	88,169
Savings deposits	28,035	20,461	28,035	20,461
Fixed deposits	576,088	490,269	576,088	490,269
Negotiable instruments of deposits	80,156	-	80,156	-
Others	1,600	1,600	1,600	1,600
	815,682	600,058	823,114	600,499
Maturity structure of fixed deposits and negotiable instrument of deposits are as follows:				
Due within six months	565,491	469,241	565,491	469,241
Six months to one year	90,753	20,712	90,753	20,712
One year to three year	-	316	-	316
	656,244	490,269	656,244	490,269

13 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customer

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	1,600	1,600	1,600	1,600
Business enterprises	535,374	424,444	542,806	424,885
Individuals	268,543	170,529	268,543	170,529
Others	10,165	3,485	10,165	3,485
	815,682	600,058	823,114	600,499

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	940,417	611,912
	940,417	611,912

15 BILLS AND ACCEPTANCES PAYABLE

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

16 OTHER LIABILITIES

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Interest payable	-	1,544	-	1,544
Accrued expenses	5,810	3,908	5,153	3,792
Margin deposits	7,958	5,314	7,958	5,314
Other liabilities	40,849	9,632	39,748	9,310
	54,617	20,398	52,859	19,960

17 SHARE CAPITAL

	Group and bank			
	Number of ordinary share of RM1.00 each		Amount	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Authorised:				
Ordinary shares of RM1 each	304,000	304,000	304,000	304,000
Issued and fully paid:				
Ordinary shares of RM1 each	304,000	304,000	304,000	304,000
Balance as at 31 December	304,000	304,000	304,000	304,000

18 RESERVES

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Distributable:				
Retained profits	23,095	8,847	16,909	9,286
Non-distributable:				
Statutory reserves	58,378	50,754	58,378	50,754
	81,473	59,601	75,287	60,040

(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 2010.

(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.

19 INTEREST INCOME

	Group and Bank	
	2010	2009
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries	26,631	19,734
- Recoveries from impaired loans and advances	-	-
Money at call and deposit placement with financial institutions	17,789	14,965
Securities		
- Held-to-maturity securities	1,502	1,503
	45,922	36,202
Amortisation of premium less accretion of discount	129	124
Interest suspended	-	(1)
Total interest income	46,051	36,325

Interest income accrued on impaired financial assets amounting to RM107 (2009: RM Nil).

20 INTEREST EXPENSE

	Group and Bank	
	2010	2009
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	9,379	6,021
Deposits from customers	9,894	8,418
Others	341	317
	19,614	14,756

21 OTHER OPERATING INCOME

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Fees income:				
- Fee on loans and advances	2,611	1,698	2,611	1,698
- Service charges and fees	17,845	5,335	5,754	5,335
- Guarantee fees	2,209	2,260	2,209	2,260
	22,665	9,293	10,574	9,293
Foreign exchange income:				
- Realised	8,914	6,448	8,914	6,448
- Unrealised	1,146	(131)	1,146	(131)
Gain from disposal of property and equipment	-	16	-	16
Other income	67	285	187	23
	32,792	15,911	20,821	15,649

22 OTHER OPERATING EXPENSES

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Personnel expenses				
Salaries and wages (includes CEO/EDs)	9,090	6,872	7,945	6,722
Bonus	3,594	2,635	3,213	2,635
Defined contribution plan ('EPF')	1,573	1,169	1,460	1,155
Staff welfare expenses	607	314	481	281
Other personnel costs	818	598	743	556
	15,682	11,588	13,842	11,349
Marketing expenses				
Entertainment	413	373	406	365
Other	206	143	203	138
	619	516	609	503
Establishment costs				
Rental of premises	2,746	1,638	2,138	1,585
Depreciation of property and equipment (Note 11)	1,315	658	1,077	642
Amortisation of intangible assets (Note 12)	419	482	415	481
Repairs and maintenance	470	533	467	521
Property and equipment written off	-	20	-	20
Other establishment costs	1,341	1,007	1,249	951
	6,291	4,338	5,346	4,200
Administration and general expenses				
Insurance premium	340	281	338	281
Travelling and accommodation	283	252	292	239
Telecommunication and utilities	453	286	411	279
Printing, stationery and postage	781	633	732	597
Legal and professional fess	1,701	68	1,626	40
Other administration and general expenses	1,213	764	1,126	583
	4,771	2,284	4,525	2,019
	27,363	18,726	24,322	18,071

22 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration				
- statutory	181	114	146	106
- others	50	137	50	137
Directors' remuneration (Note 23)	1,113	1,167	1,113	1,167
Pre-operating expenses	-	423	-	-

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
Du Chaohua
Zhang Lianli
Tan Siak Tee
Ter Leong Yap
Li Yuhua
Tan Sri Dato' Lim Guan Teik

	Group and Bank	
	2010	2009
	RM'000	RM'000
Executive Directors		
- salary and other remuneration	551	658
- bonus	338	270
- benefits-in-kind	94	95
Non Executive Directors		
- fees	130	144
	1,113	1,167

23 DIRECTORS' REMUNERATION (CONTINUED)

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM983,835 (2009: RM1,022,619).

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 Number of Directors	
	2010	2009
Executive Directors		
RM500,000 – RM1,000,000	1	-
RM1,000,001 – RM1,500,000	-	1
Non-Executive Directors		
Below RM50,000	6	4
RM100,001 - RM150,000	1	1

24 ALLOWANCES FOR /(WRITE BACK OF) IMPAIRMENT ON LOANS AND ADVANCES

	Group and Bank	
	2010	2009
	RM'000	RM'000
Allowance for impaired loans and advances		
(a) Individual impairment allowance		
- made during the financial year	32	-
- written-back	(8)	-
(b) Specific allowance		
- made during the financial year	-	24
- written-back	-	(943)
	24	(919)

25 TAXATION

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current tax	9,947	5,527	7,627	5,527
- Deferred tax (Note 8)	(559)	(51)	(540)	(97)
	9,388	5,476	7,087	5,430
Over provision in prior years	582	-	578	-
	9,970	5,476	7,665	5,430

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

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	31,842	19,673	22,912	20,066
Statutory tax rate in Malaysia (2010: 25%, 2009: 25%)	7,961	4,918	5,728	5,017
Tax effect in respect of:				
Non-allowable expenses	338	295	163	187
Non-taxable income	-	(4)	-	(4)
Over provision in prior years	582	-	578	-
Reversal of previously recognised deferred tax assets	19	230	126	230
Other temporary differences not recognised	-	37	-	-
Tax adjustment	1,070	-	1,070	-
Tax expense	9,970	5,476	7,665	5,430

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.

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Net profit attributable to equity holders of the Group/Bank	21,872	14,197	15,247	14,636
Weighted average number of ordinary shares in issue	304,000	304,000	304,000	304,000
Basic/fully diluted earnings per share (sen)	7.2	4.7	5.0	4.8

27 DIVIDENDS

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:

	2010		2009	
	Gross dividend per share	Amount of dividends, net of tax	Gross dividend per share	Amount of dividends, net of tax
	sen	RM'000	sen	RM'000
Group and Bank				
Ordinary shares				
Final dividend for 2009	-	-	3.00	6,840

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Relationship
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:

	Holding Company RM'000	Fellow subsidiaries RM'000	Key management personnel RM'000
Group 2010			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	3	3,754	-
- Housing loan	-	-	15
	3	3,754	15
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	154	3,761	-
- Deposits from customer	-	-	62
Administrative expenses	-	1,679	-
	154	5,440	62

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (continued)

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

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (continued)

	Holding Company RM'000	Fellow subsidiaries and subsidiary RM'000	Key management personnel RM'000
Bank			
2010			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	3	3,754	-
- Housing loan	-	-	15
Other income	-	120	-
	3	3,874	15
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	154	3,761	-
- Deposits from customer	-	-	60
Administrative expenses	-	1,679	-
	154	5,440	60
2009			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	8	50	-
- Housing loan	-	-	17
Other income	-	10	-
	8	60	17
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	2,729	947	-
- Deposits from customer	-	-	19
	2,729	947	19

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (continued)

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.

(b) Related party balances

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

Group 2010	Holding Company RM'000	Fellow subsidiaries RM'000	Key management personnel RM'000
AMOUNT DUE FROM			
Deposits and placements with banks and other financial institutions	6,075	529,160	-
Housing loan	-	-	343
	6,075	529,160	343
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	-	339,842	-
Deposits from customers	-	7,432	6,622
		347,274	6,622

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (continued)

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

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

Bank 2010	Holding Company RM'000	Fellow subsidiaries and subsidiary RM'000	Key management personnel RM'000
AMOUNT DUE FROM			
Deposits and placements with banks and other financial institutions	6,075	529,160	-
Housing loan	-	-	343
	6,075	529,160	343
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	-	339,842	-
Deposits from customers	-	7,432	6,511
		347,274	6,511

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (continued)

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

Bank 2009	Holding Company RM'000	Fellow subsidiaries and subsidiary RM'000	Key management personnel RM'000
AMOUNT DUE FROM			
Advances	2,473	41,469	-
Housing loan	-	-	397
Subsidiary	-	681	-
	2,473	42,150	397
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	82,794	397,659	-
Deposits from customers	-	441	862
	82,794	398,100	862

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 RM6,576,769 and RM6,501,662 respectively (2009: RM875,046, RM791,411)

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Key management personnel compensation

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

	Group and Bank	
	2010	2009
	RM'000	RM'000
Fees	130	144
Salaries and other short-term benefits	1,943	2,084
Benefits-in-kind	141	139
	2,214	2,367

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

(1) Key management personnel include 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:

	Group and Bank	
	2010	2009
Outstanding credit exposures with connected parties (RM'000)	190,262	249,353
Outstanding credit exposures with connected parties as a percentage of total credit exposures	13%	18%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	0%	0%

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					
	2010			2009		
	Principal	Credit equivalent	Risk weighted	Principal	Credit equivalent	Risk weighted
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	540	540	540	2,826	2,826	600
Transaction-related contingent items	534,458	267,229	132,439	569,841	284,921	142,846
Short-term self liquidation trade related contingencies	1,126	225	203	5,835	1,167	470
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	434,649	86,930	86,461	566,547	113,309	93,979
- Maturity exceeding one year	428,576	214,288	136,676	487,608	243,804	157,875
Foreign exchange related contracts:						
- Less than one year	12,744	-	-	3,544	-	-
Others	16,548	-	-	20,731	-	-
	1,428,641	569,212	356,319	1,656,932	646,027	395,770

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

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:

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	3,031	1,690	2,411	1,097
Later than 1 year but not later than 5 years	3,943	1,874	3,426	777
	6,974	3,564	5,837	1,874

32 CAPITAL COMMITMENTS

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property and equipment				
- approved by the Board and contracted for	-	356	-	-

33 CAPITAL ADEQUACY

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

	2010 RM'000	2009 RM'000
Tier-1 capital		
Paid-up ordinary share capital	304,000	304,000
Retained profits	16,909	9,286
Other reserves	58,378	50,754
	379,287	364,040
Less: Deferred tax assets	(5,557)	(5,017)
Total tier-1 capital	373,730	359,023
Tier-2 capital		
Collective impairment allowance	17,466	-
General allowance for bad and doubtful debts	-	17,466
Total tier-2 capital	17,466	17,466
Less:		
Investment in subsidiary company	(1,000)	(1,000)
Total capital base	390,196	375,489
Capital ratios		
Before deducting proposed dividends		
Core capital ratio	25%	32%
Risk-weighted capital ratio	26%	33%
After deducting proposed dividends		
Core capital ratio	25%	32%
Risk-weighted capital ratio	26%	33%

33 CAPITAL ADEQUACY (CONTINUED)

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

	2010 RM'000	2009 RM'000
Credit risk	1,377,555	1,048,082
Market risk	4,300	2,548
Operational risk	81,759	73,113
	1,463,614	1,123,743

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 Group and 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.

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:

2010	Gross exposure RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	670,408	670,408	-	-
Banks, development financial institutions & MDBs*	581,575	581,575	130,203	10,416
Corporates	905,941	905,941	877,355	70,188
Residential mortgages	11,968	11,968	4,644	372
Other assets	41,194	41,194	9,034	723
Total on-balance sheet exposure	2,211,086	2,211,086	1,021,236	81,699
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	569,212	569,212	356,319	28,506
Total credit risk	2,780,298	2,780,298	1,377,555	110,205
Net long position				
(ii) Market Risk				
Foreign currency risk	4,300		4,300	344
(iii) Operational Risk			81,759	6,541
Total risk weighted assets and capital requirement			1,463,614	117,090

* Multi-lateral Development Banks ('MDBs')

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: (continued)

Bank

2009	Gross exposure RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
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
Net long position				
(ii) Market Risk				
Foreign currency risk	2,548		2,548	204
(iii) Operational Risk			73,113	5,849
Total risk weighted assets and capital requirement			1,123,743	89,899

* Multi-lateral Development Banks ('MDBs')

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NOTES TO THE FINANCIAL STATEMENTS
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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:

2010	<Exposures after Netting and Credit Risk Mitigation				>		
Supervisory Risk weights	Sovereigns and central banks	Banks, MDBs and FDIs	Corporate	Residential mortgages	Other assets	Total exposure after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	670,408	-	23,331	39	27,825	721,603	-
20%	-	535,281	15,463	-	5,419	556,163	111,233
35%	-	-	-	9,033	-	9,033	3,161
50%	-	464,004	-	4,108	-	468,112	234,056
100%	-	-	1,010,002	-	7,950	1,017,952	1,017,952
150%	-	-	7,435	-	-	7,435	11,153
Total	670,408	999,285	1,056,231	13,180	41,194	2,780,298	1,377,555
Risk weighted asset By exposure	-	339,058	1,024,247	5,216	9,034	1,377,555	
Average risk weight	0.00%	33.9%	97.0%	39.6%	21.9%	49.5%	

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NOTES TO THE FINANCIAL STATEMENTS
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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:

Bank
2009

	<Exposures after Netting and Credit Risk Mitigation>						
Supervisory Risk weights	Sovereigns and central banks	Banks, MDBs and FDIs	Corporate	Residential mortgages	Other assets	Total exposure after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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
Total	831,819	548,559	851,807	11,701	12,447	2,256,333	1,048,082
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%	

33 CAPITAL ADEQUACY (CONTINUED)

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

	Group and Bank					
	2010			2009		
	Principal	Credit equivalent	Risk weighted	Principal	Credit equivalent	Risk weighted
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	540	540	540	2,826	2,826	600
Transaction-related contingent items	534,458	267,229	132,439	569,841	284,921	142,846
Short-term self liquidating trade related contingencies	1,126	225	203	5,835	1,167	470
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	428,576	214,288	136,676	487,608	243,804	157,875
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	434,649	86,930	86,461	566,547	113,309	93,979
	1,399,349	569,212	356,319	1,632,657	646,027	395,770

34 FINANCIAL RISK MANAGEMENT

(a) Financial risk management

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

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

(b) Credit Risk

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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

Maximum exposure to credit risk

The tables below present the Group's and the Bank's maximum exposure to credit risk of their balance sheet and off-balance sheet financial instruments as at 31 December 2010, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations of the instruments issued are called upon.

	Group RM'000	Bank RM'000
2010		
Items recognised in the statements of financial position		
Cash and short-term funds	1,173,318	1,173,316
Loans and advances	943,863	943,863
Other assets	24,984	24,484
	2,142,165	2,141,663
Items not recognised in the statements of financial position		
Contingent liabilities	536,124	536,124
Credit commitments	863,225	863,225
Total maximum credit risk exposure	3,541,514	3,541,012

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34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

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

Group 2010	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
Primary agriculture	-	-	67,413	-	67,413	10,774
Mining and quarrying	-	-	4,307	-	4,307	2,525
Manufacturing	-	-	206,179	-	206,179	72,383
Electricity, gas and water supply	-	-	2,373	-	2,373	14,240
Construction	-	-	36,672	-	36,672	120,285
Real estate	-	-	73,356	-	73,356	16,746
Wholesale and retail trade and restaurants and hotels	-	-	60,750	-	60,750	19,712
Transport, storage and communication	-	-	42,175	-	42,175	128,291
Finance, insurance and business services	535,282	-	174,931	-	710,213	173,942
Household	-	-	47,394	-	47,394	10,167
Government and government agencies	628,082	40,225	-	-	668,307	-
Education, health and others	-	-	1,464	-	1,464	147
Others	-	-	247,189	-	247,189	-
	1,163,364	40,225	964,203	-	2,167,792	569,212
Assets not subject to credit risk	9,954	-	-	40,756	50,710	-
	1,173,318	40,225	964,203^	40,756#	2,218,502	569,212

^ Excludes collective assessment allowance and individual impairment allowance amounting to RM17,466,000 and RM2,874,000.
# Other assets include interest receivables, intangible assets, property and equipment, statutory deposits with BNM and deferred tax assets.

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

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

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
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	-
	834,565	39,829	722,065	1,401	1,597,860	646,027
Assets not subject to credit risk	4,156	-	-	13,912	18,068	-
	838,721	39,829	722,065^	15,313#	1,615,928	646,027

^ Excludes general allowance and specific allowance amounting to RM17,466,000 and RM24,000.
# Other assets include interest receivables, intangible assets, property and equipment and deferred tax assets.

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34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

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

Bank 2010	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
Primary agriculture	-	-	67,413	-	67,413	10,774
Mining and quarrying	-	-	4,307	-	4,307	2,525
Manufacturing	-	-	206,179	-	206,179	72,383
Electricity, gas and water supply	-	-	2,373	-	2,373	14,240
Construction	-	-	36,672	-	36,672	120,285
Real estate	-	-	73,356	-	73,356	16,746
Wholesale and retail trade and restaurants and hotels	-	-	60,750	-	60,750	19,712
Transport, storage and communication	-	-	42,175	-	42,175	128,291
Finance, insurance and business services	535,282	-	174,931	-	710,213	173,942
Household	-	-	47,394	-	47,394	10,167
Government and government agencies	628,082	40,225	-	-	668,307	-
Education, health and others	-	-	1,464	-	1,464	147
Others	-	-	247,189	-	247,189	-
	1,163,364	40,225	964,203	-	2,167,792	569,212
Assets not subject to credit risk	9,952	-	-	39,899	49,851	-
	1,173,316	40,225	964,203^	39,899#	2,217,643	569,212

^ Excludes collective impairment allowance and individual impairment allowance amounting to RM17,466,000 and RM2,874,000.
# Other assets include interest receivables, intangible assets, property and equipment, statutory deposits with BNM and deferred tax assets.

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

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

Bank 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
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	-
	834,565	39,829	722,065	1,401	1,597,860	646,027
Assets not subject to credit risk	4,155	-	-	14,309	18,464	-
	838,720	39,829	722,065^	15,710#	1,616,324	646,027

^ Excludes general allowance and specific allowance amounting to RM17,466,000 and RM24,000.
# Other assets include interest receivables, intangible assets, property and equipment and deferred tax assets.

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Collateral

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

Loans and advances

Loans and advances are summarised as follows:

2010	Group and Bank RM'000
Neither past due nor impaired	959,172
Past due but not impaired	2,110
Impaired	2,921
Gross loans and advances	964,203
Less: Individual impairment allowance	(2,874)
Collective impairment allowance	(17,466)
Net loans and advances	943,863

(i) Loans and advances neither past due nor impaired

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

- "AAA –A" refers to customers have a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.

- "BBB – B" refers to customers have a good credit status, relatively low probability of default within the next year, guaranteed repayment capability and uncertainties in their risk.

- "CCC – C" refers to customers have a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant credit risks.

- "D" – refers to customers have defaulted by the time of rating. Customers that have defaulted are directly rated D.

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Loans and advances (continued)

(i) Loans and advances neither past due nor impaired (continued)

The following table sets out an analysis of loans and advances by internal credit grading which are not past due and for which no individual impairment allowance has been raised.

2010	Group and Bank RM'000
AAA - A	299,018
BBB - B	472,401
CCC – C	140,805
Unrated	46,948
	959,172

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

(ii) Loans and advances past due but not impaired

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

2010	Group and Bank RM'000
Between 31 – 60 days past due	286
Between 61 -90 days past due	1,824
	2,110
Estimated fair value of collateral held	2,852

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Loans and advances (continued)

(iii) Loans and advances impaired

Loans, advances and financing that are individually determined to be impaired as at 31 December 2010 are as follows:

2010	Group and Bank RM'000
Corporate	2,863
Individual	58
	2,921
Estimated fair value of collateral held	63

(iv) Renegotiated loans and advances

Credit facilities are classified as rescheduled and restructured ("R&R") assets when the Group and the Bank grant concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A R&R credit facility is classified into the appropriate facility grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the R&R terms.

R&R assets are not classified back to the non impaired status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the R&R terms during the observable period.

Carrying amount of renegotiated loans and advances that would otherwise be past due or impaired is NIL.

34 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Financial assets other than loans and advances

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

The tables below presents an analysis of financial assets other than loans and advances by rating agency designation as at 31 December 2010, based on RAM's ratings or their equivalent:

Group and Bank 2010	Short term funds RM'000	Held-to maturity securities RM'000	Other assets RM'000
AA3/A-/A	729	-	-
A1/BBB+/A-	534,506	-	-
A3	7	-	
Unrated			
- Bank Negara Malaysia	626,975	40,225	-
- Others	9,953	-	24,484
	1,172,170	40,225	24,484

35 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk

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

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 Bank Negara Malaysia under the first two time buckets for “up to 1 week” and “>1 week to 1 month”.

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34 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk (continued)

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2010 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM GP8:

Group 2010	Within 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 years RM'000	Total RM'000
Cash and short-term funds	1,143,307	30,011	-	-	-	-	1,173,318
Held-to-maturity securities	-	-	-	40,225	-	-	40,225
Loans and advances	129,695	266,876	170,177	12,099	-	365,016	943,863
Other assets	26,047	113	-	-	6,308	8,288	40,756
Total assets	1,299,049	297,000	170,177	52,324	6,308	373,304	2,198,162
Deposits from customers	328,727	215,489	160,986	18,127	92,353	-	815,682
Deposits and placements of banks and other financial institutions	483,297	288,713	168,407	-	-	-	940,417
Other liabilities	5,495	43,080	772	103	7,140	-	56,590
Total liabilities	817,519	547,282	330,165	18,230	99,493	-	1,812,689
Net liquidity gap- Total assets less total liabilities	481,530	(250,282)	(159,988)	34,094	(93,185)	373,304	385,473

34 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk (continued)

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2010 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM GP8:

Bank 2010	Within 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 years RM'000	Total RM'000
Cash and short-term funds	1,143,305	30,011	-	-	-	-	1,173,316
Held-to-maturity securities	-	-	-	40,225	-	-	40,225
Loans and advances	129,695	266,876	170,177	12,099	-	365,016	943,863
Other assets	25,720	113	-	-	6,308	7,758	39,899
Financial assets	1,298,720	297,000	170,177	52,324	6,308	372,774	2,197,303
Deposits from customers	336,159	215,489	160,986	18,127	92,353	-	823,114
Deposits and placements of banks and other financial institutions	483,297	288,713	168,407	-	-	-	940,417
Other liabilities	5,495	41,999	30	133	6,828	-	54,485
Financial liabilities	824,951	546,201	329,423	18,260	99,181	-	1,818,016
Net liquidity gap- financial assets less financial liabilities	473,769	(249,201)	(159,246)	34,064	(92,873)	372,774	379,287

34 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk (continued)

The Table below shows the undiscounted cash outflows of the Group' financial liabilities by remaining contractual maturities on undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position. Information on cash outflow of gross loan commitment is set out in Note 30.

2010 Group	Within 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 years RM'000	Total RM'000
Financial liabilities							
Deposits from customers	158,198	386,570	161,156	18,145	92,435	-	816,504
Deposits and placements of banks and other financial institutions	484,677	288,381	168,299	-	-	-	941,357
Other liabilities	13,438	28,734	633	584	1,044	4,080	48,513
	656,313	703,685	330,088	18,729	93,479	4,080	1,806,374
Bank							
Financial liabilities							
Deposits from customers	165,465	386,184	160,995	18,127	92,343	-	823,114
Deposits and placements of banks and other financial institutions	484,194	288,093	168,130	-	-	-	940,417
Other liabilities	13,438	27,722	629	584	1,044	4,080	47,497
	663,097	701,999	329,754	18,711	93,387	4,080	1,811,028

34 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Market Risk

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

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

The Bank's interest rate risk is monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. An increase or decrease by 25%, the impact of increase/decrease on the Bank's post-tax profit for the year and on equity is estimated at RM1.5 million.

(e) Operational Risk

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. 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)

(f) 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
2010

	Non Trading Book							
	Up to 1 month	>1 – 3 months	>3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total	Effective Interest Rate
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	1,162,082	-	-	-	-	11,236	1,173,318	2.12%
Held-to-maturity securities	-	-	40,225	-	-	-	40,225	4.09%
Loans and advances								
- non-impaired	786,754	163,651	10,752	867	2,179	(17,466)	946,737	4.09%
- impaired	-	-	-	-	-	(2,874)	(2,874)	
Other assets	-	-	-	-	-	24,984	24,984	
Deferred tax assets	-	-	-	-	-	5,557	5,557	
Property and equipment	-	-	-	-	-	8,063	8,063	
Intangible assets	-	-	-	-	-	52	52	
Statutory Deposits with Bank Negara Malaysia	-	-	-	-	-	2,100	2,100	
Total assets	1,948,836	163,651	50,977	867	2,179	31,652	2,198,162	

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34 FINANCIAL INSTRUMENTS (CONTINUED)

(f) Interest rate risk (continued)

Group
2010

	Non Trading Book							
Liabilities	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	Total RM'000	Effective Interest Rate %
Deposits from customers	416,671	160,986	108,879	-	-	129,146	815,682	2.52%
Deposits and placements of banks and other financial institutions	772,011	168,406	-	-	-	-	940,417	0.69%
Other liabilities	-	-	-	-	-	54,617	54,617	
Provision for taxation	-	-	-	-	-	1,946	1,946	
Deferred tax liabilities	-	-	-	-	-	27	27	
Total liabilities	1,188,682	329,392	108,879	-	-	185,736	1,812,689	
Total equity	-	-	-	-	-	385,473	385,473	
Total liabilities and equity	1,188,682	329,392	108,879	-	-	571,209	2,198,162	
On balance sheet – interest rate gap	760,154	(165,741)	(57,902)	867	2,179	(539,557)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	760,154	(165,741)	(57,902)	867	2,179	(539,557)	-	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL INSTRUMENTS (CONTINUED)

(f) Interest rate risk (continued)

Bank
2010

	Non Trading Book							
	Up to 1 month	>1 – 3 months	>3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total	Effective Interest Rate
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	1,162,082	-	-	-	-	11,234	1,173,316	2.12%
Held-to-maturity securities	-	-	40,225	-	-	-	40,225	4.09%
Loans and advances								
- performing	786,754	163,651	10,752	867	2,179	(17,466)	946,737	4.09%
- non-performing	-	-	-	-	-	(2,874)	(2,874)	
Other assets	-	-	-	-	-	24,484	24,484	
Deferred tax assets	-	-	-	-	-	5,557	5,557	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Amount due from a subsidiary	-	-	-	-	-	-	-	
Property and equipment	-	-	-	-	-	6,715	6,715	
Intangible assets	-	-	-	-	-	43	43	
Statutory Deposits with Bank Negara Malaysia	-	-	-	-	-	2,100	2,100	
Total assets	1,948,836	163,651	50,977	867	2,179	30,793	2,197,303	

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL INSTRUMENTS (CONTINUED)

(f) Interest rate risk (continued)

Bank
2010

	Non Trading Book							
Liabilities	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	Total RM'000	Effective Interest Rate %
Deposits from customers	416,671	160,986	108,879	-	-	136,578	823,114	2.52%
Deposits and placements of banks and other financial institutions	772,011	168,406	-	-	-	-	940,417	0.69%
Bills and acceptances payable	-	-	-	-	-	-	-	
Other liabilities	-	-	-	-	-	52,859	52,859	
Provision for taxation	-	-	-	-	-	1,626	1,626	
Total liabilities	1,188,682	329,392	108,879	-	-	191,063	1,818,016	
Total equity	-	-	-	-	-	379,287	379,287	
Total liabilities and equity	1,188,682	329,392	108,879	-	-	570,350	2,197,303	
On balance sheet – interest rate gap	760,154	(165,741)	(57,902)	867	2,179	(539,557)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	760,154	(165,741)	(57,902)	867	2,179	(539,557)	-	

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:

	Group and bank			
	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM	RM	RM	RM
Financial assets				
Held-to-maturity securities	39,958	40,116	39,829	40,748

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.

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 CHANGES IN ACCOUNTING POLICIES

The accounting policies set out in Note A have been applied in preparing the financial statements for the year ended 31 December 2010. The adoption of the following new FRSs, amendments to FRSs and IC interpretations during the financial year have resulted in changes in accounting policies.

The adoption of FRS 139 is with prospective effect, hence there are no restatements of comparative figures. The main changes in accounting policies as a result of adopting FRS 139 and its related amendments and IC interpretations above, and their related financial effects are set out below.

(a) Opening balance restatement

FRS 139 prescribes that interest income on financial assets classified as held-to-maturity and loans and receivables at amortised cost using the effective interest rate method. Prior to the adoption of FRS 139, interest accrued and recognised as income prior to the date that a loan is classified as non-performing is reversed out of income and set-off against the interest receivable account (ie. the “interest-in-suspense” account) in the statements of financial position. Thereafter, interest is recognised on a cash basis.

Upon adoption of FRS 139, once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

37 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Opening balance restatement (continued)

The changes in accounting policies in relation to interest recognition and impairment of loans and advances above have resulted in the following changes to opening retained profits and loans and advances:

Impact on the Group's and the Bank's statements of financial position

	Group 2010 RM'000	Bank 2010 RM'000
(i) Retained profits		
At 1 January 2010		
As previously reported	8,847	9,286
Effect of adopting interest income recognition on impaired loan	2,863	2,863
Effect of adopting individual impairment allowance	(2,863)	(2,863)
	-	-
As restated	8,847	9,286

	Group and Bank 2010 RM'000
(ii) Loans and advances	
At 1 January 2010	
As previously reported	943,863
Effect of adopting interest income recognition on impaired loans	2,863
Effect of adopting individual impairment allowance	(2,863)
	-
As restated	943,863

The change in the criteria for classification of impaired loans above has resulted in an increase in opening impaired loans of RM2,863,000 for the Group and the Bank.

37 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Increase/(decrease) to the balances as at 31 December 2010

Upon adoption of FRS 139, interest receivable previously classified under other assets are now classified into the respective category of financial assets.

Impact on the Group's and the Bank's statements of financial position

	Group and Bank 2010
Assets	RM'000
Cash and short-term funds	1,146
Held-to-maturity securities	267
Other assets	(1,413)
Liabilities	
Deposits from customers	1,885
Deposits and placements of banks and other financial institutions	1,173
Other liabilities	(3,058)

(c) Comparatives

The changes in accounting policies in the current year have all been applied prospectively, and hence do not affect comparatives figure.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 10 May 2011.

Company No.

511251	V

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

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 100 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010 and of the results and cash flows of 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 10 May 2011.

ZHENG JINGBO
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur
10 May 2011

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 100 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 10 May 2011, 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 statements of financial positions as at 31 December 2010 of the Group and the Bank, and statements of comprehensive income, statements of changes in equity and statements of cash flow 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 18 to 100.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965, in Malaysia and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BANK OF CHINA (MALAYSIA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 511251 V)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

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	ONG CHING CHUAN
(No. AF: 1146)	(No. 2907/11/11 (J))
Chartered Accountants	Chartered Accountant

Kuala Lumpur