

Company No. 511251-V

**BANK OF CHINA (MALAYSIA) BERHAD**

(Company No. 511251-V)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 DECEMBER 2016

Company No. 511251-V

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT**

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2016.

**PRINCIPAL ACTIVITIES**

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

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

Other information relating to the subsidiary is disclosed in Note 10 to the financial statements.

**RESULTS**

	<u>GROUP</u> RM'000	<u>BANK</u> RM'000
Profit before taxation	150,827	147,222
Taxation	(37,935)	(34,112)
Net profit for the financial year	<u>112,892</u>	<u>113,110</u>

**DIVIDENDS**

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

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

**CHANGES IN DEBT AND EQUITY SECURITIES**

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

**RESERVES AND PROVISIONS**

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

**BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that there were no bad debts and adequate allowance had been made for doubtful debts.

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

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

**CURRENT ASSETS**

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

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

**VALUATION METHODS**

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

**CONTINGENT AND OTHER LIABILITIES**

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

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

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

**CHANGE OF CIRCUMSTANCES**

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

**ITEMS OF AN UNUSUAL NATURE**

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

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

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**DIRECTORS' REPORT (CONTINUED)**

**SIGNIFICANT EVENT DURING THE FINANCIAL YEAR**

Pursuant to a Share Sale and Purchase Agreement dated 30 June 2016 entered between Bank of China Limited ("BOCL") and Bank of China (Hong Kong) Limited ("BOCHK"), BOCL agreed to sell, and BOCHK agreed to purchase, 760,518,480 fully paid ordinary shares of RM1.00 each in the Bank comprising of the entire issued and paid up share capital of the Bank at a total consideration of RM2,025,000,000. The Sale and Purchase exercise was completed on 17 October 2016.

**DIRECTORS**

The Directors who have held office during the period since the beginning of the financial year to the date of this report are as follows:

The Bank

Guan Xuefei (appointed on 16 June 2016)  
Wang Hongwei  
Datuk Ter Leong Yap  
Chai Woon Chew  
Eugene Khoo Kong Hooi (appointed on 9 January 2017)  
Zheng Weiping (resigned on 16 June 2016)  
Liu Lijing (resigned on 16 June 2016)  
Zhang Qingsong (appointed on 16 June 2016, resigned on 9 January 2017)

The Subsidiary

Qiu Hengchang (appointed on 2 September 2016)  
Chew Lee Lin (appointed on 2 September 2016)  
Xu Zanjun (resigned on 2 September 2016)  
Meng Qingbo (resigned on 2 September 2016)

Mr. Chai Woon Chew, the Director retiring pursuant to Article 76 of the Bank's Articles of Association and being eligible had offered himself for re-election.

Mr. Eugene Khoo Kong Hooi, the Director retiring pursuant to Article 82 of the Bank's Articles of Association and being eligible had offered himself for re-election.

Mr. Qiu Hengchang, the Director retiring pursuant to Article 68 of the Subsidiary's Articles of Association and being eligible had offered himself for re-election.

Madam Chew Lee Lin, the Director retiring pursuant to Article 68 of the Subsidiary's Articles of Association and being eligible had offered herself for re-election.

**DIRECTORS' INTERESTS IN SHARES**

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

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' BENEFITS**

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

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

**HOLDING COMPANIES**

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

**BUSINESS REVIEW 2016**

Leveraging on the advantages of the BOC Group's international network and diversified businesses, the Bank continued to transform its corporate banking business by aggressively growing its local enterprise clientele to increase market share and to support Malaysia's connectivity to the world economy to play a pivotal role under China's "One Belt, One Road" initiative. In year 2016, business grew steadily in terms of loans, deposits, number of customers and profit.

**ECONOMIC OUTLOOK FOR 2017**

Year 2017 will be a challenging year for Malaysia's economy, as downside risks on external factor is intensifying and pressure from world's economy policy. Malaysia is expected to benefit from China's "One Belt, One Road" initiative over the medium term, which will help to accelerate infrastructure development and regional transport connectivity, facilitating the development of new global manufacturing hub to create more job opportunity. Household debt is forecasted to remain resilient, backed by a strong labour market and diversified economy along with flexible exchange rate is able to overcome any commodity price shock. The government's plans to gradually consolidate the fiscal policy over the medium-term will help alleviate the risks from elevated contingent liabilities.

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**DIRECTORS' REPORT (CONTINUED)**

**BUSINESS PLAN 2017**

The Bank will continue to formulate its business strategy focusing on the penetration into local business enterprises with the aim to become the preferred foreign bank amongst local corporations. The Bank was acquired by Bank of China (Hong Kong) Limited (BOCHK) last year as part of the business integration project of the Group. The Bank will take advantage of the business integration exercise and work in collaboration with BOCHK to grasp possible business opportunities to accelerate overall business expansion. The Bank will aggressively promote the Belt and Road Initiative by becoming the bridge between business enterprises of Malaysia and China. In anticipation of business expansion in the near future, the Bank endeavor to further strengthen its risk management and internal control structure and framework.

**RATINGS BY EXTERNAL RATING AGENCY**

RAM Rating Services Berhad ("RAM") has assigned Bank of China (Malaysia) Berhad's Financial Institution Ratings at AAA2 and P1, with stable outlook, on 28 October 2016.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES**

**Guan Xuefei - Chairman**

Mr. Guan Xuefei, P.R. China citizen, aged 52, was appointed to the Board in year 2016 as a Non-Independent Non-Executive Director and subsequently the Chairman of the Board in year 2017. He has no family relationship with any Director of the Bank. He is a master holder from Xi'AN International Studies University, majoring in Russian studies.

Mr. Guan joined Bank of China Xinjiang Branch in 1990, immediately after his graduation. He started his career in the International Settlement Department of Bank of China Xinjiang Branch. Throughout his career in Bank of China Group, he has gained extensive experience in the areas of Accounting, International Settlement operations, International Trade, Corporate Banking and Financial Institution relationships. He also possessed approximately 8 years of overseas subsidiary branch exposure in his posting to Bank of China Russia.

Mr. Guan is nominated to sit on the Board of Directors of selected subsidiaries representing the interest of Bank of China Ltd, where Bank of China (Malaysia) Berhad is one of the designated subsidiaries.

**Wang Hongwei – Executive Director/Chief Executive Officer**

Mr. Wang Hongwei, P.R. China citizen, aged 54, was appointed to the Board in year 2013 as a Non-Independent Executive Director representing Bank of China Limited. He holds MBA from Dongbei University of Finance and Economics.

Mr. Wang has more than 30 years extensive working experience in the banking industry. Particularly in Trade Financing, Corporate Business, Branch Management and Electronic Banking functions. He started his career with Bank of China, Dalian Branch, International Trade Settlement Division.

Apart from the People's Republic of China, Mr. Wang has overseas experience in Bank of China, London Branch, Bank of China (Zambia) Limited and now in Bank of China (Malaysia) Berhad.

Mr. Wang has been appointed as CEO of Bank of China (Malaysia) Berhad since January 2013.



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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Datuk Ter Leong Yap – Independent Non-Executive Director**

Datuk Ter Leong Yap, male, age 53, a Malaysian, was appointed to the Board in year 2010 as an Independent Non-Executive Director of the Bank. He has no family relationship with any Director of the Bank.

Datuk Ter graduated from the University of Malaya with Honours in Engineering. His foray into the industry began with a construction and material handling equipment business back in 1989. Since then, Datuk Ter has diversified his business interests to include property development and education. He is currently the Founder and Executive Chairman of public-listed property developer Sunsuria Berhad.

Datuk Ter holds several distinguished positions within the region. He is President of The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCIM) (2015-2018), President of the Chinese Chamber of Commerce & Industry of Kuala Lumpur & Selangor (KLSCCCI) (2015-2018), Director of Bank of China (Malaysia) Berhad, Member of the Malaysia-Singapore Business Council, Director of Xiamen University Malaysia, and Honorary Member of the Malaysia-China Business Council (MCBC) (since 2010).

In November 2016, Datuk Ter was officially elected as the new President of the National Chamber of Commerce and Industry of Malaysia (NCCIM) (2016-2018).

**Chai Woon Chew – Independent Non-Executive Director**

Mr. Chai Woon Chew, Malaysian, aged 59, is a lawyer and was appointed to the Board in year 2012 as an Independent Non-Executive Director of the Bank. He has no family relationship with any director of the Bank. He holds a Bachelor Of Law (Hons) degree from the University of Buckingham, United Kingdom, Bachelor Of Science (Hons) degree in Chemistry from University Of Surrey, United Kingdom. He was called to the bar of England and Wales as a Barrister-at-Law at Lincoln's Inn London, United Kingdom.

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

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

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

He is also a director in KKB Engineering Berhad, a public company listed on the stock exchange in Malaysia.

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' PROFILES (CONTINUED)**

**Eugene Khoo Kong Hooi – Independent Non-Executive Director**

Mr. Eugene Khoo Kong Hooi, Malaysian, aged 51, was appointed to the Board in year 2017 as an Independent Non-Executive Director. He has no family relationship with any Director of the Bank.

He has more than 20 years working experience in the banking and finance industry having worked in corporate and investment banking - covering various areas including mergers and acquisitions, corporate banking, corporate finance, debt capital markets, equity capital markets and relationship management. He has worked on transactions with clients from small to large corporations in various countries covering a broad range of industry sectors. He started his career with an international accounting firm in 1989 where he subsequently obtained his qualification as a Chartered Accountant in Australia. He holds a Bachelor of Economics degree (majoring in Accounting and Statistics) from Monash University, Australia and is a member of the Malaysian Institute of Accountants and Chartered Accountants Australia and New Zealand.

Mr. Eugene Khoo is the current President of the Malaysian Mergers & Acquisitions Association, a not for profit association which was set up to develop the mergers & acquisitions market in Malaysia.

Mr. Eugene Khoo is currently the Group Chief Executive Officer of TAHPS Group Berhad, a public company listed on the stock exchange in Malaysia.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT**

**BOARD OF DIRECTORS**

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

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

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

The major duties and responsibilities of the Board include:

1. **Strategy and Planning**  
Set and oversee the implementation of business and risk objective and strategies and in doing so shall have regard to long term viability of the Bank and reasonable standards of fair dealing.
2. **Risk Management and Internal Control**  
Ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems commensurate with the nature, scale and complexity of the business and structure of the Bank. Assess and manage risk-taking activities to align with the Bank's capacity to absorb losses and the long-term business viability. Ensure requirements in Bank Negara Malaysia ("BNM") policy document on Risk Governance <BNM/RH/GL 013-5> are at all times observed.
3. **Disclosure of Information**  
Ensure reliable and transparent financial reporting process within the Bank. The board is responsible to ensure the integrity and credibility of financial statement of the Bank Corporate Governance and Compliance.
4. **Monitoring and Delegation of Authorities to Various Committees**  
The Board establishes and ensures the effective functioning of various board committees. Committee members are selected on their expertise, interests and availability. Duties may be delegated to the board committees, however, the Board remains responsible for the decisions of the committees. The Board shall be regularly informed of each committee's activities, findings, conclusion and recommendations. The Board should review reports submitted by various committees, and provide guidance, when necessary.
5. **Supervision over Performance of Senior Management**  
Recommending or suggesting the candidates for CEO, Deputy/Assistant CEO of the Bank as well as their performance, remuneration, salary, bonus, transfer, retirement, reappointment etc. The Board shall ensure the operations of the Bank are conducted prudently, and within the framework of the relevant laws and policies.
6. **Communications with Shareholders/Stakeholders**  
Manage the Bank's business in accordance with the rules stipulated in the Memorandum & Articles of Associations, relevant laws and regulations. Maintain an effective communication policy that enables both the Board and Management to communicate effectively with its shareholders, the stakeholders and the public either through disclosure or AGM. Promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank.

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**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 Board Committees and selective management 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.

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 2016 is as follows:

Composition of Board of Director	Number of Board Meetings	
	Held	Attended
Guan Xuefei Chairman (Appointed on 9 January 2017)	3	3
Wang Hongwei Executive Director	6	6
Datuk Ter Leong Yap Independent Non-Executive Director	6	6
Chai Woon Chew Independent Non-Executive Director	6	6
Zheng Weiping Chairman/Non-Independent Non-Executive Director (Resigned on 16 June 2016)	3	1
Liu Lijing Non-Independent Non-Executive Director (Resigned on 16 June 2016)	3	1
Zhang Qingsong Executive Director (Appointed on 16 June 2016, resigned on 9 January 2017)	3	1

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

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**Effectiveness of the Board of Directors**

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

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

The Chairman of the Board is a Non-Executive Director and 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.

2. Composition of the Board

The Board currently comprises personnel with differing expertise and of high standing in the society. The Board comprises 5 members, of whom one is Executive Director, and 3 out of 4 Non-Executive Directors are independent as defined under BNM Guidelines on Corporate Governance for Licensed Institutions.

There is effective check and balance on the Board, with four-fifth of the Board Members being Non-Executive Directors and the Independent Directors consisted of three-fifth 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 business, 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 6 to 8 of the Report.

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**Effectiveness of the Board of Directors (Continued)**

4. Directors' Performance and Remuneration

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

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

The Independent Directors 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 companies and the Board based on the qualification, experience and achievement of targets set.

5. Induction and Training

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

The Bank and the holding companies ensures 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.

For the year under review, all Directors complied with the internal policy of attend at least one training programme during the financial year.

Training programmes, conferences, forums, seminars and briefings attended by the Directors for the year 2016 were as follows:

Bank of China Group ("BOC") and Bank of China (Hong Kong) Group ("BOCHK") Internal Training:

- Training course for Non-Executive Directors and Supervisors of BOC's Overseas Subsidiaries
- Anti-money laundering and compliance management
- BOC Group 2016 working meeting and leadership training
- BOC Hong Kong Group 's business direction within group
- Management training by BOCHK

Bank of China (Malaysia) Berhad Internal Training:

- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act ("AMLATAFPUAA 2011"): The law and compliance
- General awareness of Basel II and III and Internal capital adequacy assessment process ("ICAAP")

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**BOARD OF DIRECTORS (CONTINUED)**

**Effectiveness of the Board of Directors (Continued)**

5. Induction and Training (Continued)

External Conferences/Forums/Seminars:

- Seminar on SME trade and investment at China
- SERC Global Economic Conference 2016
- Seminar on Trade and business matching at China
- International Energy Cooperation Forum at China
- 2017 Budget workshop
- International workshop on “Great Fall or New Normal? China’s Economic Restructuring and its impact on Southeast Asia”
- Companies Bill 2015 – The Modern Director’s Ever Increasing Duties
- New Company Law’s impact on your business and duties
- Malaysia Stock Market & Real Estate Investment Strategies and Trends Forum
- Belt and Road Initiative: Malaysia – China Business dialogue
- 2<sup>nd</sup> Chinese Entrepreneurs Forum

**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**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 has on 9 December 2016 given approval for the combination of Board Nominating Committee and Board Remuneration Committee to form Board Remuneration and Nomination Committee.

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

**Board Committees**

- Board Audit Committee
- Board Risk Management Committee
- Board Remuneration and Nomination Committee

**Management Committees**

- Management Committee
- Assets and Liabilities Management Committee
- Risk Management and Internal Control Committee
- Compliance Risk Management Committee
- Business Development Committee
- Loan Quality Management Committee (formerly known as Loan Portfolio Management Committee)
- Credit Evaluation Panel
- Information Technology Steering Committee
- Bulk Purchase Management Procurement Committee

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

1. Board Audit Committee

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

(a) Membership and Attendance

The Board Audit Committee ("BAC") comprises the following members and details of attendance of each member at the BAC meetings held during 2016 are as follows:

Composition of Board Audit Committee	Number of AC Meetings	
	Held	Attended
Chai Woon Chew Chairman/Independent Non-Executive Director	7	7
Datuk Ter Leong Yap Independent Non-Executive Director	7	7
Guan Xuefei Chairman of Board of Director (Appointed on 16 June 2016)	4	4
Liu Lijing Non-Independent Non-Executive Director (Resigned on 16 June 2016)	3	1
Zhang Qingsong Executive Director (Appointed on 16 June 2016, resigned on 9 December 2016)	4	1



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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

1. Board Audit Committee (Continued)

(b) Composition and Terms of Reference

The BAC shall comprise only Non-Executive Directors with at least (3) three members of Board of Directors, of which the majority should be Independent Directors. At least one member should have accounting expertise or experience in the field of finance.

The BAC 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.

(c) Roles and Responsibilities

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

(d) Key Internal Control Processes

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

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

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

2. Board Risk Management Committee

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

(a) Membership and Attendance

The Board Risk Management Committee ("BRMC") comprises the following members and details of attendance of each member at the BRMC meetings held during 2016 are as follows:

Composition of Board Risk Management Committee	Number of Meetings	
	Held	Attended
Chai Woon Chew Chairman/Independent Non-Executive Director	7	7
Datuk Ter Leong Yap Independent Non-Executive Director	7	7
Guan Xuefei Chairman of Board of Director (Appointed on 16 June 2016)	3	3
Liu Lijing Non-Independent Non-Executive Director (Resigned on 16 June 2016)	4	1
Zhang Qingsong Executive Director (Appointed on 16 June 2016, resigned on 9 December 2016)	3	1

(b) Composition and Terms of Reference

The BRMC shall comprise only non-executive directors with at least (3) three members. The committee shall be chaired by an Independent Non-Executive Director.

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

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

The quorum shall be at least 50% of the members.

(c) Objective

The key responsibility of the BRMC is to support the Board in meeting the expectations on risk management as set out in BNM policy document on Risk Governance. The Committee assists the Board in overseeing the establishment of a robust risk management system and effective framework to identifies, monitors, controls and report risk. Also responsible in the formulating and reviewing the risk appetite framework and limit, assess the adequacy of risk related policies, providing effective oversight of senior management's action, review and approve new products and ensure compliance with the prevailing guidelines issued by BNM. The Committee shall assist the implementation of a sound remuneration system, examine whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration and Nomination Committee.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

2. Board Risk Management Committee (Continued)

(c) Objective (Continued)

The BRMC shall comprise at least three members of the Board of Non-Executive Directors and chaired by an Independent Director.

(d) Roles and responsibilities

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

- (i) reviewing and recommending risk management strategies, policies, risk appetite and risk tolerance for Board's approval;
- (ii) reviewing and assessing adequacy of risk management policies and framework including ICAAP and Risk Appetite, Credit Risk, Operational Risk, Market Risk, Liquidity Risk and Compliance in identifying, measuring, monitoring and controlling risk and to the extent to which these are operating effectively;
- (iii) ensuring infrastructure, resources and systems are in place for risk management that is, ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities;
- (iv) reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities, compliance report and AMLATFPUAA report;
- (v) to advise the Board on risk appetite and tolerance in determining strategy. The Committee has power delegated by the Board to set risk appetite, approve frameworks, policies and processes for managing risk and accept risks beyond the approval discretion provided to management;
- (vi) to provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework; and
- (vii) to review and recommend to Board for approval on new products and ensure compliance with the prevailing guideline issued by regulatory bodies.

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

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee

The Board has on 9 December 2016 given approval for the combination of Board Nominating Committee and Board Remuneration Committee to form Board Remuneration and Nomination Committee. During the year 2016, the Committees were operated separately as follows:

(i) 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 2016 are as follows:

Composition of Board Nominating Committee	Number of BNC Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	6	6
Wang Hongwei Executive Director	6	6
Chai Woon Chew Independent Non-Executive Director	6	6
Guan Xuefei Chairman of Board of Director (Appointed on 16 June 2016)	3	3
Liu Lijing Non-Independent Non-Executive Director (Resigned on 16 June 2016)	3	1
Zheng Weiping Chairman of Board of Director (Resigned on 16 June 2016)	3	1
Zhang Qingsong Executive Director (Appointed on 16 June 2016, resigned on 9 December 2016)	3	1

(b) Composition

The BNC shall consists of a minimum of (3) three members of which majority of Non-Executive Directors. The committee is chaired by either the Chairman of the Board or an Independent Non-Executive Director.

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

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 50% persons comprising any of the Committee Chairman and Members.

(c) Objective

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

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(i) Board Nominating Committee (Continued)

(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 Bank Negara Malaysia;
- (iv) on an annual basis, reviewing the required mix of skills, experience and core competencies within the Board and make recommendations to the Board with regards to any changes;
- (v) overseeing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between Executive Director, Non-Executive Directors and Independent Director through annual review;
- (vi) recommending to the Board the removal of a Director or CEO from the Board or management if the Director or CEO is ineffective, errant or negligent in discharging his responsibilities;
- (vii) establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO. Annual assessment is conducted based on objective performance criteria. Such performance criteria is approved by the full Board;
- (viii) review the results of the Board's performance evaluation process;
- (ix) ensuring that all Directors receive appropriate continuous training programme in order to keep abreast with the least developments in the industry;
- (x) overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- (xi) recommending to the Board the removal of key senior management officers if they are ineffective, errant or negligent in discharging their responsibilities; and
- (xii) assessing on an annual basis, to ensure that the Directors and key senior management officers are not disqualified under Section 59(1) of the Financial and Services Act ("FSA") 2013.

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

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) 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 2016 are as follows:

Composition of Board Remuneration Committee	Number of Meetings	
	Held	Attended
Datuk Ter Leong Yap Chairman/Independent Non-Executive Director	5	4
Guan Xuefei Chairman of Board of Director (Appointed on 16 June 2016)	2	2
Chai Woon Chew Independent Non-Executive Director	5	4
Liu Lijing Non-Independent Non-Executive Director (Resigned on 16 June 2016)	3	1
Zhang Qingsong Executive Director (Appointed on 16 June 2016, resigned on 9 December 2016)	2	1

(b) Overview of Remuneration System

- (i) The Remuneration System of Bank of China (BOC) Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration with performance and risk factors closely. It serves to encourage staff to enhance their performance, and at the same time, to strengthen their awareness of risk so as to achieve sound remuneration management.
- (ii) The Remuneration and Incentive Policy of the BOC Group is generally in line with the broad principles set out in the:
  - HKMA's "Guideline on a Sound Remuneration System" and applicable to the Bank of China (Hong Kong) Limited (BOCHK) (and all of its subsidiaries (including the branches and institutions in and out of Hong Kong); and
  - Principle 8 of BNM's Guidelines on Corporate Governance for Licensed Institutions on the requirement of "a formal and transparent procedure for fixing the remuneration packages of Board Members, Chief Executive Officer and Senior Management and the remuneration policies and practices should be in line with the Licensed Institution's ethical values, objectives and culture."
- (iii) BOCHK Group Remuneration Policy sets out the components of remuneration; the governance and review mechanism for the remuneration of all employees of BOCHK Group including Bank of China (Malaysia) Berhad (BOCM) which is a fully-owned subsidiary of BOCHK since 17 October 2016.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(c) Remuneration Governance

- (i) The objective of the Board Remuneration Committee of the Bank is to provide a formal and transparent procedure for developing remuneration policy for Directors, Senior Management Members and staff. It is responsible for the oversight of remuneration for Directors, Senior Management Members and staff to ensure that remuneration is competitive and consistent with the Bank's culture, objectives and strategy. In carrying out its duties, the Committee seeks to balance the principles of risk and reward for performance in a manner which supports BOCM's risk management framework and prudent risk appetite.
- (ii) The Board Remuneration Committee consists of three (3) Non-Executive Directors, chaired by an Independent Non-Executive Director.
- (iii) The Bank Senior Management Members are responsible for the oversight of remuneration arrangements for all the Bank's local and expatriate employees in Malaysia, ensuring that a competitive remuneration structure is in place to attract and retain talents, consistent with the Bank's culture, objectives and strategy.
- (iv) As at 31 December 2016, the Senior Management Members of the Bank consist of one (1) Chief Executive Officer, one (1) Deputy Chief Executive Officer, three (3) Assistant Chief Executive Officers and one (1) Chief Risk Officer cum Chief Compliance Officer. During the year there were movements of two (2) Deputy Chief Executive Officers who were transferred to other entities within BOC Group.

(d) Design & Structure of Remuneration Processes

- (i) BOC Group has implemented a Remuneration Policy globally within the Group, which covers all local and expatriate employees in Malaysia. The Remuneration Policy of the Bank is founded upon the Group Remuneration System and customized to be in line with Malaysia local market practice and standard regulations. The Remuneration Policy sets out the components of remuneration, the governance and review mechanism for the remuneration of all employees of the Bank and incorporates risk management in the performance management process and job design.
- (ii) The objective of the Remuneration Policy is to align remuneration management with risk management whilst providing proper structured remuneration and compensation to attract, retain and motivate high quality people to lead, manage and serve the Bank in a competitive environment and in the best interests of all stakeholders.
- (iii) The key features of the policy include the governance and review mechanism for remuneration mix of all employees of the Bank in line with the above mentioned objectives, and ensuring that remuneration is adjusted appropriately for the time horizon of risks undertaken.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(d) Design & Structure of Remuneration Processes (Continued)

- (iv) Bank of China Group implements Variable Pay Deferral Policy for Senior Management Members globally, which linked Remuneration and Incentives to contribution and level of accountabilities, to be adjusted symmetrical with all types of risk outcomes by weighing the time horizon of risks; whereby 59.9% of current year's Variable Pay to be vested the following year and the remaining 40.1% to be vested in equal amount over the subsequent 3 years.
- (v) After the Bank's acquisition by BOCHK, the BOCHK Group's Variable Pay Deferral Policy was revised to include the Bank in Dec 2016. The implementation will only come in force for year 2017 Variable Pay. Notable changes in the new policy include the threshold limit set for the application of variable pay deferral. The variable pay deferral ratio is set according to a matrix based on the total amount of variable pay and job grade. Partial variable pay will be vested in the following year and the deferred portion is vested in equal amount over the subsequent 3 years.
- (vi) For year 2016, BOC Group's Variable Pay Deferral Policy shall continue to apply for Senior Management Members of the Bank.
- (vii) The Bank adopts a 'Balance Score Card' approach for its staff performance management, whereby the relevant compliance and risk management key performance indicators are embedded according to staff's position. The Balance Score Card sets out financial targets, customer targets, work progress targets and employee learning targets. Employee performance assessment also includes 360 degree assessment by superior, peers and subordinates.
- (viii) The performance of Officers in risk and control functions is assessed based on their achievements and effectiveness in the performance of their job responsibilities in control functions. Their remuneration is set independent of the financial targets of businesses they oversee to ensure the effectiveness of their roles. There is no direct linkage of their remuneration with the business performance. Failure to detect, mitigate, control or manage risk however will have a direct bearing on their remuneration.
- (ix) The Bank may from time to time seek remuneration advice from external consultants such as FIDE FORUM of which the Bank is a member on the remuneration of Directors. FIDE FORUM is a non-profit organization and the only alumni association that represents the interests of Directors of Financial Institutions in Malaysia.



**BANK OF CHINA (MALAYSIA) BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(e) Accounting for Risk in Remuneration

- (i) Staff covered by the Remuneration Policy are assessed in relation to relevant risks, viz. asset and liability risks, credit risks, market risks, operational risks, reputation risk and, importantly compliance and regulatory risks.
- (ii) In implementing remuneration measures, the key risk measures taken into account by the Bank include the following:
  - Non-performing loan balance and ratio;
  - Securities investment ratio and treasury portfolio limits;
  - Compliance with applicable market risk, foreign exchange exposure, interest rate risk and liquidity limits;
  - Internal control and operational risk management limits;
  - Compliance with legal and regulatory requirements;
  - Capital adequacy and RAROC; and
  - Impacts to reputational risk.
- (iii) Performance against key risk measures applicable to individual staff is reviewed and assessed annually. Any risk deficiencies or breaches of limits or regulatory requirements on the part of any employee of the Bank will have a direct bearing upon that employee's remuneration and employment outcomes for the year under review.

(f) Linking Pay to Performance

- (i) The remuneration package for all employees is composed of "fixed remuneration", "variable remuneration" and "benefit-in-kind".
- (ii) Fixed remuneration, referred to as "base salary", is paid monthly and is a fixed amount which is reviewed annually with reference to various factors such as remuneration strategy, market pay trends and existing base salary levels. The fixed remuneration review budget is determined based on the affordability of the Group as well as the performance of the Bank, Business Units and individuals during the previous assessment year, factors which are measured in 'Balance Score Card' method adopted by the Bank.
- (iii) Variable remuneration is also known as "short term incentives, annual bonus and long term incentives", which are determined annually in light of the Bank's annual performance assessment result. The size of variable remuneration and incentive pool is calculated with reference to a pre-defined formula provided by BOC Group.
- (iv) Benefit-in-kind referred to all non-cash perquisites applicable to individual employee. The Bank's staff benefits are structured according to staff category.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(f) Linking Pay to Performance (Continued)

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

(vi) The performance metrics of the Bank comprises of financial targets (34%), business transformation (21.5%), risk management and compliance (37%) and staff management (3%), weighted against 100%. The size of variable remuneration and incentive pool is directly linked to the achievement of the Bank performance metrics. The determinant factors of the overall pool are linked to business performance and profit.

(vii) The performance of Chief Executive Officer is assessed based on achievement of organization performance metrics (60%), board and group assessment (20%), strategy execution (10%) and employee satisfaction (10%). The other Senior Management Members are assessed by Chief Executive Officer and the respective business functions at group level according to the achievement of targets set (80%), strategy execution (10%) and employee satisfaction (10%).

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

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

(g) Impact of Longer Term Performance on Remuneration

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

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

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

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

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(h) Forms of Variable Remuneration

- (i) The Bank offers its employees a performance bonus as variable remuneration and it is calculated and paid out annually in accordance with the performance assessment result provided by BOC Group.
- (ii) Majority of the employees' performance bonus is paid fully the following year. Senior Management Member's performance bonus is paid 59.9% during the 12 months following the assessment year with the remaining 40.1% deferred for review to be vested over the next three consecutive years.
- (iii) Total amount of remuneration received by Chief Executive Officer and Directors during the financial year ended 31 December 2016:

	Wang Hongwei	Zheng Jingbo	Chai Woon Chew	Datuk Ter Leong Yap
	RM'000	RM'000	RM'000	RM'000
Fixed Remuneration				
- Cash Based (non-deferred)	952	-	110	95
Variable Remuneration				
- Cash Based (non-deferred)	532	-	-	-
- Cash-based (deferred vested)	258	90	-	-
Benefit-in-Kind	53	-	-	-
<b>TOTAL</b>	<b>1,795</b>	<b>90</b>	<b>110</b>	<b>95</b>

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

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

3. Board Remuneration and Nomination Committee (Continued)

(ii) Board Remuneration Committee (Continued)

(h) Forms of Variable Remuneration (Continued)

(iv) Total amount of remuneration awards in respect of Senior Management for the financial year ended 31 December 2016 :

	Senior management RM'000
Fixed Remuneration	
- Cash based (non-deferred)	4,466
- Number of officers entitled	7
Variable Remuneration	
- Cash based (non-deferred)	1,932
- Number of officers entitled	8
Variable Remuneration	
- Cash based (deferred)	1,274
- Number of officers entitled	8
Benefits-in-kind	89
<b>Total</b>	<b>7,761</b>

(v) Summary of deferred remuneration for Senior Management :

	Senior management RM'000
Variable Remuneration	
- Cash based (deferred)	3,277
- Number of officers entitled	9
Variable Remuneration	
- Cash based (deferred vested)	891
- Number of officers entitled	5

There is no reduction value of outstanding deferred remuneration in the year 2016 due to ex-post explicit or implicit adjustments. All risk measurements are met and deficiency ratio is zero.

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

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

4. Risk Management and Internal Control

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

The key procedures that the Bank has established and implemented to provide internal controls are summarized as follows:

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

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

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

4. Risk Management and Internal Control (Continued)

The Bank continues to uphold good corporate governance practices and the internal control system is reviewed regularly. During the year of 2016, continuous improvements on the risk management policies and procedures have been undertaken by the Bank. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Bank has continuously undertaken on-going review on the effectiveness of the internal control mechanism. Areas for improvement have been identified and appropriate measures have been implemented.

**ACCOUNTABILITY AND AUDIT**

Financial Reporting

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

Internal Audit and Control

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

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

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

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

**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**ACCOUNTABILITY AND AUDIT (CONTINUED)**

Related Party Transactions

The details of personnels transactions with holding company, fellow subsidiaries, subsidiary, Directors and key management are set out under Note 27 to the financial statements.

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

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

Company No. 511251-V

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

**AUDITORS**

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

Auditors' remuneration are disclosed in Note 22 to the financial statements.

In accordance with a resolution of the Board of Directors dated 5 May 2017.

CHAI WOON CHEW  
DIRECTOR

WANG HONGWEI  
DIRECTOR

Kuala Lumpur  
5 May 2017



**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

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

We, Chai Woon Chew and Wang Hongwei, being two of the Directors of Bank of China (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 36 to 119 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

In accordance with a resolution of the Board of Directors dated 5 May 2017.

CHAI WOON CHEW  
DIRECTOR

WANG HONGWEI  
DIRECTOR

Kuala Lumpur  
5 May 2017

**STATUTORY DECLARATION**

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

I, Yang Lixin, being the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 36 to 119 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.

YANG LIXIN

Subscribed and solemnly declared by the abovenamed Yang Lixin at Kuala Lumpur on 5 May 2017, before me.

COMMISSIONER FOR OATHS

511251-V

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

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 36 to 119.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

*Basis for opinion*

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

*Independence and other ethical responsibilities*

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

*Information other than the financial statements and auditors' report thereon*

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

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

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

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

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

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

*Responsibilities of the Directors for the financial statements*

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

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

*Auditors' responsibilities for the audit of financial statements*

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

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

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

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

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

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

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

**Other matters**

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

Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
5 May 2017

Chan Hooi Lam  
No. 2844/02/18(J)  
Chartered Accountant

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

**STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	3,138,153	1,951,246	3,133,474	1,948,595
Deposits and placements with banks and other financial institutions	3	435,854	1,162,832	435,854	1,162,832
Derivative assets	4	334	2,273	334	2,273
Held-to-maturity securities	5	288,048	429,633	288,048	429,633
Loans and advances	6	5,183,247	4,722,114	5,183,247	4,722,114
Other assets	7	12,491	9,095	11,682	8,467
Deferred tax assets	8	4,738	2,866	4,553	2,783
Statutory deposits with Bank Negara Malaysia	9	98,900	128,200	98,900	128,200
Investment in a subsidiary	10	-	-	1,000	1,000
Property and equipment	11	52,363	43,565	50,699	41,266
Intangible assets	12	300	172	300	172
<b>TOTAL ASSETS</b>		<b>9,214,428</b>	<b>8,451,996</b>	<b>9,208,091</b>	<b>8,447,335</b>
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	13	6,349,234	6,059,685	6,357,750	6,069,902
Deposits and placements of banks and other financial institutions	14	1,354,460	1,006,020	1,354,460	1,006,020
Derivative liabilities	4	293	958	293	958
Other liabilities	15	212,652	202,682	210,130	200,551
Provision for taxation		3,081	835	2,455	11
<b>TOTAL LIABILITIES</b>		<b>7,919,720</b>	<b>7,270,180</b>	<b>7,925,088</b>	<b>7,277,442</b>
Share capital	16	760,518	760,518	760,518	760,518
Reserves	17	534,190	421,298	522,485	409,375
<b>TOTAL EQUITY</b>		<b>1,294,708</b>	<b>1,181,816</b>	<b>1,283,003</b>	<b>1,169,893</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>9,214,428</b>	<b>8,451,996</b>	<b>9,208,091</b>	<b>8,447,335</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	29	<b>3,518,241</b>	<b>3,326,841</b>	<b>3,518,241</b>	<b>3,326,841</b>

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

**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating revenue	18	<u>454,125</u>	<u>461,936</u>	<u>444,067</u>	<u>453,248</u>
Interest income	19	363,559	373,080	363,559	373,080
Interest expense	20	<u>(193,422)</u>	<u>(219,729)</u>	<u>(193,422)</u>	<u>(219,729)</u>
Net interest income		170,137	153,351	170,137	153,351
Other operating income	21	90,566	88,856	80,508	80,168
Other operating expenses	22	<u>(99,082)</u>	<u>(89,124)</u>	<u>(92,629)</u>	<u>(83,885)</u>
Operating profit before allowance		161,621	153,083	158,016	149,634
Allowance for impairment on loans and advances	24	<u>(10,794)</u>	<u>(12,779)</u>	<u>(10,794)</u>	<u>(12,779)</u>
Profit before taxation		150,827	140,304	147,222	136,855
Taxation	25	<u>(37,935)</u>	<u>(37,688)</u>	<u>(34,112)</u>	<u>(33,603)</u>
Profit for the financial year, representing total comprehensive income for the financial year		<u>112,892</u>	<u>102,616</u>	<u>113,110</u>	<u>103,252</u>
Earnings per share					
- Basic/fully diluted (sen)	26	<u>14.84</u>	<u>13.49</u>		

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

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

<u>GROUP</u>	Share capital RM'000	←Non-distributable→		Distributable	Total RM'000
		Statutory reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
At 1 January 2016	760,518	223,231	22,671	175,396	1,181,816
Total comprehensive income for the year	-	-	-	112,892	112,892
Transfer to regulatory reserve	-	-	4,277	(4,277)	-
Transfer to statutory reserve	-	56,555	-	(56,555)	-
At 31 December 2016	760,518	279,786	26,948	227,456	1,294,708
At 1 January 2015	760,518	171,605	-	147,077	1,079,200
Total comprehensive income for the year	-	-	-	102,616	102,616
Transfer to regulatory reserve	-	-	22,671	(22,671)	-
Transfer to statutory reserve	-	51,626	-	(51,626)	-
At 31 December 2015	760,518	223,231	22,671	175,396	1,181,816

  

<u>BANK</u>	Share capital RM'000	←Non-distributable→		Distributable	Total RM'000
		Statutory reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	
At 1 January 2016	760,518	223,231	22,671	163,473	1,169,893
Total comprehensive income for the year	-	-	-	113,110	113,110
Transfer to regulatory reserve	-	-	4,277	(4,277)	-
Transfer to statutory reserve	-	56,555	-	(56,555)	-
At 31 December 2016	760,518	279,786	26,948	215,751	1,283,003
At 1 January 2015	760,518	171,605	-	134,518	1,066,641
Total comprehensive income for the year	-	-	-	103,252	103,252
Transfer to regulatory reserve	-	-	22,671	(22,671)	-
Transfer to statutory reserve	-	51,626	-	(51,626)	-
At 31 December 2015	760,518	223,231	22,671	163,473	1,169,893



**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		150,827	140,304	147,222	136,855
Adjustments for:					
Depreciation of property and equipment	22	4,654	3,627	3,971	2,933
Amortisation of intangible assets	22	98	93	98	91
Amortisation of premium less accretion of discount	19	30	291	30	291
Allowance for impairment on loans and advances	24	10,794	12,779	10,794	12,779
Interest income from held-to-maturity securities	19	(12,001)	(18,372)	(12,001)	(18,372)
Unrealised foreign exchange loss/(gain)	21	6,796	(2,247)	6,796	(2,247)
Net loss/(gain) on revaluation of derivatives	21	1,274	(1,331)	1,274	(1,331)
Net gain on disposal of property and equipment	21	(1)	(47)	(1)	(47)
Dividend income from a subsidiary	21	-	-	(11,900)	(12,500)
Property and equipment written-off	22	10	139	6	139
Operating profit before changes in operating assets and liabilities		162,481	135,236	146,289	118,591
<b>(INCREASE)/DECREASE IN OPERATING ASSETS</b>					
Deposits and placements with banks and other financial institutions		726,978	(706,731)	726,978	(706,731)
Loans and advances		(471,927)	317,134	(471,927)	317,134
Other assets		(10,192)	8,396	(10,011)	8,251
Statutory deposits with Bank Negara Malaysia		29,300	(51,000)	29,300	(51,000)
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>					
Deposits from customers		289,549	1,341,041	287,848	1,342,526
Deposits and placements of banks and other financial institutions		348,440	(2,902,984)	348,440	(2,902,984)
Other liabilities		9,970	135,517	9,579	135,523
Cash generated from/(used in) operating activities		1,084,599	(1,723,391)	1,066,496	(1,738,690)
Taxes paid		(37,561)	(28,353)	(33,438)	(24,452)
Net cash generated from/(used in) operating activities		1,047,038	(1,751,744)	1,033,058	(1,763,142)

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

	Note	<u>GROUP</u>		<u>BANK</u>	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Dividend income received from a subsidiary		-	-	11,900	12,500
Purchase of property and equipment	11	(13,464)	(24,243)	(13,412)	(24,229)
Proceeds from disposal of property and equipment		3	47	3	47
Purchase of intangible assets	12	(226)	-	(226)	-
Purchase of held-to-maturity securities		(110,000)	(708,735)	(110,000)	(708,735)
Proceeds from maturity of held-to-maturity securities		250,000	807,090	250,000	807,090
Interest received on held-to-maturity securities		13,556	19,251	13,556	19,251
Net cash generated from investing activities		<u>139,869</u>	<u>93,410</u>	<u>151,821</u>	<u>105,924</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR</b>		<b>1,186,907</b>	<b>(1,658,334)</b>	<b>1,184,879</b>	<b>(1,657,218)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<b><u>1,951,246</u></b>	<b><u>3,609,580</u></b>	<b><u>1,948,595</u></b>	<b><u>3,605,813</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	<b>2</b>	<b><u><u>3,138,153</u></u></b>	<b><u><u>1,951,246</u></u></b>	<b><u><u>3,133,474</u></u></b>	<b><u><u>1,948,595</u></u></b>

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

**A BASIS OF PREPARATION**

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

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

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

Changes in accounting policies

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

On 1 January 2016, the Group and the Bank adopted the following MFRS and amendments to MFRS mandatory for annual financial periods beginning on or after 1 January 2016.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
MFRS 14: Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiative	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016

The adoption of the above MFRS and amendments to MFRS did not have any significant impact on the financial position or performance of the Group and of the Bank.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## A BASIS OF PREPARATION (CONTINUED)

Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2017
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
Clarifications to MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
IC Int 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16: Leases	1 January 2019

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

**MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's and the Bank's financial assets, but should have no impact on the classification and measurement of the Group's and the Bank's financial liabilities. Impairment allowances of the Group and the Bank will be affected with the adoption of expected loss model under MFRS 9. The Group and the Bank are currently assessing the impact of MFRS 9 and plan to adopt the new standard on the required effective date.

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards issued but not yet effective (continued)

**MFRS 16 Leases**

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

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

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

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Bank plan to assess the potential effect of MFRS 16 on its financial statements in year 2017.

B BASIS OF CONSOLIDATION

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

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**B BASIS OF CONSOLIDATION (CONTINUED)**

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

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

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

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

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

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

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

Business combinations

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

**BANK OF CHINA (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

B BASIS OF CONSOLIDATION (CONTINUED)

Business combinations (Continued)

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

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

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

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

Subsidiary

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

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

**BANK OF CHINA (MALAYSIA) BERHAD**

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (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, except for freehold land is calculated to write-down the costs of the property and equipment, or their revalued amounts, to their residual values on a straight line basis over their estimated useful lives as follows:

Computer equipment	2.5 to 3 years
Motor vehicles	6 years
Office equipment	5 to 7 years
Renovation	5 years
Buildings	30 to 35 years

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

Freehold land is not depreciated.

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

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

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

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

D INTANGIBLE ASSETS

Computer Software

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

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



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

E FINANCIAL ASSETS

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

(a) Classification

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

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

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (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 the Group and the Bank become party to the contractual provisions of the instrument.

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

(c) Subsequent measurement

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

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

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

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

(d) De-recognition

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

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

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

F IMPAIRMENT OF FINANCIAL ASSETS

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (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:

- Repayment of interest and/or principal is past due for more than 3 months or 90 days;
- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group or the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Assets carried at amortised cost

Loans and advances

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans 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 loans and advances are reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If the loans and advances have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

F IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (Continued)

Loans and advances (Continued)

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

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

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

Held-to-maturity

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

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

(b) Assets carried at fair value

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**G IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

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

**H CASH AND CASH EQUIVALENTS**

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

**I FINANCIAL LIABILITIES**

A financial liability is 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.

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 derecognised when extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

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

Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities at fair value through profit or loss are subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

I FINANCIAL LIABILITIES (CONTINUED)

(b) Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category. 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.

Financial liabilities measured at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised costs using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

J FINANCIAL GUARANTEE CONTRACTS

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

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

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

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (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 by the Bank in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in 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 2016 (CONTINUED)

**M DIVIDENDS PAYABLE**

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

**N CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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

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

**O RECOGNITION OF INTEREST INCOME**

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

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

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

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

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

**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.



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

P RECOGNITION OF FEES AND OTHER INCOME (CONTINUED)

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

Q CURRENCY TRANSLATIONS

(a) Functional and presentation currency

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

(b) Transactions and balances

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

R INCOME TAX

Current tax

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

Deferred tax

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

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

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (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 profit or loss in the period to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

T DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

Fair value hedge

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

Cash flow hedge

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

T DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Net investment hedge

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

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

Derivatives that do not qualify for hedge accounting

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

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**1. GENERAL INFORMATION**

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

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

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

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

**2. CASH AND SHORT-TERM FUNDS**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and balances with banks and other financial institutions	285,565	572,282	280,886	569,631
Money at call and deposit placements with original maturity within one month	2,852,588	1,378,964	2,852,588	1,378,964
	<u>3,138,153</u>	<u>1,951,246</u>	<u>3,133,474</u>	<u>1,948,595</u>

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

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
Bank Negara Malaysia	320,427	-
Licensed banks	115,427	1,162,832
	<u>435,854</u>	<u>1,162,832</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**4. DERIVATIVE ASSETS/(LIABILITIES)**

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

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

	<u>GROUP AND BANK</u>		
	<u>Contract or underlying principal amount</u> RM'000	<u>Derivative assets</u> RM'000	<u>Derivative liabilities</u> RM'000
31 December 2016			
Foreign exchange related contracts:			
- spots/forwards	<u>89,383</u>	<u>334</u>	<u>(293)</u>
31 December 2015			
Foreign exchange related contracts:			
- spots/forwards	<u>419,525</u>	<u>2,273</u>	<u>(958)</u>

**5. HELD-TO-MATURITY SECURITIES**

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
<b>At amortised cost</b>		
Money market instruments:		
Malaysian Government Securities	288,048	389,529
Negotiable instruments of deposits	-	40,104
	<u>288,048</u>	<u>429,633</u>

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**6. LOANS AND ADVANCES**

(i) By type:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Overdrafts	742,315	783,669
Term loans		
- Housing loans	281,719	269,734
- Syndicated term loans	576,970	404,537
- Other term loans	1,598,880	1,672,155
Bills receivables	201,643	295,094
Trust receipts	32,725	27,871
Claims on customers under acceptance credits	368,749	350,990
Revolving credits	1,431,418	958,172
Credit card receivables	-	45
Staff loans	2,255	2,007
Gross loans and advances	<u>5,236,674</u>	<u>4,764,274</u>
Less: Allowance for impairment on loans and advances		
- Individual assessment allowance	(17,748)	(7,753)
- Collective assessment allowance	(35,679)	(34,407)
Total net loans and advances	<u>5,183,247</u>	<u>4,722,114</u>

(ii) By geographical distribution:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Malaysia	4,867,116	4,366,883
Other countries	369,558	397,391
Gross loans and advances	<u>5,236,674</u>	<u>4,764,274</u>

(iii) By interest rate sensitivity:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Fixed rate		
- Other fixed rate loans	539,374	626,992
Variable rate		
- Base lending rate/base rate plus	2,404,764	2,576,121
- Cost of funds plus	2,226,280	1,493,810
- Other variable rates	66,256	67,351
Gross loans and advances	<u>5,236,674</u>	<u>4,764,274</u>

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	GROUP AND BANK	
	2016	2015
	RM'000	RM'000
Purchase of securities	35,358	50,971
Purchase of transport vehicles	4,979	5,894
Purchase of landed property	1,156,630	1,209,116
of which: - Residential	296,681	284,130
- Non-residential	859,949	924,986
Purchase of fixed assets other than land and buildings	2,686	6,381
Personal use	320,080	339,168
Credit card	-	45
Construction	266,611	226,647
Mergers and acquisition	355,289	-
Working capital	2,940,869	2,898,626
Other purposes	154,172	27,426
Gross loans and advances	5,236,674	4,764,274

(v) By residual contractual maturity - remaining:

	GROUP AND BANK	
	2016	2015
	RM'000	RM'000
Up to one month	1,524,009	1,613,308
More than one month to three months	917,392	419,298
More than three months to six months	595,396	384,050
More than six months to twelve months	68,122	73,018
More than twelve months	2,131,755	2,274,600
Gross loans and advances	5,236,674	4,764,274

(vi) Impaired loans and advances:(a) Movements in impaired loans and advances:

	GROUP AND BANK	
	2016	2015
	RM'000	RM'000
At 1 January	43,412	16,965
Classified as impaired during the year	75,016	38,104
Reclassified as performing during the year	-	(3,413)
Amount recovered	(7,194)	(8,244)
At 31 December	111,234	43,412
Individual impairment allowance	(17,748)	(7,753)
	93,486	35,659
Ratio of net impaired loans and advances to gross loans and advances less individual allowance for impairment	1.791%	0.750%

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**6. LOANS AND ADVANCES (CONTINUED)**

(vi) Impaired loans and advances: (Continued)

(b) By geographical:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Malaysia	111,234	43,412

(c) By purpose:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Purchase of landed property - residential	299	3,614
Purchase of landed property - non-residential	18,730	19,762
Construction	72,287	-
Personal use	1,730	1,842
Working capital	18,188	18,194
	<u>111,234</u>	<u>43,412</u>

(vii) Movements in the allowance for impairment on loans and advances:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
<b><u>Individual impairment allowance</u></b>		
At 1 January	7,753	899
Allowance made during the financial year (Note 24)	11,774	7,090
Amount written back during the financial year (Note 24)	(1,779)	(236)
At 31 December	<u>17,748</u>	<u>7,753</u>
<b><u>Collective impairment allowance</u></b>		
At 1 January	34,407	26,962
Allowance made during the financial year (Note 24)	799	5,925
Exchange differences	473	1,520
At 31 December	<u>35,679</u>	<u>34,407</u>



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**7. OTHER ASSETS**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other receivables	8,810	5,566	8,400	5,332
Sundry deposits	3,028	2,485	2,634	2,091
Prepayments	334	495	329	495
Precious metal inventories	319	549	319	549
	<u>12,491</u>	<u>9,095</u>	<u>11,682</u>	<u>8,467</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	2,866	3,597	2,783	3,627
Recognised in profit or loss (Note 25)	1,872	(731)	1,770	(844)
At 31 December	<u>4,738</u>	<u>2,866</u>	<u>4,553</u>	<u>2,783</u>

Presented after appropriate offsetting as follows:

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred tax assets (net)	<u>4,738</u>	<u>2,866</u>	<u>4,553</u>	<u>2,783</u>

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

**Deferred tax assets**

<u>GROUP</u>	Provision for other liabilities	Total
	RM'000	RM'000
At 1 January 2015	6,183	6,183
Recognised in profit or loss	(151)	(151)
At 31 December 2015	6,032	6,032
Recognised in profit or loss	652	652
At 31 December 2016	<u>6,684</u>	<u>6,684</u>

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

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

**Deferred tax liabilities**

	Accelerated capital allowances	Unrealised forex gains/losses	Total
	RM'000	RM'000	RM'000
<u>GROUP</u>			
At 1 January 2015	536	2,050	2,586
Recognised in profit or loss	(156)	736	580
At 31 December 2015	380	2,786	3,166
Recognised in profit or loss	411	(1,631)	(1,220)
At 31 December 2016	791	1,155	1,946

**Deferred tax assets**

	Provision for other liabilities	Total
	RM'000	RM'000
<u>BANK</u>		
At 1 January 2015	6,033	6,033
Recognised in profit or loss	(127)	(127)
At 31 December 2015	5,906	5,906
Recognised in profit or loss	590	590
At 31 December 2016	6,496	6,496

**Deferred tax liabilities**

	Accelerated capital allowances	Unrealised forex gains/losses	Total
	RM'000	RM'000	RM'000
<u>BANK</u>			
At 1 January 2015	356	2,050	2,406
Recognised in profit or loss	(19)	736	717
At 31 December 2015	337	2,786	3,123
Recognised in profit or loss	451	(1,631)	(1,180)
At 31 December 2016	788	1,155	1,943

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**9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

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

**10. INVESTMENT IN A SUBSIDIARY**

	<u>BANK</u>	
	2016 RM'000	2015 RM'000
Unquoted shares, at cost, in Malaysia	1,000	1,000

The subsidiary of the Bank is as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Percentage of equity held</u>	
		2016 %	2015 %
China Bridge (Malaysia) Sdn. Bhd.	Chinese visa application services	100	100

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<u>GROUP</u>	<u>Computer</u>	<u>Motor</u>	<u>Office</u>		<u>Freehold</u>		<u>ATM</u>	<u>Work-in-</u>	<u>Total</u>
<u>2016</u>	<u>equipment</u>	<u>vehicles</u>	<u>equipment</u>	<u>Renovations</u>	<u>land</u>	<u>Buildings</u>	<u>machine</u>	<u>progress</u>	
<u>COST</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	3,864	3,237	6,548	11,332	14,000	18,103	1,875	-	58,959
Additions	2,006	-	175	723	-	-	-	10,560	13,464
Disposal	-	-	(73)	-	-	-	-	-	(73)
Write-offs	(16)	-	(406)	(454)	-	-	-	-	(876)
At 31 December	5,854	3,237	6,244	11,601	14,000	18,103	1,875	10,560	71,474
<b><u>ACCUMULATED DEPRECIATION</u></b>									
At 1 January	2,786	1,839	3,628	6,216	-	925	-	-	15,394
Charge for the financial year (Note 22)	606	302	753	1,414	-	973	606	-	4,654
Disposal	-	-	(71)	-	-	-	-	-	(71)
Write-offs	(16)	-	(396)	(454)	-	-	-	-	(866)
At 31 December	3,376	2,141	3,914	7,176	-	1,898	606	-	19,111
<b>NET CARRYING AMOUNT</b>	<b>2,478</b>	<b>1,096</b>	<b>2,330</b>	<b>4,425</b>	<b>14,000</b>	<b>16,205</b>	<b>1,269</b>	<b>10,560</b>	<b>52,363</b>

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<u>GROUP</u> <u>2015</u> <u>COST</u>	<u>Computer</u> <u>equipment</u> RM'000	<u>Motor</u> <u>vehicles</u> RM'000	<u>Office</u> <u>equipment</u> RM'000	<u>Renovations</u> RM'000	<u>Freehold</u> <u>land</u> RM'000	<u>Buildings</u> RM'000	<u>ATM</u> <u>machine</u> RM'000	<u>Work-in-</u> <u>progress</u> RM'000	<u>Total</u> RM'000
At 1 January	4,965	2,265	4,939	9,065	-	14,103	-	1,555	36,892
Additions	710	972	1,595	1,091	14,000	4,000	1,875	-	24,243
Reclassification	29	-	103	1,423	-	-	-	(1,555)	-
Write-offs	(1,840)	-	(89)	(247)	-	-	-	-	(2,176)
At 31 December	3,864	3,237	6,548	11,332	14,000	18,103	1,875	-	58,959
<b><u>ACCUMULATED DEPRECIATION</u></b>									
At 1 January	4,063	1,498	3,061	5,084	-	98	-	-	13,804
Charge for the financial year (Note 22)	562	341	654	1,243	-	827	-	-	3,627
Write-offs	(1,839)	-	(87)	(111)	-	-	-	-	(2,037)
At 31 December	2,786	1,839	3,628	6,216	-	925	-	-	15,394
<b>NET CARRYING AMOUNT</b>	1,078	1,398	2,920	5,116	14,000	17,178	1,875	-	43,565

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<u>BANK</u> <u>2016</u> <u>COST</u>	<u>Computer</u> <u>equipment</u> RM'000	<u>Motor</u> <u>vehicles</u> RM'000	<u>Office</u> <u>equipment</u> RM'000	<u>Renovations</u> RM'000	<u>Freehold</u> <u>land</u> RM'000	<u>Buildings</u> RM'000	<u>ATM</u> <u>machine</u> RM'000	<u>Work-in-</u> <u>progress</u> RM'000	<u>Total</u> RM'000
At 1 January	3,291	3,236	5,438	9,311	14,000	18,103	1,875	-	55,254
Additions	2,006	-	123	723	-	-	-	10,560	13,412
Disposal	-	-	(54)	-	-	-	-	-	(54)
Write-offs	(16)	-	(285)	(454)	-	-	-	-	(755)
At 31 December	<u>5,281</u>	<u>3,236</u>	<u>5,222</u>	<u>9,580</u>	<u>14,000</u>	<u>18,103</u>	<u>1,875</u>	<u>10,560</u>	<u>67,857</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>									
At 1 January	2,333	1,838	3,105	5,787	-	925	-	-	13,988
Charge for the financial year (Note 22)	517	302	563	1,010	-	973	606	-	3,971
Disposal	-	-	(52)	-	-	-	-	-	(52)
Write-offs	(16)	-	(279)	(454)	-	-	-	-	(749)
At 31 December	<u>2,834</u>	<u>2,140</u>	<u>3,337</u>	<u>6,343</u>	<u>-</u>	<u>1,898</u>	<u>606</u>	<u>-</u>	<u>17,158</u>
<b>NET CARRYING AMOUNT</b>	<u>2,447</u>	<u>1,096</u>	<u>1,885</u>	<u>3,237</u>	<u>14,000</u>	<u>16,205</u>	<u>1,269</u>	<u>10,560</u>	<u>50,699</u>

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<u>BANK</u> <u>2015</u> <u>COST</u>	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovations RM'000	Freehold land RM'000	Buildings RM'000	ATM machine RM'000	Work-in- progress RM'000	Total RM'000
At 1 January	4,401	2,264	3,835	7,085	-	14,103	-	1,513	33,201
Additions	701	972	1,590	1,091	14,000	4,000	1,875	-	24,229
Reclassification	29	-	102	1,382	-	-	-	(1,513)	-
Write-offs	(1,840)	-	(89)	(247)	-	-	-	-	(2,176)
At 31 December	3,291	3,236	5,438	9,311	14,000	18,103	1,875	-	55,254
<b><u>ACCUMULATED DEPRECIATION</u></b>									
At 1 January	3,715	1,497	2,730	5,052	-	98	-	-	13,092
Charge for the financial year (Note 22)	457	341	462	846	-	827	-	-	2,933
Write-offs	(1,839)	-	(87)	(111)	-	-	-	-	(2,037)
At 31 December	2,333	1,838	3,105	5,787	-	925	-	-	13,988
<b>NET CARRYING AMOUNT</b>	958	1,398	2,333	3,524	14,000	17,178	1,875	-	41,266

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## NOTES TO THE FINANCIAL STATEMENTS

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**12. INTANGIBLE ASSETS**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Computer software</u>				
<b>Cost:</b>				
At 1 January	3,609	3,609	3,592	3,592
Additions	226	-	226	-
At 31 December	<u>3,835</u>	<u>3,609</u>	<u>3,818</u>	<u>3,592</u>
<b>Accumulated amortisation:</b>				
At 1 January	3,437	3,344	3,420	3,329
Charge for the financial year (Note 22)	98	93	98	91
At 31 December	<u>3,535</u>	<u>3,437</u>	<u>3,518</u>	<u>3,420</u>
<b>Net book value</b>	<u>300</u>	<u>172</u>	<u>300</u>	<u>172</u>



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**13. DEPOSITS FROM CUSTOMERS**

(i) By type of deposits

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Demand deposits	1,410,758	859,948	1,419,274	870,165
Savings deposits	150,990	127,337	150,990	127,337
Fixed deposits	4,382,797	4,921,562	4,382,797	4,921,562
Negotiable instruments of deposits	404,689	150,838	404,689	150,838
	<u>6,349,234</u>	<u>6,059,685</u>	<u>6,357,750</u>	<u>6,069,902</u>

(ii) By type of customers

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Government and statutory bodies	4,120	5,130	4,120	5,130
Business enterprises	2,704,091	2,176,056	2,712,607	2,186,273
Individuals	2,129,924	1,820,064	2,129,924	1,820,064
Others	1,511,099	2,058,435	1,511,099	2,058,435
	<u>6,349,234</u>	<u>6,059,685</u>	<u>6,357,750</u>	<u>6,069,902</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Due within six months	4,037,464	4,398,671	4,037,464	4,398,671
Six months to one year	745,096	667,977	745,096	667,977
One year to three years	4,926	5,752	4,926	5,752
	<u>4,787,486</u>	<u>5,072,400</u>	<u>4,787,486</u>	<u>5,072,400</u>

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**14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
Bank Negara Malaysia	55,957	54,554
Licensed banks	1,297,267	951,102
Licensed investment banks	266	256
Licensed Islamic banks	968	105
Other financial institutions	2	3
	<u>1,354,460</u>	<u>1,006,020</u>

**15. OTHER LIABILITIES**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Accrued expenses	32,964	23,578	32,112	22,882
Margin deposits	139,560	55,978	139,560	55,978
Other liabilities	40,128	123,126	38,458	121,691
	<u>212,652</u>	<u>202,682</u>	<u>210,130</u>	<u>200,551</u>

The margin deposits comprise interest bearing deposits amounting to RM66,439,000 (2015: RM2,749,000) with a range of interest between 0.40% - 3.45% (2015: 2.0% - 3.70%).

**16. SHARE CAPITAL**

	Number of ordinary shares of RM1.00 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
<u>GROUP AND BANK</u>				
Authorised:				
At beginning and end of year	<u>804,000</u>	<u>804,000</u>	<u>804,000</u>	<u>804,000</u>
Issued and fully paid:				
At beginning and end of year	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>	<u>760,518</u>

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**17. RESERVES**

(a) Retained profits

The Bank may distribute dividends out of its entire retained profits as at 31 December 2016 under the single tier system.

(b) Statutory reserve

The statutory reserve is maintained in compliance with Section 12 and Section 47(2)(F) of the Financial Services Act, 2013 and is not distributable as cash dividends.

(c) Regulatory reserve

The regulatory reserve is maintained in addition to the collective impairment provision that has been assessed and recognised in accordance with MFRS and is transferred from the retained profits of the Group and the Bank in accordance with BNM guidelines.

**18. OPERATING REVENUE**

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

**19. INTEREST INCOME**

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Loans and advances		
- Interest income on non-impaired loans	256,833	249,933
- Interest income on impaired loans	4,756	1,686
Money at call and deposit placements with financial institutions	89,999	103,380
Held-to-maturity securities	12,001	18,372
	<u>363,589</u>	<u>373,371</u>
Amortisation of premium less accretion of discount	(30)	(291)
	<u><u>363,559</u></u>	<u><u>373,080</u></u>

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## NOTES TO THE FINANCIAL STATEMENTS

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**20. INTEREST EXPENSE**

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	33,261	65,809
Deposits from customers	159,883	153,865
Others	278	55
	<u>193,422</u>	<u>219,729</u>

**21. OTHER OPERATING INCOME**

	<u>GROUP</u>		<u>BANK</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Fee income:				
- Fee on loans and advances	15,646	14,071	15,646	14,071
- Service charges and fees	38,918	37,008	4,711	3,973
- Guarantee fees	16,459	12,619	16,459	12,619
	<u>71,023</u>	<u>63,698</u>	<u>36,816</u>	<u>30,663</u>
Fee expense:				
- Commission related expenses	(12,049)	(11,636)	-	-
Net fee income	<u>58,974</u>	<u>52,062</u>	<u>36,816</u>	<u>30,663</u>
Foreign exchange income/(loss):				
- Realised	38,067	29,389	38,067	29,389
- Unrealised	(6,796)	2,247	(6,796)	2,247
Net (loss)/gain on revaluation of derivatives	(1,274)	1,331	(1,274)	1,331
Revenue from sale of precious metal products	1,532	3,638	1,532	3,638
Net gain on disposal of property and equipment	1	47	1	47
Other income:				
- Dividend income from a subsidiary	-	-	11,900	12,500
- Others	62	142	262	353
	<u>90,566</u>	<u>88,856</u>	<u>80,508</u>	<u>80,168</u>

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**22. OTHER OPERATING EXPENSES**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Personnel expenses</u>				
Salaries & wages (includes CEO/EDs)	37,930	30,279	35,722	28,596
Bonuses	18,984	16,214	18,143	15,820
Defined contribution plan ("EPF")	4,791	4,806	4,563	4,611
Staff welfare expenses	2,000	1,829	1,783	1,623
Other personnel costs	3,680	4,720	3,514	4,594
	<u>67,385</u>	<u>57,848</u>	<u>63,725</u>	<u>55,244</u>
<u>Marketing expenses</u>				
Entertainment	1,222	1,544	1,212	1,544
Other marketing	1,221	1,804	1,221	1,804
	<u>2,443</u>	<u>3,348</u>	<u>2,433</u>	<u>3,348</u>
<u>Establishment costs</u>				
Rental of premises	7,867	6,694	6,492	5,335
Depreciation of property and equipment (Note 11)	4,654	3,627	3,971	2,933
Amortisation of intangible assets (Note 12)	98	93	98	91
Repairs and maintenance	823	563	819	557
Property and equipment written off	10	139	6	139
Information technology expenses	2,508	2,478	2,502	2,471
Other establishment costs	742	363	720	342
	<u>16,702</u>	<u>13,957</u>	<u>14,608</u>	<u>11,868</u>
<u>Administration and general expenses</u>				
Insurance premium	696	584	691	580
Travelling and accommodation	2,706	2,448	2,630	2,398
Telecommunication and utilities	1,077	1,035	952	930
Printing, stationery and postage	832	795	684	672
Legal and professional fees	1,426	1,374	1,423	1,368
Other administration and general expenses	4,519	4,644	4,187	4,386
	<u>11,256</u>	<u>10,880</u>	<u>10,567</u>	<u>10,334</u>
<u>Other expenses</u>				
Cost of sales of precious metal products	1,296	3,091	1,296	3,091
	<u>99,082</u>	<u>89,124</u>	<u>92,629</u>	<u>83,885</u>

The above expenditure includes the following statutory disclosures:

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Auditors' remuneration				
- current year audit	224	195	182	155
- overprovision in prior financial years	(33)	-	(33)	-
- regulatory-related services	82	70	82	70
- other services	28	25	18	15
Directors' remuneration (Note 23)	<u>2,090</u>	<u>1,782</u>	<u>2,090</u>	<u>1,782</u>

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**23. DIRECTORS' REMUNERATION**

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

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
<u>Executive Director</u>		
- salary and other remuneration	952	875
- bonus	880	666
- benefits-in-kind	53	66
	<u>1,885</u>	<u>1,607</u>
<u>Non-Executive Directors</u>		
Fees		
- Datuk Ter Leong Yap	95	80
- Chai Woon Chew	110	95
	<u>205</u>	<u>175</u>
	<u>2,090</u>	<u>1,782</u>

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,794,796 (2015: RM1,606,750).

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>	
	2016	2015
<u>Executive Director</u>		
RM1,500,001 - RM2,000,000	1	1
<u>Non-Executive Directors</u>		
RM50,001 - RM100,000	1	2
RM100,001 - RM150,000	1	-

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**24. ALLOWANCE FOR IMPAIRMENT ON LOANS AND ADVANCES**

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
Allowance for impaired loans and advances		
(a) Individual impairment allowance		
- made during the financial year (Note 6 (vii))	11,774	7,090
- written back during the financial year (Note 6 (vii))	(1,779)	(236)
(b) Collective impairment allowance		
- made during the financial year (Note 6 (vii))	799	5,925
	<u>10,794</u>	<u>12,779</u>

**25. TAXATION**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Tax expense for the financial year:				
- Malaysian income tax	39,642	35,884	35,716	31,760
- Foreign tax	314	2,596	314	2,596
Less : Double taxation relief	(261)	(1,801)	(261)	(1,801)
- Underprovision in prior financial years	112	278	113	204
	<u>39,807</u>	<u>36,957</u>	<u>35,882</u>	<u>32,759</u>
Deferred tax (Note 8):				
- Origination and reversal of temporary differences, net	(2,059)	845	(1,956)	876
- Reduction in Malaysian income tax rate	-	119	-	116
- Under/(over) provision in prior financial years	187	(233)	186	(148)
	<u>(1,872)</u>	<u>731</u>	<u>(1,770)</u>	<u>844</u>
Total tax expense	<u>37,935</u>	<u>37,688</u>	<u>34,112</u>	<u>33,603</u>

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

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation	<u>150,827</u>	<u>140,304</u>	<u>147,222</u>	<u>136,855</u>
Statutory tax rate in Malaysia, 24% (2015: 25%)	36,198	35,076	35,333	34,214
Tax effects in respect of:				
Non-allowable expenses	1,385	1,653	1,283	1,547
Non-taxable income	-	-	(2,856)	(3,125)
Effect of different tax rates in other countries	53	795	53	795
Effect of reduction in Malaysian income tax rate	-	119	-	116
Under/(over) provision in prior years:				
- Income tax	112	278	113	204
- Deferred tax	187	(233)	186	(148)
Tax expense	<u>37,935</u>	<u>37,688</u>	<u>34,112</u>	<u>33,603</u>

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**25. TAXATION (CONTINUED)**

Domestic income tax is calculated at the Malaysian statutory tax rate at 24% (2015: 25%) on the estimated profit for the financial year.

**26. EARNINGS PER SHARE**

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

	<u>GROUP</u>	
	2016	2015
	RM'000	RM'000
Net profit attributable to equity holder	112,892	102,616
Weighted average number of ordinary shares in issue	760,518	760,518
Basic/fully diluted earnings per share (sen)	<u>14.84</u>	<u>13.49</u>

**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

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



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**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(a) Related party transaction

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

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow subsidiaries* RM'000	Key management <u>personnel</u> RM'000
<u>GROUP</u>				
<u>2016</u>				
<b>INCOME</b>				
Interest income:				
- Deposits and placements with banks and other financial institutions	21,263	2,661	3,718	-
- Housing loan	-	-	-	16
	<u>21,263</u>	<u>2,661</u>	<u>3,718</u>	<u>16</u>
<b>EXPENSES</b>				
Interest expenses:				
- Deposits and placements of banks and other financial institutions	22,965	1,319	7,333	-
- Deposits from customers	-	-	-	33
Administrative expenses	1,930	-	-	-
	<u>24,895</u>	<u>1,319</u>	<u>7,333</u>	<u>33</u>
<u>2015</u>				
<b>INCOME</b>				
Interest income:				
- Deposits and placements with banks and other financial institutions	43,419	-	4,783	-
- Housing loan	-	-	-	24
	<u>43,419</u>	<u>-</u>	<u>4,783</u>	<u>24</u>
<b>EXPENSES</b>				
Interest expenses:				
- Deposits and placements of banks and other financial institutions	46,665	-	4,414	-
- Deposits from customers	-	-	-	1
Administrative expenses	1,743	-	-	-
	<u>48,408</u>	<u>-</u>	<u>4,414</u>	<u>1</u>

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

(a) Related party transactions (Continued)

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries*</u> RM'000	<u>Subsidiary</u> RM'000	Key management <u>personnel</u> RM'000
<u>BANK</u>					
<u>2016</u>					
INCOME					
Interest income:					
Deposits and placements with banks and other financial institutions	21,263	2,661	3,718	-	-
- Housing loan	-	-	-	-	16
Other operating income:					
- Dividend income	-	-	-	11,900	-
- Others	-	-	-	211	-
	<u>21,263</u>	<u>2,661</u>	<u>3,718</u>	<u>12,111</u>	<u>16</u>
EXPENSES					
Interest expenses:					
Deposits and placements of banks and other financial institutions	22,965	1,319	7,333	-	-
- Deposits from customers	-	-	-	-	33
Administrative expenses	1,930	-	-	-	-
	<u>24,895</u>	<u>1,319</u>	<u>7,333</u>	<u>-</u>	<u>33</u>
<u>2015</u>					
INCOME					
Interest income:					
Deposits and placements with banks and other financial institutions	43,419	-	4,783	-	-
- Housing loan	-	-	-	-	24
Other operating income:					
- Dividend income	-	-	-	12,500	-
- Others	-	-	-	211	-
	<u>43,419</u>	<u>-</u>	<u>4,783</u>	<u>12,711</u>	<u>24</u>
EXPENSES					
Interest expenses:					
Deposits and placements of banks and other financial institutions	46,665	-	4,414	-	-
- Deposits from customers	-	-	-	-	1
Administrative expenses	1,743	-	-	-	-
	<u>48,408</u>	<u>-</u>	<u>4,414</u>	<u>-</u>	<u>1</u>

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**27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(b) Related party balances

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

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries*</u> RM'000	Key management <u>personnel</u> RM'000
<u>GROUP</u>				
<u>2016</u>				
AMOUNT DUE FROM				
Cash and short-term funds	350,119	85,686	37	-
Deposits and placements with banks and other financial institutions	115,427	-	-	-
	<u>465,546</u>	<u>85,686</u>	<u>37</u>	<u>-</u>
AMOUNT DUE TO				
Deposits and placements of banks and other financial institutions	579,183	97,695	448,875	-
Deposits from customers	-	-	-	4,305
	<u>579,183</u>	<u>97,695</u>	<u>448,875</u>	<u>4,305</u>
<u>2015</u>				
AMOUNT DUE FROM				
Cash and short-term funds	320,103	-	484,692	-
Deposits and placements with banks and other financial institutions	981,577	-	-	-
Housing loan	-	-	-	634
	<u>1,301,680</u>	<u>-</u>	<u>484,692</u>	<u>634</u>
AMOUNT DUE TO				
Deposits and placements of banks and other financial institutions	754,261	-	17,198	-
Deposits from customers	494,486	-	-	2,124
	<u>1,248,747</u>	<u>-</u>	<u>17,198</u>	<u>2,124</u>

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

(b) Related party balances (Continued)

	Penultimate holding <u>company</u> RM'000	Immediate holding <u>company</u> RM'000	Fellow <u>subsidiaries*</u> RM'000	<u>Subsidiary</u> RM'000	Key management <u>personnel</u> RM'000
<u>BANK</u> <u>2016</u>					
AMOUNT DUE FROM					
Cash and short-term funds	350,119	85,686	37	-	-
Deposits and placements with banks and other financial institutions	115,427	-	-	-	-
	<u>465,546</u>	<u>85,686</u>	<u>37</u>	<u>-</u>	<u>-</u>
AMOUNT DUE TO					
Deposits and placements of banks and other financial institutions	579,183	97,695	448,875	-	-
Deposits from customers	-	-	-	8,516	4,305
	<u>579,183</u>	<u>97,695</u>	<u>448,875</u>	<u>8,516</u>	<u>4,305</u>
<u>2015</u>					
AMOUNT DUE FROM					
Cash and short-term funds	320,103	-	484,692	-	-
Deposits and placements with banks and other financial institutions	981,577	-	-	-	-
Housing loan	-	-	-	-	634
	<u>1,301,680</u>	<u>-</u>	<u>484,692</u>	<u>-</u>	<u>634</u>
AMOUNT DUE TO					
Deposits and placements of banks and other financial institutions	754,261	-	17,198	-	-
Deposits from customers	494,486	-	-	10,217	2,124
	<u>1,248,747</u>	<u>-</u>	<u>17,198</u>	<u>10,217</u>	<u>2,124</u>

Included in the table above are deposits from the Directors of the Group and of the Bank amounting to RM601,000 (2015: RM602,000).

\* Included in fellow subsidiaries are balances (as at 31 December 2015) and transactions (from 1 January 2015 to 31 December 2015 and 1 January 2016 to 16 October 2016) between the Bank and Bank of China (Hong Kong) Limited.

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

(c) Key management personnel compensation

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

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
Fees	205	175
Salaries and other short-term benefits	7,672	5,296
Defined contribution plan ("EPF")	337	-
Benefits-in-kind	89	133
	<u>8,303</u>	<u>5,604</u>

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

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

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

Pursuant to BNM's Guidelines on Credit Transactions and Exposures with Connected Parties, the Bank is required to disclose the following information:

	<u>GROUP AND BANK</u>	
	2016 RM'000	2015 RM'000
Outstanding credit exposures with connected parties	798,703	818,513
Outstanding credit exposures with connected parties as a percentage of total credit exposures	12%	14%
Percentage of outstanding credit exposures with connected parties which are non-performing or in default	0%	0%

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In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following:

	Group and Bank					
	31 December 2016			31 December 2015		
	Principal	Credit*	Risk	Principal	Credit*	Risk
	RM'000	equivalent RM'000	weighted RM'000	RM'000	equivalent RM'000	weighted RM'000
Direct credit substitutes	47,930	47,930	50,046	80,517	80,517	60,507
Transaction-related contingent items	1,828,022	914,011	834,739	1,461,522	730,761	364,822
Short-term self-liquidation trade related	221,700	44,340	17,784	64,553	12,911	11,244
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,119,236	223,847	200,294	1,028,447	205,689	185,002
- Maturity exceeding one year	211,970	105,985	52,937	272,277	136,139	86,398
Foreign exchange related contracts:						
- Less than one year	89,383	499	282	419,525	2,709	717
<b>Total</b>	<b>3,518,241</b>	<b>1,336,612</b>	<b>1,156,082</b>	<b>3,326,841</b>	<b>1,168,726</b>	<b>708,690</b>

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

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**30. LEASE COMMITMENTS**

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

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Not later than 1 year	8,504	5,783	7,221	5,091
Later than 1 year but not later than 5 years	10,780	4,701	8,800	4,701
	<u>19,284</u>	<u>10,484</u>	<u>16,021</u>	<u>9,792</u>

**31. CAPITAL COMMITMENTS**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital expenditure for property and equipment - approved by the Board and contracted for	<u>8,003</u>	<u>2,168</u>	<u>8,003</u>	<u>2,168</u>

**32. CAPITAL ADEQUACY**

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

With effect from 1 January 2016, the capital adequacy ratios of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components) Policy issued dated on 13 October 2015. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Basel II - Risk Weighted Assets) issued on 1 August 2016. In line with the transitional arrangements under Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components), the Bank require to hold and maintain capital buffers specified by Bank Negara Malaysia in the form of Common Equity Tier 1 Capital (CET 1), Tier 1 Capital and Total Capital ratios.

- Capital Conservation Buffer ("CCB") of 2.5% phased-in from 2016 to 2019. [2016: +0.625%; 2017: +1.25%; 2018: +1.875%; 2019: +2.5%]
- Countercyclical Capital Buffer ("CCyB"), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures. (Intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. Maximum is 2.50%.)

The minimum capital adequacy requirement for year 2016 are as follow:

CET 1 Capital Ratio (including CCB and CCyB)	5.125% (4.500% in the year 2015)
Tier 1 Capital Ratio (including CCB and CCyB)	6.625% (6.000% in the year 2015)
Total Capital Ratio (including CCB and CCyB)	8.625% (8.000% in the year 2015)

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**32. CAPITAL ADEQUACY (CONTINUED)**

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Common Equity Tier 1 ("CET 1") Capital</u>				
Paid-up ordinary share capital	760,518	760,518	760,518	760,518
Retained profits	227,456	175,396	215,751	163,473
Statutory reserve	279,786	223,231	279,786	223,231
Regulatory reserve	26,948	22,671	26,948	22,671
	<u>1,294,708</u>	<u>1,181,816</u>	<u>1,283,003</u>	<u>1,169,893</u>
Regulatory adjustment applied in the calculation of CET 1 Capital				
- Deferred tax assets	(4,738)	(2,866)	(4,553)	(2,783)
- Regulatory reserve attributable to loans and advances	(26,948)	(22,671)	(26,948)	(22,671)
	<u>(31,686)</u>	<u>(25,537)</u>	<u>(31,501)</u>	<u>(25,454)</u>
Total CET 1 Capital/Total Tier 1 Capital	<u>1,263,022</u>	<u>1,156,279</u>	<u>1,251,502</u>	<u>1,144,439</u>
<u>Tier-2 Capital</u>				
Collective impairment allowance (only those attributable to non-impaired loans and advances)	35,657	34,407	35,657	34,407
Regulatory reserve	26,948	22,671	26,948	22,671
Less: Investment in a subsidiary company	-	-	(1,000)	(1,000)
Total Tier-2 Capital	<u>62,605</u>	<u>57,078</u>	<u>61,605</u>	<u>56,078</u>
<b>Total Capital Base</b>	<b><u>1,325,627</u></b>	<b><u>1,213,357</u></b>	<b><u>1,313,107</u></b>	<b><u>1,200,517</u></b>

	<u>GROUP</u>		<u>BANK</u>	
	2016	2015	2016	2015
<u>Capital ratios</u>				
CET 1 Capital Ratio	20.155%	21.381%	20.111%	21.310%
Tier 1 Capital Ratio	20.155%	21.381%	20.111%	21.310%
Total Capital Ratio	21.154%	22.437%	21.100%	22.354%

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

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Credit risk	5,807,457	5,025,085	5,804,048	5,021,628
Market risk	12,611	9,179	12,611	9,179
Operational risk	446,601	373,649	406,461	339,583
	<u>6,266,669</u>	<u>5,407,913</u>	<u>6,223,120</u>	<u>5,370,390</u>



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**33. FINANCIAL RISK MANAGEMENT**

(a) Financial risk management

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

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

(b) Credit Risk

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 Group and 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 Group and the Bank.

The Group and 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 companies were adopted by the Group and the Bank for monitoring of the credit risks.

(i) Maximum exposure to credit risk

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

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**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

## (i) Maximum exposure to credit risk (Continued)

	<u>GROUP</u>		<u>BANK</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Items recognised in the statements of financial position</u>				
Cash and short-term funds (exclude cash in hand)	3,118,395	1,934,676	3,113,718	1,932,027
Deposits and placements with banks and other financial institutions	435,854	1,162,832	435,854	1,162,832
Held-to-maturity securities	288,048	429,633	288,048	429,633
Loans and advances	5,183,247	4,722,114	5,183,247	4,722,114
Statutory deposits with Bank Negara Malaysia	98,900	128,200	98,900	128,200
Derivative assets	334	2,273	334	2,273
	<u>9,124,778</u>	<u>8,379,728</u>	<u>9,120,101</u>	<u>8,377,079</u>
<u>Items not recognised in the statements of financial position</u>				
Contingent liabilities	2,097,652	1,606,592	2,097,652	1,606,592
Credit commitments	1,331,206	1,300,724	1,331,206	1,300,724
Foreign exchange related contracts	89,383	419,525	89,383	419,525
Total maximum credit risk exposure	<u>12,643,019</u>	<u>11,706,569</u>	<u>12,638,342</u>	<u>11,703,920</u>

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for gross loans and advances for the Group and Bank are 64% (2015: 65%). The financial effect of collateral held for the other financial assets are insignificant.

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**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

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

<u>GROUP</u> <u>2016</u>	Short-term funds and placements with financial institutions RM'000	Financial investment held-to-maturity RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Primary agriculture	-	-	455,987	-	455,987	28,509
Mining and quarrying	-	-	165,935	-	165,935	10,002
Manufacturing	-	-	1,203,822	-	1,203,822	400,590
Electricity, gas and water supply	-	-	337,229	-	337,229	28,993
Construction	-	-	528,835	-	528,835	369,769
Real estate	-	-	1,023,070	-	1,023,070	69,235
Research and development	-	-	280	-	280	-
Wholesale and retail trade and restaurants and hotels	-	-	256,428	-	256,428	36,188
Transport, storage and communication	-	-	151,875	-	151,875	188,048
Finance, insurance and business services	1,094,153	-	196,679	334	1,291,166	147,224
Household	-	-	886,996	-	886,996	56,240
Government and government agencies	2,460,096	288,048	-	98,900	2,847,044	-
Education, health and others	-	-	5,373	-	5,373	132
Others	-	-	24,165	-	24,165	1,682
	3,554,249	288,048	5,236,674	99,234	9,178,205	1,336,612
Assets not subject to credit risk	19,758	-	-	69,892	89,650	-
	<u>3,574,007</u>	<u>288,048</u>	<u>5,236,674<sup>^</sup></u>	<u>169,126<sup>#</sup></u>	<u>9,267,855</u>	<u>1,336,612<sup>*</sup></u>

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM35,678,792 and RM17,748,100 respectively.<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative assets.<sup>\*</sup> Credit equivalent amount as disclosed in Note 29.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

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

<u>GROUP</u>	Short-term funds and placements with financial institutions	Financial investment held-to-maturity	Loans and advances	Other assets	On-balance sheet total	Commitments and Contingencies
<u>2015</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	378,212	-	378,212	29,713
Mining and quarrying	-	-	51,184	-	51,184	16,764
Manufacturing	-	-	1,028,990	-	1,028,990	244,638
Electricity, gas and water supply	-	-	78,160	-	78,160	500
Construction	-	-	505,487	-	505,487	427,371
Real estate	-	-	1,124,482	-	1,124,482	70,470
Research and development	-	-	487	-	487	1
Wholesale and retail trade and restaurants and hotels	-	-	255,688	-	255,688	32,217
Transport, storage and communication	-	-	106,278	-	106,278	207,055
Finance, insurance and business services	1,970,291	40,104	314,851	2,273	2,327,519	37,874
Household	-	-	890,678	-	890,678	74,136
Government and government agencies	1,127,217	389,529	-	128,200	1,644,946	-
Education, health and others	-	-	5,912	-	5,912	148
Others	-	-	23,865	-	23,865	27,839
	3,097,508	429,633	4,764,274	130,473	8,421,888	1,168,726
Assets not subject to credit risk	16,570	-	-	55,698	72,268	-
	3,114,078	429,633	4,764,274 <sup>^</sup>	186,171 <sup>#</sup>	8,494,156	1,168,726 <sup>*</sup>

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM34,406,814 and RM7,753,400 respectively.<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative assets.<sup>\*</sup> Credit equivalent amount as disclosed in Note 29.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

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

<u>BANK</u> <u>2016</u>	Short-term funds and placements with financial institutions RM'000	Financial investment held-to-maturity RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and Contingencies RM'000
Primary agriculture	-	-	455,987	-	455,987	28,509
Mining and quarrying	-	-	165,935	-	165,935	10,002
Manufacturing	-	-	1,203,822	-	1,203,822	400,590
Electricity, gas and water supply	-	-	337,229	-	337,229	28,993
Construction	-	-	528,835	-	528,835	369,769
Real estate	-	-	1,023,070	-	1,023,070	69,235
Research and development	-	-	280	-	280	-
Wholesale and retail trade and restaurants and hotels	-	-	256,428	-	256,428	36,188
Transport, storage and communication	-	-	151,875	-	151,875	188,048
Finance, insurance and business services	1,089,476	-	196,679	334	1,286,489	147,224
Household	-	-	886,996	-	886,996	56,240
Government and government agencies	2,460,096	288,048	-	98,900	2,847,044	-
Education, health and others	-	-	5,373	-	5,373	132
Others	-	-	24,165	-	24,165	1,682
	3,549,572	288,048	5,236,674	99,234	9,173,528	1,336,612
Assets not subject to credit risk	19,756	-	-	68,234	87,990	-
	<u>3,569,328</u>	<u>288,048</u>	<u>5,236,674</u> <sup>^</sup>	<u>167,468</u> <sup>#</sup>	<u>9,261,518</u>	<u>1,336,612</u> <sup>*</sup>

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM35,678,792 and RM17,748,100 respectively.<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative assets.<sup>\*</sup> Credit equivalent amount as disclosed in Note 29.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

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

<u>BANK</u>	Short-term funds and placements with financial institutions	Financial investment held-to-maturity	Loans and advances	Other assets	On-balance sheet total	Commitments and Contingencies
<u>2015</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	378,212	-	378,212	29,713
Mining and quarrying	-	-	51,184	-	51,184	16,764
Manufacturing	-	-	1,028,990	-	1,028,990	244,638
Electricity, gas and water supply	-	-	78,160	-	78,160	500
Construction	-	-	505,487	-	505,487	427,371
Real estate	-	-	1,124,482	-	1,124,482	70,470
Research and development	-	-	487	-	487	1
Wholesale and retail trade and restaurants and hotels	-	-	255,688	-	255,688	32,217
Transport, storage and communication	-	-	106,278	-	106,278	207,055
Finance, insurance and business services	1,967,642	40,104	314,851	2,273	2,324,870	37,874
Household	-	-	890,678	-	890,678	74,136
Government and government agencies	1,127,217	389,529	-	128,200	1,644,946	-
Education, health and others	-	-	5,912	-	5,912	148
Others	-	-	23,865	-	23,865	27,839
	3,094,859	429,633	4,764,274	130,473	8,419,239	1,168,726
Assets not subject to credit risk	16,568	-	-	53,688	70,256	-
	3,111,427	429,633	4,764,274 <sup>^</sup>	184,161 <sup>#</sup>	8,489,495	1,168,726 <sup>*</sup>

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM34,406,814 and RM7,753,400 respectively.<sup>#</sup> Other assets include intangible assets, property and equipment, statutory deposits with BNM, deferred tax assets and derivative assets.<sup>\*</sup> Credit equivalent amount as disclosed in Note 29.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(ii) Collateral

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

(iii) Loans and advances

Loans and advances are summarised as follows:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Neither past due nor impaired	5,068,827	4,642,079
Past due but not impaired	56,613	78,783
Impaired	111,234	43,412
Gross loans and advances	<u>5,236,674</u>	<u>4,764,274</u>
Less: Individual assessment allowance	(17,748)	(7,753)
Collective assessment allowance	<u>(35,679)</u>	<u>(34,407)</u>
Net loans and advances	<u><u>5,183,247</u></u>	<u><u>4,722,114</u></u>

**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 with a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- “BBB – B” refers to customers with 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 with a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant credit risks.

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**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

## (iii) Loans and advances (Continued)

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

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
AAA - A	2,293,032	2,282,059
BBB - B	1,383,529	1,196,013
CCC - C	117,764	85,387
Unrated	1,274,502	1,078,620
	<u>5,068,827</u>	<u>4,642,079</u>

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

**Loans and advances past due but not impaired**

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

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Between 1 – 30 days past due	-	60,572
Between 31 – 60 days past due	46,812	16,628
Between 61 – 90 days past due	9,801	1,583
	<u>56,613</u>	<u>78,783</u>

**Loans and advances impaired**

Loans and advances that are individually determined to be impaired as at 31 December 2016 are as follows:

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
Corporate	108,387	37,141
Individual	2,847	6,271
	<u>111,234</u>	<u>43,412</u>



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (b) Credit risk (Continued)

## (iii) Loans and advances (Continued)

**Financial assets other than loans and advances**

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

The tables below presents an analysis of financial assets other than loans and advances by rating agency designation as at 31 December 2016, based on Moody's ratings or their equivalent:

	Cash and short term funds	Deposits and placements with banks and other financial institutions ("FIs")	Financial investment held-to- maturity	Other assets
	RM'000	RM'000	RM'000	RM'000
<b><u>GROUP</u></b>				
<b><u>2016</u></b>				
Aa3/Aa2/A-/A	130,731	-	-	-
A1/BBB+	525,655	115,427	-	-
A3	264,832	-	-	-
Baa1/Ba2/Baa3	57,508	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	2,139,669	320,427	288,048	98,900
- Others	19,758	-	-	334
	<u>3,138,153</u>	<u>435,854</u>	<u>288,048</u>	<u>99,234</u>
<b><u>2015</u></b>				
Aa3/A-/A	221,025	-	-	-
A1/BBB+	583,770	981,577	-	-
A3	2,655	181,255	40,104	-
Baa1/Ba2	10	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	1,127,216	-	389,529	128,200
- Others	16,570	-	-	2,273
	<u>1,951,246</u>	<u>1,162,832</u>	<u>429,633</u>	<u>130,473</u>

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**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(b) Credit risk (Continued)

(iii) Loans and advances (Continued)

**Financial assets other than loans and advances (Continued)**

	Cash and short term funds	Deposits and placements with banks and other FIs	Financial investment held-to- maturity	Other assets
	RM'000	RM'000	RM'000	RM'000
<b><u>BANK</u></b>				
<b><u>2016</u></b>				
Aa3/Aa2/A-/A	130,731	-	-	-
A1/BBB+	525,655	115,427	-	-
A3	260,155	-	-	-
Baa1/Ba2	57,508	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	2,139,669	320,427	288,048	98,900
- Others	19,756	-	-	334
	<u>3,133,474</u>	<u>435,854</u>	<u>288,048</u>	<u>99,234</u>
<b><u>2015</u></b>				
Aa3/A-/A	221,025	-	-	-
A1/BBB+	583,770	981,577	-	-
A3	6	181,255	40,104	-
Baa1/Ba2	10	-	-	-
Unrated				
- Bank Negara Malaysia/sovereign	1,127,216	-	389,529	128,200
- Others	16,568	-	-	2,273
	<u>1,948,595</u>	<u>1,162,832</u>	<u>429,633</u>	<u>130,473</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(c) Liquidity Risk

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non financial instruments) as at 31 December 2016 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guideline on Financial Reporting:

<u>GROUP</u> <u>2016</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,312,939	1,825,214	-	-	-	-	3,138,153
Deposits and placements with banks and other financial institutions	-	-	320,427	94,676	20,751	-	435,854
Derivatives assets	75	-	114	145	-	-	334
Held-to-maturity securities	-	-	237,767	50,281	-	-	288,048
Gross loans and advances	948,343	575,666	917,392	595,396	68,122	2,131,755	5,236,674 <sup>^</sup>
Other assets	7,918	16	143	1,387	4,738	154,590	168,792 <sup>#</sup>
<b>Total assets</b>	<b>2,269,275</b>	<b>2,400,896</b>	<b>1,475,843</b>	<b>741,885</b>	<b>93,611</b>	<b>2,286,345</b>	<b>9,267,855</b>
Deposits from customers	1,979,376	1,679,479	1,077,978	862,379	745,096	4,926	6,349,234
Deposits and placements of banks and other financial institutions	819,613	226,617	-	22,650	-	285,580	1,354,460
Derivatives liabilities	58	-	107	128	-	-	293
Other liabilities	147,069	30,777	-	-	37,887	-	215,733
<b>Total liabilities</b>	<b>2,946,116</b>	<b>1,936,873</b>	<b>1,078,085</b>	<b>885,157</b>	<b>782,983</b>	<b>290,506</b>	<b>7,919,720</b>
Net liquidity gap - Total assets less total liabilities	(676,841)	464,023	397,758	(143,272)	(689,372)	1,995,839	1,348,135

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM35,678,792 and RM17,748,100 respectively.

<sup>#</sup> 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 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non financial instruments) as at 31 December 2015 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guideline on Financial Reporting:

<u>GROUP</u> <u>2015</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,951,246	-	-	-	-	-	1,951,246
Deposits and placements with banks and other financial institutions	50,144	-	712,257	400,431	-	-	1,162,832
Derivatives assets	2,176	28	34	35	-	-	2,273
Held-to-maturity securities	40,104	1,466	2,591	282	99,897	285,293	429,633
Gross loans and advances	1,050,347	562,961	419,298	384,050	73,018	2,274,600	4,764,274 <sup>^</sup>
Other assets	6,281	-	27	666	2,866	174,058	183,898 <sup>#</sup>
<b>Total assets</b>	<b>3,100,298</b>	<b>564,455</b>	<b>1,134,207</b>	<b>785,464</b>	<b>175,781</b>	<b>2,733,951</b>	<b>8,494,156</b>
Deposits from customers	1,630,376	1,624,657	1,419,399	711,524	667,977	5,752	6,059,685
Deposits and placements of banks and other financial institutions	181,997	-	333,260	-	-	490,763	1,006,020
Derivatives liabilities	888	25	26	19	-	-	958
Other liabilities	169,805	8,626	-	-	25,086	-	203,517
<b>Total liabilities</b>	<b>1,983,066</b>	<b>1,633,308</b>	<b>1,752,685</b>	<b>711,543</b>	<b>693,063</b>	<b>496,515</b>	<b>7,270,180</b>
Net liquidity gap - Total assets less total liabilities	1,117,232	(1,068,853)	(618,478)	73,921	(517,282)	2,237,436	1,223,976

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM34,406,814 and RM7,753,400 respectively.

<sup>#</sup> 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 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non financial instruments) as at 31 December 2016 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guideline on Financial Reporting:

<u>BANK</u> <u>2016</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,308,260	1,825,214	-	-	-	-	3,133,474
Deposits and placements with banks and other financial institutions	-	-	320,427	94,676	20,751	-	435,854
Derivatives assets	75	-	114	145	-	-	334
Held-to-maturity securities	-	-	237,767	50,281	-	-	288,048
Gross loans and advances	948,343	575,666	917,392	595,396	68,122	2,131,755	5,236,674 <sup>^</sup>
Other assets	7,507	16	138	1,387	4,553	153,533	167,134 <sup>#</sup>
<b>Total assets</b>	<b>2,264,185</b>	<b>2,400,896</b>	<b>1,475,838</b>	<b>741,885</b>	<b>93,426</b>	<b>2,285,288</b>	<b>9,261,518</b>
Deposits from customers	1,987,892	1,679,479	1,077,978	862,379	745,096	4,926	6,357,750
Deposits and placements of banks and other financial institutions	819,613	226,617	-	22,650	-	285,580	1,354,460
Derivatives liabilities	58	-	107	128	-	-	293
Other liabilities	146,931	29,652	-	-	36,002	-	212,585
<b>Total liabilities</b>	<b>2,954,494</b>	<b>1,935,748</b>	<b>1,078,085</b>	<b>885,157</b>	<b>781,098</b>	<b>290,506</b>	<b>7,925,088</b>
Net liquidity gap - Total assets less total liabilities	(690,309)	465,148	397,753	(143,272)	(687,672)	1,994,782	1,336,430

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM35,678,792 and RM17,748,100 respectively.

<sup>#</sup> 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 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

The table below which analyses assets and liabilities (includes non financial instruments) as at 31 December 2015 based on the remaining contractual maturity, is disclosed in accordance with the requirements of BNM's Guideline on Financial Reporting:

<u>BANK</u> <u>2015</u>	<u>Within</u> <u>1 week</u> RM'000	<u>&gt;1 week</u> <u>to 1 month</u> RM'000	<u>&gt;1-3</u> <u>months</u> RM'000	<u>&gt;3-6</u> <u>months</u> RM'000	<u>&gt;6-12</u> <u>months</u> RM'000	<u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,948,595	-	-	-	-	-	1,948,595
Deposits and placements with banks and other financial institutions	50,144	-	712,257	400,431	-	-	1,162,832
Derivatives assets	2,176	28	34	35	-	-	2,273
Held-to-maturity securities	40,104	1,466	2,591	282	99,897	285,293	429,633
Gross loans and advances	1,050,347	562,961	419,298	384,050	73,018	2,274,600	4,764,274 <sup>^</sup>
Other assets	5,976	-	27	666	2,783	172,436	181,888 <sup>#</sup>
<b>Total assets</b>	<b>3,097,342</b>	<b>564,455</b>	<b>1,134,207</b>	<b>785,464</b>	<b>175,698</b>	<b>2,732,329</b>	<b>8,489,495</b>
Deposits from customers	1,630,376	1,624,657	1,429,616	711,524	667,977	5,752	6,069,902
Deposits and placements of banks and other financial institutions	181,997	-	333,260	-	-	490,763	1,006,020
Derivatives liabilities	888	25	26	19	-	-	958
Other liabilities	169,625	7,446	-	-	23,491	-	200,562
<b>Total liabilities</b>	<b>1,982,886</b>	<b>1,632,128</b>	<b>1,762,902</b>	<b>711,543</b>	<b>691,468</b>	<b>496,515</b>	<b>7,277,442</b>
Net liquidity gap - Total assets less total liabilities	1,114,456	(1,067,673)	(628,695)	73,921	(515,770)	2,235,814	1,212,053

<sup>^</sup> Excludes collective impairment allowance and individual impairment allowance amounting to RM34,406,814 and RM7,753,400 respectively.

<sup>#</sup> 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 2016 (CONTINUED)**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

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

<u>GROUP</u> <u>2016</u>	Within <u>1 week</u> RM'000	>1 week <u>to 1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	Over <u>1 year</u> RM'000	<u>Total</u> RM'000
<u>Financial liabilities</u>							
Deposits from customers	1,980,226	1,686,281	1,082,507	871,500	764,634	56,065	6,441,213
Deposits and placements of banks and other financial institutions	820,846	226,946	-	22,723	-	302,612	1,373,127
Derivatives liabilities	58	-	107	128	-	-	293
Other liabilities	147,074	30,789	-	-	37,895	-	215,758
	<u>2,948,204</u>	<u>1,944,016</u>	<u>1,082,614</u>	<u>894,351</u>	<u>802,529</u>	<u>358,677</u>	<u>8,030,391</u>
<u>2015</u>							
<u>Financial liabilities</u>							
Deposits from customers	1,620,620	1,628,495	1,430,735	721,919	685,057	5,962	6,092,788
Deposits and placements of banks and other financial institutions	181,997	-	335,207	-	-	521,373	1,038,577
Derivatives liabilities	888	25	26	19	-	-	958
Other liabilities	169,803	8,630	-	-	25,094	-	203,527
	<u>1,973,308</u>	<u>1,637,150</u>	<u>1,765,968</u>	<u>721,938</u>	<u>710,151</u>	<u>527,335</u>	<u>7,335,850</u>



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

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

<u>BANK</u>	Within <u>1 week</u>	>1 week <u>to 1 month</u>	>1-3 <u>months</u>	>3-6 <u>months</u>	>6-12 <u>months</u>	Over <u>1 year</u>	<u>Total</u>
<u>2016</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities</u>							
Deposits from customers	1,988,742	1,686,281	1,082,507	871,500	764,634	56,065	6,449,729
Deposits and placements of banks and other financial institutions	820,846	226,946	-	22,723	-	302,612	1,373,127
Derivatives liabilities	58	-	107	128	-	-	293
Other liabilities	146,937	29,664	-	-	36,010	-	212,611
	<u>2,956,583</u>	<u>1,942,891</u>	<u>1,082,614</u>	<u>894,351</u>	<u>800,644</u>	<u>358,677</u>	<u>8,035,760</u>
<u>2015</u>							
<u>Financial liabilities</u>							
Deposits from customers	1,630,836	1,628,495	1,430,735	721,919	685,057	5,962	6,103,004
Deposits and placements of banks and other financial institutions	181,997	-	335,207	-	-	521,373	1,038,577
Derivatives liabilities	888	25	26	19	-	-	958
Other liabilities	169,623	7,450	-	-	23,500	-	200,573
	<u>1,983,344</u>	<u>1,635,970</u>	<u>1,765,968</u>	<u>721,938</u>	<u>708,557</u>	<u>527,335</u>	<u>7,343,112</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (c) Liquidity risk (Continued)

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

	<u>Less</u> <u>than 1 year</u> RM'000	<u>2016</u> <u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000	<u>Less</u> <u>than 1 year</u> RM'000	<u>2015</u> <u>Over</u> <u>1 year</u> RM'000	<u>Total</u> RM'000
Direct credit substitutes	47,930	-	47,930	80,517	-	80,517
Transaction-related contingent items	1,039,342	788,680	1,828,022	622,938	838,584	1,461,522
Short-term self-liquidating trade-related contingencies	221,700	-	221,700	64,553	-	64,553
Irrevocable commitments to extend credit	1,119,236	211,970	1,331,206	1,028,447	272,277	1,300,724
Foreign exchange related contracts	89,383	-	89,383	419,525	-	419,525
	<u>2,517,591</u>	<u>1,000,650</u>	<u>3,518,241</u>	<u>2,215,980</u>	<u>1,110,861</u>	<u>3,326,841</u>

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

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**33. FINANCIAL RISK MANAGEMENT (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 Group and the Bank take 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 Group's and the Bank's interest rate risk are monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. Sensitivity is measured using the Earnings-at-Risk ("EaR") methodology. An increase or decrease by 25 basis points, the impact of increase/decrease on the Group's and the Bank's post-tax loss for the financial year end is estimated at RM7.3 million (2015: RM5.9 million).

The Group's and the Bank's foreign exchange risk are managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The mismatch between currencies mainly arises from the Group's and the Bank's short term foreign currencies lending and borrowing. The financial impact of appreciation or depreciation by 1% for each foreign currency exposure would result in a post-tax profit/loss of RM94,000 (2015: RM62,000) to the Group and the Bank.

The Group and the Bank are exposed to commodity price risk mainly related to bullion. The Group and the Bank manage such risk together with foreign exchange risk. An increase or decrease of 1% in market price would impact the fair value by RM3,532 (2015: RM6,002).

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. 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	Non-trading book					Non-interest sensitive	Total	Effective interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years			
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>								
Cash and short-term funds	3,057,463	-	-	-	-	80,690	3,138,153	3.29
Deposits and placements with banks and other financial institutions	-	320,427	115,427	-	-	-	435,854	2.72
Derivative assets	-	-	-	-	-	334	334	
Held-to-maturity securities	-	100,974	101,117	85,957	-	-	288,048	3.48
Loans and advances								
- non-impaired	3,565,571	802,609	757,125	-	135	(35,679)	5,089,761	5.20
- impaired	111,234	-	-	-	-	(17,748)	93,486	
Other assets	-	-	-	-	-	12,491	12,491	
Deferred tax assets	-	-	-	-	-	4,738	4,738	
Property and equipment	-	-	-	-	-	52,363	52,363	
Intangible assets	-	-	-	-	-	300	300	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,900	98,900	
<b>Total assets</b>	<b>6,734,268</b>	<b>1,224,010</b>	<b>973,669</b>	<b>85,957</b>	<b>135</b>	<b>196,389</b>	<b>9,214,428</b>	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>GROUP</u> <u>2016</u>	Non-trading book					Non-interest sensitive RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000			
<b>Liabilities</b>								
Deposits from customers	2,638,894	1,077,977	1,607,474	4,926	-	1,019,963	6,349,234	3.20
Deposits and placements of banks and other financial institutions	776,403	-	22,650	285,581	-	269,826	1,354,460	2.04
Derivative liabilities	-	-	-	-	-	293	293	
Other liabilities	139,073	-	414	-	-	73,165	212,652	
Provision for taxation	-	-	-	-	-	3,081	3,081	
<b>Total liabilities</b>	<b>3,554,370</b>	<b>1,077,977</b>	<b>1,630,538</b>	<b>290,507</b>	<b>-</b>	<b>1,366,328</b>	<b>7,919,720</b>	
Total equity	-	-	-	-	-	1,294,708	1,294,708	
<b>Total liabilities and equity</b>	<b>3,554,370</b>	<b>1,077,977</b>	<b>1,630,538</b>	<b>290,507</b>	<b>-</b>	<b>2,661,036</b>	<b>9,214,428</b>	
On balance sheet - interest sensitivity gap	3,179,898	146,033	(656,869)	(204,550)	135	(2,464,647)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	3,179,898	146,033	(656,869)	(204,550)	135	(2,464,647)	-	

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>GROUP</u> <u>2015</u>	← Non-trading book →					Non-interest sensitive RM'000	<u>Total</u> RM'000	<u>Effective</u> <u>interest rate</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
<b>Assets</b>								
Cash and short-term funds	1,732,028	-	-	-	-	219,218	1,951,246	3.11
Deposits and placements with banks and other financial institutions	50,144	712,257	400,431	-	-	-	1,162,832	3.69
Derivative assets	-	-	-	-	-	2,273	2,273	
Held-to-maturity securities	40,104	-	101,362	288,167	-	-	429,633	3.40
Loans and advances								
- non-impaired	3,444,792	726,650	549,358	62	-	(34,407)	4,686,455	5.07
- impaired	43,412	-	-	-	-	(7,753)	35,659	
Other assets	-	-	-	-	-	9,095	9,095	
Deferred tax assets	-	-	-	-	-	2,866	2,866	
Property and equipment	-	-	-	-	-	43,565	43,565	
Intangible assets	-	-	-	-	-	172	172	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	128,200	128,200	
<b>Total assets</b>	<b>5,310,480</b>	<b>1,438,907</b>	<b>1,051,151</b>	<b>288,229</b>	<b>-</b>	<b>363,229</b>	<b>8,451,996</b>	

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>GROUP</u> <u>2015</u>	Non-trading book					Non-interest sensitive RM'000	<u>Total</u> RM'000	<u>Effective</u> <u>interest rate</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
<b>Liabilities</b>								
Deposits from customers	2,388,197	1,429,616	1,379,501	5,752	-	856,619	6,059,685	4.01
Deposits and placements of banks and other financial institutions	133,331	333,260	-	490,763	-	48,666	1,006,020	2.74
Derivative liabilities	-	-	-	-	-	958	958	
Other liabilities	-	-	-	-	-	202,682	202,682	
Provision for taxation	-	-	-	-	-	835	835	
<b>Total liabilities</b>	<b>2,521,528</b>	<b>1,762,876</b>	<b>1,379,501</b>	<b>496,515</b>	<b>-</b>	<b>1,109,760</b>	<b>7,270,180</b>	
Total equity	-	-	-	-	-	1,181,816	1,181,816	
<b>Total liabilities and equity</b>	<b>2,521,528</b>	<b>1,762,876</b>	<b>1,379,501</b>	<b>496,515</b>	<b>-</b>	<b>2,291,576</b>	<b>8,451,996</b>	
On balance sheet - interest sensitivity gap	2,788,952	(323,969)	(328,350)	(208,286)	-	(1,928,347)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,788,952	(323,969)	(328,350)	(208,286)	-	(1,928,347)	-	

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**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>BANK</u> <u>2016</u>	← Non-trading book →					Non-interest sensitive RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000			
<b>Assets</b>								
Cash and short-term funds	3,057,462	-	-	-	-	76,012	3,133,474	3.29
Deposits and placements with banks and other financial institutions	-	320,427	115,427	-	-	-	435,854	2.72
Derivative assets	-	-	-	-	-	334	334	
Held-to-maturity securities	-	100,974	101,117	85,957	-	-	288,048	3.48
Loans and advances								
- non-impaired	3,565,571	802,609	757,125	-	135	(35,679)	5,089,761	5.20
- impaired	111,234	-	-	-	-	(17,748)	93,486	
Other assets	-	-	-	-	-	11,682	11,682	
Deferred tax assets	-	-	-	-	-	4,553	4,553	
Property and equipment	-	-	-	-	-	50,699	50,699	
Intangible assets	-	-	-	-	-	300	300	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	98,900	98,900	
<b>Total assets</b>	<b>6,734,267</b>	<b>1,224,010</b>	<b>973,669</b>	<b>85,957</b>	<b>135</b>	<b>190,053</b>	<b>9,208,091</b>	



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>BANK</u> <u>2016</u>	Non-trading book					Non-interest sensitive RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000			
<b>Liabilities</b>								
Deposits from customers	2,638,894	1,077,977	1,607,474	4,926	-	1,028,479	6,357,750	3.20
Deposits and placements of banks and other financial institutions	776,403	-	22,650	285,581	-	269,826	1,354,460	2.04
Derivative liabilities	-	-	-	-	-	293	293	
Other liabilities	139,073	-	414	-	-	70,643	210,130	
Provision for taxation	-	-	-	-	-	2,455	2,455	
<b>Total liabilities</b>	<b>3,554,370</b>	<b>1,077,977</b>	<b>1,630,538</b>	<b>290,507</b>	<b>-</b>	<b>1,371,696</b>	<b>7,925,088</b>	
Total equity	-	-	-	-	-	1,283,003	1,283,003	
<b>Total liabilities and equity</b>	<b>3,554,370</b>	<b>1,077,977</b>	<b>1,630,538</b>	<b>290,507</b>	<b>-</b>	<b>2,654,699</b>	<b>9,208,091</b>	
On balance sheet - interest sensitivity gap	3,179,897	146,033	(656,869)	(204,550)	135	(2,464,646)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	3,179,897	146,033	(656,869)	(204,550)	135	(2,464,646)	-	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk

<u>BANK</u> <u>2015</u>	← Non-trading book →					Non-interest sensitive	<u>Total</u> RM'000	<u>Effective</u> <u>interest rate</u> %
	<u>Up to 1 month</u> RM'000	<u>&gt;1-3 months</u> RM'000	<u>&gt;3-12 months</u> RM'000	<u>&gt;1-5 years</u> RM'000	<u>Over 5 years</u> RM'000			
<b>Assets</b>								
Cash and short-term funds	1,732,028	-	-	-	-	216,567	1,948,595	3.11
Deposits and placements with banks and other financial institutions	50,144	712,257	400,431	-	-	-	1,162,832	3.69
Derivative assets	-	-	-	-	-	2,273	2,273	
Held-to-maturity securities	40,104	-	101,362	288,167	-	-	429,633	3.40
Loans and advances								
- non-impaired	3,444,792	726,650	549,358	62	-	(34,407)	4,686,455	5.07
- impaired	43,412	-	-	-	-	(7,753)	35,659	
Other assets	-	-	-	-	-	8,467	8,467	
Deferred tax assets	-	-	-	-	-	2,783	2,783	
Property and equipment	-	-	-	-	-	41,266	41,266	
Intangible assets	-	-	-	-	-	172	172	
Investment in a subsidiary	-	-	-	-	-	1,000	1,000	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	128,200	128,200	
<b>Total assets</b>	<b>5,310,480</b>	<b>1,438,907</b>	<b>1,051,151</b>	<b>288,229</b>	<b>-</b>	<b>358,568</b>	<b>8,447,335</b>	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**33. FINANCIAL RISK MANAGEMENT (CONTINUED)**

## (d) Market risk (Continued)

## Interest rate risk (Continued)

<u>BANK</u> <u>2015</u>	← Non-trading book →					Non-interest sensitive RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000			
<b>Liabilities</b>								
Deposits from customers	2,388,197	1,429,616	1,379,501	5,752	-	866,836	6,069,902	4.01
Deposits and placements of banks and other financial institutions	133,331	333,260	-	490,763	-	48,666	1,006,020	2.74
Derivative liabilities	-	-	-	-	-	958	958	
Other liabilities	-	-	-	-	-	200,551	200,551	
Provision for taxation	-	-	-	-	-	11	11	
<b>Total liabilities</b>	<b>2,521,528</b>	<b>1,762,876</b>	<b>1,379,501</b>	<b>496,515</b>	<b>-</b>	<b>1,117,022</b>	<b>7,277,442</b>	
Total equity	-	-	-	-	-	1,169,893	1,169,893	
<b>Total liabilities and equity</b>	<b>2,521,528</b>	<b>1,762,876</b>	<b>1,379,501</b>	<b>496,515</b>	<b>-</b>	<b>2,286,915</b>	<b>8,447,335</b>	
On balance sheet - interest sensitivity gap	2,788,952	(323,969)	(328,350)	(208,286)	-	(1,928,347)	-	
Off balance sheet - interest sensitivity gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	2,788,952	(323,969)	(328,350)	(208,286)	-	(1,928,347)	-	

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**33. FINANCIAL RISK MANAGEMENT (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 Group and the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk.

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

**34. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Level 1 – Quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2 – Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

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

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

## (a) Financial instruments carried at fair value

As at 31 December 2016, the Group and the Bank only have fair valued financial instruments that falls under level 2 and level 3 as listed below:

	<u>GROUP AND BANK</u>					
	<u>2016</u>			<u>2015</u>		
	Valuation Technique			Valuation Technique		
	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>Financial assets</b>						
Derivative assets	334	-	334	2,273	-	2,273
Other assets						
- Precious metal inventories	179	140	319	286	263	549
	<u>513</u>	<u>140</u>	<u>653</u>	<u>2,559</u>	<u>263</u>	<u>2,822</u>
<b>Financial liabilities</b>						
Derivative liabilities	293	-	293	958	-	958

## (i) Derivative assets and liabilities

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

## (ii) Precious metal inventories

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

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

**Movement in level 3 financial instruments measured at fair value**

The level of the fair value hierarchy of financial instruments are determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value.

	<u>GROUP AND BANK</u>	
	2016	2015
	RM'000	RM'000
<b>Other assets - precious metal inventories:</b>		
Balance at beginning of the financial year	263	-
Additions	489	860
Disposals	<u>(612)</u>	<u>(597)</u>
Balance at end of the financial year	<u>140</u>	<u>263</u>

There are no transfers between level 2 and level 3 during the current and previous financial years for the Group and the Bank.

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in level 3 of the fair value hierarchy.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

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

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

	<u>GROUP AND BANK</u>			
	2016		2015	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Financial investment held-to-maturity				
- Level 1	288,048	285,436	389,529	388,264
- Level 2	-	-	40,104	40,103
	<u>288,048</u>	<u>285,436</u>	<u>429,633</u>	<u>428,367</u>
<b>Financial liabilities</b>				
Deposits and placements of banks and other financial institutions				
- Level 3	1,354,460	1,356,437	1,006,020	1,008,023
	<u>1,354,460</u>	<u>1,356,437</u>	<u>1,006,020</u>	<u>1,008,023</u>
	<u>Group</u>			
	2016		2015	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	RM'000	RM'000	RM'000	RM'000
<b>Financial liabilities</b>				
Deposits from customers				
- Level 2	6,349,234	6,349,236	6,059,685	6,059,685
	<u>6,349,234</u>	<u>6,349,236</u>	<u>6,059,685</u>	<u>6,059,685</u>
	<u>Bank</u>			
	2016		2015	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	RM'000	RM'000	RM'000	RM'000
<b>Financial liabilities</b>				
Deposits from customers				
- Level 2	6,357,750	6,357,752	6,069,902	6,069,902
	<u>6,357,750</u>	<u>6,357,752</u>	<u>6,069,902</u>	<u>6,069,902</u>

## (i) Held-to-maturity securities

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

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

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

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

(iii) Deposits from customers

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

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

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

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

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

**35. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group'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.

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.



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**35. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

Allowance for impairment on loans and advances

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

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

The amounts of allowances for impairment on loans and advances recognised by the Group and the Bank are as disclosed in Note 6.

Fair value of financial instruments

The majority of the Group's and the Bank's financial instruments reported at fair value are based on quoted and observable market prices. Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more details in Note 34.

**36. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors 5 May 2017.