

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

INTERIM FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	Group		Bank	
		30 June 2018 RM'000	31 December 2017 RM'000	30 June 2018 RM'000	31 December 2017 RM'000
ASSETS					
Cash and short-term funds	9	3,326,539	3,078,382	3,323,321	3,077,307
Deposits and placements with banks and other financial institutions	10	2,301,329	1,642,620	2,301,329	1,642,620
Derivative financial assets	11	2,827	275	2,827	275
Debt instruments at fair value through other comprehensive income ("FVOCI")	12	404,223	-	404,223	-
Equity instrument at FVOCI	13	3,220	-	3,220	-
Debt instruments at amortised cost	14	290,526	-	290,526	-
Financial investments available-for-sale	15	-	409,228	-	409,228
Financial investments held-to-maturity	16	-	1,321,890	-	1,321,890
Loans and advances	17	6,557,459	5,881,389	6,557,459	5,881,389
Other assets	18	5,567	13,875	5,120	4,942
Deferred tax assets		18,201	5,997	18,081	5,807
Statutory deposits with Bank Negara Malaysia		98,200	112,300	98,200	112,300
Investment in a subsidiary		-	-	1,000	1,000
Property and equipment		60,799	62,678	59,485	61,040
Intangible assets		909	722	909	722
TOTAL ASSETS		13,069,799	12,529,356	13,065,700	12,518,520
LIABILITIES AND EQUITY					
Deposits from customers	19	8,429,121	8,223,878	8,434,468	8,230,906
Deposits and placements of banks and other financial institutions	20	1,807,740	1,465,999	1,807,740	1,465,999
Derivative financial liabilities	11	3,051	126	3,051	126
Other liabilities	21	120,570	166,286	118,067	163,435
Provision for taxation		6,200	1,000	5,700	500
Subordinated loan	22	1,258,511	1,258,626	1,258,511	1,258,626
TOTAL LIABILITIES		11,625,193	11,115,915	11,627,537	11,119,592
Share capital		760,518	760,518	760,518	760,518
Reserves		684,088	652,923	677,645	638,410
TOTAL EQUITY		1,444,606	1,413,441	1,438,163	1,398,928
TOTAL LIABILITIES AND EQUITY		13,069,799	12,529,356	13,065,700	12,518,520
COMMITMENTS AND CONTINGENCIES	29	5,444,786	4,724,674	5,444,786	4,724,674

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017

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

INTERIM FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	2nd Quarter Ended		Six Months Ended	
		30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Group					
Interest income	23	131,911	104,653	257,601	199,442
Interest expense	24	(72,485)	(54,441)	(134,347)	(100,581)
Net interest income		59,426	50,212	123,254	98,861
Other operating income	25	26,545	18,496	51,940	44,324
Other operating expenses	26	(35,053)	(26,981)	(68,254)	(52,777)
Operating profit before allowance for expected credit losses		50,918	41,727	106,940	90,408
Allowance for impairment on loans and advances	27	-	(17,305)	-	(18,592)
Allowance for expected credit losses on:					
- Financial assets measured at amortised cost	27	(1,876)	-	(6,201)	-
- Commitments and contingencies	27	(2,682)	-	(4,245)	-
Profit before taxation		46,360	24,422	96,494	71,816
Taxation		(15,688)	(6,699)	(26,917)	(18,209)
Profit for the financial period		30,672	17,723	69,577	53,607
Other comprehensive income:					
<i>Items that will not be reclassified subsequently to profit or loss when specific conditions are met:</i>					
- Net fair value changes in debt instrument at FVOCI, net of tax		(525)	(308)	(1,371)	(308)
Other comprehensive income, net of tax		(525)	(308)	(1,371)	(308)
Total comprehensive income for the period, net of tax		30,147	17,415	68,206	53,299
Earnings per share					
- Basic/fully diluted (sen)		4.03	2.33		

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	2nd Quarter Ended		Six Months Ended	
		30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Bank					
Interest income	23	131,911	104,653	257,601	199,442
Interest expense	24	(72,485)	(54,441)	(134,347)	(100,581)
Net interest income		59,426	50,212	123,254	98,861
Other operating income	25	35,069	24,775	53,724	45,196
Other operating expenses	26	(33,051)	(25,460)	(64,291)	(49,643)
Operating profit before allowance for expected credit losses		61,444	49,527	112,687	94,414
Allowance for impairment on loans and advances	27	-	(17,305)	-	(18,592)
Allowance for expected credit losses on:					
- Financial assets measured at amortised cost	27	(1,876)	-	(6,201)	-
- Commitments and contingencies	27	(2,682)	-	(4,245)	-
Profit before taxation		56,886	32,222	102,241	75,822
Taxation		(14,492)	(5,573)	(24,596)	(16,333)
Profit for the financial period		42,394	26,649	77,645	59,489
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss when specific conditions are met:					
- Net fair value changes in debt instrument at FVOCI, net of tax		(525)	(308)	(1,371)	(308)
Other comprehensive income, net of tax		(525)	(308)	(1,371)	(308)
Total comprehensive income for the period, net of tax		41,869	26,341	76,274	59,181

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017

BANK OF CHINA (MALAYSIA) BERHAD (511251-V)
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INTERIM FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018

	←		Non-distributable			→		
	Share capital	Statutory reserve	Revaluation reserve	Fair value through other comprehensive reserve	Regulatory reserve	Retained profits	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Group								
Balance as at 31 December 2017	760,518	-	1,163	-	30,067	621,693	1,413,441	
Effect of adopting MFRS 9 <i>Financial Instruments</i>	-	-	(1,163)	1,163	-	(37,625)	(37,625)	
Effect of adopting MFRS 9 <i>Financial Instruments - OCI</i>	-	-	-	584	-	-	584	
1 January 2018, as restated	760,518	-	-	1,747	30,067	584,068	1,376,400	
Profit for the financial period	-	-	-	-	-	69,577	69,577	
Other comprehensive income, net of tax	-	-	-	(1,371)	-	-	(1,371)	
Total comprehensive income for the financial period, net of tax	-	-	-	(1,371)	-	69,577	68,206	
At 30 June 2018	760,518	-	-	376	30,067	653,645	1,444,606	
Balance as at 1 January 2017	760,518	279,786	-	-	26,948	227,456	1,294,708	
Profit for the financial period	-	-	-	-	-	53,607	53,607	
Other comprehensive income, net of tax	-	-	(308)	-	-	-	(308)	
Total comprehensive income for the financial period	-	-	(308)	-	-	53,607	53,299	
Transfer to regulatory reserve	-	-	-	-	(13,457)	13,457	-	
At 30 June 2017	760,518	279,786	(308)	-	13,491	294,520	1,348,007	

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018

	←	Non-distributable			→	Distributable		
	Share capital	Statutory reserve	Revaluation reserve	Fair value through other comprehensive reserve	Regulatory reserve	Retained profits	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
Balance as at 31 December 2017	760,518	-	1,163	-	30,067	607,180	1,398,928	
Effect of adopting MFRS 9 <i>Financial Instruments</i>	-	-	(1,163)	1,163	-	(37,623)	(37,623)	
Effect of adopting MFRS 9 <i>Financial Instruments - OCI</i>	-	-	-	584	-	-	584	
1 January 2018, as restated	760,518	-	-	1,747	30,067	569,557	1,361,889	
Profit for the financial period	-	-	-	-	-	77,645	77,645	
Other comprehensive income, net of tax	-	-	-	(1,371)	-	-	(1,371)	
Total comprehensive income for the financial period, net of tax	-	-	-	(1,371)	-	77,645	76,274	
At 30 June 2018	760,518	-	-	376	30,067	647,202	1,438,163	
Balance as at 1 January 2017	760,518	279,786	-	-	26,948	215,751	1,283,003	
Profit for the financial period	-	-	-	-	-	59,489	59,489	
Other comprehensive income, net of tax	-	-	(308)	-	-	-	(308)	
Total comprehensive income for the financial period	-	-	(308)	-	-	59,489	59,181	
Transfer to regulatory reserve	-	-	-	-	(13,457)	13,457	-	
At 30 June 2017	760,518	279,786	(308)	-	13,491	288,697	1,342,184	

The Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017

BANK OF CHINA (MALAYSIA) BERHAD (511251-V)
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INTERIM FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Group		Bank	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Note				
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	96,494	71,816	102,241	75,822
<i>Adjustment for:</i>				
Depreciation of property and equipment	3,384	1,789	3,040	1,503
Amortisation of intangible assets	211	91	211	91
Amortisation of premium less accretion of discount	681	155	681	155
Credit impairment losses/allowance for ECL losses on loans and advances	10,446	18,592	10,446	18,592
Interest income from financial investments held-to-maturity	-	(8,300)	-	(8,300)
Interest income from financial investments available-for-sale	-	(423)	-	(423)
Interest income from financial assets at FVOCI	(7,332)	-	(7,332)	-
Interest income from debt instruments at amortised cost	(14,013)	-	(14,013)	-
Interest expense on subordinated loan	13,634	-	13,634	-
Unrealised foreign exchange loss	(2,443)	2,063	(2,443)	2,063
Net loss on revaluation of derivatives	373	548	373	548
Property and equipment written off	12	405	11	405
Dividend income	-	-	(14,500)	(11,650)
Operating profit before changes in operating activities	101,447	86,736	92,349	78,806
(INCREASE)/ DECREASE IN OPERATING ASSETS				
Deposits and placements with banks and other financial institutions	(658,830)	(116,351)	(658,830)	(116,351)
Loans and advances	(731,710)	146,871	(731,710)	146,871
Other assets	12,960	5,253	4,477	5,110
Statutory deposits with Bank Negara Malaysia	14,100	(2,200)	14,100	(2,200)
INCREASE/(DECREASE) IN OPERATING LIABILITIES				
Deposits from customers	205,243	2,640,755	203,562	2,637,922
Deposits and placements of banks and other financial institutions	341,741	(562,687)	341,741	(562,687)
Other liabilities	(49,878)	(3,029)	(49,530)	(3,224)
Subordinated loan	(2,325)	-	(2,325)	-
Cash (used in)/ generated from operating activities	(767,252)	2,195,348	(786,166)	2,184,247
Taxes paid	(24,000)	(19,500)	(21,750)	(18,000)
Net cash (used in)/generated from operating activities	(791,252)	2,175,848	(807,916)	2,166,247

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Group		Bank	
	30 June 2018	30 June <u>2017</u>	30 June 2018	30 June <u>2017</u>
Note	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(1,517)	(6,824)	(1,496)	(6,824)
Proceeds from disposal of property and equipment	-	3	-	-
Purchase of intangible assets	(398)	(116)	(398)	(116)
Purchases of financial investments available-for-sale	-	(405,484)	-	(405,484)
Purchases of financial investments held-to-maturity	-	(1,350,000)	-	(1,350,000)
Purchases of debt instruments at amortised cost	(1,530,000)	-	(1,530,000)	-
Proceeds from maturity of debt instruments at amortised cost	2,555,000	100,000	2,555,000	100,000
Interest received on debts instruments at amortised cost	20,386	-	20,386	-
Interest received on financial investments held-to-maturity	-	5,714	-	5,714
Interest received on debt instruments at FVOCI	7,389	-	7,389	-
Dividend income received from subsidiary	-	-	14,500	11,650
Net cash generated from investing activities	1,050,860	(1,656,707)	1,065,381	(1,645,060)
CASH FLOW FROM FINANCING ACTIVITY				
Interest paid on subordinated loan	(11,424)	-	(11,424)	-
Net cash generated from financing activity	(11,424)	-	(11,424)	-
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL PERIOD				
	248,184	519,141	246,041	521,187
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD				
	3,078,355	3,138,153	3,077,280	3,133,474
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD				
9	3,326,539	3,657,294	3,323,321	3,654,661

**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2018**

1 Review of Performance and Commentary of Prospects

For the first six months ended 30 June 2018, the Group recorded profit before taxation of RM96.5 million, an increase of 34.4% compared to the corresponding period of 2017. The profit growth was mainly due to higher net interest income from the growth in loans and advances, money market activities and higher other operating income. Cost of operation has also higher compared to 2017.

The Group's total assets grew 4.3% to RM13.07 billion. The assets growth was mainly due to higher loan and advances and deposits and placements with banks and other financial institutions.

The Malaysia economic growth is expected to be slower in year 2018, the removal of the goods and services tax could boost private consumption and benefit domestic business in the near term. Government consumption is likely suffer from cancellation of approved projects. GDP should remain resilient on the back of strong private consumption growth.

The Bank will continue to grab the opportunity on trade relationship between China and Malaysia along with the Belt and Road Initiative to attract investment from China and focusing on potential Malaysian Chinese business enterprises. As a Renminbi ("RMB") Onshore Settlement Institution ("OSI") and offshore RMB clearing Bank, the Bank will aggressively promote RMB International Business.

2 Group Accounting Policies

A BASIS OF PREPARATION

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

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

The summary statements of financial position and summary statements of changes in equity should be read in conjunction with the audited annual financial statements of the Group and the Bank for the financial year ended 31 December 2017.

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

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

The adoption of MFRS 9 *Financial Instruments* has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of assets.

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

2 Group Accounting Policies (Continued)

B CHANGES IN ACCOUNTING POLICIES

(a) Financial Assets - Classification and Measurements

New Classification Under MFRS 9

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

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

New Measurement Under MFRS 9

- 1) FVOCI applies to debt instruments with contractual cash flows characteristic that are solely payments of principal and interest and business model whose objective is to both collect contractual cash flows and selling of financial assets.
- 2) Amortised cost applies to debt instruments with contractual cash flows characteristics that are sole payment of principal and interest and business model whose objective is to hold to collect contractual cash flows.
- 3) The table below summarises the measurement basis of the Group's and the Bank's financial assets and liabilities in accordance with MFRS139 and MFRS9 as at 1 January 2018:

	Measurement Category	
	Group and Bank	
	MFRS 139	MFRS 9
<u>Financial assets</u>		
Cash and short-term funds	Amortised cost	Amortised cost
Deposits and placements with banks and financial institutions	Amortised cost	Amortised cost
Derivative financial assets	FVTPL	FVTPL
Financial investments available-for-sale (Debt instruments)	FVOCI	FVOCI (with recycling)
Financial investments available-for-sale (Equity instrument)	Cost	FVOCI (no recycling)
Financial investments held-to-maturity	Amortised cost	Amortised cost
Financial assets at FVTPL	FVTPL	FVTPL
Loans and advances	Amortised cost	Amortised cost
Other assets	Amortised cost	Amortised cost
Statutory deposits with Bank Negara Malaysia	Amortised cost	Amortised cost
<u>Financial liabilities</u>		
Deposits from customers	Amortised cost	Amortised cost
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost
Derivative financial liabilities	FVTPL	FVTPL
Other liabilities	Amortised cost	Amortised cost
Subordinated loan	Amortised cost	Amortised cost

**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2018**

2 Group Accounting Policies (Continued)

B CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

- 1) The adoption of MFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing MFRS 139's incurred loss approach with a forward-looking expected credit losses ("ECL") approach. MFRS 9 requires the Bank to record an allowance for ECL for all loans and other debt financial assets not held at fair value through profit or loss ("FVTPL"), together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired ("POCI"), the allowance is based on the change in the ECL over the life of the asset.
- 2) Cash and short term funds, securities purchased under resale agreement, deposit and placement with financial institutions, loans and advances and statutory deposits with Bank Negara Malaysia that have previously been measured as loans and receivables are now measured as amortised cost. The Group and the Bank intend to hold these assets to maturity to collect contractual cash flow.
- 3) Debt instruments that were previously classified as available-for-sale and carried at fair value were assessed to have a business model of both collecting contractual cash flows and selling financial assets, and accordingly, are classified as FVOCI under MFRS 9.
- 4) The Group and the Bank have elected to apply FVOCI option for its equity instrument (mainly unquoted shares) that was previously classified as AFS at cost. The asset will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses to profit or loss.

(b) Financial Assets - Impairment

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

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

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

2 Group Accounting Policies (Continued)

Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9

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

Summary statement of financial position as at 1 January 2018

GROUP	31 December 2017 RM'000	Restatement upon adoption of MFRS 9			1 January 2018 RM'000
		Classification & measurement RM'000	Expected credit losses RM'000	Tax effects RM'000	
ASSETS					
Cash and short-term funds	3,078,382	-	(27)	-	3,078,355
Deposits and placements with banks and other financial institutions	1,642,620	-	(121)	-	1,642,499
Derivative financial assets	275	-	-	-	275
Debt instruments at FVOCI	-	406,776	-	-	406,776
Equity instrument at FVOCI	-	3,220	-	-	3,220
Debt instruments at amortised cost	-	1,321,890	-	-	1,321,890
Financial investments available-for-sale	409,228	(409,228)	-	-	-
Financial investments held-to-maturity	1,321,890	(1,321,890)	-	-	-
Loans and advances	5,881,389	-	(45,194)	-	5,836,195
Other assets	13,875	-	(3)	-	13,872
Deferred tax assets	5,997	-	-	11,698	17,695
Statutory deposits with Bank Negara Malaysia	112,300	-	-	-	112,300
Investment in a subsidiary	-	-	-	-	-
Property and equipment	62,678	-	-	-	62,678
Intangible assets	722	-	-	-	722
TOTAL ASSETS	12,529,356	768	(45,345)	11,698	12,496,477
LIABILITIES AND EQUITY					
Deposits from customers	8,223,878	-	-	-	8,223,878
Deposits and placements of banks and other financial institutions	1,465,999	-	-	-	1,465,999
Derivative financial liabilities	126	-	-	-	126
Other liabilities	166,286	-	4,162	-	170,448
Provision for taxation	1,000	-	-	-	1,000
Subordinated loan	1,258,626	-	-	-	1,258,626
TOTAL LIABILITIES	11,115,915	-	4,162	-	11,120,077
Share capital	760,518	-	-	-	760,518
Reserves	652,923	768	(49,507)	11,698	615,882
TOTAL EQUITY	1,413,441	768	(49,507)	11,698	1,376,400
EQUITY	12,529,356	768	(45,345)	11,698	12,496,477

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

2 Group Accounting Policies (Continued)

Reconciliation of summary of financial position balances from MFRS 139 to MFRS 9 (Continued)

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

Summary statement of financial position as at 1 January 2018 (continued)

BANK	31 December 2017 RM'000	Restatement upon adoption of MFRS 9			1 January 2018 RM'000
		Classification & measurement RM'000	Expected credit losses RM'000	Tax effects RM'000	
ASSETS					
Cash and short-term funds	3,077,307	-	(27)	-	3,077,280
Deposits and placements with banks and other financial institutions	1,642,620	-	(121)	-	1,642,499
Derivative financial assets	275	-	-	-	275
Debt instruments at FVOCI	-	406,776	-	-	406,776
Equity instrument at FVOCI	-	3,220	-	-	3,220
Debt instruments at amortised cost	-	1,321,890	-	-	1,321,890
Financial investments available-for-sale	409,228	(409,228)	-	-	-
Financial investments held-to-maturity	1,321,890	(1,321,890)	-	-	-
Loans and advances	5,881,389	-	(45,194)	-	5,836,195
Other assets	4,942	-	-	-	4,942
Deferred tax assets	5,807	-	-	11,697	17,504
Statutory deposits with Bank Negara Malaysia	112,300	-	-	-	112,300
Investment in a subsidiary	1,000	-	-	-	1,000
Property and equipment	61,040	-	-	-	61,040
Intangible assets	722	-	-	-	722
TOTAL ASSETS	12,518,520	768	(45,342)	11,697	12,485,643
LIABILITIES AND EQUITY					
Deposits from customers	8,230,906	-	-	-	8,230,906
Deposits and placements of banks and other financial institutions	1,465,999	-	-	-	1,465,999
Derivative financial liabilities	126	-	-	-	126
Other liabilities	163,435	-	4,162	-	167,597
Provision for taxation	500	-	-	-	500
Subordinated loan	1,258,626	-	-	-	1,258,626
TOTAL LIABILITIES	11,119,592	-	4,162	-	11,123,754
Share capital	760,518	-	-	-	760,518
Reserves	638,410	768	(49,504)	11,697	601,371
TOTAL EQUITY	1,398,928	768	(49,504)	11,697	1,361,889
TOTAL LIABILITIES AND EQUITY	12,518,520	768	(45,342)	11,697	12,485,643

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

2 Group Accounting Policies (Continued)

Changes in accounting policies (continued)

The Group and the Bank will apply the following standards from financial years beginning on or after 1 January 2018:

- Clarifications to MFRS 15: Revenue from Contracts with Customers
- Amendments to MFRS 140: Transfers of Investment Property
- Annual Improvements to MFRS Standards 2014-2016 Cycle
- Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions
- MFRS 15: Revenue from Contracts with Customers
- IC Int 22: Foreign Currency Transactions and Advance Consideration

Standards issued but not yet effective

The Group and the Bank will apply the following standards from financial years beginning on or after 1 January 2018:

- IC Int 23: Uncertainty over Income Tax Treatments
- MFRS 16: Leases

IC Int 23: Uncertainty over Income Tax Treatments

The Interpretation specifically addresses the following:

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

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

MFRS 16 Leases

MFRS 16 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.

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

3 Audit Report

The audit report for the financial year ended 31 December 2017 was not subject to any qualification.

4 Seasonal or Cyclical Factors

The business operations of the Bank have not been affected by any material seasonal cyclical factors.

5 Exceptional or Extraordinary Items

There were no exceptional or extraordinary items in the six months ended 30 June 2018.

6 Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect in the six months ended 30 June 2018.

7 Changes in Debt and Equity Securities

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

8 Dividend paid

No dividend was paid during the six months ended 30 June 2018.

9 Cash and short-term funds

	Group		Bank	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	157,795	195,620	154,577	194,545
Money at call and deposit placements maturing within one month	3,168,770	2,882,762	3,168,770	2,882,762
	3,326,565	3,078,382	3,323,347	3,077,307
Less: allowance for ECL	(26)	-	(26)	-
	3,326,539	3,078,382	3,323,321	3,077,307

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

9 Cash and short-term funds (continued)

Movements in loss allowance for ECL on Cash and short-term funds

	Group/Bank	
	30 June 2018	31 December 2017
	RM'000	RM'000
As at 31 December 2017	-	-
Effect of adopting MFRS 9 <i>Financial Instruments</i>	27	-
1 January 2018, as restated	27	-
Charged to income statement :		
(Decrease)/Increase in ECL	(1)	-
At end of the financial period	26	-

10 Deposits and placements with banks and other financial institutions

	Group and Bank	
	30 June 2018	31 December 2017
	RM'000	RM'000
Bank Negara Malaysia	180,033	-
Licensed banks	2,121,301	1,642,620
	2,301,334	1,642,620
Less: allowance for ECL	(5)	-
	2,301,329	1,642,620

Movements in loss allowance for ECL on Deposits and placements with banks and other financial institutions

	Group/Bank	
	30 June 2018	31 December 2017
	RM'000	RM'000
As at 31 December 2017	-	-
Effect of adopting MFRS 9 <i>Financial Instruments</i>	121	-
1 January 2018, as restated	121	-
Charged to income statement :		
(Decrease)/Increase in ECL	(116)	-
At end of the financial period	5	-

11 Derivative Financial Assets/(Liabilities)

	Group and Bank	
	30 June 2018	31 December 2017
	RM'000	RM'000
Derivative financial assets	2,827	275
Derivative financial liabilities	(3,051)	(126)
	(224)	149

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

12 Debt instruments at fair value through other comprehensive income

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Money market instrument:		
Malaysian Government Securities	404,223	-
	404,223	-

13 Equity instrument at fair value through other comprehensive income

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Unquoted shares in Malaysia	3,220	-
	3,220	-

14 Debt instruments at amortised cost

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Money market instrument:		
Negotiable instruments of deposits	290,526	-
	290,526	-

15 Financial investments available-for-sale

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
At fair value		
Money market instrument:		
Malaysian Government Securities	-	406,776
At cost		
Unquoted shares in Malaysia	-	2,452
	-	409,228

**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2018**

16 Financial investments held-to-maturity

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	-	85,984
Negotiable instruments of deposits	-	1,235,906
	<u>-</u>	<u>1,321,890</u>

17 Loans and advances

At amortised cost

(i) By type

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Overdrafts	558,235	675,435
Terms loans		
- Housing loans	340,393	313,029
- Syndicated term loans	2,353,688	1,462,576
- Other term loans	1,444,662	1,456,743
Bills receivables	168,678	307,169
Trust receipts	44,824	33,779
Claims on customers under acceptance credits	610,253	556,804
Revolving credits	1,169,103	1,157,039
Staff loans	2,125	2,115
Gross loans and advances	<u>6,691,961</u>	<u>5,964,689</u>
Less: Loss allowance for ECL/impairment on loans and advances		
- Allowance for ECL	(134,502)	-
- Individual impairment allowance	-	(42,298)
- Collective impairment allowance	-	(41,002)
Total net loans and advances	<u>6,557,459</u>	<u>5,881,389</u>

(ii) By geographical distribution

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Malaysia	4,974,142	4,551,199
Other countries	1,717,819	1,413,490
Gross loans and advances	<u>6,691,961</u>	<u>5,964,689</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

17 Loans and advances (continued)

At amortised cost (continued)

(iii) By interest rate sensitivity

	Group and Bank	
	30 June	31 December
	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Fixed rate		
- Other fixed rate loans	1,210,622	1,301,585
Variable rate		
- Base Rate/Base Lending Rate plus	1,974,485	2,157,403
- Cost of funds plus	3,197,188	2,505,702
- Other variable rates	309,666	-
Gross loans and advances	<u>6,691,961</u>	<u>5,964,689</u>

(iv) By economic sector

	Group and Bank	
	30 June	31 December
	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Primary agriculture	600,614	488,950
Mining and quarrying	445,765	56,025
Manufacturing	1,194,786	1,190,232
Electricity, gas and water supply	142,385	262,471
Construction	297,800	368,711
Real estate	1,540,255	1,261,115
Wholesale and retail trade and restaurants and hotels	303,125	319,462
Transport, storage and communication	175,040	197,958
Finance, insurance and business services	902,792	843,737
Education, health and others	271,344	86,750
Household	818,055	889,278
	<u>6,691,961</u>	<u>5,964,689</u>

(v) By residual contractual maturity

	Group and Bank	
	30 June	31 December
	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Up to one month	1,549,802	1,368,043
More than one month to three months	682,840	1,081,217
More than three months to six months	289,403	348,739
More than six months to twelve months	595,604	42,320
More than twelve months	3,574,312	3,124,370
Gross loans and advances	<u>6,691,961</u>	<u>5,964,689</u>

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

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

17 Loans and advances (continued)

(vi) Changes in gross loans and advances carrying amount

Group and Bank
30 June 2018

	12 months ECL (Stage 1) RM'000	Lifetime ECL (not credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Total RM'000
As at 31 December 2017	-	-	-	-
Effect of adopting MFRS 9 <i>Financial Instruments</i>	4,971,176	895,748	97,765	5,964,689
As at 1 January 2018, restated	4,971,176	895,748	97,765	5,964,689
Transfer to lifetime ECL not credit impaired	(337,731)	337,731	-	-
Transferred to 12-month ECL	86,668	(86,668)	-	-
Transferred to lifetime ECL credit impaired	(3,638)	(3,942)	7,580	-
Loans derecognised during the period (other than write-offs)	(1,272,823)	(247,329)	(395)	(1,520,547)
New loans/financing originated or purchased	2,102,602	143,191	2,336	2,248,129
Bad debts written off	-	-	(310)	(310)
Gross carrying amount as at 30 June 2018	5,546,254	1,038,731	106,976	6,691,961

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

17 Loans and advances (continued)

(vii) Impaired loans and advances

Movements in impaired loans and advances

	<u>Group and Bank</u>
	31 December
	<u>2017</u>
	RM'000
At 1 January	111,234
Classified as impaired during the year	62,248
Reclassified as performing during the year	-
Amount recovered	(72,287)
Reclassified as non-impaired	(3,430)
As at 31 December	<u>97,765</u>
Individual impairment allowance	(42,298)
Net impaired loans and advances	<u><u>55,467</u></u>
Ratio of net impaired loans and advances to gross loans and advances less individual allowance for impairment	0.937%

(ix) Lifetime ECL Credit Impaired/Impaired loans and advances

(a) By geographical

	<u>Group and Bank</u>	
	<u>30 June</u>	31 December
	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Malaysia	<u>106,976</u>	<u>97,765</u>

(b) By economic sector

	<u>Group and Bank</u>	
	<u>30 June</u>	31 December
	<u>2018</u>	<u>2017</u>
	RM'000	RM'000
Manufacturing	65,580	63,554
Construction	3,341	-
Wholesale and retail trade and restaurants and hotels	22,211	21,684
Transport, storage and communication	-	312
Finance, insurance and business services	-	305
Household	11,548	7,649
Real estate	4,296	4,261
	<u>106,976</u>	<u>97,765</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

17 Loans and advances (continued)

(x) Movements in loss allowance for ECL on Loans and Advances measured at amortised cost

Loans & advances - changes in ECL

Group and Bank
30 June 2018

	12 months ECL (Stage 1) RM'000	Lifetime ECL (not credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Total RM'000
As at 31 December 2017	-	-	-	41,002	42,298	83,300
Effect of adopting MFRS 9 <i>Financial Instruments</i>	29,456	45,216	53,822	(41,002)	(42,298)	45,194
1 January 2018, as restated	29,456	45,216	53,822	-	-	128,494
Transfer to lifetime ECL not credit impaired	(3,543)	3,543	-	-	-	-
Transferred to 12 months ECL	1,790	(1,790)	-	-	-	-
Transferred to lifetime ECL credit impaired	(12)	(185)	197	-	-	-
Loans derecognised during the period (other than write-offs)	(2,220)	(1,828)	-	-	-	(4,048)
New loans ECL	6,257	1,788	-	-	-	8,045
Changes due to change in credit risk	(7,047)	2,168	7,200	-	-	2,321
Amounts written off	-	-	(310)	-	-	(310)
Gross carrying amount as at 30 June 2018	24,681	48,912	60,909	-	-	134,502

* The opening balance for the collective impairment allowance measured under MFRS 139 is now presented as 12-months and lifetime expected credit losses following the adoption of MFRS 9, with no restatement to prior period comparatives.

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

17 Loans and advances (continued)

(x) Movements in allowance for impairment for loans and advances

	Group and Bank
	31 December
	<u>2017</u>
	RM'000
<u>Individual impairment allowance</u>	
At 1 January	17,748
Allowance made during the financial year	37,379
Amount written back during the financial year	(12,829)
As at 31 December	<u>42,298</u>
<u>Collective impairment allowance</u>	
At 1 January	35,679
Allowance made during the financial year	6,389
Exchange differences	(1,066)
As at 31 December	<u>41,002</u>

18 Other assets

	<u>Group</u>		<u>Bank</u>	
	<u>30 June</u>	31 December	<u>30 June</u>	31 December
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	RM'000	RM'000	RM'000	RM'000
Other receivables	1,656	9,775	1,629	1,263
Sundry deposits	2,922	3,020	2,507	2,604
Prepayment	789	705	784	700
Precious metal inventories, at fair value	200	375	200	375
	<u>5,567</u>	<u>13,875</u>	<u>5,120</u>	<u>4,942</u>

19 Deposits from customers

(i) By type of deposits

	<u>Group</u>		<u>Bank</u>	
	<u>30 June</u>	31 December	<u>30 June</u>	31 December
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	RM'000	RM'000	RM'000	RM'000
Demand deposits	3,911,912	3,748,059	3,917,259	3,755,087
Savings deposits	217,378	198,438	217,378	198,438
Fixed deposits	4,097,392	4,075,045	4,097,392	4,075,045
Negotiable instruments of deposits	202,439	202,336	202,439	202,336
	<u>8,429,121</u>	<u>8,223,878</u>	<u>8,434,468</u>	<u>8,230,906</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

19 Deposits from customers (continued)

(ii) Maturity structure of fixed deposits and negotiable instruments of deposits are as follows:

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Due within six months	2,589,284	3,470,608
Six months to one year	1,705,337	803,484
One year to three years	5,210	3,289
	<u>4,299,831</u>	<u>4,277,381</u>

(iii) By type of customers

	Group		Bank	
	30 June	31 December	30 June	31 December
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	-	4,113	-	4,113
Business enterprises	4,603,576	4,645,161	4,608,923	4,652,189
Individuals	2,739,329	2,437,060	2,739,329	2,437,060
Others	1,086,216	1,137,544	1,086,216	1,137,544
	<u>8,429,121</u>	<u>8,223,878</u>	<u>8,434,468</u>	<u>8,230,906</u>

20 Deposits and placements of banks and other financial institutions

	Group and Bank	
	30 June	31 December
	2018	2017
	RM'000	RM'000
Bank Negara Malaysia	44,471	45,227
Licensed banks	1,762,917	1,419,335
Licensed investment banks	128	282
Licensed Islamic banks	221	1,152
Other financial institutions	3	3
	<u>1,807,740</u>	<u>1,465,999</u>

21 Other liabilities

	Group		Bank	
	30 June	31 December	30 June	31 December
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Accrued expenses	13,222	32,978	12,238	31,866
Margin deposits	45,651	67,599	45,651	67,599
Other liabilities	53,290	65,709	51,771	63,970
Allowance for ECL on commitments and contingencies	8,407	-	8,407	-
	<u>120,570</u>	<u>166,286</u>	<u>118,067</u>	<u>163,435</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

21 Other liabilities (continued)

Movements in allowance for ECL on commitment and contingencies

	Group and Bank			Total
	30 June 2018			
	12 months ECL (Stage 1) RM'000	Lifetime ECL (not credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	RM'000
As at 31 December 2017	-	-	-	-
Effect of adopting MFRS 9				
<i>Financial Instruments</i>	3,720	441	1	4,162
1 January 2018, as restated	3,720	441	1	4,162
Transfer to lifetime ECL not credit impaired	(287)	287	-	-
Transferred to 12 months ECL	264	(264)	-	-
Loans derecognised during the period (other than write-offs)	(203)	(85)	-	(288)
New loans/financing originated or purchased	4,539	115	-	4,654
Changes due to change in credit risk	(69)	(52)	-	(121)
Gross carrying amount as at 30 June 2018	7,964	442	1	8,407

22 Subordinated loan

	GROUP AND BANK	
	30 June 2018 RM'000	31 December 2017 RM'000
At cost	1,254,725	1,254,725
Interest accrued	6,111	3,901
Foreign exchange difference	(2,325)	-
	1,258,511	1,258,626

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

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

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

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

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

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

23 Interest income

	2nd Quarter Ended		Six Months Ended	
	Group and Bank		Group and Bank	
	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income on non-credit impaired loans	76,426	64,782	144,628	129,166
- Interest income on credit impaired loans	35	479	1,998	1,416
Money at call and deposit placement with financial institutions	47,770	33,081	90,311	60,292
Debt instruments at FVOCI	3,666	-	7,332	-
Debt instruments at amortised cost	4,352	-	14,013	-
Financial investments held-to-maturity	-	5,883	-	8,300
Financial investments available-for-sale	-	423	-	423
	132,249	104,648	258,282	199,597
Amortisation of premium less accretion of discount	(338)	5	(681)	(155)
Total interest income	131,911	104,653	257,601	199,442

24 Interest Expense

	2nd Quarter Ended		Six Months Ended	
	Group and Bank		Group and Bank	
	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	5,379	4,853	10,164	9,336
Deposits from customers	59,246	49,355	110,244	90,718
Subordinated loan	7,719	-	13,634	-
Others	141	233	305	527
	72,485	54,441	134,347	100,581

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

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

25 Other operating income

	2nd Quarter Ended		Six Months Ended	
	30 June	30 June	30 June	30 June
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	RM'000	RM'000	RM'000	RM'000
Group				
Fees income:				
- Fee on loans and advances	5,267	3,368	12,802	8,846
- Service charges and fees	11,384	9,263	23,501	18,676
- Guarantee fees	5,510	3,791	8,472	9,101
	22,161	16,422	44,775	36,623
Fees expense:				
- Commission related expenses	(4,557)	(2,957)	(8,963)	(5,917)
Net fee income	17,604	13,465	35,812	30,706
Foreign exchange income/(loss):				
- Realised	9,985	5,822	18,621	15,924
- Unrealised	(4,439)	(2,025)	(2,443)	(2,063)
Net loss on revaluation of derivatives	3,288	1,040	(373)	(548)
Sale of precious metal	98	182	301	286
Other income	9	12	22	19
	26,545	18,496	51,940	44,324
Bank				
Fees income:				
- Fee on loans and advances	5,267	3,368	12,802	8,846
- Service charges and fees	798	882	1,717	1,875
- Guarantee fees	5,510	3,791	8,472	9,101
	11,575	8,041	22,991	19,822
Foreign exchange income/(loss):				
- Realised	9,985	5,822	18,621	15,924
- Unrealised	(4,439)	(2,025)	(2,443)	(2,063)
Net loss on revaluation of derivatives	3,288	1,041	(373)	(548)
Sale of precious metal	98	182	301	286
Other income:				
- Dividend income from subsidiary	14,500	11,650	14,500	11,650
- Other income	62	64	127	125
	35,069	24,775	53,724	45,196

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**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2018**

26 Other operating expenses

	2nd Quarter Ended		Six Months Ended	
	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Group				
<u>Personnel expenses</u>				
Salaries & wages	13,722	10,501	25,678	20,972
Bonuses	5,799	4,533	11,598	9,066
Defined contribution plan ("EPF")	2,493	1,788	4,724	3,555
Staff welfare expenses	584	560	1,079	1,042
Other personnel costs	1,698	1,387	4,262	1,972
	24,296	18,769	47,341	36,607
<u>Marketing expenses</u>				
Entertainment	157	138	407	419
Other marketing	493	55	1,187	331
	650	193	1,594	750
<u>Establishment costs</u>				
Rental of premises	2,247	2,244	4,491	4,438
Depreciation of property and equipment	1,695	414	3,384	1,789
Amortisation of intangible assets	106	48	211	91
Repairs and maintenance	316	113	491	248
Property and equipment written off	-	-	12	405
Information technology expenses	978	435	1,692	647
Other establishment costs	321	580	643	922
	5,663	3,834	10,924	8,540
<u>Administration and general expenses</u>				
Insurance premium	1,167	1,778	1,189	1,882
Auditors' remuneration				
- statutory audit fees	61	61	122	122
- regulatory related service	201	31	481	61
Travelling and accommodation	742	606	1,361	995
Telecommunication and utilities	299	267	594	550
Printing, stationery and postage	406	216	946	405
Legal and professional fees	22	248	154	751
Other administration and general expenses	1,466	836	3,300	1,879
	4,364	4,043	8,147	6,645
<u>Other expenses</u>				
Cost of sales of precious metal	80	142	248	235
	80	142	248	235
	35,053	26,981	68,254	52,777

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**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2018**

26 Other operating expenses

	2nd Quarter Ended		Six Months Ended	
	30 June 2018 RM'000	30 June 2017 RM'000	30 June 2018 RM'000	30 June 2017 RM'000
Bank				
<u>Personnel expenses</u>				
Salaries & wages	13,019	9,957	24,321	19,810
Bonuses	5,499	4,351	11,040	8,702
Defined contribution plan ("EPF")	2,397	1,726	4,542	3,427
Staff welfare expenses	519	494	963	928
Other personnel costs	1,633	1,354	4,144	1,909
	23,067	17,882	45,010	34,776
<u>Marketing expenses</u>				
Entertainment	153	139	395	415
Other marketing	493	55	1,187	331
	646	194	1,582	746
<u>Establishment costs</u>				
Rental of premises	1,876	1,907	3,749	3,749
Depreciation of property and equipment	1,522	275	3,040	1,503
Amortisation of intangible assets	106	48	211	91
Repairs and maintenance	317	111	491	243
Property and equipment written off	-	-	11	405
Information technology expenses	977	435	1,686	644
Other establishment costs	307	571	617	910
	5,105	3,347	9,805	7,545
<u>Administration and general expenses</u>				
Insurance premium	1,167	1,778	1,181	1,876
Auditors' remuneration				
- statutory audit fees	51	51	101	101
- regulatory related service	197	27	475	55
Travelling and accommodation	730	599	1,324	968
Telecommunication and utilities	271	239	526	494
Printing, stationery and postage	309	179	750	333
Legal and professional fees	21	248	153	748
Other administration and general expenses	1,407	774	3,136	1,766
	4,153	3,895	7,646	6,341
<u>Other expenses</u>				
Cost of sales of precious metal	80	142	248	235
	80	142	248	235
	33,051	25,460	64,291	49,643

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

27 Credit impairment losses/ allowance for losses on loans and advances

	2nd Quarter Ended			
	Group and Bank			
	30 June 2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	4	-	-	4
Deposits and placements with banks and other financial institutions	(19)	-	-	(19)
Loans and advances	<u>(1,348)</u>	<u>1,881</u>	<u>-</u>	<u>533</u>
	(1,363)	1,881	-	518
Impaired loans and advances				
- Charge	-	-	1,358	1,358
Financial assets measured at amortised cost	<u>(1,363)</u>	<u>1,881</u>	<u>1,358</u>	<u>1,876</u>
Commitments and contingencies	<u>2,681</u>	<u>1</u>	<u>-</u>	<u>2,682</u>
	<u>1,318</u>	<u>1,882</u>	<u>1,358</u>	<u>4,558</u>

	Six Months Ended			
	Group and Bank			
	30 June 2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	(1)	-	-	(1)
Deposits and placements with banks and other financial institutions	(116)	-	-	(116)
Loans and advances	<u>(4,775)</u>	<u>3,696</u>	<u>-</u>	<u>(1,079)</u>
	(4,892)	3,696	-	(1,196)
Impaired loans and advances				
- Charge	-	-	7,397	7,397
Financial assets measured at amortised cost	<u>(4,892)</u>	<u>3,696</u>	<u>7,397</u>	<u>6,201</u>
Commitments and contingencies	<u>4,244</u>	<u>1</u>	<u>-</u>	<u>4,245</u>
	<u>(648)</u>	<u>3,697</u>	<u>7,397</u>	<u>10,446</u>

	Group and Bank	
	2nd Quarter Ended	Six Months Ended
	30 June 2017	30 June 2017
	RM'000	RM'000
Allowances for impaired loans and advances:		
- Individual impairment allowance	5,002	6,688
- Collective impairment allowance	<u>12,303</u>	<u>11,904</u>
	<u>17,305</u>	<u>18,592</u>

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

28 Capital adequacy

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

	Group		Bank	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
<u>Common Equity Tier 1 ("CET1") Capital</u>				
Paid-up ordinary share capital	760,518	760,518	760,518	760,518
Retained profits	653,645	621,693	647,202	607,180
Regulatory reserve	30,067	30,067	30,067	30,067
Fair value through other comprehensive reserve	376	-	376	-
Revaluation reserve	-	1,163	-	1,163
	1,444,606	1,413,441	1,438,163	1,398,928
Regulatory adjustment applied in the calculation of CET 1 Capital				
- Deferred tax assets	(18,201)	(5,997)	(18,081)	(5,807)
- 55% of cumulative unrealised gains of FVOCI financial instruments	(207)	-	(207)	-
- 55% of cumulative gains of AFS	-	(641)	-	(641)
- Regulatory reserve	(30,067)	(30,067)	(30,067)	(30,067)
	(48,475)	(36,705)	(48,355)	(36,515)
Total CET1 capital / Total Tier 1 capital	1,396,131	1,376,736	1,389,808	1,362,413
<u>Tier-2 capital</u>				
General provision*	93,987	71,047	93,957	71,047
Subordinated loan	1,252,400	1,254,725	1,252,400	1,254,725
Less: Investment in a subsidiary company	-	-	(1,000)	(1,000)
Total Tier-2 capital	1,346,387	1,325,772	1,345,357	1,324,772
Total capital base	2,742,518	2,702,508	2,735,165	2,687,185
<u>Capital ratios</u>				
CET 1 capital ratio	17.256%	17.095%	17.298%	17.016%
Tier 1 capital ratio	17.256%	17.095%	17.298%	17.016%
Total capital ratio	33.898%	33.558%	34.042%	33.561%

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

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

28 Capital adequacy (continued)

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

	Group		Bank	
	30 June	31 December	30 June	31 December
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Credit risk	7,518,944	7,543,439	7,516,537	7,540,958
Market risk	25,017	9,033	25,017	9,033
Operational risk	546,598	500,873	493,108	456,835
Total risk-weighted assets	8,090,559	8,053,345	8,034,662	8,006,826

The total capital and capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) dated 2 February 2018. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk.

On 2 February 2018, Bank Negara Malaysia issued Policy Document on Financial Reporting. Pursuant to paragraph 10.5 of the Policy Document, effective 1 January 2018 banking institution must maintain, in aggregate, loss allowances for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is maintained in addition to the credit impairment losses that have been assessed in accordance with MFRS 9. It will be transferred from the retained profits to a separate reserve namely regulatory reserve within the equity.

General provision is qualified Tier 2 Capital, subject to maximum of 1.25% of total credit RWA determined under the Standardised Approach for credit risk.

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29 Commitments and contingencies

	Group and Bank					
	30 June 2018			31 December 2017		
	Principal	Credit	Risk	Principal	Credit	Risk
RM'000	equivalent	weighted	RM'000	equivalent	weighted	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,066	2,066	1,970	47,144	47,144	47,144
Transaction-related contingent items	2,571,173	1,285,587	676,626	2,420,967	1,210,483	1,029,664
Short-term self-liquidation trade related contingencies	112,164	22,433	21,963	166,406	33,281	20,185
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,541,523	308,305	285,895	1,749,285	349,857	303,756
- Maturity exceeding one year	553,027	276,514	246,807	251,208	125,604	114,359
Foreign exchange related contracts:						
- Less than one year	664,813	9,689	3,299	89,664	532	170
Unutilised credit card lines	20	4	3	-	-	-
Total	5,444,786	1,904,598	1,236,563	4,724,674	1,766,901	1,515,278

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

30 Credit Exposures Arising From Credit Transactions With Connected Parties

	Group and Bank	
	30 June 2018	31 December 2017
Outstanding credit exposures with connected parties (RM'000)	1,416,601	1,554,022
Percentage of outstanding credit exposures to connected parties total credit exposures	17%	20%
Percentage of outstanding credit exposures with connected parties non-performing or in default	0%	0%

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008. However, the Bank has obtained exemption from Bank Negara Malaysia's for the above credit transaction exposures with connected parties.

31 Operations of Islamic Banking

No Islamic banking activities was involved for the financial period ended 30 June 2018.

32 Valuation of Property, Plant and Equipment

The Bank's 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. There was no change in the valuation of property and equipment that were brought forward from the previous audited annual financial statements.

33 Events subsequent to Reporting Date

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

34 Changes in the composition of the Group

There were no significant changes in the composition of the Group for the second quarter ended 30 June 2018.