

Company No.

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Company No.

511251

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

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BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and related financial services.

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

FINANCIAL RESULTS

| | RM'000 |
|-----------------------------------|----------------------|
| Profit before tax | 20,845 |
| Taxation | <u>(5,585)</u> |
| Net profit for the financial year | <u><u>15,260</u></u> |

DIVIDENDS

The dividends on ordinary shares paid by the Bank since 31 December 2007 were as follows:

| | RM'000 |
|--|---------------------|
| In respect of the financial year ended 31 December 2007, as shown in the Directors' report for that financial year: | |
| Final dividend of 2.85 sen less 26% tax paid on 28 April 2008 | <u><u>6,411</u></u> |

The Directors now recommend the payment of a final gross dividend of 3.00 sen less income tax of 25% amounting to RM6,840,000, which is subject to the approval of member at the forthcoming Annual General Meeting.

CHANGES IN DEBT AND EQUITY SECURITIES

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

RESERVES AND PROVISIONS

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

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DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

Before the financial statements 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 Bank had been written down to an amount which they might be expected 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 Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities 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 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 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 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 Bank to meet their obligations when they fall due.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations 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 to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

SUBSEQUENT EVENTS

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

DIRECTORS

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

Zheng Jingbo
Gao Xingmao (appointed on 27 November 2008)
Li Yuhua
Du Chaohua
Tan Sri Dato' Lim Guan Teik
Tan Siak Tee
Fang Yanmin (retired on 23 April 2008)

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

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

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

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

DIRECTORS' INTERESTS IN SHARES

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

DIRECTORS' BENEFITS

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

HOLDING COMPANIES

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

BUSINESS REVIEW 2008

In the year 2008, the Bank had continued to make efforts to increase its lending activities and focus on fee-based generating business.

BUSINESS OUTLOOK FOR 2009

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

RATINGS BY EXTERNAL RATING AGENCY

The Bank is not rated by any external agency.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES

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

Mr. Zheng Jingbo, People's Republic of China citizen, aged 51, was appointed to the Board in Year 2007 as an Executive Director representing Bank of China Limited. He obtained his Master in World Economy from East China University, Shanghai, China.

Mr. Zheng joined Bank of China Limited in 1978. He has been in the banking industry for approximately 29 years. He has held several managerial positions during his tenure of employment involving in Corresponding Banking, International Settlement, Investment, Trust and Consultant business, Branch Management and Operations.

With his vast knowledge and experience in banking operations, he is capable of assuming the role of an Executive Director for the Bank.

Gao Xingmao – Non-Independent Non-Executive Director

Mr. Gao Xingmao, People's Republic of China citizen, aged 56, graduated from Beijing University in 1978.

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

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

Mr. Gao was appointed as Director to the Board of Directors of Bank of China in Russia in year 2004.

Mr. Gao has familiarised himself with various rules and regulations of branches management and financial institutions. With his rich experience and knowledge in credit and corporate banking in Bank of China Head Office and branch management, he could contribute towards improving the management and controls of the Bank more effectively.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

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

Mr. Li Yuhua, People's Republic of China citizen, aged 58, graduated from University of International Business and Economics (Former Beijing Institute of Foreign Trade) in 1976, was appointed to the Board in year 2007 as Chairman of the Board of Directors, representing Bank of China Limited.

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

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

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

Mr. Li has familiarised himself with various rules and regulations of branches management and financial institutions. With his rich experience and knowledge in commercial banking and branch management, he could contribute towards improving the management and controls of the Bank more effectively.

Du Chaohua – Non-Independent Non-Executive Director

Mr. Du Chaohua, People's Republic of China citizen, aged 54, was appointed to the Board in Year 2007 representing Bank of China Limited. He is also a member of the Audit Committee of the Bank. He graduated from Tianjin Nankai University in October 1975.

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

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

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

Mr. Du has familiarised himself with various rules and regulations of branches management and Financial Institution. With his vast experience and knowledge in branches management, investment and Financial Institution, he could contribute towards improving the management and controls of the Bank more effectively.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

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

Tan Sri Dato' Lim Guan Teik, Malaysian, aged 73, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is also the chairman of the Bank's Audit Committee.

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

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

Tan Siak Tee – Independent Non-Executive Director

Mr. Tan Siak Tee, Malaysian, aged 68, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is the chairman of the Bank's Integrated Risk Management Committee and Credit Risk Management Committee as well as an Audit Committee member of the Bank.

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

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

- Independent Non-Executive Director of Sun City Berhad, a public listed company.
- Independent Non-Executive Director of Amsteel Corporation Berhad, a public company.

Mr. Tan is well verse in rules and regulations in relation to the banking industry in Malaysia. With his vast banking experience, he could contribute significantly to the strategic direction of the Bank as well as the risk management and internal controls of the Bank.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

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

Roles and Responsibilities of the Board of Directors

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

The major duties and responsibilities of the Board include:

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

Board Meetings and Supply of Information to the Board

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

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

The attendance of the Board of Directors' meetings held during 2008 is as follows:

| Composition of Board of Director | Number of Board Meetings | |
|---|--------------------------|----------|
| | Held | Attended |
| Zheng Jingbo, Executive Director | 6 | 5 |
| Gao Xingmao, Non Executive Director | 1 | 1 |
| Li Yuhua, Chairman/Non Executive Director | 6 | 6 |
| Du Chaohua, Non Executive Director | 6 | 6 |
| Tan Sri Dato' Lim Guan Teik, Non Executive Director | 6 | 6 |
| Tan Siak Tee, Non Executive Director | 6 | 6 |
| Fang Yanmin (retired on 23 April 2008) | - | - |

Effectiveness of the Board of Directors

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Composition of the Board

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

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

3. Appointments to the Board

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

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

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

4. Directors' Performance and Remuneration

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

5. Induction and Training

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

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

INFORMATION ON COMMITTEES OF THE BANK

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

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

1. Nominating Committee

The proposed appointment of new member(s) of the Board, as well as the proposed re-appointment/ re-election of Directors seeking re-appointment / re-election at the General Meeting of the Bank, are assessed and recommended by the Board and approved by the holding company before the application on the proposed appointment is submitted to BNM for prior approval.

2. Remuneration Committee

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Risk Management Committee

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

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

(a) Integrated Risk Management Committee

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

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

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

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

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

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

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Risk Management Committee (continued)

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

The Committee comprised persons experienced in credit and risk management.

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

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

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

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

The Committee shall conduct weekly meeting or on need basis.

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

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

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

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

4. Audit Committee

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

(a) Membership and Attendance

The Audit Committee ('AC') comprises the following members and details of attendance of each member at the AC meetings held during 2008 are as follows:

| Composition of Audit Committee | Number of AC Meetings | |
|--|------------------------------|-----------------|
| | Held | Attended |
| Tan Sri Dato' Lim Guan Teik Chairman/Independent Non-Executive Director | 4 | 4 |
| Tan Siak Tee Member/Independent Non-Executive Director | 4 | 4 |
| Du Chaohua Member/Non-Independent Non-Executive Director | 4 | 3 |

(b) Composition and Terms of Reference

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

4. Audit Committee (continued)

(c) Roles and Responsibilities

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

(d) Key Internal Control Processes

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

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

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DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 27 March 2009.

ZHENG JINGBO
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur
27 March 2009

Company No.

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

BALANCE SHEET
AS AT 31 DECEMBER 2008

| | <u>Note</u> | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-------------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash and short-term funds | 2 | 383,464 | 587,326 |
| Deposits and placements with banks and other financial institutions | 3 | 100,000 | 71,000 |
| Held-to-maturity securities | 4 | 39,706 | 55,125 |
| Loans and advances | 5 | 741,932 | 376,712 |
| Other assets | 6 | 3,368 | 5,008 |
| Deferred tax assets | 7 | 4,920 | 3,598 |
| Statutory deposits with Bank Negara Malaysia | 8 | - | - |
| Property and equipment | 9 | 2,079 | 1,388 |
| Intangible assets | 10 | 921 | 1,140 |
| TOTAL ASSETS | | <u>1,276,390</u> | <u>1,101,297</u> |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| Deposits from customers | 11 | 363,737 | 428,645 |
| Deposits and placements of banks and other financial institutions | 12 | 534,410 | 252,849 |
| Bills and acceptances payable | 13 | 1,959 | - |
| Other liabilities | 14 | 19,066 | 71,397 |
| Provision for taxation | | 974 | 1,011 |
| TOTAL LIABILITIES | | <u>920,146</u> | <u>753,902</u> |
| Financed by: | | | |
| Share capital | 15 | 304,000 | 304,000 |
| Reserves | 16 | 52,244 | 43,395 |
| SHAREHOLDER'S EQUITY | | <u>356,244</u> | <u>347,395</u> |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | | <u>1,276,390</u> | <u>1,101,297</u> |
| COMMITMENTS AND CONTINGENCIES | 28 | <u>1,196,990</u> | <u>289,025</u> |

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

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| | <u>Note</u> | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-------------|-----------------------|-----------------------|
| Interest income | 17 | 53,952 | 49,011 |
| Interest expense | 18 | (28,063) | (26,021) |
| Net interest income | | <u>25,889</u> | <u>22,990</u> |
| Other operating income | 19 | 16,254 | 12,577 |
| Other operating expenses | 20 | (16,174) | (14,124) |
| Allowance for losses on loans and advances | 22 | (5,124) | (2,837) |
| Profit before tax | | <u>20,845</u> | <u>18,606</u> |
| Taxation | 23 | (5,585) | (5,662) |
| Net profit for the financial year | | <u><u>15,260</u></u> | <u><u>12,944</u></u> |
| Attributable to: | | | |
| Equity holders of the Bank | | <u><u>15,260</u></u> | <u><u>12,944</u></u> |
| Earnings per share | | | |
| - basic/fully diluted (sen) | 24 | <u><u>5.0</u></u> | <u><u>4.3</u></u> |
| Dividend per ordinary share of 3.00 sen (2007: 2.85 sen) less income tax of 25% (2007: 26%) | 25 | <u><u>6,840</u></u> | <u><u>6,411</u></u> |

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008**

| | Issued and fully paid ordinary shares of <u>RM1 each</u> <u>Nominal</u> <u>value</u> RM'000 | Non- distributable <u>Statutory</u> <u>reserves</u> RM'000 | <u>Distributable</u> <u>Retained</u> <u>profits</u> RM'000 | <u>Total</u> RM'000 |
|---|--|--|---|------------------------|
| At 1 January 2008 | 304,000 | 35,805 | 7,590 | 347,395 |
| Net profit for the financial year | - | - | 15,260 | 15,260 |
| Total recognised income for the year | - | - | 15,260 | 15,260 |
| Transfer to statutory reserve | - | 7,631 | (7,631) | - |
| Dividends paid | - | - | (6,411) | (6,411) |
| At 31 December 2008 | <u>304,000</u> | <u>43,436</u> | <u>8,808</u> | <u>356,244</u> |
| At 1 January 2007 | 304,000 | 29,333 | 9,839 | 343,172 |
| Net profit for the financial year | - | - | 12,944 | 12,944 |
| Total recognised income for the year | - | - | 12,944 | 12,944 |
| Transfer to statutory reserve | - | 6,472 | (6,472) | - |
| Dividends paid | - | - | (8,721) | (8,721) |
| At 31 December 2007 | <u>304,000</u> | <u>35,805</u> | <u>7,590</u> | <u>347,395</u> |

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

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before tax | 20,845 | 18,606 |
| <i>Adjustments for:</i> | | |
| Depreciation of property and equipment | 399 | 338 |
| Amortisation of intangible assets | 450 | 91 |
| Net gain on disposal of property and equipment | (5) | - |
| Amortisation of premium less accretion of discount | 91 | 644 |
| Allowance for losses on loans and advances | 5,124 | 2,754 |
| Write back of allowance for losses on loans and advances | - | (38) |
| Interest income from held-to-maturity securities | (1,812) | (2,703) |
| Unrealised foreign exchange gain | (726) | (91) |
| Property and equipment written off | 119 | - |
| | <hr/> | <hr/> |
| Operating profit before changes in operating assets and liabilities | 24,485 | 19,601 |
| (INCREASE)/DECREASE IN OPERATING ASSETS | | |
| Deposits and placements with banks and other financial institutions | (29,000) | 214,200 |
| Loans and advances | (370,344) | (44,320) |
| Other assets | 1,899 | 275 |
| INCREASE/(DECREASE) IN OPERATING LIABILITIES | | |
| Deposits from customers | (64,908) | (99,551) |
| Deposits and placements of banks and other financial institutions | 281,561 | 63,418 |
| Bills and acceptances payable | 1,959 | - |
| Other liabilities | (52,331) | 48,870 |
| | <hr/> | <hr/> |
| Cash (used in)/generated from operating activities | (206,679) | 202,493 |
| Tax paid | (6,944) | (4,649) |
| | <hr/> | <hr/> |
| Net cash (used in)/generated from operating activities | (213,623) | 197,844 |
| | <hr/> | <hr/> |

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BANK OF CHINA (MALAYSIA) BERHAD
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CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

| | <u>Note</u> | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-------------|------------------------------|------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (1,209) | (1,033) |
| Purchase of intangible assets | | (231) | (1,203) |
| Proceeds from disposal of property and equipment | | 5 | - |
| Net sale of held-to-maturity securities | | 15,327 | - |
| Interest received on held-to-maturity securities | | 2,280 | 2,707 |
| Net cash generated from investing activities | | <u>16,172</u> | <u>471</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (6,411) | (8,721) |
| Net cash used in financing activities | | <u>(6,411)</u> | <u>(8,721)</u> |
| NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR | | (203,862) | 189,594 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR | | <u>587,326</u> | <u>397,732</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR | 2 | <u><u>383,464</u></u> | <u><u>587,326</u></u> |

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008**

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

A BASIS OF PREPARATION

The financial statements of the Bank have been prepared under the historical cost convention (unless otherwise indicated) in this summary of significant accounting policies in accordance with Malaysian Accounting Standard Board ('MASB') Approved Accounting Standards for Entities Other Than Private Entities, Bank Negara Malaysia ('BNM') Guidelines and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the MASB Approved Accounting Standards for Entities Other Than Private Entities 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 income and expenses during the reported year. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgments are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 34.

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

The revision to the published standard effective for the Bank's financial periods beginning 1 January 2008 are as follows:

- FRS 107 Cash Flows Statements
- FRS 112 Income Taxes
- FRS 118 Revenue
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

The revised FRS 112 Income Taxes removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. The adoption of this standard does not have any significant financial impact on the results of the Bank.

Other revised standards have no significant changes compared to the original standards:

- FRS 107 Cash Flows Statements
- FRS 118 Revenue
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

The adoption of the above revised standards does not have a material impact on the financial statements of the Bank.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are effective in 2008 but not relevant to the Bank

- FRS 111 Construction Contracts
- FRS 120 Accounting for Government Grants and Disclosures of Government Assistant
- Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations
- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments
- IC Interpretation 5 Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IC Interpretation 7 Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
- IC Interpretation 8 Scope of FRS 2

(c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted

The new standards, amendments to published standards and interpretations that are applicable to the Bank but which the Bank has not early adopted, are as follows:

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
- IC Interpretation 10 Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Bank.
- The following standards will be effective for annual period beginning on or after 1 January 2010. The Bank will apply these standards from when effective. The Bank has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standard on the financial statements of the Bank:
 - FRS 139 Financial Instruments: Recognition and Measurement
 - FRS 7 Financial Instruments: Disclosures

Nevertheless, the accounting policies of the Bank incorporate revised BNM/GP8 which includes selected principles of FRS139.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

- (d) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and not relevant to the Bank's operations

The following interpretations to existing standards have been published and are mandatory for the Bank's financial period beginning on or after 1 January 2008 or later periods, but are not relevant for the Bank's operations:

- FRS 8 Operating Segments (effective for accounting periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114₂₀₀₄ Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

B RECOGNITION OF INTEREST INCOME ON LOANS AND ADVANCES

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

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

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

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

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

C RECOGNITION OF FEES AND OTHER INCOME

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

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

Dividends from securities are recognised when received.

D SECURITIES PORTFOLIO

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

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

Subsequent measurements for each type of securities are as follows:

(a) Held-for-trading securities

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

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

(b) Available-for-sale securities

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

D SECURITIES PORTFOLIO (CONTINUED)

(c) Held-to-maturity securities

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

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

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

E LOANS AND ADVANCES

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

F PROPERTY AND EQUIPMENT

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

F PROPERTY AND EQUIPMENT (CONTINUED)

At each balance sheet date, the Bank assesses 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 10 in summary of significant accounting policies on impairment of non-financial assets.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

G INTANGIBLE ASSETS

Computer Software

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

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

H FINANCIAL LIABILITIES

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

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

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

I IMPAIRMENT OF SECURITIES

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

(a) Securities carried at amortised cost

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

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

(b) Securities carried at fair value

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

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

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

J IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

K DIVIDENDS PAYABLE

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

L BILLS AND ACCEPTANCE PAYABLE

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

M CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does 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 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 Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

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BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

N FORWARD EXCHANGE CONTRACTS

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

O 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 Bank operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

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

P CASH AND CASH EQUIVALENTS

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

Q OPERATING LEASE

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

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BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

R INCOME TAX

Current tax

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

Deferred tax

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

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

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

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

S ALLOWANCE FOR BAD AND DOUBTFUL DEBTS

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

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

T PROVISIONS

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

U 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 Bank.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays 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 Bank's contributions to the defined contribution plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

V FINANCIAL INSTRUMENTS

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

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

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

Financial instruments recognised on the balance sheet

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

Company No.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)**

V **FINANCIAL INSTRUMENTS (CONTINUED)**

Financial instruments not recognised on the balance sheet

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

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

Fair value hedge

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

Cash flow hedge

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

1 GENERAL INFORMATION

The principal activities of the Bank are commercial banking and related financial services.

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central SAFE Investments Limited, both incorporated in China.

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

The address of the registered office of the Bank is:

Mezzanine Floor, Plaza OSK
Jalan Ampang, 50450 Kuala Lumpur

2 CASH AND SHORT-TERM FUNDS

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| Cash and balances with banks and other financial institutions | 46,664 | 58,526 |
| Money at call and deposit placements maturing within one month | 336,800 | 528,800 |
| | <u>383,464</u> | <u>587,326</u> |

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|----------------------|-----------------------|-----------------------|
| Bank Negara Malaysia | 100,000 | 71,000 |
| | <u>100,000</u> | <u>71,000</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

4 HELD-TO-MATURITY SECURITIES

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| At amortised cost | | |
| Money market instrument: | | |
| Malaysian Government Securities | 39,672 | 58,029 |
| Accretion of discounts less amortisation of premium | 34 | (2,904) |
| | <u>39,706</u> | <u>55,125</u> |

5 LOANS AND ADVANCES

| (i) By type | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| Overdrafts | 46,785 | 47,578 |
| Term loans | | |
| - Housing loans | 7,313 | 6,453 |
| - Syndicated term loan | 363,345 | 118,124 |
| - Other term loans | 171,283 | 98,735 |
| Bills receivable | 67,458 | - |
| Trust receipts | 5,546 | 8,424 |
| Claims on customers under acceptance credits | 38,169 | 51,444 |
| Staff loans | 2,837 | 2,884 |
| Of which: RMnil (2007: RMnil) were to Directors | | |
| Loans to banks and other financial institutions | 58,196 | 56,685 |
| | <u>760,932</u> | <u>390,327</u> |
| Less: Unearned interest and income | (591) | (330) |
| | <u>760,341</u> | <u>389,997</u> |
| Gross loans and advances | | |
| Allowance for bad and doubtful debts: | | |
| - General | (17,466) | (12,710) |
| - Specific | (943) | (575) |
| | <u>741,932</u> | <u>376,712</u> |
| Total net loans and advances | | |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

5 **LOANS AND ADVANCES (CONTINUED)**

(ii) By type of customer

| | <u>2008</u> | <u>2007</u> |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| Domestic banking institutions | 51,977 | 49,582 |
| Domestic non-bank financial institutions | 6,219 | 7,103 |
| Domestic business enterprises | | |
| - Small medium enterprises ('SME') | 183,719 | 131,910 |
| - Non-SME | 139,838 | 70,508 |
| Government and statutory bodies | 52,563 | 50,263 |
| Individuals | 15,075 | 12,770 |
| Foreign entities | 310,950 | 67,861 |
| | <u>760,341</u> | <u>389,997</u> |

(iii) By interest rate sensitivity

| | <u>2008</u> | <u>2007</u> |
|-------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| Fixed rate | | |
| - Housing loans | 27 | - |
| - Other fixed rate loan | 2,837 | 2,884 |
| Variable rate | | |
| - BLR plus | 189,909 | 168,293 |
| - Cost plus | 57,028 | 51,114 |
| - Other variable rates | 510,540 | 167,706 |
| | <u>760,341</u> | <u>389,997</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

5 **LOANS AND ADVANCES (CONTINUED)**

(iv) By purpose

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--------------------------------|-----------------------|-----------------------|
| Purchase of transport vehicles | 51,702 | 104 |
| Purchase of landed property | | |
| - Residential | 12,057 | 10,447 |
| - Non-residential | 80,950 | 39,742 |
| Personal use | 3,926 | 3,002 |
| Construction | 4,890 | 7,200 |
| Working capital | 536,162 | 261,640 |
| Other purpose | 70,654 | 67,862 |
| | <u>760,341</u> | <u>389,997</u> |

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

(a) Movement in non-performing loans and advances

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| At beginning of the financial year | 7,103 | 7,616 |
| Amount recovered | (884) | (392) |
| Amount written-off | - | (121) |
| | <u>6,219</u> | <u>7,103</u> |
| At end of the financial year | 6,219 | 7,103 |
| Specific allowance | (943) | (575) |
| | <u>5,276</u> | <u>6,528</u> |
| Net non-performing loans and advances | <u>5,276</u> | <u>6,528</u> |
| Ratio of net non-performing loans and advances to gross loans and advances less specific allowance | <u>0.69%</u> | <u>1.68%</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

5 LOANS AND ADVANCES (CONTINUED)

(v) Non-performing loans ('NPLs') (continued)

(b) Movement in allowance for bad and doubtful debts

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| <u>General allowance</u> | | |
| At beginning of the financial year | 12,710 | 10,410 |
| Allowance made during the financial year | 4,756 | 2,300 |
| At end of the financial year | <u>17,466</u> | <u>12,710</u> |
| As % of gross loans and advances less specific allowance | <u>2.30%</u> | <u>3.26%</u> |
| <u>Specific allowance</u> | | |
| At beginning of the financial year | 575 | 159 |
| Allowance made during the financial year | 368 | 575 |
| Amount recovered | - | (38) |
| Amount written-off | - | (121) |
| At end of the financial year | <u>943</u> | <u>575</u> |

(c) NPLs by purpose

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|-----------------|-----------------------|-----------------------|
| Working capital | 6,219 | 7,103 |
| | <u>6,219</u> | <u>7,103</u> |

6 OTHER ASSETS

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| Interest receivable | 1,039 | 1,716 |
| Other debtors, deposits and prepayments | 2,329 | 3,292 |
| | <u>3,368</u> | <u>5,008</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

7 DEFERRED TAX ASSETS / (LIABILITIES)

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| Deferred tax assets | 5,367 | 3,805 |
| Deferred tax liabilities | (447) | (207) |
| | <u>4,920</u> | <u>3,598</u> |
| At beginning of the financial year | 3,598 | 3,226 |
| Credited to income statements (Note 23) | 1,322 | 372 |
| At end of the financial year | <u>4,920</u> | <u>3,598</u> |

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| At beginning of the financial year | 3,598 | 3,226 |
| Credited/(charged) to income statements (Note 23) | 1,322 | 372 |
| - property and equipment | (56) | (26) |
| - intangible assets | (3) | (176) |
| - general allowance on loans and advances | 1,062 | 557 |
| - provision for other liabilities | 265 | 17 |
| - specific allowance on loans and advances | 235 | - |
| - unrecognised foreign exchange gain | (181) | - |
| At end of the financial year | <u>4,920</u> | <u>3,598</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

7 DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| Subject to income tax:- | | |
| Specific allowance on loans and advances | 235 | - |
| General allowance on loans and advances | 4,367 | 3,305 |
| Provision for other liabilities | 765 | 500 |
| | <u>5,367</u> | <u>3,805</u> |
| Offsetting | (447) | (207) |
| Deferred tax assets (after offsetting) | <u><u>4,920</u></u> | <u><u>3,598</u></u> |
| Property and equipment | (87) | (31) |
| Intangible assets | (179) | (176) |
| Unrealised foreign exchange gain | (181) | - |
| | <u>(447)</u> | <u>(207)</u> |
| Offsetting | 447 | 207 |
| Deferred tax liabilities (after offsetting) | <u><u>-</u></u> | <u><u>-</u></u> |

8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

During the financial year, no statutory deposits were maintained with Bank Negara Malaysia as the total eligible liabilities of the Bank are nil in December 2008 (2007: nil).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

9 **PROPERTY AND EQUIPMENT**

| | Computer equipment | Motor vehicles | Office equipment | Renovation | Work-in- progress | Total |
|---------------------------------|-----------------------|-------------------|---------------------|------------|----------------------|--------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2008 | | | | | | |
| <u>Cost</u> | | | | | | |
| At 1 January | 2,323 | 985 | 1,091 | 692 | - | 5,091 |
| Additions | 185 | - | 138 | 4 | 882 | 1,209 |
| Disposal | - | - | (28) | - | - | (28) |
| Transfer | (14) | - | - | - | - | (14) |
| Write-offs | - | - | - | (662) | - | (662) |
| At 31 December | <u>2,494</u> | <u>985</u> | <u>1,201</u> | <u>34</u> | <u>882</u> | <u>5,596</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| At 1 January | 2,113 | 197 | 902 | 491 | - | 3,703 |
| Charge for the financial year | 134 | 137 | 63 | 65 | - | 399 |
| Disposals | - | - | (28) | - | - | (28) |
| Transfer | (14) | - | - | - | - | (14) |
| Write-offs | - | - | - | (543) | - | (543) |
| At 31 December | <u>2,233</u> | <u>334</u> | <u>937</u> | <u>13</u> | <u>-</u> | <u>3,517</u> |
| Net book value | <u>261</u> | <u>651</u> | <u>264</u> | <u>21</u> | <u>882</u> | <u>2,079</u> |
| 2007 | | | | | | |
| <u>Cost</u> | | | | | | |
| At 1 January | 2,156 | 449 | 1,070 | 692 | - | 4,367 |
| Additions | 167 | 845 | 21 | - | - | 1,033 |
| Disposal | - | (309) | - | - | - | (309) |
| At 31 December | <u>2,323</u> | <u>985</u> | <u>1,091</u> | <u>692</u> | <u>-</u> | <u>5,091</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| At 1 January | 2,015 | 449 | 788 | 422 | - | 3,674 |
| Charge for the financial year | 98 | 57 | 114 | 69 | - | 338 |
| Disposals | - | (309) | - | - | - | (309) |
| At 31 December | <u>2,113</u> | <u>197</u> | <u>902</u> | <u>491</u> | <u>-</u> | <u>3,703</u> |
| Net book value | <u>210</u> | <u>788</u> | <u>189</u> | <u>201</u> | <u>-</u> | <u>1,388</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

| | | | |
|----|--|-----------------------|-----------------------|
| 10 | INTANGIBLE ASSETS | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| | Computer Software | | |
| | <u>Cost</u> | | |
| | At 1 January | 2,738 | 1,535 |
| | Additions | 231 | 1,203 |
| | Transfer | 14 | - |
| | At 31 December | <u>2,983</u> | <u>2,738</u> |
| | <u>Accumulated amortisation</u> | | |
| | At 1 January | 1,598 | 1,507 |
| | Charge for the financial year | 450 | 91 |
| | Transfer | 14 | - |
| | At 31 December | <u>2,062</u> | <u>1,598</u> |
| | Net book value | <u>921</u> | <u>1,140</u> |
| 11 | DEPOSITS FROM CUSTOMERS | | |
| | (i) By type of deposits | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| | Demand deposits | 94,099 | 85,922 |
| | Savings deposits | 18,579 | 20,735 |
| | Fixed deposits | 249,456 | 221,977 |
| | Negotiable instruments of deposits | - | 100,000 |
| | Others | 1,603 | 11 |
| | | <u>363,737</u> | <u>428,645</u> |
| | Maturity structure of fixed deposits and negotiable instrument of deposits are as follows: | | |
| | Due within six months | 223,227 | 306,275 |
| | Six months to one year | 26,229 | 15,586 |
| | One year to three year | - | 116 |
| | | <u>249,456</u> | <u>321,977</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

11 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customer

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---------------------------------|-----------------------|-----------------------|
| Government and statutory bodies | 1,603 | 45,011 |
| Business enterprises | 235,973 | 275,878 |
| Individuals | 126,125 | 107,485 |
| Others | 36 | 271 |
| | <u>363,737</u> | <u>428,645</u> |

12 DEPOSITS AND PLACEMENTS OF BANKS AND
OTHER FINANCIAL INSTITUTIONS

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|----------------|-----------------------|-----------------------|
| Licensed banks | 534,410 | 252,849 |
| | <u>534,410</u> | <u>252,849</u> |

13 BILLS AND ACCEPTANCES PAYABLE

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

14 OTHER LIABILITIES

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|-------------------|-----------------------|-----------------------|
| Interest payable | 3,718 | 4,193 |
| Accrued expenses | 4,470 | 2,739 |
| Margin deposits | 3,475 | 54,653 |
| Other liabilities | 7,403 | 9,812 |
| | <u>19,066</u> | <u>71,397</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

15 SHARE CAPITAL

| | Number of ordinary share of RM1.00each | | Amount | |
|-----------------------------|---|---------------------|-----------------------|-----------------------|
| | <u>2008</u> '000 | <u>2007</u> '000 | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| Authorised: | | | | |
| Ordinary shares of RM1 each | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> |
| Issued and fully paid: | | | | |
| Ordinary shares of RM1 each | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> |
| Balance as at 31 December | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> | <u>304,000</u> |

16 RESERVES

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--------------------|-----------------------|-----------------------|
| Distributable: | | |
| Retained profits | 8,808 | 7,590 |
| Non-distributable: | | |
| Statutory reserves | <u>43,436</u> | <u>35,805</u> |
| | <u>52,244</u> | <u>43,395</u> |

(a) Subject to agreement by Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits as at 31 December 2008.

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

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

| | | | |
|----|---|---------------|---------------|
| 17 | INTEREST INCOME | | |
| | | <u>2008</u> | <u>2007</u> |
| | | RM'000 | RM'000 |
| | Loans and advances | | |
| | - Interest income other than recoveries from NPLs | 31,321 | 23,295 |
| | - Recoveries from NPLs | - | 7 |
| | Money at call and deposit placement with financial institutions | 20,910 | 23,650 |
| | Securities | | |
| | - Held-to-maturity securities | 1,812 | 2,703 |
| | | <u>54,043</u> | <u>49,655</u> |
| | Amortisation of premium less accretion of discount | (91) | (644) |
| | Total interest income | <u>53,952</u> | <u>49,011</u> |
| 18 | INTEREST EXPENSE | | |
| | | <u>2008</u> | <u>2007</u> |
| | | RM'000 | RM'000 |
| | Deposits and placements of banks and other financial institutions | 17,302 | 12,445 |
| | Deposits from customers | 9,051 | 13,139 |
| | Others | 1,710 | 437 |
| | | <u>28,063</u> | <u>26,021</u> |
| 19 | OTHER OPERATING INCOME | | |
| | | <u>2008</u> | <u>2007</u> |
| | | RM'000 | RM'000 |
| | Fees income: | | |
| | - Fee on loans and advances | 1,422 | 1,515 |
| | - Service charges and fees | 5,292 | 4,656 |
| | - Guarantee fees | 1,899 | 1,007 |
| | - Other fee income | 5 | 110 |
| | | <u>8,618</u> | <u>7,288</u> |
| | Foreign exchange income: | | |
| | - Realised | 6,910 | 5,198 |
| | - Unrealised | 726 | 91 |
| | | <u>16,254</u> | <u>12,577</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

20 OTHER OPERATING EXPENSES

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| <u>Personnel expenses</u> | | |
| Salaries and wages (includes CEO/EDs) | 5,183 | 4,880 |
| Bonus | 2,776 | 1,457 |
| Defined contribution plan ('EPF') | 1,099 | 812 |
| Staff welfare expenses | 211 | 523 |
| Other personnel costs | 672 | 1,018 |
| | <u>9,941</u> | <u>8,690</u> |
| <u>Marketing expenses</u> | | |
| Entertainment | 421 | 521 |
| Other | 171 | 151 |
| | <u>592</u> | <u>672</u> |
| <u>Establishment costs</u> | | |
| Rental of premises | 1,410 | 1,412 |
| Depreciation of property and equipment (Note 9) | 399 | 338 |
| Amortisation of intangible assets (Note 10) | 450 | 91 |
| Repairs and maintenance | 543 | 800 |
| Property and equipment written off | 119 | - |
| Other establishment costs | 505 | 440 |
| | <u>3,426</u> | <u>3,081</u> |
| <u>Administration and general expenses</u> | | |
| Insurance premium | 278 | 289 |
| Travelling and accommodation | 256 | 343 |
| Telecommunication and utilities | 218 | 201 |
| Printing, stationery and postage | 655 | 485 |
| Other administration and general expenses | 808 | 363 |
| | <u>2,215</u> | <u>1,681</u> |
| | <u>16,174</u> | <u>14,124</u> |
| The above expenditure includes the following statutory disclosures: | | |
| Auditors' remuneration | | |
| - statutory | 61 | 55 |
| - Others | 24 | 23 |
| Directors' remuneration (Note 21) | 678 | 768 |

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BANK OF CHINA (MALAYSIA) BERHAD
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21 DIRECTORS' REMUNERATION

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

Executive Directors

Zheng Jingbo

Non Executive Directors

Gao Xingmao (appointed on 27 November 2008)

Li Yuhua

Du Chaohua

Tan Sri Dato' Lim Guan Teik

Tan Siak Tee

Fang Yanmin (retired on 23 April 2008)

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|-------------|-------------|
| | RM'000 | RM'000 |
| <u>Executive Directors</u> | | |
| - salary and other remuneration | 383 | 427 |
| - bonus | 57 | 132 |
| - benefits-in-kind | 94 | 65 |
| <u>Non Executive Directors</u> | | |
| - fees | 144 | 144 |
| | <u>678</u> | <u>768</u> |

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM534,092 (2007: RM624,346).

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>Number of Directors</u> | |
|--------------------------------|----------------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| <u>Executive Directors</u> | | |
| RM250,001 - RM350,000 | - | 1 |
| RM350,001 - RM450,000 | - | 1 |
| RM450,001 - RM550,000 | 1 | - |
| <u>Non-Executive Directors</u> | | |
| Below RM50,000 | 5 | 5 |
| RM100,001 - RM150,000 | 1 | 1 |

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| | | | |
|----|--|-----------------------|-----------------------|
| 22 | ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| | Allowance for bad and doubtful debts on loans and advances | | |
| | (a) Specific allowance | | |
| | - made during the financial year | 368 | 575 |
| | - written-back | - | (38) |
| | (b) General allowance | | |
| | - made during the financial year | 4,756 | 2,300 |
| | | <u>5,124</u> | <u>2,837</u> |
| 23 | TAXATION | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| | Malaysian income tax: | | |
| | - Current tax | 6,974 | 6,111 |
| | - Deferred tax (Note 7) | (1,322) | (372) |
| | | <u>5,652</u> | <u>5,739</u> |
| | Over provision in prior years | (67) | (77) |
| | | <u>5,585</u> | <u>5,662</u> |
| | The explanation of the relationship between tax expense and profit before tax is as follows: | | |
| | | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
| | Profit before tax | <u>20,845</u> | <u>18,606</u> |
| | Statutory tax rate in Malaysia (2008: 26%, 2007: 27%) | 5,420 | 5,024 |
| | Tax effect in respect of: | | |
| | Non-allowable expenses | 180 | 608 |
| | Non-taxable income | (1) | (41) |
| | Over provision in prior years | (67) | (77) |
| | Effect of changes in tax rate | 197 | - |
| | Recognition of deferred tax previously not recognised | (144) | 148 |
| | Tax expense | <u>5,585</u> | <u>5,662</u> |

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24 EARNINGS PER SHARE

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---|-----------------------|-----------------------|
| Net profit attributable to equity holders of the Bank | 15,260 | 12,944 |
| Weighted average number of ordinary shares in issue | 304,000 | 304,000 |
| Basic / fully diluted earnings per share (sen) | <u>5.0</u> | <u>4.3</u> |

25 DIVIDENDS

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

| | <u>2008</u> | | <u>2007</u> | |
|-------------------------|---------------------------------------|---|---------------------------------------|---|
| | Gross dividend per share Sen | Amount of dividend net of tax RM'000 | Gross dividend per share Sen | Amount of dividend net of tax RM'000 |
| Ordinary shares: | | | | |
| Proposed final dividend | <u>3.00</u> | <u>6,840</u> | <u>2.85</u> | <u>6,411</u> |

A proposed final dividend of 3.00 sen (2007: 2.85 sen) per share less income tax of 25% (2007: 26%), in respect of the current financial year amounting to RM6,840,000 has been recommended by the Directors for shareholder's approval at the forthcoming Annual General Meeting. These financial statements do not reflect this proposed final dividend as it will be accrued as a liability in the financial year ending 31 December 2009 after approval by the shareholder.

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

| | <u>2008</u> | | <u>2007</u> | |
|-------------------------|---------------------------------------|---|---------------------------------------|---|
| | Gross dividend per share sen | Amount of dividends, net of tax RM'000 | Gross dividend per share sen | Amount of dividends, net of tax RM'000 |
| <u>Ordinary shares</u> | | | | |
| Final dividend for 2007 | 2.85 | 6,411 | - | - |
| Final dividend for 2006 | - | - | 3.93 | 8,721 |
| | <u>2.85</u> | <u>6,411</u> | <u>3.93</u> | <u>8,721</u> |

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26 **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

| <u>Related party</u> | <u>Relationship</u> |
|------------------------------|--------------------------|
| China Investment Corporation | Ultimate holding company |
| Bank of China Limited | Holding company |
| Bank of China (Sydney) | Fellow subsidiaries |
| Bank of China (Toronto) | Fellow subsidiaries |
| Bank of China (Tokyo) | Fellow subsidiaries |
| Bank of China (Frankfurt) | Fellow subsidiaries |
| Bank of China (Singapore) | Fellow subsidiaries |
| Bank of China (London) | Fellow subsidiaries |
| Bank of China (New York) | Fellow subsidiaries |
| Bank of China (Hong Kong) | Fellow subsidiaries |

(a) Related party transactions

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

| | <u>Holding Company</u> | <u>Fellow Subsidiaries</u> | <u>Key management personnel</u> |
|--|------------------------|----------------------------|---------------------------------|
| | RM'000 | RM'000 | RM'000 |
| <u>2008</u> | | | |
| INCOME | | | |
| Interest income: | | | |
| - Deposits and placements with bank and other financial institutions | 88 | 895 | - |
| - Housing loan | - | - | 19 |
| - Bill receivable | 833 | - | - |
| | <u>921</u> | <u>895</u> | <u>19</u> |
| EXPENSES | | | |
| Interest expenses: | | | |
| - Deposits and placements of banks and other financial institutions | 14,357 | 25 | - |
| - Deposits from customers | - | - | 37 |
| | <u>14,357</u> | <u>25</u> | <u>37</u> |

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

(a) Related party transactions (continued)

| <u>2007</u> | <u>Holding Company</u> RM'000 | <u>Fellow subsidiaries</u> RM'000 | <u>Key management personnel</u> RM'000 |
|---|--------------------------------------|--|---|
| INCOME | | | |
| Interest income: | | | |
| - Deposits and placements with bank and other financial institutions | 71 | 2,455 | - |
| - Housing loan | - | - | 10 |
| | <u>71</u> | <u>2,455</u> | <u>10</u> |
| EXPENSES | | | |
| Interest expenses: | | | |
| - Deposits and placements of banks and other financial institutions | 9,950 | 3 | - |
| - Deposits from customers | - | - | 50 |
| | <u>9,950</u> | <u>3</u> | <u>50</u> |

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

(b) Related party balances

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

| <u>2008</u> | <u>Holding Company</u> RM'000 | <u>Fellow subsidiaries</u> RM'000 | <u>Key management personnel</u> RM'000 |
|--|--------------------------------------|--|---|
| AMOUNT DUE FROM | | | |
| Advances | 7,862 | 33,820 | - |
| Housing loan | - | - | 448 |
| | <u>7,862</u> | <u>33,820</u> | <u>448</u> |
| AMOUNT DUE TO | | | |
| Deposits and placements of banks and other financial institutions | 479,971 | - | - |
| Deposits from customers | - | - | 1,387 |
| | <u>479,971</u> | <u>-</u> | <u>1,387</u> |

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

(b) Related party balances (continued)

| | <u>Holding Company</u> RM'000 | <u>Fellow Subsidiaries</u> RM'000 | <u>Key management personnel</u> RM'000 |
|--|--------------------------------------|--|---|
| <u>2007</u> | | | |
| AMOUNT DUE FROM | | | |
| Advances | 6,977 | 46,924 | - |
| Housing loan | - | - | 498 |
| | <u>6,977</u> | <u>46,924</u> | <u>498</u> |
| AMOUNT DUE TO | | | |
| Deposits and placements of banks and other financial institutions | 165,482 | - | - |
| Deposits from customers | - | - | 1,688 |
| | <u>165,482</u> | <u>-</u> | <u>1,688</u> |

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

Included in the table above are deposits payable to the Directors of the Bank amounting to RM417,114 (2007: RM584,359).

(c) Key management personnel compensation

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| Fees | 144 | 144 |
| Salaries and other short-term benefits | 1,302 | 1,401 |
| Benefits-in-kind | 121 | 91 |
| | <u>1,567</u> | <u>1,636</u> |

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

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

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27 CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

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

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

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

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28 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies constitute the following:

| | 2008 | | | 2007 | | |
|---|---------------------|--------------------------------|----------------------------|---------------------|--------------------------------|----------------------------|
| | Principal RM'000 | Credit equivalent RM'000 | Risk weighted RM'000 | Principal RM'000 | Credit equivalent RM'000 | Risk weighted RM'000 |
| Direct credit substitutes | 2,226 | 2,226 | 2,226 | - | - | - |
| Transaction-related contingent items | 437,379 | 218,690 | 89,609 | 95,719 | 47,860 | 10,690 |
| Short-term self liquidation trade related contingencies | 4,242 | 848 | 848 | 63,490 | 12,698 | 532 |
| Irrevocable commitments to extend credit: | | | | | | |
| - Maturity not exceeding one year | 375,670 | 75,134 | 70,460 | 105,899 | - | - |
| - Maturity exceeding one year | 349,980 | 174,990 | 88,266 | 13,489 | 6,745 | 6,700 |
| Foreign exchange related contracts: | | | | | | |
| - Less than one year | 7,173 | - | - | 9,915 | - | - |
| Others | 20,320 | - | - | 513 | - | - |
| | 1,196,990 | 471,888 | 251,409 | 289,025 | 67,303 | 17,922 |

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

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29 LEASE COMMITMENTS

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| Not later than 1 year | 1,316 | 1,381 |
| Later than 1 year but not later than 5 years | 1,085 | 1,846 |
| | <u>2,401</u> | <u>3,227</u> |

30 CAPITAL COMMITMENTS

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| Capital expenditure for property and equipment | | |
| - approved by the Board and contracted for | 1,210 | - |
| - approved by the Board but not contracted for | 2,000 | - |
| | <u>3,210</u> | <u>-</u> |

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31 CAPITAL ADEQUACY

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

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|--|-----------------------|-----------------------|
| <u>Tier-1 capital</u> | | |
| Paid-up ordinary share capital | 304,000 | 304,000 |
| Retained profits | 8,808 | 7,590 |
| Other reserves | 43,436 | 35,805 |
| | <u>356,244</u> | <u>347,395</u> |
| Less: Deferred tax assets | (4,920) | (3,598) |
| Total tier-1 capital | <u>351,324</u> | <u>343,797</u> |
| <u>Tier-2 capital</u> | | |
| General allowance for bad and doubtful debts | 17,466 | 12,710 |
| Total tier-2 capital | <u>17,466</u> | <u>12,710</u> |
| Total capital base | <u>368,790</u> | <u>356,507</u> |
| <u>Capital ratios</u> | | |
| <u>Before deducting proposed dividends</u> | | |
| Core capital ratio | 37% | 133% |
| Risk-weighted capital ratio | 39% | 138% |
| <u>After deducting proposed dividends</u> | | |
| Core capital ratio | 36% | 131% |
| Risk-weighted capital ratio | <u>38%</u> | <u>136%</u> |

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

| | <u>Basel II</u> <u>2008</u> RM'000 | <u>Basel I</u> <u>2007</u> RM'000 |
|----------------------------|--|---|
| Credit risk | 869,092 | 255,994 |
| Market risk | 1,131 | 2,128 |
| Operational risk | 70,953 | - |
| Total risk-weighted assets | <u>941,176</u> | <u>258,122</u> |

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31 **CAPITAL ADEQUACY (CONTINUED)**

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

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

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

The detailed disclosures on the risk-weighted assets, as set out in Notes 31 (c), (d), (e) are presented in accordance with para 4.3 of Bank Negara Malaysia's Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and Capital Adequacy Framework of Islamic Banks ('CAFIB') – Disclosure Requirements (Pillar 3), whereby such disclosures are effective for financial reports for periods beginning on or after 1 January 2008. In accordance with para 7.2 (i) of the concept paper, the comparative amounts for the previous financial year ended 31 December 2007 as per Note 31 are not presented in this manner as the current financial year represents the first time adoption and disclosure of RWCAF.

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31 CAPITAL ADEQUACY (CONTINUED)

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

| <u>2008</u> Exposure class | <u>Gross</u> <u>exposure</u> RM'000 | <u>Net</u> <u>exposure</u> RM'000 | <u>Risk-</u> <u>weighted</u> <u>assets</u> RM'000 | <u>Capital</u> <u>requirements</u> RM'000 |
|--|--|---|--|---|
| (i) Credit Risk | | | | |
| On-balance sheet exposure: | | | | |
| Sovereigns & central banks | 480,723 | 480,723 | - | - |
| Banks, development financial institutions & MDBs* | 93,666 | 93,666 | 34,327 | 2,746 |
| Corporates | 697,252 | 697,252 | 575,418 | 46,033 |
| Residential mortgages | 11,110 | 11,110 | 4,323 | 346 |
| Other assets | 7,127 | 7,127 | 3,615 | 289 |
| Total on-balance sheet exposure | <u>1,289,878</u> | <u>1,289,878</u> | <u>617,683</u> | <u>49,414</u> |
| Off-balance sheet exposures: | | | | |
| Credit-related off-balance sheet exposure | 471,888 | 471,888 | 251,409 | 20,113 |
| Total credit risk | <u>1,761,766</u> | <u>1,761,766</u> | <u>869,092</u> | <u>69,527</u> |
| | <u>Net long</u> <u>position</u> RM'000 | | | |
| (ii) Market Risk | | | | |
| Foreign currency risk | <u>1,131</u> | | 1,131 | 90 |
| (iii) Operational Risk | | | | |
| | | | <u>70,953</u> | <u>5,676</u> |
| Total risk weighted assets and capital requirement | | | <u>941,176</u> | <u>75,293</u> |

* Multi-lateral Development Banks ('MDBs')

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31 CAPITAL ADEQUACY (CONTINUED)

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

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

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31 CAPITAL ADEQUACY (CONTINUED)

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

2007

| | <u>Principal</u> RM'000 | <u>Risk-Weighted</u> RM'000 |
|---|----------------------------|--------------------------------|
| 0% | 817,405 | - |
| 20% | 124,466 | 24,893 |
| 50% | 10,627 | 5,314 |
| 100% | 225,787 | 225,787 |
| Total risk-weighted assets for credit risk | <u>1,178,285</u> | <u>255,994</u> |

- (e) The risk-weighted assets and capital requirements for the various categories of risk under Market Risk are as follows:

| | <u>2008</u> RM'000 | <u>2007</u> RM'000 |
|---------------------------------|-----------------------|-----------------------|
| Foreign exchange risk | | |
| Risk-weighted assets equivalent | 1,131 | 2,128 |
| Capital required | <u>90</u> | <u>170</u> |

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31 CAPITAL ADEQUACY (CONTINUED)

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

| | <u>2008</u> | | | <u>2007</u> | | |
|---|----------------------------|--|--|----------------------------|--|--|
| | <u>Principal</u> RM'000 | <u>Credit</u> <u>equivalent</u> RM'000 | <u>Risk</u> <u>weighted</u> RM'000 | <u>Principal</u> RM'000 | <u>Credit</u> <u>equivalent</u> RM'000 | <u>Risk</u> <u>weighted</u> RM'000 |
| Direct credit substitutes | 2,226 | 2,226 | 2,226 | - | - | - |
| Transaction-related contingent items | 437,379 | 218,690 | 89,609 | 95,719 | 47,860 | 10,690 |
| Short-term self liquidating trade related contingencies | 4,242 | 848 | 848 | 63,490 | 12,698 | 532 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 349,980 | 174,990 | 88,266 | 13,489 | 6,745 | 6,700 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year | 375,670 | 75,134 | 70,460 | 105,899 | - | - |
| | <u>1,169,497</u> | <u>471,888</u> | <u>251,409</u> | <u>278,597</u> | <u>67,303</u> | <u>17,922</u> |

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32 **FINANCIAL INSTRUMENTS**

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

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

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

Credit Risk

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

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

Market Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

Liquidity Risk

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

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

Operational Risk

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

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

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

(b) Interest rate risk

The tables below summarise the Bank's exposure to interest rate risks. Included in the tables are 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 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.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 **FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

| <u>2007</u> | Non Trading Book | | | | | | <u>Total</u> RM'000 | <u>Effective</u> <u>Interest Rate</u> % |
|--|--|---|--|--|---|---|------------------------|---|
| | <u>Up to</u> <u>1 month</u> RM'000 | <u>>1 – 3</u> <u>months</u> RM'000 | <u>>3 – 12</u> <u>months</u> RM'000 | <u>1 – 5</u> <u>years</u> RM'000 | <u>Over</u> <u>5 years</u> RM'000 | <u>Non-interest</u> <u>sensitive</u> RM'000 | | |
| <u>Assets</u> | | | | | | | | |
| Cash and short-term funds | 582,700 | - | - | - | - | 4,626 | 587,326 | 3.55% |
| Deposits and placement with banks and other financial institutions | - | 71,000 | - | - | - | - | 71,000 | 3.56% |
| Held-to-maturity securities | - | 15,135 | 39,990 | - | - | - | 55,125 | 4.92% |
| Loans and advances | | | | | | | | |
| - performing | 292,931 | 73,308 | 13,771 | 104 | 2,780 | (12,710) | 370,184 | 5.95% |
| - non-performing | - | - | - | - | - | 6,528 | 6,528 | |
| Other assets | - | - | - | - | - | 5,008 | 5,008 | |
| Deferred tax assets | - | - | - | - | - | 3,598 | 3,598 | |
| Property and equipment | - | - | - | - | - | 1,388 | 1,388 | |
| Intangible assets | - | - | - | - | - | 1,140 | 1,140 | |
| Total assets | 875,631 | 159,443 | 53,761 | 104 | 2,780 | 9,578 | 1,101,297 | |

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

| <u>2007</u> | Non Trading Book | | | | | | Total RM'000 | Effective Interest Rate % |
|---|----------------------------|----------------------------|-----------------------------|--------------------------|---------------------------|-------------------------------------|------------------|---------------------------------|
| | Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | | |
| <u>Liabilities</u> | | | | | | | | |
| Deposits from customers | 302,911 | 17,910 | 28,487 | 116 | - | 79,221 | 428,645 | 3.29% |
| Deposits and placements of banks and other financial institutions | 203,274 | 49,575 | - | - | - | - | 252,849 | 4.56% |
| Other liabilities | - | - | - | - | - | 71,397 | 71,397 | |
| Provision of taxation | - | - | - | - | - | 1,011 | 1,011 | |
| Total liabilities | 506,185 | 67,485 | 28,487 | 116 | - | 151,629 | 753,902 | |
| Shareholder's equity | - | - | - | - | - | 347,395 | 347,395 | |
| Total liabilities and shareholder's equity | 506,185 | 67,485 | 28,487 | 116 | - | 499,024 | 1,101,297 | |
| On balance sheet – interest rate gap | 369,446 | 91,958 | 25,274 | (12) | 2,780 | (489,446) | - | |
| Off balance sheet – interest rate gap | - | - | - | - | - | - | - | |
| Total interest sensitivity gap | 369,446 | 91,958 | 25,274 | (12) | 2,780 | (489,446) | - | |

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Credit risk**

2008

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

[^] Excludes general allowance and specific allowance amounting to RM 17,466,000 and RM943,000.

[#] Other assets include interest receivables, intangible assets, property and equipment, deferred tax assets and tax recoverable.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) **Credit risk (continued)**

2007

| | Short-term funds and placements with financial institutions RM'000 | Held- to-maturity securities RM'000 | Loans and advances RM'000 | Other assets RM'000 | On-balance sheet total RM'000 | Commitments and contingencies RM'000 |
|--|---|--|-----------------------------------|----------------------------------|-------------------------------------|---|
| The following tables set out the credit risk concentrations by sector: | | | | | | |
| Primary agriculture | - | - | 35,721 | - | 35,721 | 3,826 |
| Mining and quarrying | - | - | - | - | - | 4,200 |
| Manufacturing | - | - | 57,243 | - | 57,243 | 19,209 |
| Electricity, gas and water supply | - | - | - | - | - | - |
| Construction | - | - | - | - | - | 21,537 |
| Real estate | - | - | 63,897 | - | 63,897 | 4,782 |
| Wholesale and retail trade and restaurants and hotels | - | - | 39,445 | - | 39,445 | 4,508 |
| Transport, storage and communication | - | - | 3,978 | - | 3,978 | 8,971 |
| Finance, insurance and business services | 54,274 | - | 56,685 | - | 110,959 | 5 |
| Household | - | - | 12,770 | - | 12,770 | 180 |
| Government and government agencies | 602,158 | 55,125 | 50,263 | 1,716 | 709,262 | - |
| Education, health and others | - | - | 2,133 | - | 2,133 | 85 |
| Others | - | - | 67,862 | - | 67,862 | - |
| | <u>656,432</u> | <u>55,125</u> | <u>389,997</u> | <u>1,716</u> | <u>1,103,270</u> | <u>67,303</u> |
| Assets not subject to credit risk | 1,894 | - | - | 9,418 | 11,312 | - |
| | <u><u>658,326</u></u> | <u><u>55,125</u></u> | <u><u>389,997[^]</u></u> | <u><u>11,134[#]</u></u> | <u><u>1,114,582</u></u> | <u><u>67,303</u></u> |

[^] Excludes general allowance and specific allowance amounting to RM 12,710,000 and RM575,000.

[#] Other assets include interest receivables, intangible assets, property and equipment, deferred tax assets and tax recoverable.

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32 **FINANCIAL INSTRUMENTS (CONTINUED)**

(d) **Liquidity risk**

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

| | Carrying amount | 2008 Fair value | Carrying amount | 2007 Fair value |
|-----------------------------|--------------------|-----------------------|--------------------|-----------------------|
| | RM | RM | RM | RM |
| <u>Financial assets</u> | | | | |
| Held-to-maturity securities | 39,706 | 40,760 | 55,125 | 55,250 |

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Deposits and placements with financial institutions

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

(b) Held-to-maturity securities

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

(c) Loans and advances

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

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

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

(d) Deposits from customers

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

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

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

(f) Foreign exchange rate and interest rate contracts

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

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

34 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Allowances for losses on loans and advances

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

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 27 March 2009.

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

We, Zheng Jingbo and Tan Siak Tee, being two of the Directors of Bank of China (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 17 to 73 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2008 and of the results and cash flows of the Bank for the financial year ended on that date and in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 27 March 2009.

ZHENG JINGBO
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur
27 March 2009

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

I, Cho Lai Kuan, the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 17 to 73 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

CHO LAI KUAN

Subscribed and solemnly declared by the abovenamed Cho Lai Kuan at Kuala Lumpur on 27 March 2009, before me.

COMMISSIONER FOR OATHS

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Bank of China (Malaysia) Berhad, which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 73.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2008 and of its financial performance and cash flows for the year then ended.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/09 (J))
Chartered Accountant

Kuala Lumpur
27 March 2009