

Company No.

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

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Company No.

511251

V

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

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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 2011.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	<u>Group</u> RM'000	<u>Bank</u> RM'000
Profit before taxation	36,558	34,625
Taxation	(9,009)	(6,945)
Net profit for the financial year	<u>27,549</u>	<u>27,680</u>

DIVIDENDS

No dividends has been paid or declared by the Bank as at 31 December 2011.

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.

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

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Group and the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

SUBSEQUENT EVENTS

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

DIRECTORS

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

Zheng Jingbo	
Gao Xingmao	
Tan Siak Tee	
Datuk Ter Liang Yap	
Zheng Weiping	(Appointed on 13 March 2012)
Zhang Lianli	(Resigned on 13 March 2012)
Du Chaohua	(Resigned on 26 April 2012)

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

In accordance with Article 82 of the Bank's Articles of Association, Ms Zheng Weiping retires but being eligible, offers herself for re-election.

In accordance with Article 76 of the Bank's Articles of Association, Mr Zheng Jingbo retires by rotation and being eligible, offered himself for re-election.

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

DIRECTORS' INTERESTS IN SHARES

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

DIRECTORS' BENEFITS

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

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

HOLDING COMPANIES

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

BUSINESS REVIEW 2011

In 2011, the Group had channeled its effort in developing the Renminbi business in the Malaysian market. The Group had also focused on liability management and developed new credit facilities to expand its product range.

BUSINESS OUTLOOK FOR 2012

In anticipation of global economic slowdown, the Bank will continue to focus its development strategies to grow the Renminbi business and other conventional commercial banking products in tandem with the Holding Company's development directions. The Bank is focusing on growing its assets base with prudence risk management. Emphasis will be put on the development of the Renminbi business products and liability management.

RATINGS BY EXTERNAL RATING AGENCY

The Bank is not rated by any external agency.

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

DIRECTORS' PROFILES

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

Mr Zheng Weiping, People's Republic of China citizen, aged 58, was appointed to the Board in Year 2012 as Chairman of the Bank, representing Bank of China Limited. She had completed her study in the International Finance in year 1986 in The People's University of China (Renmin University of China).

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

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

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

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

Mr. Zheng Jingbo, People's Republic of China citizen, aged 54, was appointed to the Board in year 2007 as an Executive Director representing Bank of China Limited. He obtained his Masters 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.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Gao Xingmao – Non-Independent Non-Executive Director

Mr. Gao Xingmao, People's Republic of China citizen, aged 59, was appointed to the Board in year 2008 representing Bank of China Limited. He 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.

Tan Siak Tee – Independent Non-Executive Director

Mr. Tan Siak Tee, Malaysian, aged 71, 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 ACB Resources Berhad, a public limited liability company.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Datuk Ter Leong Yap – Independent Non-Executive Director

Datuk Ter Leong Yap, Malaysian, aged 48, 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 graduated from University of Malaya with a Bachelor degree in Mechanical Engineering.

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

Datuk Ter is also actively involved in social work. Currently, he is the 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. He has been appointed as Director to the Board of Director of University Kebangsaan Malaysia.

In 2002, Datuk Ter was conferred the AMN honour by the Yang Dipertuan Agong for his contributions to the society. In 2008, he was awarded the Top Best 50 Outstanding Malaysian Hokkien Award. In 2011, he was conferred the Panglima Jasa Negara (P.J.N), by His Majesty, Yang Di-Pertuan Agong Tuanku Mizan Zainal Abidin.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

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

Roles and Responsibilities of the Board of Directors

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

The major duties and responsibilities of the Board include:

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

Board Meetings and Supply of Information to the Board

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

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

The attendance of the Board of Directors' meetings held during 2011 is as follows:

Composition of Board of Director	Number of Board Meetings	
	Held	Attended
Zhang Lianli, Chairman/ Non-Independent Non-Executive Director	6	1
Zheng Jingbo, Non-Independent Executive Director	6	6
Gao Xingmao, Non-Independent Non-Executive Director	6	6
Du Chaohua, Non-Independent Non-Executive Director	6	6
Tan Siak Tee, Independent Non-Executive Director	6	6
Datuk Ter Leong Yap, Independent Non-Executive Director	6	6

Effectiveness of the Board of Directors

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

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Composition of the Board

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

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

3. Appointments to the Board

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

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

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

4. Directors' Performance and Remuneration

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

5. Induction and Training

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

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

INFORMATION ON COMMITTEES OF THE BANK

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

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

Board Committees

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

Management Committees

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

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 Board Committees as follows:

1. Audit Committee

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

(a) Membership and Attendance

The Audit Committee ('AC') comprises the following members and details of attendance of each member at the AC meetings held during 2011 are as follows:

Composition of Audit Committee	Number of AC Meetings	
	Held	Attended
Tan Siak Tee Chairman/Independent Non-Executive Director	7	7
Du Chaohua Member/Non-Independent Non-Executive Director	7	7
Datuk Ter Leong Yap Member/Independent Non-Executive Director	7	7

(b) Composition and Terms of Reference

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

1. Audit Committee (continued)

(c) Roles and Responsibilities

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

(d) Key Internal Control Processes

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

- (i) The AC reviews internal control issues identified by the Internal Audit 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.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

2. Board Risk Committee

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

(a) Membership and Attendance

The Board Risk Committee ('BRC') comprises the following members and details of attendance of each member at the BRC meetings held during 2011 are as follows:

Composition of Board Risk Committee	Number of Meetings	
	Held	Attended
Tan Siak Tee Chairman/Independent Non-Executive Director	5	5
Du Chaohua Member/Non-Independent Non-Executive Director	5	5
Gao Xingmao Member/Non-Independent Non-Executive Director	5	4
Datuk Ter Leong Yap Member/Independent Non-Executive Director	5	5

(b) Composition and Terms of Reference

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

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

The quorum shall be three (3) persons.

(c) Objective

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

2. Board Risk Committee (continued)

(d) Roles and responsibilities

The BRC shall be responsible for:

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

3. Board Nominating Committee

(a) Membership and Attendance

Board Nominating Committee ("BNC") comprises the following members and details of attendance of each member at the BNC meetings held during 2011 are as follows:

Composition of Board Nominating Committee	Number of BNC Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	3	3
Tan Siak Tee Member/Independent Non-Executive Director	3	3
Du Chaohua Member/Non-Independent Non-Executive Director	3	3
Gao Xingmao Member/Non-Independent Non-Executive Director	3	3

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Board Nominating Committee (continued)

(b) Composition

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

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

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

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

(c) Objective

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

(d) Roles and responsibilities

The BNC shall be responsible for :

- (i) establishing the minimum requirements on the skills, knowledge, experience, qualifications and other core competencies of a Director and the CEO;
- (ii) assessing and recommending to the Board the nominees for appointment of Director, Board Committee member and CEO;
- (iii) assessing and recommending to the Board, the re-appointment of Director/CEO upon expiry of their respective terms of appointment as approved by BNM;
- (iv) assist the Board in indentifying and reviewing, on an annual basis, the required mix of skills, experience and core competencies within the Board;
- (v) overseeing the overall composition of the board, in terms of the appropriate size and skills, and the balance between executive director, non-executive directors and independent director through annual review;
- (vi) recommending to the board the removal of a director or CEO from the board or management if the director or CEO is ineffective, errant and negligent in discharging his responsibilities;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Board Nominating Committee (continued)

(d) Roles and responsibilities (continued)

- (vii) establishing a mechanism for the formal assessment on the effectiveness of the board as a whole and the contribution of each director to the effectiveness of the board, the contribution of the board's various committees and the performance of the CEO. Annual assessment is conducted based on objective performance criteria. Such performance criteria is approved by the full board;
- (viii) ensuring that all directors receive an appropriate continuous training programme in order to keep abreast with the least developments in the industry;
- (ix) overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- (x) recommending to the board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities; and
- (xi) assessing on an annual basis, to ensure that the directors and key senior management officers are not disqualified under Section 56 of the Banking and Financial Institutions Act 1989 (BAFIA).

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

4. Board Remuneration Committee

(a) Membership and Attendance

Board Remuneration Committee ("BRC") comprises the following members and details of attendance of each member at the BRC meetings held during 2011 are as follows:

Composition of Board Remuneration Committee	Number of Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	2	2
Du Chaohua Member/Non-Independent Non-Executive Director	2	2
Gao Xingmao Member/Non-Independent Non-Executive Director	2	2
Tan Siak Tee Member/Independent Non-Executive Director	2	2

(b) Composition

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

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

(c) Objectives

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

4. Board Remuneration Committee (continued)

(d) Roles and Responsibilities

The BRC is responsible for :

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

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 7 June 2012.

TAN SIAK TEE
DIRECTOR

DATUK TER LEONG YAP
DIRECTOR

Kuala Lumpur
7 June 2012

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
ASSETS					
Cash and short-term funds	2	1,206,298	1,173,318	1,206,248	1,173,316
Deposits and placements with banks and other financial institutions	3	223,286	-	223,286	-
Held-to-maturity securities	4	40,413	40,225	40,413	40,225
Loans and advances	5	1,440,824	943,863	1,440,824	943,863
Other assets	6	13,121	24,984	12,657	24,484
Deferred tax assets	7	6,965	5,557	6,939	5,557
Statutory deposits with Bank Negara Malaysia	8	17,700	2,100	17,700	2,100
Investment in subsidiary	9	-	-	1,000	1,000
Property and equipment	10	7,388	8,063	6,311	6,715
Intangible assets	11	9	52	5	43
TOTAL ASSETS		2,956,004	2,198,162	2,955,383	2,197,303
LIABILITIES AND EQUITY					
Deposits from customers	12	1,518,987	815,682	1,525,697	823,114
Deposits and placements of banks and other financial institutions	13	986,979	940,417	986,979	940,417
Other liabilities	14	35,484	54,617	34,373	52,859
Provision for taxation		1,532	1,946	1,367	1,626
Deferred tax liabilities	7	-	27	-	-
TOTAL LIABILITIES		2,542,982	1,812,689	2,548,416	1,818,016
Financed by:					
Share capital	15	304,000	304,000	304,000	304,000
Reserves	16	109,022	81,473	102,967	75,287
TOTAL EQUITY		413,022	385,473	406,967	379,287
TOTAL LIABILITIES AND EQUITY		2,956,004	2,198,162	2,955,383	2,197,303
COMMITMENTS AND CONTINGENCIES	27	1,063,345	1,428,641	1,063,345	1,428,641

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

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest income	17	85,728	46,051	85,728	46,051
Interest expense	18	(47,313)	(19,614)	(47,313)	(19,614)
Net interest income		38,415	26,437	38,415	26,437
Other operating income	19	33,522	32,792	28,269	20,821
Other operating expenses	20	(31,497)	(27,363)	(28,177)	(24,322)
Operating profit		40,440	31,866	38,507	22,936
Allowance for impairment on loans and advances	22	(3,882)	(24)	(3,882)	(24)
Profit before taxation		36,558	31,842	34,625	22,912
Taxation	23	(9,009)	(9,970)	(6,945)	(7,665)
Total comprehensive income for the financial year		27,549	21,872	27,680	15,247
Earnings per share - basic/fully diluted (sen)	24	9.1	7.2	9.1	5.0

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BANK OF CHINA (MALAYSIA) BERHAD
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**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

	Issued and fully paid ordinary shares of <u>RM1 each</u> Nominal value RM'000	Non- distributable Statutory <u>reserves</u> RM'000	<u>Distributable</u> Retained profits RM'000	<u>Total</u> RM'000
<u>Group</u>				
At 1 January 2011	304,000	58,378	23,095	385,473
Profit for the financial year	-	-	27,549	27,549
Total comprehensive income for the year	-	-	27,549	27,549
Transfer to statutory reserve	-	13,840	(13,840)	-
At 31 December 2011	<u>304,000</u>	<u>72,218</u>	<u>36,804</u>	<u>413,022</u>
<u>Group</u>				
At 1 January 2010	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	<u>304,000</u>	<u>58,378</u>	<u>23,095</u>	<u>385,473</u>

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BANK OF CHINA (MALAYSIA) BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	Issued and fully paid ordinary shares of <u>RM1 each</u> Nominal value RM'000	Non- distributable Statutory reserves RM'000	<u>Distributable</u> Retained profits RM'000	<u>Total</u> RM'000
<u>Bank</u>				
At 1 January 2011	304,000	58,378	16,909	379,287
Profit for the financial year	-	-	27,680	27,680
Total comprehensive income for the year	-	-	27,680	27,680
Transfer to statutory reserve	-	13,840	(13,840)	-
At 31 December 2011	<u>304,000</u>	<u>72,218</u>	<u>30,749</u>	<u>406,967</u>
<u>Bank</u>				
At 1 January 2010	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)	-
At 31 December 2010	<u>304,000</u>	<u>58,378</u>	<u>16,909</u>	<u>379,287</u>

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

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		36,558	31,842	34,625	22,912
<i>Adjustments for:</i>					
Depreciation of property and equipment		1,527	1,315	1,315	1,077
Amortisation of intangible assets		44	419	39	415
Gain on disposal of property and equipment		(30)	-	(30)	-
Amortisation of premium less accretion of discount		(42)	(129)	(42)	(129)
Allowance for impairment on loans and advances		3,882	24	3,882	24
Interest income from held-to-maturity securities		(1,220)	(1,502)	(1,220)	(1,502)
Unrealised foreign exchange gain		(140)	(1,146)	(140)	(1,146)
Property and equipment written off		17	-	2	-
Dividend Income		-	-	(6,100)	-
Operating profit before changes in operating assets and liabilities		40,596	30,823	32,331	21,651
(INCREASE)/DECREASE IN OPERATING ASSETS					
Deposits and placements with banks and other financial institutions		(223,286)	30,098	(223,286)	30,098
Loans and advances		(500,843)	(239,312)	(500,843)	(239,312)
Other assets		11,372	(21,517)	11,326	(21,338)
Amount due from a subsidiary		-	-	-	681
Statutory deposits with Bank Negara Malaysia		(15,600)	(2,100)	(15,600)	(2,100)
INCREASE/(DECREASE) IN OPERATING LIABILITIES					
Deposits from customers		703,305	214,530	702,583	221,521
Deposits and placements of banks and other financial institutions		46,562	328,055	46,562	328,055
Bills and acceptances payable		-	(2,096)	-	(2,096)
Other liabilities		(19,133)	35,763	(18,486)	34,443
Cash generated from operating activities		42,973	374,244	34,587	371,603
Tax paid		(10,858)	(8,910)	(8,586)	(6,906)
Net cash generated from operating activities		32,115	365,334	26,001	364,697

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BANK OF CHINA (MALAYSIA) BERHAD
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STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividend income received from subsidiary		-	-	6,100	-
Purchase of property and equipment		(878)	(3,376)	(912)	(2,740)
Purchase of intangible assets		(1)	(9)	(1)	(9)
Proceeds from disposal of property and equipment		30	-	30	-
Interest received on held-to-maturity securities		1,074	1,502	1,074	1,502
Net cash generated from/(used in) investing activities		225	(1,883)	6,291	(1,247)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR					
		32,340	363,451	32,292	363,450
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR					
		1,172,172	808,721	1,172,170	808,720
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR					
	2	1,204,512	1,172,172	1,204,462	1,172,170

BANK OF CHINA (MALAYSIA) BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

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 the 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 Financial Reporting Standards 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 33.

- (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 the Bank for the financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS1 "First-time Adoption of Financial Reporting Standards"
- Revised FRS3 "Business Combinations"
- Revised FRS127 "Consolidated and separate financial statements"
- Amendment to FRS 7 "Financial instruments: Disclosures – improving disclosures about financial instruments"
- Amendments to FRS1 "First-time adoption of financial reporting standards"
- Amendments to FRS132 "Financial instruments: Presentation-Classification of right issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- Improvements to FRSs (2010)

The adoption of the new accounting standards, amendments and improvements to published standards and interpretations do not have material impact on the financial statements of the Group and the Bank.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

In the next financial year, the Group and the Bank will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ('MFRS'). In adopting the new framework, the Group and the Bank will be applying MFRS1 "First-time adoption of MFRS". MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

- (i) Financial year beginning on/after 1 January 2012

- MFRS 139 "Financial instruments: recognition and measurement"- Bank Negara Malaysia has removed the transitional provision for banking institutions on loan impairment assessment and provisioning to comply with the MFRS 139 requirements.
- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
 - The name of the government and the nature of their relationship;
 - The nature and amount of each individually significant transactions; and
 - The extent of any collectively significant transactions, qualitatively or quantitatively.
- Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS140 "Investment property". As a result of the amendments, IC interpretation 121 "Income taxes-recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.
- Amendment to MFRS 1 "First time adoption on fixed dates and hyperinflation" (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to MFRSs', thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

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

(i) Financial year beginning on/after 1 January 2012 (continued)

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

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

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

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

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

- MFRS 10 “Consolidated financial statements” (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS127 “Consolidated and separate financial statements” and IC Interpretation 112 “Consolidation-special purpose entities”.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (continued)
- (ii) Financial year beginning on/after 1 January 2013 (continued)
- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.
 - The revised MFRS 127 “Separate financial statements” (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.
 - Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in other comprehensive income (‘OCI’) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.
 - Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

The Group and the Bank has not finalised the impact of the change to MFRS.

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BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

B ECONOMIC ENTITIES IN THE GROUP

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

Subsidiaries

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

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

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

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

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).

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

C PROPERTY AND EQUIPMENT

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

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

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

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

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

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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 HTM, the whole category would be tainted and reclassified as available-for-sale.

(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.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

E FINANCIAL ASSETS (CONTINUED)

(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 income on an AFS equity instruments 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.

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.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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.

(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.

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

(a) Assets carried at amortised cost (continued)

Loan and advances (continued)

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".

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.

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

(b) Assets carried at fair value

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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.

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.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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.

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.

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

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BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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.

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BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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.

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:

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BANK OF CHINA (MALAYSIA) BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)**

T **FINANCIAL INSTRUMENTS (CONTINUED)**

Fair value hedge

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

Cash flow hedge

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

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BANK OF CHINA (MALAYSIA) BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

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 Huijin Investment Ltd, both incorporated in China.

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

The address of the registered office of the Bank is:

Mezzanine Floor, Plaza OSK
Jalan Ampang, 50450 Kuala Lumpur

2 CASH AND SHORT-TERM FUNDS

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	64,166	174,518	64,116	174,516
Money at call and deposit placements maturing within one month	1,140,346	997,654	1,140,346	997,654
	<u>1,204,512</u>	<u>1,172,172</u>	<u>1,204,462</u>	<u>1,172,170</u>
Interest receivable	1,786	1,146	1,786	1,146
	<u>1,206,298</u>	<u>1,173,318</u>	<u>1,206,248</u>	<u>1,173,316</u>

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Other financial institutions	221,176	-
Interest receivable	2,110	-
	<u>223,286</u>	<u>-</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

4 HELD-TO-MATURITY SECURITIES

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	40,000	39,672
Accretion of discounts less amortisation of premium	-	286
Interest receivable	413	267
	<u>40,413</u>	<u>40,225</u>

5 LOANS AND ADVANCES

At amortised cost

(i) By type

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Overdrafts	193,072	119,139
Term loans		
- Housing loans	10,162	9,546
- Syndicated term loan	210,870	248,139
- Other term loans	545,611	373,653
Bills receivable	295,209	-
Trust receipts	8,467	9,568
Claims on customers under acceptance credits	110,943	93,872
Revolving credits	24,045	-
Staff loans	1,540	2,210
Loans to banks and other financial institutions	63,838	108,457
	<u>1,463,757</u>	<u>964,584</u>
Less: Unearned interest and income	(585)	(381)
Total Gross loans and advances	1,463,172	964,203
Allowance for impaired loans and advances:		
- Collective impairment allowance	(22,337)	(17,466)
- Individual impairment allowance	(11)	(2,874)
Total net loans and advances	<u>1,440,824</u>	<u>943,863</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

5 **LOANS AND ADVANCES (CONTINUED)**

(ii) By geographical distribution

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Malaysia	951,549	733,900
Other countries	511,623	230,303
	<u>1,463,172</u>	<u>964,203</u>

(iii) By interest rate sensitivity

Fixed rate		
- Housing loans	-	-
- Other fixed rate loan	296,530	3,047
Variable rate		
- BLR plus	664,312	479,016
- Cost plus	147,425	110,851
- Other variable rates	354,905	371,289
	<u>1,463,172</u>	<u>964,203</u>

(iv) By purpose

Purchase of securities	29,169	30,167
Purchase of transport vehicles	25	31
Purchase of landed property		
- Residential	15,142	15,308
- Non-residential	245,929	181,567
Purchase of fixed assets other than land and building	652	836
Personal use	61,172	17,333
Construction	18,759	11,358
Working capital	959,478	579,930
Other purpose	132,846	127,673
	<u>1,463,172</u>	<u>964,203</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

5 **LOANS AND ADVANCES (CONTINUED)**

(v) By residual contractual maturity - remaining

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Up to one month	452,638	396,571
More than one month to three months	152,314	170,177
More than three months to six months	217,429	12,099
More than six months to twelve months	127,527	-
More than twelve months	513,264	385,356
	<u>1,463,172</u>	<u>964,203</u>

(vi) Impaired loans and advances

(a) Movement in impaired loans and advances

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
At beginning of the financial year	2,921	2,934
Classified as impaired during the year	37	66
Amount recovered	(991)	(36)
Amount written-off	(1,874)	(43)
	<u>93</u>	<u>2,921</u>
At end of the financial year	93	2,921
Individual impairment allowance	(11)	(2,874)
	<u>82</u>	<u>47</u>
Ratio of net impaired loans and advances to gross loans and advances less allowance for impairment	<u>0.006%</u>	<u>0.005%</u>

(b) By geographical

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Malaysia	<u>93</u>	<u>2,921</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

5 LOANS AND ADVANCES (CONTINUED)

(vi) Impaired loans and advances (continued)

(c) By purpose

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Purchase of residential property	93	58
Working capital	-	2,863
	<u>93</u>	<u>2,921</u>

(vii) Movements in allowance for impaired loans and advances

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
<u>Individual impairment allowance</u>		
At the beginning of the financial year	2,874	2,887
Allowance made during the financial year	-	32
Amount recovered	(989)	(37)
Amount write off	(1,874)	(8)
At end of the financial year	<u>11</u>	<u>2,874</u>
<u>Collective impairment allowance</u>		
At beginning of the financial year	17,466	17,466
Allowance made during the financial year	4,871	-
At the end of the financial year	<u>22,337</u>	<u>17,466</u>

6 OTHER ASSETS

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Other receivables	12,104	23,988	11,817	23,662
Sundry deposits	954	926	776	751
Prepayments	63	70	64	71
	<u>13,121</u>	<u>24,984</u>	<u>12,657</u>	<u>24,484</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

7 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred tax assets	6,965	5,557	6,939	5,557
Deferred tax liabilities	-	(27)	-	-
	<u>6,965</u>	<u>5,530</u>	<u>6,939</u>	<u>5,557</u>
At beginning of the financial year	5,530	4,971	5,557	5,017
Credited to income statements (Note 23)	1,435	559	1,382	540
At end of the financial year	<u>6,965</u>	<u>5,530</u>	<u>6,939</u>	<u>5,557</u>

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At beginning of the financial year	5,530	4,971	5,557	5,017
Credited/(charged) to income statements (Note 23)	1,435	559	1,382	540
- property and equipment	104	(411)	68	(332)
- intangible assets	11	88	10	88
- provision for other liabilities	353	665	337	567
- collective impairment allowance on loans and advances	1,217	-	1,217	-
- unrecognised foreign exchange gain	(250)	217	(250)	217
At end of the financial year	<u>6,965</u>	<u>5,530</u>	<u>6,939</u>	<u>5,557</u>

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NOTES TO THE FINANCIAL STATEMENTS
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7 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Subject to income tax:-				
Collective impairment allowance on loans and advances	5,584	4,367	5,584	4,367
Provision for other liabilities	1,869	1,516	1,755	1,418
Unrealised foreign exchange loss	-	250	-	250
	7,453	6,133	7,339	6,035
Offsetting	(488)	(576)	(400)	(478)
Deferred tax assets (after offsetting)	6,965	5,557	6,939	5,557
Property and equipment	(486)	(590)	(399)	(467)
Intangible assets	(2)	(13)	(1)	(11)
	(488)	(603)	(400)	(478)
Offsetting	488	576	400	478
Deferred tax liabilities (after offsetting)	-	(27)	-	-

8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	Group and Bank	
	2011	2010
	RM'000	RM'000
Statutory Deposits with Bank Negara Malaysia	17,700	2,100
	17,700	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.

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BANK OF CHINA (MALAYSIA) BERHAD
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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

9 INVESTMENT IN A SUBSIDIARY

	<u>Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Unquoted shares, at cost, in Malaysia	1,000	1,000

The subsidiary of the Bank is as follow:

<u>Name</u>	<u>Principal Activities</u>	<u>Percentage of equity held</u>	
		<u>2011</u>	<u>2010</u>
		%	%
China Visa Services (Malaysia) Sdn Bhd	Chinese visa application services	100	100

10 PROPERTY AND EQUIPMENT

<u>Group</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Renovation</u>	<u>Work-in-progress</u>	<u>Total</u>
<u>2011</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>						
At 1 January	3,092	1,633	3,123	5,284	-	13,132
Additions	120	-	43	45	670	878
Disposals	-	(140)	(9)	-	-	(149)
Write-offs	-	-	(42)	-	-	(42)
At 31 December	<u>3,212</u>	<u>1,493</u>	<u>3,115</u>	<u>5,329</u>	<u>670</u>	<u>13,819</u>
<u>Accumulated depreciation</u>						
At 1 January	2,422	699	1,269	679	-	5,069
Charge for the financial year	328	241	440	518	-	1,527
Disposals	-	(140)	-	-	-	(140)
Write-offs	-	-	(25)	-	-	(25)
At 31 December	<u>2,750</u>	<u>800</u>	<u>1,684</u>	<u>1,197</u>	<u>-</u>	<u>6,431</u>
Net book value	<u>462</u>	<u>693</u>	<u>1,431</u>	<u>4,132</u>	<u>670</u>	<u>7,388</u>

BANK OF CHINA (MALAYSIA) BERHAD
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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

10 **PROPERTY AND EQUIPMENT**

Group

	<u>Computer equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>2010</u>						
<u>Cost</u>						
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	<u>3,092</u>	<u>1,633</u>	<u>3,123</u>	<u>5,284</u>	<u>-</u>	<u>13,132</u>
<u>Accumulated depreciation</u>						
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	<u>2,422</u>	<u>699</u>	<u>1,269</u>	<u>679</u>	<u>-</u>	<u>5,069</u>
Net book value	<u>670</u>	<u>934</u>	<u>1,854</u>	<u>4,605</u>	<u>-</u>	<u>8,063</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

10 **PROPERTY AND EQUIPMENT (CONTINUED)**

Bank

	<u>Computer equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>2011</u>						
<u>Cost</u>						
At 1 January	2,885	1,633	2,681	4,306	-	11,505
Additions	89	-	99	54	670	912
Write-offs	-	-	(18)	-	-	(18)
Disposal	-	(140)	-	-	-	(140)
At 31 December	<u>2,974</u>	<u>1,493</u>	<u>2,762</u>	<u>4,360</u>	<u>670</u>	<u>12,259</u>

Accumulated depreciation

At 1 January	2,347	699	1,168	576	-	4,790
Charge for the financial year	252	241	389	432	-	1,314
Write-offs	-	-	(16)	-	-	(16)
Disposal	-	(140)	-	-	-	(140)
At 31 December	<u>2,599</u>	<u>800</u>	<u>1,541</u>	<u>1,008</u>	<u>-</u>	<u>5,948</u>
Net book value	<u>375</u>	<u>693</u>	<u>1,221</u>	<u>3,352</u>	<u>670</u>	<u>6,311</u>

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10 **PROPERTY AND EQUIPMENT (CONTINUED)**

Bank

	<u>Computer equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>2010</u>						
<u>Cost</u>						
At 1 January	2,468	1,150	1,940	3,216	-	8,774
Additions	417	483	750	1,090	-	2,740
Transfer to	-	-	(8)	-	-	(8)
Write-offs	-	-	(1)	-	-	(1)
At 31 December	<u>2,885</u>	<u>1,633</u>	<u>2,681</u>	<u>4,306</u>	<u>-</u>	<u>11,505</u>

Accumulated depreciation

At 1 January	2,126	477	920	216	-	3,739
Charge for the financial year	221	222	274	360	-	1,077
Transfer to	-	-	(25)	-	-	(25)
Write-offs	-	-	(1)	-	-	(1)
At 31 December	<u>2,347</u>	<u>699</u>	<u>1,168</u>	<u>576</u>	<u>-</u>	<u>4,790</u>
Net book value	<u>538</u>	<u>934</u>	<u>1,513</u>	<u>3,730</u>	<u>-</u>	<u>6,715</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

11 INTANGIBLE ASSETS

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
<u>Computer Software</u>				
<u>Cost</u>				
At 1 January	3,015	3,006	3,001	2,992
Additions	1	9	1	9
At 31 December	<u>3,016</u>	<u>3,015</u>	<u>3,002</u>	<u>3,001</u>
<u>Accumulated amortisation</u>				
At 1 January	2,963	2,544	2,958	2,543
Charge for the financial year	44	419	39	415
At 31 December	<u>3,007</u>	<u>2,963</u>	<u>2,997</u>	<u>2,958</u>
Net book value	<u>9</u>	<u>52</u>	<u>5</u>	<u>43</u>

12 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Demand deposits	151,051	129,803	157,761	137,235
Savings deposits	39,575	28,035	39,575	28,035
Fixed deposits	1,326,761	576,088	1,326,761	576,088
Negotiable instruments of deposits	-	80,156	-	80,156
Others	1,600	1,600	1,600	1,600
	<u>1,518,987</u>	<u>815,682</u>	<u>1,525,697</u>	<u>823,114</u>
Maturity structure of fixed deposits and negotiable instrument of deposits are as follows:				
Due within six months	907,425	565,491	907,425	565,491
Six months to one year	417,169	90,753	417,169	90,753
One year to three year	2,167	-	2,167	-
	<u>1,326,761</u>	<u>656,244</u>	<u>1,326,761</u>	<u>656,244</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

12 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customer

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	16,867	1,600	16,867	1,600
Business enterprises	843,708	535,374	850,418	542,806
Individuals	619,136	268,543	619,136	268,543
Others	39,276	10,165	39,276	10,165
	<u>1,518,987</u>	<u>815,682</u>	<u>1,525,697</u>	<u>823,114</u>

13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Licensed banks	986,979	940,417
	<u>986,979</u>	<u>940,417</u>

14 OTHER LIABILITIES

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Accrued expenses	7,679	5,810	7,169	5,153
Margin deposits	11,425	7,958	11,425	7,958
Other liabilities	16,380	40,849	15,779	39,748
	<u>35,484</u>	<u>54,617</u>	<u>34,373</u>	<u>52,859</u>

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15 SHARE CAPITAL

	Group and bank			
	Number of ordinary share of RM1.00 each		Amount	
	<u>2011</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2010</u> 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	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>	<u>304,000</u>

16 RESERVES

	Group		Bank	
	<u>2011</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2010</u> RM'000
Distributable:				
Retained profits	36,804	23,095	30,749	16,909
Non-distributable:				
Statutory reserves	72,218	58,378	72,218	58,378
	<u>109,022</u>	<u>81,473</u>	<u>102,967</u>	<u>75,287</u>

- (a) Subject to agreement by Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits as at 31 December 2011.
- (b) The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

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NOTES TO THE FINANCIAL STATEMENTS
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17 INTEREST INCOME

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries	50,677	26,631
Money at call and deposit placement with financial institutions	33,789	17,789
Securities		
- Held-to-maturity securities	1,220	1,502
	<u>85,686</u>	<u>45,922</u>
Amortisation of premium less accretion of discount	42	129
Total interest income	<u><u>85,728</u></u>	<u><u>46,051</u></u>

Interest income accrued on impaired financial assets amounted to RM3,375.00 (2010 : RM107.00).

18 INTEREST EXPENSE

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	14,099	9,379
Deposits from customers	33,131	9,894
Others	83	341
	<u>47,313</u>	<u>19,614</u>

19 OTHER OPERATING INCOME

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Fees income:				
- Fee on loans and advances	2,854	2,611	2,854	2,611
- Service charges and fees	17,625	17,845	6,157	5,754
- Guarantee fees	2,880	2,209	2,880	2,209
	<u>23,359</u>	<u>22,665</u>	<u>11,891</u>	<u>10,574</u>
Foreign exchange income:				
- Realised	9,989	8,914	9,989	8,914
- Unrealised	140	1,146	140	1,146
Gain from disposal of property and equipment	30	-	30	-
Other income				
- Dividend income	-	-	6,100	-
- Others	4	67	119	187
	<u><u>33,522</u></u>	<u><u>32,792</u></u>	<u><u>28,269</u></u>	<u><u>20,821</u></u>

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20 OTHER OPERATING EXPENSES

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<u>Personnel expenses</u>				
Salaries and wages (includes CEO/EDs)	10,643	9,090	9,344	7,945
Bonus	4,921	3,594	4,435	3,213
Defined contribution plan ('EPF')	1,838	1,573	1,769	1,460
Staff welfare expenses	717	607	583	481
Other personnel costs	1,384	818	1,327	743
	<u>19,503</u>	<u>15,682</u>	<u>17,458</u>	<u>13,842</u>
<u>Marketing expenses</u>				
Entertainment	770	413	726	406
Other	116	206	114	203
	<u>886</u>	<u>619</u>	<u>840</u>	<u>609</u>
<u>Establishment costs</u>				
Rental of premises	3,304	2,746	2,673	2,138
Depreciation of property and equipment (Note 10)	1,527	1,315	1,314	1,077
Amortisation of intangible assets (Note 11)	44	419	39	415
Repairs and maintenance	541	470	525	467
Property and equipment written off	17	-	2	-
Other establishment costs	1,575	1,341	1,440	1,249
	<u>7,008</u>	<u>6,291</u>	<u>5,993</u>	<u>5,346</u>
<u>Administration and general expenses</u>				
Insurance premium	220	340	218	338
Travelling and accommodation	483	283	481	292
Telecommunication and utilities	544	453	499	411
Printing, stationery and postage	520	781	456	732
Legal and professional fess	203	1,701	192	1,626
Other administration and general expenses	2,130	1,213	2,040	1,126
	<u>4,100</u>	<u>4,771</u>	<u>3,886</u>	<u>4,525</u>
	<u>31,497</u>	<u>27,363</u>	<u>28,177</u>	<u>24,322</u>

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NOTES TO THE FINANCIAL STATEMENTS
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20 OTHER OPERATING EXPENSES (CONTINUED)

The above expenditure includes the following statutory disclosures:

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration				
- statutory	194	181	159	146
- others	75	50	75	50
Directors' remuneration (Note 21)	1,118	1,113	1,118	1,113

21 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
Datuk Ter Leong Yap

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
<u>Executive Directors</u>		
- salary and other remuneration	524	551
- bonus	304	338
- benefits-in-kind	94	94
	<u>922</u>	<u>983</u>
<u>Non Executive Directors</u>		
Fees		
- Tan Siak Tee	130	120
- Datuk Ter Leong Yap	66	-
- Tan Sri Dato' Lim Guan Teik	-	10
	<u>196</u>	<u>130</u>
	<u>1,118</u>	<u>1,113</u>

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NOTES TO THE FINANCIAL STATEMENTS
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21 **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 RM921,644 (2010: RM983,835).

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

	<u>Group and Bank</u>	
	<u>Number of Directors</u>	
	<u>2011</u>	<u>2010</u>
<u>Executive Directors</u>		
RM500,000 – RM1,000,000	1	1
<u>Non-Executive Directors</u>		
Below RM50,000	-	1
RM50,001 – RM100,000	1	-
RM100,001 - RM150,000	1	1

22 **ALLOWANCES FOR IMPAIRMENT ON LOANS AND ADVANCES**

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
	<u>RM'000</u>	<u>RM'000</u>
Allowance for impaired loans and advances		
(a) Individual impairment allowance		
- made during the financial year	-	32
- written-back	(989)	(8)
(b) Collective impairment allowance		
- made during the financial year	4,871	-
	<u>3,882</u>	<u>24</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

23 TAXATION

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysian income tax:				
- Current tax	11,132	9,947	8,967	7,627
- Deferred tax (Note 7)	(1,435)	(559)	(1,382)	(540)
	9,697	9,388	7,585	7,087
(Under)/Over provision in prior years	(688)	582	(640)	578
	9,009	9,970	6,945	7,665

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit before taxation	36,558	31,842	34,625	22,912
Statutory tax rate in Malaysia (2011: 25%, 2010: 25%)	9,140	7,961	8,656	5,728
Tax effect in respect of:				
Non-allowable expenses	347	338	211	163
Non-taxable income	(315)	-	(1,840)	-
(Under)/Over provision in prior years	(688)	582	(640)	578
Reversal of previously recognised deferred tax assets	-	19	-	126
Other temporary differences not recognised	525	-	558	-
Tax adjustment	-	1,070	-	1,070
Tax expense	9,009	9,970	6,945	7,665

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NOTES TO THE FINANCIAL STATEMENTS
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24 EARNINGS PER SHARE

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

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Net profit attributable to equity holders of the Group/Bank	27,549	21,872	27,680	15,247
Weighted average number of ordinary shares in issue	304,000	304,000	304,000	304,000
Basic/fully diluted earnings per share (sen)	<u>9.1</u>	<u>7.2</u>	<u>9.1</u>	<u>5.0</u>

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25 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

<u>Related party</u>	<u>Relationship</u>
Central Huijin Investment Ltd.	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
Bank of China (Macau)	Fellow subsidiary
China Visa Services (Malaysia) Sdn Bhd	Subsidiary

(a) Related party transactions

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

<u>Group</u> <u>2011</u>	<u>Holding</u> <u>Company</u> <u>RM'000</u>	<u>Fellow</u> <u>subsidiaries</u> <u>RM'000</u>	<u>Key</u> <u>management</u> <u>personnel</u> <u>RM'000</u>
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	3	7,782	-
- Housing loan	-	-	13
	<u>3</u>	<u>7,782</u>	<u>13</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	-	4,932	-
- Deposits from customer	-	-	29
Administrative expenses	-	838	-
	<u>-</u>	<u>5,770</u>	<u>29</u>

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

(a) Related party transactions (continued)

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

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

(a) Related party transactions (continued)

	<u>Holding Company</u> RM'000	<u>Fellow subsidiaries and subsidiary</u> RM'000	<u>Key management personnel</u> RM'000
<u>Bank</u>			
<u>2011</u>			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	3	7,782	-
- Housing loan	-	-	13
Other income	-	120	-
	<u>3</u>	<u>7,902</u>	<u>13</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	-	4,932	-
- Deposits from customer	-	-	24
Administrative expenses	-	900	-
	<u>-</u>	<u>5,832</u>	<u>24</u>
<u>2010</u>			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institution	3	3,754	-
- Housing loan	-	-	15
Other income	-	120	-
	<u>3</u>	<u>3,874</u>	<u>15</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institution	154	3,761	-
- Deposits from customer	-	-	60
Administrative expenses	-	1,679	-
	<u>154</u>	<u>5,440</u>	<u>60</u>

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25 **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 Group with its related parties are as follows:

<u>Group</u> <u>2011</u>	<u>Holding</u> <u>Company</u> RM'000	<u>Fellow</u> <u>subsidiaries</u> RM'000	<u>Key</u> <u>management</u> <u>personnel</u> RM'000
AMOUNT DUE FROM			
Deposits and placements with banks and other financial institutions	8,828	447,279	-
Housing loan	-	-	287
	<u>8,828</u>	<u>447,279</u>	<u>287</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	-	470,078	-
Deposits from customers	-	-	1,936
	<u>-</u>	<u>470,078</u>	<u>1,936</u>

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

(b) Related party balances (continued)

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

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

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

<u>Bank</u> <u>2011</u>	<u>Holding</u> <u>Company</u> RM'000	<u>Fellow</u> <u>subsidiaries</u> <u>and subsidiary</u> RM'000	<u>Key</u> <u>management</u> <u>personnel</u> RM'000
AMOUNT DUE FROM			
Deposits and placements with banks and other financial institutions	8,828	447,279	-
Housing loan	-	-	287
	<u>8,828</u>	<u>447,279</u>	<u>287</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	-	470,078	-
Deposits from customers	-	6,710	1,496
	<u>-</u>	<u>476,788</u>	<u>1,496</u>

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25 **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 (continued):

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

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

Included in the table above are deposits payable to the Directors of the Group and of the Bank amounting to RM1,593,152 and RM1,447,768 respectively (2010: RM6,576,769, RM6,501,662).

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25 **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:

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Fees	196	130	196	130
Salaries and other short-term benefits	2,763	2,301	2,058	1,943
Benefits-in-kind	171	163	149	141
	<u>3,130</u>	<u>2,594</u>	<u>2,403</u>	<u>2,214</u>

Included in the above table are Directors' remuneration as disclosed in Note 21.

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

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

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

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

	<u>Group and Bank</u>	
	<u>2011</u>	<u>2010</u>
Outstanding credit exposures with connected parties (RM'000)	240,580	190,262
Outstanding credit exposures with connected parties as a percentage of total credit exposures	14%	13%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	0%	0%

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27 **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					
	2011			2010		
	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>
	RM'000	equivalent	weighted	RM'000	equivalent	weighted
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	-	-	-	540	540	540
Transaction-related contingent items	593,217	296,608	147,257	534,458	267,229	132,439
Short-term self liquidation trade related contingencies	2,676	535	524	1,126	225	203
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	318,085	63,617	63,211	434,649	86,930	86,461
- Maturity exceeding one year	135,816	67,908	67,138	428,576	214,288	136,676
Foreign exchange related contracts:						
- Less than one year	5,710	-	-	12,744	-	-
Others	7,841	-	-	16,548	-	-
	<u>1,063,345</u>	<u>428,668</u>	<u>278,130</u>	<u>1,428,641</u>	<u>569,212</u>	<u>356,319</u>

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

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28 LEASE COMMITMENTS

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

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	3,573	3,031	2,636	2,411
Later than 1 year but not later than 5 years	2,003	3,943	1,959	3,426
	<u>5,576</u>	<u>6,974</u>	<u>4,595</u>	<u>5,837</u>

29 CAPITAL COMMITMENTS

	<u>Group</u>		<u>Bank</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property and equipment				
- approved by the Board and contracted for	<u>300</u>	<u>-</u>	<u>300</u>	<u>-</u>

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30 CAPITAL ADEQUACY

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

	<u>2011</u> RM'000	<u>2010</u> RM'000
<u>Tier-1 capital</u>		
Paid-up ordinary share capital	304,000	304,000
Retained profits	30,749	16,909
Other reserves	72,218	58,378
	<u>406,967</u>	<u>379,287</u>
Less: Deferred tax assets	(6,939)	(5,557)
Total tier-1 capital	<u>400,028</u>	<u>373,730</u>
<u>Tier-2 capital</u>		
Collective impairment allowance	22,337	17,466
Total tier-2 capital	<u>22,337</u>	<u>17,466</u>
Less:		
Investment in subsidiary company	(1,000)	(1,000)
Total capital base	<u>421,365</u>	<u>390,196</u>
<u>Capital ratios</u>		
<u>Before deducting proposed dividends</u>		
Core capital ratio	23%	25%
Risk-weighted capital ratio	24%	26%
<u>After deducting proposed dividends</u>		
Core capital ratio	23%	25%
Risk-weighted capital ratio	<u>24%</u>	<u>26%</u>

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30 **CAPITAL ADEQUACY (CONTINUED)**

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

	<u>2011</u> RM'000	<u>2010</u> RM'000
Credit risk	1,669,138	1,377,555
Market risk	4,591	4,300
Operational risk	91,096	81,759
	<u>1,764,825</u>	<u>1,463,614</u>

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

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

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30 CAPITAL ADEQUACY (CONTINUED)

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

<u>2011</u>	<u>Gross exposure</u> RM'000	<u>Net exposure</u> RM'000	<u>Risk-weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
<u>Exposure class</u>				
(i) <u>Credit Risk</u>				
On-balance sheet exposure:				
Sovereigns & central banks	1,006,024	1,006,024	-	-
Banks, development financial institutions & MDBs*	472,716	472,716	237,970	19,038
Corporates	1,453,336	1,453,336	1,140,380	91,230
Residential mortgages	9,836	9,836	3,688	295
Other assets	27,880	27,880	8,970	718
	<hr/>	<hr/>	<hr/>	<hr/>
Total on-balance sheet exposure	2,969,792	2,969,792	1,391,008	111,281
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	428,668	428,668	278,130	22,250
	<hr/>	<hr/>	<hr/>	<hr/>
Total credit risk	3,398,460	3,398,460	1,669,138	133,531
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net long position</u>				
(ii) <u>Market Risk</u>				
Foreign currency risk	4,591		4,591	367
(iii) <u>Operational Risk</u>				
			91,096	7,288
			<hr/>	<hr/>
Total risk weighted assets and capital requirement			1,764,825	141,186
			<hr/>	<hr/>

* Multi-lateral Development Banks ('MDBs')

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30 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

	<u>Gross exposure</u> RM'000	<u>Net exposure</u> RM'000	<u>Risk- weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
<u>2010</u>				
Exposure class				
(i) <u>Credit Risk</u>				
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
	<hr/>	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Total credit risk	<u>2,780,298</u>	<u>2,780,298</u>	1,377,555	110,205
<u>Net long position</u>				
(ii) <u>Market Risk</u>				
Foreign currency risk	4,300		4,300	344
	<hr/>			
(iii) <u>Operational Risk</u>			81,759	6,541
			<hr/>	<hr/>
Total risk weighted assets and capital requirement			<u>1,463,614</u>	<u>117,090</u>

* Multi-lateral Development Banks ('MDBs')

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30 CAPITAL ADEQUACY (CONTINUED)

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

2011 Supervisory Risk weights	← Exposures after Netting and Credit Risk Mitigation →					Total exposure after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
	Sovereigns and central banks RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Residential mortgages RM'000	Other assets RM'000		
0%	1,006,024	-	30,339	137	14,234	1,050,734	-
20%	-	472,716	-	-	5,845	478,561	95,712
35%	-	-	-	8,079	-	8,079	2,828
50%	-	286,854	294,338	3,315	-	584,507	292,253
100%	-	-	1,265,247	-	7,801	1,273,048	1,273,048
150%	-	-	3,531	-	-	3,531	5,297
Total	1,006,024	759,570	1,593,455	11,531	27,880	3,398,460	1,669,138
Risk weighted asset By exposure	-	237,970	1,417,713	4,485	8,970	1,669,138	
Average risk weight	0.00%	31.3%	89.0%	38.9%	32.2%	49.1%	

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30 CAPITAL ADEQUACY (CONTINUED)

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

Bank 2010	← Exposures after Netting and Credit Risk Mitigation →					Total exposure after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000	
	Supervisory Risk weights	Sovereigns and central banks RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Residential mortgages RM'000			Other assets 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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30 CAPITAL ADEQUACY (CONTINUED)

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

	2011			2010		
	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>	<u>Principal</u>	<u>Credit</u>	<u>Risk</u>
	RM'000	equivalent RM'000	weighted RM'000	RM'000	equivalent RM'000	weighted RM'000
Direct credit substitutes	-	-	-	540	540	540
Transaction-related contingent items	593,217	296,608	147,257	534,458	267,229	132,439
Short-term self liquidating trade related contingencies	2,676	535	524	1,126	225	203
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	318,085	63,617	63,211	434,649	86,930	86,461
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	135,816	67,908	67,138	428,576	214,288	136,676
	1,049,794	428,668	278,130	1,399,349	569,212	356,319

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31 FINANCIAL RISK MANAGEMENT

(a) Financial risk management

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

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

(b) Credit Risk

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

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

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

Maximum exposure to credit risk

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

	<u>2011</u> RM'000	<u>2010</u> RM'000
<u>Group</u>		
<u>Items recognised in the statements of financial position</u>		
Cash and short-term funds	1,206,298	1,173,318
Loans and advances	1,440,824	943,863
Other assets	13,121	24,984
	<u>2,660,243</u>	<u>2,142,165</u>
<u>Items not recognised in the statements of financial position</u>		
Contingent liabilities	595,893	536,124
Credit commitments	453,901	863,225
	<u>3,710,037</u>	<u>3,541,514</u>
<u>Bank</u>		
<u>Items recognised in the statements of financial position</u>		
Cash and short-term funds	1,206,248	1,173,316
Loans and advances	1,440,824	943,863
Other assets	12,657	24,484
	<u>2,659,729</u>	<u>2,141,663</u>
<u>Items not recognised in the statements of financial position</u>		
Contingent liabilities	595,893	536,124
Credit commitments	453,901	863,225
	<u>3,709,523</u>	<u>3,541,012</u>

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans, advances and financing for the Group and the Bank is 100% (2010: 100%). The financial effect of collateral held for the remaining on balance sheet financial assets are insignificant.

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit risk (continued)

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

<u>Group</u> <u>2011</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> <u>RM'000</u>	<u>Held-</u> <u>to-maturity</u> <u>securities</u> <u>RM'000</u>	<u>Loans and</u> <u>advances</u> <u>RM'000</u>	<u>Other</u> <u>assets</u> <u>RM'000</u>	<u>On-balance</u> <u>sheet total</u> <u>RM'000</u>	<u>Commitments</u> <u>and</u> <u>contingencies</u> <u>RM'000</u>
Primary agriculture	-	-	90,559	-	90,559	3,159
Mining and quarrying	-	-	8,941	-	8,941	1,747
Manufacturing	-	-	301,774	-	301,774	56,481
Electricity, gas and water supply	-	-	9,020	-	9,020	11,352
Construction	-	-	60,975	-	60,975	129,266
Real estate	-	-	99,275	-	99,275	18,952
Research and Development	-	-	3,717	-	3,717	339
Wholesale and retail trade and restaurants and hotels	-	-	87,605	-	87,605	21,826
Transport, storage and communication	-	-	52,067	-	52,067	154,547
Finance, insurance and business services	472,764	-	137,563	-	610,327	7,191
Household	-	-	113,829	-	113,829	23,560
Government and government agencies	947,910	40,413	-	-	988,323	-
Education, health and others	-	-	1,272	-	1,272	248
Others	-	-	496,575	-	496,575	-
	<u>1,420,674</u>	<u>40,413</u>	<u>1,463,172</u>	<u>-</u>	<u>2,924,259</u>	<u>428,668</u>
Assets not subject to credit risk	8,910	-	-	45,183	54,093	-
	<u>1,429,584</u>	<u>40,413</u>	<u>1,463,172[^]</u>	<u>45,183[#]</u>	<u>2,978,352</u>	<u>428,668</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM22,337,202 and RM11,266.

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

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit risk (continued)

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

<u>Group</u> <u>2010</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> RM'000	<u>Held-</u> <u>to-maturity</u> <u>securities</u> RM'000	<u>Loans and</u> <u>advances</u> RM'000	<u>Other</u> <u>assets</u> RM'000	<u>On-balance</u> <u>sheet total</u> RM'000	<u>Commitments</u> <u>and</u> <u>contingencies</u> RM'000
Primary agriculture	-	-	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	-
	<u>1,163,364</u>	<u>40,225</u>	<u>964,203</u>	<u>-</u>	<u>2,167,792</u>	<u>569,212</u>
Assets not subject to credit risk	9,954	-	-	40,756	50,710	-
	<u>1,173,318</u>	<u>40,225</u>	<u>964,203[^]</u>	<u>40,756[#]</u>	<u>2,218,502</u>	<u>569,212</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM17,466,000 and RM24,000.

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

<u>Bank</u> <u>2011</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> RM'000	<u>Held-</u> <u>to-maturity</u> <u>securities</u> RM'000	<u>Loans and</u> <u>advances</u> RM'000	<u>Other</u> <u>assets</u> RM'000	<u>On-balance</u> <u>sheet total</u> RM'000	<u>Commitments</u> <u>and</u> <u>contingencies</u> RM'000
Primary agriculture	-	-	90,559	-	90,559	3,159
Mining and quarrying	-	-	8,941	-	8,941	1,747
Manufacturing	-	-	301,774	-	301,774	56,481
Electricity, gas and water supply	-	-	9,020	-	9,020	11,352
Construction	-	-	60,975	-	60,975	129,266
Real estate	-	-	99,275	-	99,275	18,952
Research and Development	-	-	3,717	-	3,717	339
Wholesale and retail trade and restaurants and hotels	-	-	87,605	-	87,605	21,826
Transport, storage and communication	-	-	52,067	-	52,067	154,547
Finance, insurance and business services	472,716	-	137,563	-	610,279	7,191
Household	-	-	113,829	-	113,829	23,560
Government and government agencies	947,910	40,413	-	-	988,323	-
Education, health and others	-	-	1,272	-	1,272	248
Others	-	-	496,575	-	496,575	-
	<u>1,420,626</u>	<u>40,413</u>	<u>1,463,172</u>	<u>-</u>	<u>2,924,211</u>	<u>428,668</u>
Assets not subject to credit risk	8,908	-	-	44,612	53,520	-
	<u>1,429,534</u>	<u>40,413</u>	<u>1,463,172[^]</u>	<u>44,612[#]</u>	<u>2,977,731</u>	<u>428,668</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM22,337,202 and RM11,266.

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

<u>Bank</u> <u>2010</u>	<u>Short-term</u> <u>funds and</u> <u>placements</u> <u>with financial</u> <u>institutions</u> <u>RM'000</u>	<u>Held-</u> <u>to-maturity</u> <u>securities</u> <u>RM'000</u>	<u>Loans and</u> <u>advances</u> <u>RM'000</u>	<u>Other</u> <u>assets</u> <u>RM'000</u>	<u>On-balance</u> <u>sheet total</u> <u>RM'000</u>	<u>Commitments</u> <u>and</u> <u>contingencies</u> <u>RM'000</u>
Primary agriculture	-	-	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	-
	<u>1,163,364</u>	<u>40,225</u>	<u>964,203</u>	<u>-</u>	<u>2,167,792</u>	<u>569,212</u>
Assets not subject to credit risk	9,952	-	-	39,899	49,851	-
	<u>1,173,316</u>	<u>40,225</u>	<u>964,203[^]</u>	<u>39,899[#]</u>	<u>2,217,643</u>	<u>569,212</u>

[^] Excludes collective impairment allowance and individual impairment allowance amounting to RM17,466,000 and RM24,000.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Collateral

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

Loans and advances

Loans and advances are summarised as follows:

<u>2011</u>	<u>Group and Bank</u> RM'000
Neither past due nor impaired	1,410,135
Past due but not impaired	52,944
Impaired	93
	<hr/>
Gross loans and advances	1,463,172
Less: Individual impairment allowance	(11)
Collective impairment allowance	(22,337)
	<hr/>
Net loans and advances	<u>1,440,824</u>
	<hr/>
<u>2010</u>	<u>Group and Bank</u> RM'000
Neither past due nor impaired	959,172
Past due but not impaired	2,110
Impaired	2,921
	<hr/>
Gross loans and advances	964,203
Less: Individual impairment allowance	(2,874)
Collective impairment allowance	(17,466)
	<hr/>
Net loans and advances	<u>943,863</u>
	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Loans and advances (continued)

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 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.

<u>2011</u>	<u>Group and Bank</u> RM'000
AAA - A	359,620
BBB - B	447,364
CCC - C	132,049
Unrated	471,102
	<u>1,410,135</u>
	<u><u>1,410,135</u></u>
<u>2010</u>	<u>Group and Bank</u> RM'000
AAA - A	299,018
BBB - B	472,401
CCC - C	140,805
Unrated	46,948
	<u>959,172</u>
	<u><u>959,172</u></u>

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (continued)

Loans and advances (continued)

(ii) Loans and advances past due but not impaired

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

<u>2011</u>	<u>Group and Bank</u> RM'000
Between 1 – 30 days past due	18,427
Between 31 – 60 days past due	7,400
Between 61 -90 days past due	27,117
	<hr/>
	52,944
	<hr/> <hr/>
<u>2010</u>	<u>Group and Bank</u> RM'000
Between 31 – 60 days past due	286
Between 61 -90 days past due	1,824
	<hr/>
	2,110
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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 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 2011 are as follows:

<u>2011</u>	<u>Group and Bank</u> RM'000
Corporate	-
Individual	93
	<hr/>
	93
	<hr/> <hr/>
<u>2010</u>	<u>Group and Bank</u> RM'000
Corporate	2,863
Individual	58
	<hr/>
	2,921
	<hr/> <hr/>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 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 2011, based on RAM ratings or their equivalent:

<u>2011</u>	<u>Short term funds</u> RM'000	<u>Deposits and placements with banks and other FIs</u> RM'000	<u>Held-to maturity securities</u> RM'000	<u>Other assets</u> RM'000
AA3/A-/A	981	-	-	-
A1/BBB+/A-	233,950	221,176	-	-
A3	14,005	-	-	-
Unrated				
- Bank Negara Malaysia	946,617	-	40,413	-
- Others	8,909	-	-	12,657
	<u>1,204,462</u>	<u>221,176</u>	<u>40,413</u>	<u>12,657</u>
<u>2010</u>		<u>Short term funds</u> RM'000	<u>Held-to maturity securities</u> RM'000	<u>Other assets</u> 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
		<u>1,172,170</u>	<u>40,225</u>	<u>24,484</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity Risk

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

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

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

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

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

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

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

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2011 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM GP8:

<u>Group</u> <u>2011</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	895,389	310,909	-	-	-	-	1,206,298
Deposits and placements with banks and other financial institutions	-	-	5,179	202,543	15,564	-	223,286
Held-to-maturity securities	-	-	40,413	-	-	-	40,413
Loans and advances	198,209	254,429	152,314	217,429	127,527	490,916	1,440,824
Other assets	11,917	250	-	-	7,741	25,275	45,183
Total assets	1,105,515	565,588	197,906	419,972	150,832	516,191	2,956,004
Deposits from customers	354,003	309,270	211,214	225,163	417,169	2,168	1,518,987
Deposits and placements of banks and other financial institutions	146,364	238,685	153,339	322,664	125,927	-	986,979
Other liabilities	6,644	21,252	482	1,170	7,468	-	37,016
Total liabilities	507,011	569,207	365,035	548,997	550,564	2,168	2,542,982
Net liquidity gap- Total assets less total liabilities	598,504	(3,619)	(167,129)	(129,025)	(399,732)	514,023	413,022

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **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:

<u>Group</u> <u>2010</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	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

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

The table below analyses assets and liabilities (includes non financial instruments) as at 31 December 2011 based on the remaining contractual maturity is disclosed in accordance with the requirements of BNM GP8:

<u>Bank</u> <u>2011</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	895,339	310,909	-	-	-	-	1,206,248
Deposits and placements with banks and other financial institutions	-	-	5,179	202,543	15,564	-	223,286
Held-to-maturity securities	-	-	40,413	-	-	-	40,413
Loans and advances	198,209	254,429	152,314	217,429	127,527	490,916	1,440,824
Other assets	11,631	250	-	-	7,715	25,016	44,612
Financial assets	1,105,179	565,588	197,906	419,972	150,806	515,932	2,955,383
Deposits from customers	360,713	309,270	211,214	225,163	417,169	2,168	1,525,697
Deposits and placements of banks and other financial institutions	146,364	238,685	153,339	322,664	125,927	-	986,979
Other liabilities	6,644	20,560	-	1,200	7,336	-	35,740
Financial liabilities	513,721	568,515	364,553	549,027	550,432	2,168	2,548,416
Net liquidity gap- financial assets less financial liabilities	591,458	(2,927)	(166,647)	(129,055)	(399,626)	513,764	406,967

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31 **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:

<u>Bank</u> <u>2010</u>	<u>Within</u> <u>1 week</u> <u>RM'000</u>	<u>1 week</u> <u>to 1 month</u> <u>RM'000</u>	<u>1 to 3</u> <u>months</u> <u>RM'000</u>	<u>3 to 6</u> <u>months</u> <u>RM'000</u>	<u>6 to 12</u> <u>months</u> <u>RM'000</u>	<u>Over</u> <u>1 year</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Cash and short-term funds	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

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities on undiscounted basis. 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 27.

<u>Group</u> <u>2011</u>	Within <u>1 week</u> RM'000	1 week <u>to 1 month</u> RM'000	1 to 3 <u>months</u> RM'000	3 to 6 <u>months</u> RM'000	6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	Total RM'000
<u>Financial assets</u>							
Cash and short-term funds	895,560	311,249	-	-	-	-	1,206,809
Deposits and placements with banks and other financial institutions	-	-	5,223	204,922	15,841	-	225,986
	<u>895,560</u>	<u>311,249</u>	<u>5,223</u>	<u>204,922</u>	<u>15,841</u>	<u>-</u>	<u>1,432,795</u>
<u>Financial liabilities</u>							
Deposits from customers	352,409	309,718	212,416	229,707	427,753	2,313	1,534,316
Deposits and placements of banks and other financial institutions	146,373	238,966	154,141	325,173	128,080	-	992,733
Other liabilities	7,253	20,426	-	-	-	-	27,679
	<u>506,035</u>	<u>569,110</u>	<u>366,557</u>	<u>554,880</u>	<u>555,833</u>	<u>2,313</u>	<u>2,554,728</u>
Net liquidity gap	<u>389,525</u>	<u>(257,861)</u>	<u>(361,334)</u>	<u>(349,958)</u>	<u>(539,992)</u>	<u>(2,313)</u>	<u>(1,121,933)</u>

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities on undiscounted basis. 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 27. (continued)

<u>Group</u> <u>2010</u>	Within <u>1 week</u> RM'000	1 week <u>to 1 month</u> RM'000	1 to 3 <u>months</u> RM'000	3 to 6 <u>months</u> RM'000	6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	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
	<u>656,313</u>	<u>703,685</u>	<u>330,088</u>	<u>18,729</u>	<u>93,479</u>	<u>4,080</u>	<u>1,806,374</u>

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. 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 27.

<u>Bank</u> <u>2011</u>	Within <u>1 week</u> RM'000	1 week <u>to 1 month</u> RM'000	1 to 3 <u>months</u> RM'000	3 to 6 <u>months</u> RM'000	6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	Total RM'000
<u>Financial assets</u>							
Cash and short-term funds	895,558	311,249	-	-	-	-	1,206,807
Deposits and placements with banks and other financial institutions	-	-	5,223	204,922	15,841	-	225,986
	<u>895,558</u>	<u>311,249</u>	<u>5,223</u>	<u>204,922</u>	<u>15,841</u>	<u>-</u>	<u>1,432,793</u>
<u>Financial liabilities</u>							
Deposits from customers	359,119	309,718	212,416	229,707	427,753	2,313	1,541,026
Deposits and placements of banks and other financial institutions	146,373	238,966	154,141	325,173	128,080	-	992,733
Other liabilities	6,658	20,339	30	30	40	-	27,097
	<u>512,150</u>	<u>569,023</u>	<u>366,587</u>	<u>554,910</u>	<u>555,873</u>	<u>2,313</u>	<u>2,560,856</u>
Net liquidity gap	<u>383,408</u>	<u>(257,774)</u>	<u>(361,364)</u>	<u>(349,988)</u>	<u>(540,032)</u>	<u>(2,313)</u>	<u>(1,128,063)</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. 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 27. (continued)

<u>Bank</u> <u>2010</u>	Within <u>1 week</u> RM'000	1 week <u>to 1 month</u> RM'000	1 to 3 <u>months</u> RM'000	3 to 6 <u>months</u> RM'000	6 to 12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	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
	<u>663,097</u>	<u>701,999</u>	<u>329,754</u>	<u>18,711</u>	<u>93,387</u>	<u>4,080</u>	<u>1,811,028</u>

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

	2011			2010		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	-	-	-	540	-	540
Transaction-related contingent items	194,724	398,493	593,217	188,631	345,827	534,458
Short-term self-liquidating trade-related contingencies	2,676	-	2,676	1,126	-	1,126
Irrevocable commitments to extend credit	318,085	135,816	453,901	434,649	428,576	863,225
	515,485	534,309	1,049,794	624,946	774,403	1,399,349

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Market Risk**

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

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

The Bank's interest rate risk is monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. Sensitivity is measured using the Earnings-at-Risk ('EaR') methodology. An increase or decrease by 25 basis points, the impact of increase/decrease on the Group's and the Bank's post-tax profit for the year and is estimated at RM2.3 million (2010: RM1.5 million).

The Bank's foreign exchange risk is managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The mismatch between currencies mainly arises from the Bank's short term foreign currencies lending and borrowing. The financial impact of appreciation or depreciation by 1% for each foreign currency exposure would result in a post-tax profit/loss of RM22,000 (2010 : RM313,000) to the Group and the Bank.

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk

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

Group 2011	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,194,618	-	-	-	-	11,680	1,206,298	2.89%
Deposits & placement with banks & other institution	-	223,286	-	-	-	-	223,286	2.94%
Held-to-maturity securities	-	40,413	-	-	-	-	40,413	4.09%
Loans and advances								
- non-impaired	1,038,569	119,165	303,152	677	1,516	(22,337)	1,440,742	4.74%
- impaired	93	-	-	-	-	(11)	82	
Other assets	-	-	-	-	-	13,121	13,121	
Deferred tax assets	-	-	-	-	-	6,965	6,965	
Property and equipment	-	-	-	-	-	7,388	7,388	
Intangible assets	-	-	-	-	-	9	9	
Statutory Deposits with Bank Negara Malaysia	-	-	-	-	-	17,700	17,700	
Total assets	2,233,280	382,864	303,152	677	1,516	34,515	2,956,004	

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Group 2011	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	515,438	211,214	642,333	2,168	-	147,834	1,518,987	2.97%
Deposits and placements of banks and other financial institutions	385,049	153,339	448,591	-	-	-	986,979	1.13%
Other liabilities	-	-	-	-	-	35,484	35,484	
Provision for taxation	-	-	-	-	-	1,532	1,532	
Total liabilities	900,487	364,553	1,090,924	2,168	-	184,850	2,542,982	
Total equity	-	-	-	-	-	413,022	413,022	
Total liabilities and equity	900,487	364,553	1,090,924	2,168	-	597,872	2,956,004	
On balance sheet – interest rate gap	1,332,793	18,311	(787,772)	(1,491)	1,516	(563,357)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	1,332,793	18,311	(787,772)	(1,491)	1,516	(563,357)	-	

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Group 2010	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,162,082	-	-	-	-	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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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Group 2010	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	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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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Bank 2011	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,194,570	-	-	-	-	11,678	1,206,248	2.89%
Deposits & placement with banks & other financial institutions	-	223,286	-	-	-	-	223,286	2.94%
Held-to-maturity securities	-	40,413	-	-	-	-	40,413	4.09%
Loans and advances								
- performing	1,038,569	119,165	303,152	677	1,516	(22,337)	1,440,742	4.74%
- non-performing	93	-	-	-	-	(11)	82	
Other assets	-	-	-	-	-	12,657	12,657	
Deferred tax assets	-	-	-	-	-	6,939	6,939	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Property and equipment	-	-	-	-	-	6,311	6,311	
Intangible assets	-	-	-	-	-	5	5	
Statutory Deposits with Bank Negara Malaysia	-	-	-	-	-	17,700	17,700	
Total assets	2,233,232	382,864	303,152	677	1,516	33,942	2,955,383	

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31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Bank 2011	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	515,438	211,214	642,333	2,168	-	154,544	1,525,697	2.97%
Deposits and placements of banks and other financial institutions	385,049	153,339	448,591	-	-	-	986,979	1.13%
Bills and acceptances payable								
Other liabilities	-	-	-	-	-	34,373	34,373	
Provision for taxation	-	-	-	-	-	1,367	1,367	
Total liabilities	900,487	364,553	1,090,924	2,168	-	190,284	2,548,416	
Total equity	-	-	-	-	-	406,967	406,967	
Total liabilities and equity	900,487	364,553	1,090,924	2,168	-	597,251	2,955,383	
On balance sheet – interest rate gap	1,332,745	18,311	(787,772)	(1,491)	1,516	(563,309)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	1,332,745	18,311	(787,772)	(1,491)	1,516	(563,309)	-	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Bank 2010	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,162,082	-	-	-	-	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 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Interest rate risk (continued)

Bank 2010	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Liabilities								
Deposits from customers	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)	-	

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

31 **FINANCIAL INSTRUMENTS (CONTINUED)**

(e) **Operational Risk**

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

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

32 **FAIR VALUE OF FINANCIAL INSTRUMENTS**

FRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining the disclosing the fair value of financial instruments:

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

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

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

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

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

As at 31 December 2011, the Group and the Bank do not have any fair valued financial instruments that falls under level 1, 2 and 3.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

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

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:

	2011		Group and bank 2010	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<u>Financial assets</u>				
Held-to-maturity securities	40,413	40,397	40,225	40,383

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(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.

33 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.

34 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 7 June 2012.

Company No.

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

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

We, Tan Siak Tee and Datuk Ter Leong Yap, 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 21 to 113 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank for the financial 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 7 June 2012.

TAN SIAK TEE
DIRECTOR

DATUK TER LEONG YAP
DIRECTOR

Kuala Lumpur
7 June 2012

**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 21 to 113 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 7 June 2012, 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, on pages 21 to 113, which comprise the statements of financial position as at 31 December 2011 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 Notes 1 to 34.

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 the Financial Reporting Standard, 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 the Financial Reporting Standards, 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 2011 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
(No. AF: 1146)
Chartered Accountants

ONG CHING CHUAN
(No. 2907/11/13 (J))
Chartered Accountant

Kuala Lumpur
7 June 2012