United Overseas Bank (Malaysia) Bhd
Annual Report 2010

Lotus Pond - Being & Continuing
Chua Ek Kay

Our mission: To be a premier bank in the Asia-Pacific region, committed to providing quality products and excellent service.

Lotus Pond - Being & Continuing

A recipient of Singapore's Cultural Medallion Award, Chua is best known for bridging Eastern and Western elements in his paintings. He is the first Chinese ink painter to win the UOB Painting Of The Year ("POY") Competition. Using Chinese ink as a medium, Chua brings out the beauty and spirit of the lotus at various periods of its life, capturing the graceful movements of the lotus for posterity. The UOB POY Competition and Exhibition is a flagship event under the Bank's corporate social responsibility programme.

Contents

Reports and financial statements for the year ended 31 December 2010.
All figures in this Annual Report are in Malaysian Ringgit unless otherwise specified.

About United Overseas Bank (Malaysia) Bhd

United Overseas Bank (Malaysia) Bhd ("UOB (Malaysia)") was incorporated in 1993. It is a subsidiary of United Overseas Bank Limited ("UOB"), a leading bank in Singapore with a global network of over 500 offices in 19 countries and territories in Asia Pacific, Western Europe and North America.

UOB has had a presence in Malaysia since 1951. Today, UOB (Malaysia) operates 45 branches throughout Malaysia.

UOB (Malaysia) offers an extensive range of commercial and personal financial services through its branches, subsidiaries and associate companies. Its services include: commercial lending, investment banking, treasury services, trade services, home loans, credit cards, wealth management, general insurance and life assurance solutions.

UOB (Malaysia) is rated AA1 by the Rating Agency of Malaysia (RAM).

For further information, please visit uob.com.my.

Chairman's Statement

"... the Bank will launch new initiatives to expand the emerging market segments."

2010 Review

Despite economic weakness in the advanced countries, the Malaysian economy remained fundamentally sound, supported by a robust financial system with ample liquidity. Gross domestic product ("GDP") grew 7.2% in 2010, underpinned by strong domestic demand and growth in the intra-regional trade.

United Overseas Bank (Malaysia) Bhd ("UOB (Malaysia)") continued to deliver strong earnings growth, with net profit after tax of RM619.1 million (2009: RM520.1 million), an increase of 19.0% against the previous year. This translated to a return on equity (after tax) of 16.3% compared to 16.1% in 2009.

Total income increased by 17.7% to RM1,589.9 million (2009: RM1,350.3 million), driven by higher net interest income and other operating income. Net interest income grew 20.1% to RM1,139.0 million (2009: RM948.8 million) largely due to strong growth in loans and the favourable interest rate environment. Gross loans registered an increase of 23.7% to RM35.2 billion (2009: RM28.5 billion), ahead of the industry growth of 13%. Non-bank deposits rose 23.5% to RM39.0 billion (2009: RM31.6 billion). Loan-to-deposit ratio remained at around 90%.

Other operating income increased by 12.3% to RM450.9 million (2009: RM401.5 million). The growth was driven by higher fee income across all business activities, and in particular from credit card, trade-related and capital market activities. Staff and other operating expenses rose 17.7% to RM590.8 million (2009: RM502.0 million) as the Bank continued to build our capabilities and invest in our staff and infrastructure. Overall expense was well-controlled with cost-to-income ratio maintained at 37.2%.

Allowance for impairment on loans, advances, financing, commitments and contingencies increased 28.7% to RM198.9 million (2009: RM154.6 million), mainly due to higher collective impairment of RM120.6 million from the bigger loan base. Asset quality continued to improve as reflected in the lower individual impairment and higher NPL recoveries. Net NPL ratio improved to 1.7% from 2.7% despite the adoption of more stringent requirements under FRS139.

In 2010, we continued to expand our target segments, growing our consumer, SME and corporate banking business. The Bank saw good growth in consumer loans and wealth management business. For the commercial sector, tailored product packages, including working capital financing, transaction banking and cash management services, were rolled out to service the needs of SME customers. The Bank also set up industry specialisation units to provide greater customer support and to grow the larger SME and corporate banking business.

In March, the Bank issued RM500 million in subordinated bonds to strengthen our capital position to support further growth. Risk-weighted capital ratio increased from 15.0% to 17.5%.

In continuing pursuit to expand its reach in Malaysia, the Bank opened four new branches in USJ Taipan, Ijok, Ampang and Cheras during the year. The Bank remains as one of the top foreign banks in Malaysia with the largest conventional banking branches (45) across the country.

2011 Outlook

Looking ahead, uncertainty continues to loom over the sustainability of the global economic recovery. The developed economies continue to face challenges of low growth as well as weak labour and financial markets. In contrast, Asia is booming, supported by the resilient domestic economies and intra-regional activities. Malaysia, with its strong domestic demand and expected investments from the Government's initiatives under the Economic Transformation Programme ("ETP"), is projected to grow between 5% and 6% in 2011.

In the local financial sector, competition is expected to intensify from further liberalisation. The entry of new foreign banks and mega Islamic banks will also exacerbate the competition for talents in the market.

In view of the challenges ahead, the Bank will launch new initiatives to expand the emerging market segments. The Bank will also continue to build up talents and capabilities to provide products and services that meet customers' needs. Backed by a robust balance sheet, established regional platform and strong customer franchise, UOB Malaysia expects satisfactory growth in 2011.

Acknowledgement

The Board is deeply saddened by the loss of our Director, Tun Dato' Seri Dr Lim Chong Eu on 24 November 2010. Tun Dato' Seri Dr Lim joined UOB (Malaysia) as a Board director on the 12 December 1994. During his 16-year tenure, Tun Dato' Seri Dr Lim had provided the Board with invaluable inputs and insights.

I would like to thank the Board of Directors for their wise counsel and guidance during the year.

My appreciation also goes to our management and staff members for their commitment and contributions, and our customers for their continuous support.

Wee Cho Yaw
Chairman

Board of Directors

Board of Directors

Wee Cho Yaw
Chairman

Wee Ee Cheong
Lee Chin Yong Francis
Ong Sea Eng Terence
(ceased on 20 May 2010)
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu
(passed away on 24 November 2010)
Ng Kee Wei
(retired on 8 April 2011)
Lim Kean Chye
(retired on 8 April 2011)
Abdul Latif Bin Yahaya
Chan Kok Seong
Datuk Abu Huraira Bin Abu Yazid
(appointed on 5 February 2010)

Executive Committee

Wee Ee Cheong
Chairman

Lee Chin Yong Francis
Chan Kok Seong

Audit Committee

YABhg Tun Dato' Seri Utama Dr Lim Chong Eu
(passed away on 24 November 2010)
Abdul Latif Bin Yahaya
(appointed as Chairman on 19 January 2011)
Chairman

Ng Kee Wei
(resigned on 9 March 2011)
Ong Sea Eng Terence
(ceased on 20 May 2010)
Datuk Abu Huraira Bin Abu Yazid
(appointed on 23 July 2010)
Lee Chin Yong Francis
(appointed on 9 March 2011)

Risk Management Committee

Ng Kee Wei
(resigned on 9 March 2011)
Datuk Abu Huraira Bin Abu Yazid
(appointed as member on 23 July 2010
and as Chairman on 9 March 2011)
Chairman

Ong Sea Eng Terence
(ceased on 20 May 2010)
Abdul Latif Bin Yahaya
Lee Chin Yong Francis
(appointed on 9 March 2011)

Remuneration Committee

Lim Kean Chye
(resigned on 9 March 2011)
Datuk Abu Huraira Bin Abu Yazid
(appointed as Chairman on 9 March 2011)
Chairman

Wee Cho Yaw
Lee Chin Yong Francis
Wee Ee Cheong
(appointed on 9 March 2011)

Nominating Committee

Lim Kean Chye
(resigned on 9 March 2011)
Abdul Latif Bin Yahaya
(appointed as member on 5 July 2010
and as Chairman on 9 March 2011)
Chairman

Wee Cho Yaw
Lee Chin Yong Francis
Ng Kee Wei
(resigned on 9 March 2011)
Ong Sea Eng Terence
(ceased on 20 May 2010)
Abdul Latif Bin Yahaya
(appointed on 5 July 2010)
Wee Ee Cheong
(appointed on 9 March 2011)
Datuk Abu Huraira Bin Abu Yazid
(appointed on 9 March 2011)

Board of Directors' Profiles

Wee Cho Yaw – Chairman

Dr Wee is the Chairman of United Overseas Bank (Malaysia) Bhd. He was appointed to the Board on 23 March 1994 and last re-appointed as Director on 13 April 2011. He is a member of the Remuneration and Nominating Committees.

Dr Wee is the Chairman of United Overseas Bank and its subsidiaries, Far Eastern Bank, United Overseas Insurance and United Overseas Bank (Thai) Public Company, President Commissioner of PT Bank UOB Buana, and Supervisor of United Overseas Bank (China). He is the Chairman of United International Securities, Haw Par Corporation, UOL Group, Pan Pacific Hotels Group, United Industrial Corporation, and Singapore Land and its subsidiary, Marina Centre Holdings. He is also the Chairman of Wee Foundation.

Dr Wee was conferred the Businessman Of The Year award twice at the Singapore Business Awards in 2001 and 1990. In 2006, he received the inaugural Credit Suisse-Ernst & Young Lifetime Achievement Award for his outstanding achievements in the Singapore business community. In 2009, he was conferred the Lifetime Achievement Award by The Asian Banker. Dr Wee is the Pro-Chancellor of Nanyang Technological University and the Honorary President of Singapore Chinese Chamber of Commerce & Industry, Singapore Federation of Chinese Clan Associations and Singapore Hokkien Huay Kuan. He received Chinese high school education and was conferred Honorary Doctor of Letters by the National University of Singapore in 2008.

Wee Ee Cheong

Mr Wee was appointed to the Board on 23 March 1994 and last re-elected as Director on 20 December 2008. He is a member of the Executive, Remuneration and Nominating Committees.

Mr Wee served as Deputy Chairman and President of United Overseas Bank from 2000 to April 2007 and was appointed as Chief Executive Officer ("CEO") on 27 April 2007. He currently holds the position of Deputy Chairman and CEO.

He is a director of several UOB subsidiaries and affiliates, including Far Eastern Bank, United Overseas Insurance, United Overseas Bank (Thai) Public Company and United International Securities. He is the Chairman of United Overseas Bank (China) and a commissioner of PT Bank UOB Buana.

Mr Wee is the current Chairman of The Association of Banks in Singapore. He serves as a director of The Institute of Banking & Finance and chairs the Financial Industry Competency Standards ("FICS") Steering Committee. He is a member of the Board of Governors of the Singapore-China Foundation, Visa International Senior Client Council, India-Singapore CEO Forum and Advisory Board of the INSEAD East Asia Council and International Council. He is also a director of Wee Foundation. Mr Wee is an honorary council member of Singapore Chinese Chamber of Commerce & Industry. He had previously served as Deputy Chairman of Housing & Development Board, and a director of Port of Singapore Authority, UOL Group and Pan Pacifi c Hotels Group.

He holds a Bachelor of Science (Business Administration) and a Master of Arts (Applied Economics) from The American University, Washington, DC.

Lee Chin Yong Francis

Mr Lee was appointed to the Board on 1 September 1998 and last re-elected as Director on 13 April 2011. He is a member of the Executive, Audit, Risk Management, Remuneration and Nominating Committees.

He currently leads the Group's retail businesses for consumers and small business customers. Prior to his appointment in Singapore in 2003, he was the Chief Executive Officer ("CEO") of UOB (Malaysia). Between 2003 and 2008, Mr Lee was the head of International and spearheaded the Group's expansion in the region. He was also responsible for the Bank's consumer banking business in Singapore and the region. He holds a Malaysia Certificate of Education and has 31 years of experience in the financial industry.

Chan Kok Seong

Mr Chan was appointed to the Board on 3 August 2006 and last re-elected as Director on 31 May 2010.

Mr Chan was appointed as CEO of UOB (Malaysia) in 2003. He holds a Bachelor of Accounting from the University of Malaya, Malaysia, and is a member of The Malaysian Institute of Certified Public Accountants. He has 25 years of experience in banking.

Board of Directors' Profiles

En Abdul Latif Bin Yahaya

En Abdul Latif was appointed to the Board on 19 Jun 2008 as an Independent Non-Executive Director. He is the Chairman of the Bank's Audit Committee and Nominating Committee and a member of the Risk Management Committee. En Abdul Latif also sits on the board of several other private companies including Semarak Pesona Sdn Bhd, NCL Solutions Sdn Bhd, Riyan Tech (M) Sdn Bhd, Vigorvest Sdn Bhd and Zag T 3 Sdn Bhd.

He holds a Diploma in Public Administration & Local Government from the then Institute Technology Mara (now UiTM) and a Bachelor of Business Administration awarded by Ohio University. En Abdul Latif has wide working experience in the financial services industry and has served in various senior capacities. He began his career as an Administrative Officer with Bank Negara Malaysia from 1971 to 1978 and subsequently joined Orix Leasing Malaysia Berhad. In 1984, En Abdul Latif was appointed the Managing Director of Arab Malaysian Credit Berhad and he held the position until 1996. He then became the Managing Director of Arab-Malaysian Assurance Berhad (now known as AmAssurance Berhad) until he left in 1999. For the next five years until 2004, he was appointed Advisor to the Chief Executive Officer/Vice Chairman of Orix Leasing Malaysia Berhad. In 2008, he assumed the position of Managing Director/Chief Executive Officer of ICB Islamic Bank Ltd., Dhaka, Bangladesh, for an interim period. During his working career, Encik Abdul Latif was the Chairman of the Equipment Leasing Association of Malaysia for seven years and the President of the Asian Leasing Association for two years.

Datuk Abu Huraira Bin Abu Yazid

Datuk Abu was appointed to the Board on 5 February 2010 as an Independent Non-Executive Director. He is the Chairman of the Bank's Risk Management Committee and Remuneration Committee. He is also a member of the Audit Committee and Nominating Committee. Datuk Abu sits on the board in other private companies such as Equinox 8 Sdn Bhd and HY Connections Sdn Bhd.

He holds a Bachelor of Economics majoring in Business Management awarded by University of Malaya. Datuk Abu has wide working experience with a career spanning 33 years in financial, postal and express air cargo industries. He started his career in 1976 as the Head of Maybank card business up to 1986. Then he joined Chase Manhattan (now known as JP Morgan Chase) until 1988. Thereafter, from 1988 to 1991, Datuk Abu joined Citibank, Malaysia as Vice President and was responsible for setting up and managing card business. Later, he was appointed the General Manager in Public Bank from 1991 to 2000. In 2000, Datuk Abu was appointed the Chief Executive Officer of National Savings Bank, a position he assumed up to 2004. He was also appointed in 2007 as a member of a 3-man Executive Committee at Board level to manage Transmile Berhad. From 2001 to 2009, he was appointed the Executive Director of Pos Malaysia Berhad. In 2009, he was appointed Chairman of Social Security Organisation (SOCSO), a position he had held on till to date. Datuk Abu was also a member of VISA International's Advisor's Debit Group, Commercial Products Planning Committee and the Membership, Rules & Risk Committee.

Corporate Information

Senior Management

Chan Kok Seong
Chief Executive Officer

Lam Sai Yoke Kevin
Managing Director
Country Head, Personal Financial Services

Beh Soo Heng Michael
Managing Director
Country Head, Global Markets & Investment Management

Beh Wee Khee
Executive Director
Country Head, Commercial Banking II

Chan Shu Peng (Ms)
Executive Director
Head, Retail
Technology & Operations

Chun Choy Wan (Ms)
Executive Director
Head, Wholesale/Treasury
Technology & Operations

Kan Wing Yin
Executive Director
Country Head, Commercial Banking I

Khoo Chock Seang
Executive Director
Head, Sales & Distribution
Personal Financial Services

Lee Ean Chye Andre
Executive Director
Country Head, Transaction Banking

Lee Voon Seng
Executive Director
Country Head, Human Resources

Lim Jit Yang
Executive Director
Country Head, Corporate Banking II

Lin Kok Hoi
Executive Director
Country Head, Retail Business Channels Support

Loong See Meng Steven
Executive Director
Country Head, Corporate Banking I

Lum Chee Onn
Executive Director
Country Head, Technology & Operations

Mohd Fhauzi bin Muridan
Executive Director
Country Head, Bumiputera Business Banking

Ng Ling Tee Steven
Managing Director
Country Head, Specialised Financing

Por Peng Seong Alex
Executive Director
Country Head, Risk Management

Quah Chei Jin Albert
Executive Director
Country Head, Finance & Corporate Services
Chief Financial Officer

Seow Hooi Choon James
Executive Director
Country Head, Business Banking

Tan Kok Soon David
Executive Director & Country Head
Credit - Corporates & Financial Institutions

Wee Hock Kiong
Executive Director
Country Head, Credit - Retail

Yong Yen Ee
Executive Director
Country Head, Credit - Middle Market

Secretary

Chun Choy Wan

Auditors

Messrs Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur

Share Capital

Authorised: RM 2,000,000,000
Paid Up: RM 470,000,000

Registered Office

Level 11, Menara UOB
Jalan Raja Laut, 50350 Kuala Lumpur

Head Office

Menara UOB, Jalan Raja Laut
Peti Surat 11212
50738 Kuala Lumpur
Telephone: 03-2692 7722
Facsimile: 03-2691 0281
Cable: BANKUOBMKUALALUMPUR
Telex: MA 34191 UOBMHO
Website: uob.com.my
Email: uob121@uob.com.my

Branch Network

Federal Territory

Central Area I
Bangunan UOB, Medan Pasar
10-12, Medan Pasar
50050 Kuala Lumpur
Tel: 03-2772 8000
Fax: 03-2031 9387 / 03-2070 8058
Area Manager: Foo Tek Lam

Kuala Lumpur Main Branch
Level 2, Menara UOB
Jalan Raja Laut, 50350 Kuala Lumpur
Tel: 03-2692 4511
Fax: 03-2691 3110
Manager: Tan Swee Ling Mona

Jalan Imbi Branch
197-199, Jalan Imbi
55100 Kuala Lumpur
Tel: 03-2143 5722
Fax: 03-2148 9725
Manager: Lee Kim Thye

Jalan Pudu Branch
408-410, Jalan Pudu
55100 Kuala Lumpur
Tel: 03-9222 5135 / 03-9222 9022
Fax: 03-9221 6667
Manager: How Boon Seong Jonathan

Jalan Sultan Ismail (Parkroyal) Branch
Unit 1-6, Ground Floor, President House
Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel: 03-2142 8828
Fax: 03-2141 1212
Manager: Lam Chern Feei

Medan Pasar Branch
Bangunan UOB, Medan Pasar
10-12, Medan Pasar, 50050 Kuala Lumpur
Tel: 03-2772 8000
Fax: 03-2031 9387 / 03-2070 8058
Deputy Manager: Tan Ah Ng

Kepong Branch
82, Ground Floor
Jalan 3/62D, Medan Putra Business Centre
Sri Menjalara, Off Jalan Damansara
52200 Kuala Lumpur
Tel: 03-6286 6888
Fax: 03-6275 3668
Manager: Hew Chun Kie Donald

Selangor

Central Area II
2108, Jalan Meru
41050 Klang
Tel: 03-3342 0712 / 03-3342 0713
Fax: 03-3342 1135
Area Manager: Wong Siew Ling Kelly

Ijok Branch
57 Jalan PPAJ 3/1
Pusat Perdagangan Alam Jaya
42300, Bandar Puncak Alam, Selangor
Tel: 03-6038 8292
Fax: 03-6038 8289
Manager: Gim Tong Wei Ryo

Klang Branch
2108, Jalan Meru
41050 Klang
Tel: 03-3342 0712 / 03-3342 0713
Fax: 03-3342 1135
Deputy Manager: Koh Geok Lan Violet

Kota Damansara Branch
48, Jalan PJU 5/8
Dataran Sunway, Kota Damansara
47810 Petaling Jaya
Tel: 03-6140 9881
Fax: 03-6140 9771
Manager: Oh Seng Hu

Shah Alam Branch
2A, Ground Floor, Wisma SunwayMas
Jalan Tengku Ampuan Zabedah C9/C
Section 9, 40100 Shah Alam
Tel: 03-5891 6213
Fax: 03-5891 6052
Manager: Lai Ted Min George

USJ Taipan Branch
7 Jalan USJ 10/1
USJ Taipan Triangle
47620 UEP Subang Jaya
Selangor
Tel: 03-5565 2000
Fax: 03-5631 8703
Manager: En Chung Teck

Central Area III
1, Jalan SS21/58, Ground Floor
Uptown 1, Damansara Uptown
47400 Petaling Jaya
Tel: 03-7726 2299
Fax: 03-7727 5566
Area Manager: Woon Siew Hoong

Branch Network

Selangor

Ampang Branch
495 Jalan Lima,
Taman Ampang Utama,
Jalan Ampang,
68000 Ampang, Selangor
Tel: 03 - 4264 0288
Fax: 03 - 4257 8322
Manager: Yew Beng Guay Janny

Cheras Branch
35 Jalan Desa Cahaya 11,
Taman Desa Bukit Cahaya,
56100 Cheras, Selangor
Tel: 03 - 9106 2788
Fax: 03 - 9105 3281
Manager: Choo Wei Hong Kennedy

Damansara Uptown Branch
1, Jalan SS21/58, Ground Floor
Uptown 1, Damansara Uptown
47400 Petaling Jaya
Tel: 03-7726 2299
Fax: 03-7727 5566
Deputy Manager: Yew Bee Woon

Jalan Othman Branch
39-45, Jalan Othman
46000 Petaling Jaya
Tel: 03-7788 3333
Fax: 03-7783 8131
Manager: Wong Yin Pheng

Jalan Tengah Branch
2-6, Jalan Tengah
46200 Petaling Jaya
Tel: 03-7955 6576 / 03-7958 2282
Fax: 03-7955 9110
Manager: Ching Chia How Christopher

Puchong Branch
6, Jalan Kenari 5, Bandar Puchong Jaya
47100 Puchong
Tel: 03-8076 8989
Fax: 03-8076 8181
Manager: Ooi Chee Yeong

Negeri Sembilan

Seremban Branch
24-26, Jalan Dato Lee Fong Yee
70000 Seremban
Tel: 06-762 5651 / 06-762 5652
Fax: 06-763 5303
Manager: Chan Chee Peng

Perak

Ipoh Branch
2, Jalan Dato' Seri Ahmad Said
30450 Ipoh
Tel: 05-254 0008 / 05-254 0200
Fax: 05-254 9092
Manager: Liew Chai Kar

Melaka

Plaza Mahkota Branch
1, Jalan PM5, Plaza Mahkota
75000 Melaka
Tel: 06-283 8840 / 06-283 8841
Fax: 06-283 8868
Manager: Sneah Thean Keng

Malim Branch
1, Jalan PPM 8
Plaza Pandan, Malim Business Park
Jalan Balai Panjang, 75250 Melaka
Tel: 06-336 4336
Fax: 06-336 4337
Manager: Sim Meow Hui

Pahang

Kuantan Branch
2, Jalan Besar
25000 Kuantan
Tel: 09-514 4155 / 09-516 1844 / 09-516 4755
Fax: 09-513 8266
Manager: Cheow Chee Seng

Bentong Branch
61-62, Jalan Loke Yew
28700 Bentong
Tel: 09-222 1600 / 09-222 1778
Fax: 09-222 5882
Manager: Cheong Kok Seng Raymond

Raub Branch
14 & 16, Jalan Tun Razak
27600 Raub
Tel: 09-355 1187 / 09-355 3766
Fax: 09-355 5955
Manager: Leong Yew Fook

Branch Network

North Area

North Area Centre
1st Floor, 64E-H, Lebuh Bishop
10200 Pulau Pinang
Tel: 04-258 8188
Fax: 04-262 9119 / 04-258 8166
Area Manager: Tan Guan Leong

Pulau Pinang

Lebuh Bishop Branch
64E-H, Lebuh Bishop
10200 Pulau Pinang
Tel: 04-258 8000
Fax: 04-261 0868
Manager: Lee Gim See Julie

Jalan Kelawei Branch
9, Jalan Kelawei
10250 Pulau Pinang
Tel: 04-226 1777
Fax: 04-226 2382
Manager: Tia Lee Ping Georgina

Butterworth Branch
4071 & 4072, Jalan Bagan Luar
12000 Butterworth
Tel: 04-314 8000
Fax: 04-332 4300
Manager: Chang Tow Heng

Bukit Mertajam Branch
1, Jalan Tembikai, Taman Mutiara
14000 Bukit Mertajam
Tel: 04-537 9898 / 04-538 8233
Fax: 04-530 3818
Manager: Yeong Ai Vee

Kedah

Sungai Petani Branch
177 & 178, Jalan Kelab Cinta Sayang
Taman Ria Jaya, 08000 Sungai Petani
Tel: 04-442 8828
Fax: 04-442 9828
Manager: Tan Yang Cheng

Alor Setar Branch
55, Jalan Gangsa
Kawasan Perusahaan Mergong 2
05150 Alor Setar
Tel: 04-732 1366
Fax: 04-733 0621
Manager: Phuah Ah Keng

Kelantan

Kota Bahru Branch
3999, Jalan Tok Hakim
15000 Kota Bahru
Tel: 09-748 2699 / 09-748 3066
Fax: 09-748 4307
Manager: Ameena Beevi Bte Mohamed Saleh

Terengganu

Kuala Terengganu Branch
51, Jalan Sultan Ismail
20200 Kuala Terengganu
Tel: 09-622 1644 / 09-622 7912
Fax: 09-623 4644
Manager: Shaharom Bin Kahar

South Area

SOUTH AREA CENTRE
2, Jalan Wong Ah Fook
80000 Johor Bahru
Tel: 07-223 4241
Fax: 07-226 0892
Area Manager: Koh Boon Huat

Johor

Jalan Wong Ah Fook Branch
2, Jalan Wong Ah Fook
80000 Johor Bahru
Tel: 07-219 6300 / 07-224 1344 / 07-224 1388
Fax: 07-224 3706
Manager: Teo Choh Meng Ricky

Taman Molek Branch
26 & 28, Jalan Molek 1/13
Taman Molek, 81100 Johor Bahru
Tel: 07-358 2121
Fax: 07-358 1378
Manager: Goh Boon Siang

Batu Pahat Branch
Ground Floor, Wisma Sing Long
9, Jalan Zabedah, 83000 Batu Pahat
Tel: 07-432 8999
Fax: 07-433 8122
Manager: Kek Choon Yian Tracia

Kluang Branch
14-16 Jalan Dato Capt. Ahmad
86000 Kluang
Tel: 07-772 1967 / 07-772 5968 / 07-772 1969
Fax: 07-773 0267 / 07-772 1977
Manager: Lin Yok Kong Eric

Branch Network

Johor

Jalan Bakri, Muar Branch
10, Jalan Pesta 1/1
Kg. Kenangan Tun Dr. Ismail (1)
Jalan Bakri, 84000 Muar
Tel: 06-955 5881
Fax: 06-953 1181
Manager: Chua Wei Yih Eric

Kulai Branch
31-1 & 31-2, Jalan Raya
Kulai Besar, 81000 Kulai
Tel: 07-663 1232 / 07-663 1342
Fax: 07-663 5287
Manager: Lee Vui Len Allen

Sabah

Kota Kinabalu Branch
Bangunan UOB
70, Jalan Gaya, 88000 Kota Kinabalu
Tel: 088-319 555
Fax: 088-314 888
Manager: Ku Nyet Fan

Tuaran Branch
9 & 10, Jalan Datuk Dusing
89208 Tuaran
Tel: 088-788 567
Fax: 088-788 979
Manager: Ku Nyet Fan

Sandakan Branch
2nd Avenue
90000 Sandakan
Tel: 089-212 028 / 089-217 833
Fax: 089-225 577
Manager: Chong Mun Sing

Sarawak

Kuching Branch
1-3, Main Bazaar
93000 Kuching
Tel: 082-421 291
Fax: 082-428 546
Manager: Chua Chai Hua

Miri Branch
108-110, Jalan Bendahara
98000 Miri
Tel: 085-433 322
Fax: 085-422 221
Manager: Chieng Sui Chin Phyllis

Bintulu Branch
207 & 208, Parkcity Commerce Square (Phase III)
Jalan Tun Ahmad Zaidi, 97000 Bintulu
Tel: 086-312 232
Fax: 086-338 381
Manager: Yii See Chieng Ronny

Sibu Branch
8, Lorong 7A, Jalan Pahlawan
Jaya Li Hua Commercial Centre
96000 Sibu
Tel: 084-216 089
Fax: 084-217 089
Manager: Yii See Chieng Ronny

Corporate Governance

The Board of United Overseas Bank (Malaysia) Bhd ("UOB (Malaysia)") remains firmly committed to ensuring an appropriate and sound system of corporate governance in the Bank. In implementing its governance system, the Board applied the principles and best practices as set out in the Malaysian Code on Corporate Governance.

Board of Directors

The Board comprises eight (8) distinguished members. Three (3) of the members, namely Dr Wee Cho Yaw, Mr Wee Ee Cheong and Mr Lee Chin Yong Francis are non-independent non-executive directors, while Mr Ng Kee Wei, Mr Lim Kean Chye, En Abdul Latif Bin Yahaya and Datuk Abu Huraira Bin Abu Yazid are independent non-executive directors. Mr Chan Kok Seong is the only non-independent executive director. UOB (Malaysia) is managed by a competent Board with a wide and varied range of expertise in banking, finance, law, business, management and the public sectors to provide breadth and depth to Board discussions. A director who has an interest in the subject matter to be deliberated at the meeting will abstain from deliberation and voting on the said matter to avoid conflict of interest.

The Board has oversight responsibility for the business and affairs of UOB (Malaysia). It sets the overall business direction and provides guidance on UOB (Malaysia)'s strategic plans. The Board delegates the formulation of business policies and day-to-day management to various committees and the Chief Executive Officer. It meets regularly to review UOB (Malaysia)'s business plans and the operating results achieved.

The Board has direct and unrestricted access to the management for further information and clarification on matters pertaining to the business and operation of the Bank. The Board also has access to the Company Secretary. The Company Secretary consistently ensures that Board procedures are adhered to at all times during meetings and advises the Board on matters including corporate governance issues and directors' responsibilities in complying with relevant legislation and regulations.

Directors are fully cognizant of the importance and value of attending seminars, training programmes and conferences in order to update themselves on development and changes in the industry to enhance their skills, knowledge and expertise to effectively discharge their role as directors of the Bank. The directors may seek independent professional advice on any matter concerning the Bank, the costs of which are borne by the Bank. Newly-appointed directors are briefed on the Bank's objectives, business and operations, and corporate governance practices upon taking office to facilitate their understanding of the Bank's business.

The Board meets at least six times a year. The attendance of every Board member at the meetings of the Board and the various board committees is as set out below:

	Number of meetings attended in 2010					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	6	N/A	N/A	N/A	-	3
Wee Ee Cheong	5	39	N/A	N/A	N/A	N/A
Ong Sea Eng, Terence *	3	N/A	2	2	N/A	1
Lee Chin Yong, Francis	6	41	N/A	N/A	1	3
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu °	5	N/A	4	N/A	N/A	N/A
Ng Kee Wei	6	N/A	4	4	N/A	3
Lim Kean Chye	6	N/A	N/A	N/A	1	3
Abdul Latif Bin Yahaya #	5	N/A	3	3	N/A	2
Datuk Abu Huraira Bin Abu Yazid ^	4	N/A	1	2	N/A	N/A
Chan Kok Seong	6	43	N/A	N/A	N/A	N/A
Number of meetings held in 2010	**6**	**45**	**4**	**4**	**1**	**3**

* Mr Ong Sea Eng, Terence ceased to be a director and a member of the Audit Committee, Risk Management Committee and Nominating Committee on 20 May 2010.
° YABhg Tun Dato' Seri Utama Dr Lim Chong Eu passed away on 24 November 2010.
En Abdul Latif Bin Yahaya was appointed to the Nominating Committee on 5 July 2010.
^ Datuk Abu Huraira Bin Abu Yazid was appointed to the Board on 5 February 2010, and to the Audit Committee and Risk Management Committee on 23 July 2010.

Board Committees

There are currently five board committees appointed by the Board, namely the Executive Committee, Audit Committee, Risk Management Committee, Remuneration Committee and Nominating Committee. The roles and responsibilities of each committee are set out under the respective committees' terms of reference, which have been approved by the Board. Details of the membership of the five board committees are set out on page 6.

Corporate Governance

Executive Committee

The Executive Committee ("EXCO") comprises two (2) non-independent non-executive directors and a non-independent executive director. The EXCO was established by the Board principally to assist the Board in making decisions expeditiously and to exercise certain authorities and functions delegated to it by the Board. The EXCO schedules meetings on a weekly basis, and has been given delegated authority to exercise certain of the Board's powers.

The Chief Executive Officer ("CEO") is responsible for the day-to-day operations of UOB (Malaysia). The Board has conferred upon the EXCO and the CEO certain discretionary limits and authority relating to the review of credit policies, treasury and investment activities, capital expenditure and human resource management.

Audit Committee

The Audit Committee ("AC") comprises three (3) independent non-executive directors. The role of the AC is to assist the Board to examine financial reports, accounting policies and oversee audit matters. During the year, the AC had four meetings. Additional meetings may be called at any time by the AC chairman to discuss specific audit issues if necessary.

After each AC meeting, the AC chairman will report and update the Board on significant issues and concerns discussed during the AC meeting and where appropriate, make the necessary recommendation to the Board.

The AC meets with the external auditors annually to discuss the annual financial statements, nature and scope of the audit and their audit plan, significant changes in accounting standards and auditing issues, management letter and responses. At least once a year, the AC will have a separate session with the external and internal auditors without the presence of the management.

The minutes of the AC meetings are formally tabled to the Board for noting and for action where necessary.

In addition to the duties and responsibilities approved by the Board, the AC acts as a forum for discussion on internal control issues and contributes to the Board's review of the effectiveness and adequacy of the Bank's internal control system including risk management. The AC also conducts a review of the internal audit function to ensure the adequacy of the scope, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work impartially.

Risk Management Committee

The Risk Management Committee ("RMC") comprises three (3) independent non-executive directors. The role of the RMC is to assist the Board to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. During the year, the RMC had four meetings.

The RMC meets with the CEO and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

The minutes of the RMC meetings are formally tabled to the Board for noting and for action where necessary.

Remuneration Committee

The Remuneration Committee ("RC") comprises two (2) non-independent non-executive directors and an independent non-executive director. The role of the RC is to provide a formal and transparent procedure for developing the remuneration policy for directors, the CEO and key senior management officers and to ensure that compensation is competitive and consistent with the licensed institution's culture, objectives and strategy. During the year, the RC had one meeting.

The RC may meet with the CEO and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

Nominating Committee

The Nominating Committee ("NC") comprises two (2) non-independent non-executive directors and three (3) independent non-executive directors. The NC is empowered by the Board to amongst others, recommend to the Board suitable candidates for appointment as director and to ensure that the Board has the appropriate balance of skills, expertise, attributes and core competencies from its members. Annually, the NC will carry out an assessment of the contribution and performance of each individual director, the Board as a whole and key senior management officers. The NC had three (3) meetings during the year.

The NC may meet with the CEO and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

Corporate Governance

Financial Reporting

In presenting the annual accounts and quarterly announcements, the Board is committed to present a balanced, clear and understandable assessment of the financial position and prospects of the Bank. The Board is assisted by the AC to oversee the Bank's financial reporting by scrutinising the information to be disclosed to ensure accuracy, adequacy and completeness.

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements of the Bank is set out on page 37.

Internal Audit

The Bank has a well-established internal audit function which reports to the AC functionally and to the Director & CEO administratively. It operates within the framework defined in its Internal Audit Charter and assists the Board in assessing and reporting on business risks and internal controls of the Bank.

Internal Audit inspects the Bank's units and operations, including its subsidiaries, according to a risk-based audit plan which is reviewed annually to ensure its continued relevance to the business and risk environment before being tabled to the AC for approval. Its responsibilities include but are not limited to the audits of operations, lending practices, financial controls, management directives, regulatory compliance, information technology and the risk management process of the Bank.

The results of each audit are reported to the AC and management and their resolution action plans and progress are closely monitored. Significant findings, together with the status of rectification, are then discussed at the AC meetings and the minutes formally tabled to the Board of Directors. In addition, the Chief Internal Auditor also reports key audit findings and other control concerns to the Deputy Chairman & CEO of the UOB Group and the Head of Group Audit monthly.

Pillar 3 Disclosure

In compliance with the requirements under Bank Negara Malaysia ("BNM") Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), various additional quantitative and qualitative disclosures have been included in the annual report under the section 'Pillar 3 Disclosure'. Some of the disclosure requirements are also required under FRS 7 - Financial Instrument Disclosure which became effective on 1 January 2010 for the Bank. These disclosures have been included in the annual report under the sections 'Pillar 3 Disclosure' and 'Notes to the Financial Statements'. This is to facilitate the understanding of the Bank's risk profile and assessment of the Bank's capital adequacy.

Scope of Application

In accordance with the accounting standards for financial reporting, all subsidiaries of the Bank are fully consolidated from the date the Bank obtains control until the date such control ceases. The Bank's investment in associates is accounted for using the equity method from the date the Bank obtains significant influence over the associates until the date such significant influence ceases.

However, for the purpose of computing capital adequacy requirements at the Bank level, investments in a subsidiary that carries out insurance business as an insurer are excluded from the consolidated financial statements of the Bank. In compliance with BNM's Risk-Weighted Capital Adequacy Framework on capital adequacy, such investments are deducted from eligible Tier 1 and Upper Tier 2 capital.

The transfer of funds or regulatory capital within the Group is subject to minority shareholders' and regulatory approval.

All subsidiaries' capital are fully deducted from Tier-2 capital and are consolidated for regulatory purposes.

Capital Management and Capital Adequacy

Capital management is overseen by the senior management and the Board of Directors ("the Board"), and seeks to ensure that UOB (Malaysia) and its principal subsidiaries maintain adequate capital to:

- support the underlying risks of their businesses;
- comply with all applicable regulatory requirements; and
- meet other factors such as rating agency considerations.

Capital management involves a continuous capital assessment process which encompasses the following key elements:

- assessment of capital and business risks across business segments, products and geographies, and the integration of such assessment with the budgeting process;
- setting and tracking of internal capital targets to ensure that UOB (Malaysia) and its principal subsidiaries are able to maintain adequate capital to support their business growth;
- assessment of short-term and long-term capital needs, including stress testing and scenario reviews, for the purposes of capital management and planning; and
- assessment of the quality of capital and financing structures.

Risk Management

The assumption of financial and non-financial risks is an integral part of the Bank's business. Our risk management strategy is targeted at ensuring on-going effective risk discovery and achieving effective capital management. Risks are managed within levels established by the management committees, and approved by the Board and its committees.

The Bank applies the following risk management principles:

- promotion of sustainable long-term growth through embracing sound risk management principles and business practices;
- continual improvement of risk discovery capabilities and establishment of appropriate value-creating risk controls; and
- focus on facilitating business development within a prudent, consistent and efficient risk management framework that balances risks and returns.

The Bank has a comprehensive framework of policies and procedures for the identification, measurement, monitoring and control of risks. This framework is governed by the appropriate Board and senior management committees.

Credit Risk

Credit risk policies and processes

Credit policies and processes are in place to manage credit risk in the following key areas:

Credit approval process

To maintain independence and integrity of the credit approval process, the credit approval function is segregated from credit origination. Credit approval authority is delegated through a risk-based credit discretionary limit ("CDL") structure that is tiered according to the borrower's rating. Delegation of CDL follows a stringent process that takes into consideration the experience, seniority and track record of the officer. All credit approving officers are guided by credit policies and credit acceptance guidelines. Approval of consumer and small business loans is guided by product programmes. These credit policies, guidelines and product programmes are periodically reviewed to ensure their continued relevance.

Credit risk concentration

A risk-sensitive process is in place to regularly review, manage and report credit concentrations and portfolio quality. This includes monitoring concentration limits and exposures by obligors, portfolios, borrowers and industries. Limits are generally set as a percentage of the Bank's capital base.

Obligor limits ensure that there is no undue concentration to a group of related borrowers that may potentially pose a single risk to the Bank.

Portfolio and borrower limits ensure that lending to borrowers with weaker credit ratings is confined to acceptable levels. These limits are generally tiered according to the borrowers' internal ratings.

Industry limits ensure that any adverse effect arising from an industry-specific risk event is confined to acceptable levels.

Credit stress test

The Bank incorporates periodic credit stress testing as an integral part of its credit portfolio management process. This allows the Bank to assess the potential credit losses arising from the impact of unlikely but plausible adverse events. Remedial actions such as exposure reduction, portfolio rebalancing, hedging and reviewing of credit acceptance guidelines are taken if necessary.

Credit exposures from foreign exchange and derivatives

Pre-settlement limits for foreign exchange ("FX") and derivative transactions are established using the potential future exposures ("PFE") factor based on the transaction currency and tenor to address the credit risk exposures arising from adverse market movements.

For internal risk management, master agreements such as International Swaps and Derivatives Association ("ISDA") agreements and Credit Support Annex are established with active counterparties to manage credit risk arising from foreign exchange and derivative activities. Such agreements allow the Bank to cash-settle transactions in the event of counterparty default, resulting in a single net claim against or in favour of the counterparty.

As at 31 December 2010, in the event of a two-notch downgrading of UOB's credit rating, UOB would not be required to post additional collateral with its counterparties.

For Internal Ratings-Based ("IRB") purpose, the Bank does not recognise ISDA netting. The Current Exposure Method is used to estimate its FX and derivative exposures on a gross basis.

Delinquency monitoring
All delinquent accounts, including credit limit excesses, are closely monitored and managed through a robust process by officers from business units and risk management. Where appropriate, these accounts are also subject to more frequent credit reviews. Delinquency trends are monitored, analysed and reported to the Credit Committee ("CC") and the Executive Committee ("EXCO") periodically.

Classification and loan loss impairment
The Bank classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into 'Pass', 'Special Mention' or 'Non-Performing' categories. Non-performing loans ("NPLs") are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with BNM's Guidelines on Classification and Impairment Provision for Loans/Financing.

Upgrading and de-classification of a NPL account to 'Pass' or 'Special Mention' status must be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower. The Bank must also be satisfied that once the account is de-classified, the account is unlikely to be classified again in the near future.

A restructured account is categorised as non-performing and placed on the appropriate classified grade depending on the Bank's assessment of the financial condition of the borrower and the ability of the borrower to repay based on the restructured terms. A restructured account must comply fully with the restructured terms before it can be de-classified.

The Bank provides for impairment based on local regulatory requirements including BNM guidelines and FRS 139 for local reporting purposes. Where necessary, additional impairment is provided for to comply with the Bank's impairment policy and BNM's requirements.

Bank Special Asset Management
Special Asset Management Department ("SAMD") manages the non-performing portfolios of the Bank. SAMD Restructuring Unit proactively manages a portfolio of NPL accounts, with the primary intention of nursing these accounts back to health and transferring them back to the respective business units. SAMD Recovery Unit manages accounts that the Bank intends to exit in order to maximise debt recovery.

Write-off policy
A classified account that is not secured by any realisable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

Credit exposures under Basel II
UOB (Malaysia) had on 7 January 2010 received approval from BNM to migrate directly to the Internal Ratings Basel Approach for credit risk beginning January 2010 as per the Risk-Weighted Capital Adequacy Framework.

Under Basel II, credit risk for the various asset classes may be computed using a combination of (i) Standardised Approach; (ii) Foundation Internal Ratings-Based ("FIRB") Approach; and (iii) Advanced Internal Ratings-Based ("AIRB") Approach. The table below summarises the approaches adopted by the Bank for credit risk computation.

The Bank has adopted the FIRB Approach for its non-retail exposures and the AIRB Approach for its retail exposures.

	Standardised [a] RM'million	FIRB RM'million	AIRB RM'million
Total Credit Exposures	**6,022**	**27,781**	**19,909**

[a] Amount under Standardised Approach refers to credit exposures where IRB Approach is not applicable, or portfolios that will eventually adopt IRB Approach.

Credit Risk Mitigation

As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Bank are cash, marketable securities, real estate, equipment and inventory. Policies and processes are in place to monitor collateral concentration.

In extending credit facilities to small and medium enterprises ("SMEs"), personal guarantees are often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors. For IRB purpose, the Bank does not recognise personal guarantees as an eligible credit risk protection.

Corporate guarantees are often obtained when the borrower's credit worthiness is not sufficient to justify an extension of credit.

To recognise the effects of guarantees under the FIRB Approach, the Bank adopts the Probability of Default ("PD") substitution approach whereby an exposure guaranteed by an eligible guarantor will utilise the PD of the guarantor in the computation of its capital requirement.

In general, the following eligibility criteria must be met before collateral can be accepted for IRB purpose:

- **Legal certainty:** The documentation must be legally binding and enforceable (on an on-going basis) in all relevant jurisdictions.
- **Material positive correlation:** The value of the collateral must not be significantly affected by the deterioration of the borrower's credit worthiness.
- **Third-party custodian:** The collateral that is held by a third-party custodian must be segregated from the custodian's own assets.

The Bank currently uses supervisory prescribed haircuts for eligible financial collateral. The following table summarises credit exposures covered by guarantees, credit derivatives, financial collaterals and other collaterals:

The credit risk mitigation of the Bank for the current financial year are as follows:

		2010
		RM'million
	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Financial / Other Eligible Collateral
Total	**229**	**2,084**

Credit exposures subject to Standardised Approach

For exposures subject to the Standardised Approach, approved External Credit Assessment Institutions ("ECAI") ratings and prescribed risk weights based on asset class are used in the computation of regulatory capital.

The ECAI used by the Bank are Rating Agency Malaysia, Fitch Ratings, Moody's Investors Service, Malaysian Rating Corporation Berhad and Standard & Poor's. ECAI ratings are mapped to a common credit quality grade prescribed by BNM.

The following table shows the breakdown of net exposures after credit mitigation and provisions by risk weights under Standardised Approach:

Risk weights	Net exposures RM'million
0% to 50%	1,427
51% to 100%	4,233
101% and above	54
Deducted	-
Total	**5,714**

Credit exposures subject to supervisory risk weight under IRB Approach

The following credit exposures are subject to supervisory risk weight under the IRB Approach:
- Equity investment (under Simple Risk Weight ("SRW") Method); and
- Specialised Lending (Commodities Finance ("CF") and Project Finance ("PF")) exposures.

The following table shows the breakdown of Equity investment and Specialised Lending (CF and PF) exposures subject to supervisory risk weight under the IRB Approach:

Risk weights	Specialised Lending RM'million	Equity RM'million
0% to 50%	-	-
51% to 100%	-	-
101% and above	-	137
Total	**-**	**137**

IRB rating system

IRB rating system refers to the methods, processes, controls, data collection and information technology systems that support the assessment of credit risk, the assignment of exposures to rating grades or pools, as well as the parameterisation process for the various classes of exposure.

Rating system governance

The Bank has established a credit rating governance framework to ensure the reliable and consistent performance of the Bank's rating systems. The framework defines the roles and responsibilities of the various parties in the credit rating process, including independent model performance monitoring, annual model validation and independent reviews by Internal Audit.

Internal rating system

The Bank's internal rating system consists of statistical and expert judgement models.

A statistical model is one whereby the risk factors and their risk weights are determined using a statistical method (for example, logistic regression). Such models are developed for portfolios with sufficient internal historical loss data such as the SME portfolio.

An expert judgement model is one whereby the risk factors and their risk weights are determined judgementally by credit experts. Such models are developed for portfolios with limited or no internal historical loss data, such as the Bank and Sovereign asset classes.

All rating models are independently validated before they are implemented for use. They are also subject to annual reviews to ensure that the chosen risk factors appropriately measure the risks in the respective portfolios.

The PD is an estimate of the likelihood that an obligor will default within the next 12 months. An obligor is considered to have defaulted if:

- the obligor is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising the security; or

- the obligor is past due more than 90 days on any credit obligation to the Bank.

The Bank's internal Corporate risk rating process provides a PD-based credit assessment of a borrower over a one-year time horizon.

The rating represents the Bank's assessment of the borrower's ability and willingness to contractually perform despite adverse economic conditions or the occurrence of unexpected events. Therefore, the Bank uses a longer time horizon in the rating assignment process, although the time horizon used in PD estimation is one year.

While the Bank's internal Corporate risk rating grades may show some correlation with the rating grades of ECAIs, they are not directly comparable or equivalent to the ECAI ratings.

Corporate asset class

The Bank has developed models to rate exposures in the Large Corporate and SME asset classes. The rating structure consists of two dimensions:

- Risk of borrower default: Customer Risk Rating ("CRR") is the standalone rating of a borrower's credit risk based on financial (quantitative) and non-financial (qualitative) factors. This is derived from a comprehensive assessment of the borrower's financial strength, quality of management, business risks, and the industry it operates in.

- Transaction-specific factors: Expected Loss Rating is the rating of a facility's risk based on the borrower's CRR, facility and collateral-specific factors such as the type and structure of the facility, availability and type of collateral, and seniority of the exposure.

The Bank's internal rating grade structure for the Corporate asset class consists of 16 pass grades and four default grades. The Large Corporate and SME models are mapped to the rating scale by calibration that takes into account the Group's long-term average portfolio default rate.

Specialised Lending asset sub-class

Within the corporate asset class, the Bank has three sub-classes for Specialised Lending: Income Producing Real Estate ("IPRE"), CF and PF. Specialised Lending exposures are treated separately from normal Corporate exposures. Such exposures generally possess the following attributes either in legal form or economic substance:

- the exposure is typically to an entity (often a special purpose vehicle ("SPV")) which is created specifically to finance and/or operate physical assets;

- the borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation besides the income that it receives from the asset(s) being financed;

- the terms of the obligation give the Bank a substantial degree of control over the asset(s) and the income that it generates; and

- the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.

IPRE
The Bank has developed the IPRE model to rate exposures in this asset sub-class. The internal risk grades are derived based on a comprehensive assessment of the project's financial and non-financial risk factors. The rating grade structure follows that of the corporate asset class and consists of 16 pass grades and four default grades.

CF and PF
The Bank has CF and PF scorecards to rate exposures in this asset sub-class. The internal risk grades are derived based on financial and non-financial risk factors. The internal risk grades are then mapped to five prescribed supervisory categories, each of which is associated with a specific risk weight. The five categories are 'Strong', 'Good', 'Satisfactory', 'Weak' and 'Default'.

Sovereign asset class
The Bank has an internal Sovereign scorecard to rate exposures in this asset class. As there were insufficient internal default data, the scorecard took into account external default data from ECAIs. The scorecard has an internal rating grade structure consisting of 15 pass grades.

Bank asset class
The Bank has an internal Bank scorecard to rate exposures in this asset class. As there were insufficient internal default data, the scorecard took into account external default data from ECAIs. The scorecard has an internal rating grade structure consisting of 15 pass grades.

Equity asset class
The Bank adopts the following approaches for its Equity investments:
- SRW Method for its Equity investment portfolio; and
- Probability of Default/Loss Given Default ("PD/LGD") Method for its investments in Tier 1 and Tier 2 perpetual securities issued by banks.

Investment exposures adopting the SRW Method are subjected to the supervisory risk weights, while investment exposures adopting the PD/LGD Method are rated using the Bank's internal Bank scorecard.

Retail asset class
For Retail exposures, PD, Loss Given Default ("LGD") and Exposure At Default ("EAD") parameters are estimated using internal loss data covering a mix of economic conditions, including downturns. A key principle of the PD, LGD and EAD models is that the model outputs are calibrated to reflect a long-run, cycle-neutral average. Where internal loss data does not cover an appropriate mix of economic conditions and/or is insufficient to provide robust risk estimates, the PD, LGD and EAD models may incorporate internal and/or external proxies, and where necessary, may be augmented with appropriate margins of conservatism.

Probability of Default
PD is estimated using the long-run average of one-year default rates for obligors in a pool. Where internal default data used for estimation does not cover a mix of economic conditions (including downturns), internal and/or external proxies are used to adjust default rates to reflect a long-run, cycle-neutral average.

Loss Given Default
LGD measures the long-run default-weighted average rate of economic loss associated with a facility/pool should default occur. The definition of default in the LGD model is identical to that of the PD model. Loss rates are estimated from historical workout experiences, taking into account the timing and uncertainty of recovery cash flows, direct and indirect costs associated with workouts, as well as the various post-default outcomes, such as cures, full recoveries and liquidations.

Where there are significant adverse dependencies between default and recovery rates, LGD estimates are calibrated to reflect economic downturns. In the event that internal workout data is insufficient to fully reflect loss rates during economic downturns, internal and/or external proxies are used to adjust the loss rates accordingly.

Exposure At Default
EAD measures the expected gross exposure of a facility upon default. The definition of default in the EAD model is identical to that of the PD model. EAD comprises (i) the amount currently drawn; and (ii) an estimate of future drawings of available but unutilised credit up to and after the time of default, known as the Credit Conversion Factor ("CCF").

Since the amount currently drawn is known, the estimation of EAD involves the estimation of the CCF using realised CCF of all defaulted facilities for a given risk pool, covering a sufficiently long period of time and different economic conditions. Where there are significant adverse dependencies between default rates and CCFs, CCF estimates are calibrated to reflect economic downturns.

Exposures Secured by Residential Properties
Exposures Secured by Residential Properties sub-class includes any credit facilities (for example, housing loan, term loan and overdraft) secured against a mortgage of a residential property or properties which meet the following criteria stipulated by BNM:
- the borrower is an individual person(s);
- the residential properties are or will be occupied by the borrower, or are rented;
- the loan is secured by first and subsequent legal charges, deeds of assignment or strata titles on the property; and
- the property has been completed and a certificate of fitness has been issued by the relevant authority.

Such exposures include term loans and revolving home equity lines of credit.

Residential Mortgage exposures are assessed and managed using the Bank's framework of credit policies, procedures and the Retail segmentation model that integrates the PD, LGD and CCF models to discriminate exposures according to their borrower and transaction risks.

Qualifying Revolving Retail Exposures asset sub-class
Qualifying Revolving Retail Exposures ("QRRE") asset sub-class includes credit card exposures and unsecured credit lines that meet the following criteria stipulated by BNM:

- The exposures are revolving, unsecured, and uncommitted (both contractually and in practice);
- The exposures are to individuals;
- The maximum exposure to a single individual in the sub-portfolio is RM500,000 or less;
- Given the asset correlation assumptions for the QRRE risk weight function are markedly below those for the other retail risk weight function at low PD values, the banking institution must demonstrate that exposures identified as QRRE correspond to portfolios with low volatility of loss rates, relative to the average volatility of loss rates of portfolios within the low PD bands;

QRRE are assessed and managed using a combination of application and behavioural scorecards, PD, LGD and CCF models, as well as internal credit policies and procedures.

Other Retail asset sub-class
Other Retail asset sub-class includes commercial properties, share financing and any other retail exposures not classified as Residential Mortgage or QRRE. These exposures fulfil the following criteria stipulated by BNM:

- Exposures to individuals;
- Loans extended to small businesses and managed as retail exposures, provided that the total exposure of the banking group to the small business borrower (on a consolidated basis, where applicable) is less than RM5 million. Small business loans extended through or guaranteed by an individual are subject to the same exposure threshold. Small businesses may include sole proprietorships, partnerships or small and medium enterprises (SMEs); and
- The specific exposure must be part of a large group of exposures, which are managed by the banking institution on a pooled basis.

Other Retail exposures are assessed and managed using the Bank's framework of credit policies, procedures and the Retail segmentation model which integrates the PD, LGD and CCF models to discriminate exposures according to their borrower and transaction risks.

Pillar 3 Disclosure

Credit risk profile

The following tables show the breakdown of exposures by risk-weighted asset ("RWA") and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes:

Large Corporate, SME and Specialised Lending (IPRE) Exposures

CRR band	Credit RWA RM'million	EAD RM'million
1 - 16	13,264	14,650
Defaulted	-	458
Total	**13,264**	**15,108**

Sovereign Exposures

CRR band	Credit RWA RM'million	EAD RM'million
1 - 16	-	10,358
Defaulted	-	-
Total	**-**	**10,358**

Bank Exposures

CRR band	Credit RWA RM'million	EAD RM'million
1 - 16	542	2,159
Defaulted	-	-
Total	**542**	**2159**

Retail (Residential Mortgage) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	800	10,899
2.01% to 99.99%	836	2,707
Default	130	298
Total	**1,766**	**13,904**

Retail (QRRE) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	91	799
2.01% to 99.99%	591	868
Default	40	18
Total	**722**	**1,685**

Retail (Other Retail) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	143	1,561
2.01% to 99.99%	657	2,717
Default	9	42
Total	**809**	**4,320**

Pillar 3 Disclosure

Actual loss by asset class

Actual loss consists of impairment loss allowance and write-off to the Bank's income statement for the financial year ended 31 December 2010.

Comparison of actual loss and expected loss

	Actual Loss (as at 31 December 2010) RM'million	Expected loss (as at 31 December 2009) RM'million
Total	78	253

The actual loss in 2010 is lower than in 2009 due to the improving economic environment in 2010 which resulted in lower defaults in the credit portfolio.

Expected Loss ("EL") is the estimated credit loss from defaults over a one-year horizon. EL is the product of PD, LGD and EAD. A comparison of actual loss and expected loss provides an indication of the predictive power of the IRB models used by the Bank.

However, they are not directly comparable due to the following reasons:

- EL as at 31 December 2009 is a measure of expected credit loss based on the credit exposure as at that date. On the other hand, impairment loss allowance and write-offs are accounting entries relating to a fluctuating portfolio over the course of the financial year. Moreover, write-offs may relate to defaults from prior years.

- EL is estimated based on non-default exposures only, while impairment loss allowance is an accounting estimate of likely loss from defaulted exposures. Write-offs are recorded on defaulted exposures when no further recovery is possible.

Use of internal estimates

Internal ratings are used pervasively by the Bank in the areas of credit approval, credit review and monitoring, credit stress test, limits setting, pricing and collections.

Market Risk

Market risk is governed by the Bank Asset and Liability Committee ("ALCO"), which meets monthly to review and provide direction on market risk matters. The Market Risk Management ("MRM") of the Risk Management Division supports the EXCO and the ALCO with independent assessment of the market risk profile of the Bank.

The Bank's market risk framework comprises market risk policies and practices, the validation of valuation and risk models, which is performed by Head Office in Singapore, the control structure with appropriate delegation of authority and market risk limits. In addition, robust risk architecture as well as a new Product/Service Programme process ensures that market risk issues identified are adequately addressed prior to the launch of products and services. Management of derivatives risks is continually reviewed and enhanced to ensure that the complexities of the business are appropriately controlled.

Overall market risk appetite is balanced at the Group, Bank and business unit levels with the targeted revenue, and takes into account the capital position of the Group and the Bank. This ensures that the Group and the Bank remain well-capitalised even under stress conditions. The risk appetite is translated into risk limits that are delegated to business units. These risk limits have proportional returns that are commensurate with the risks taken.

Standardised Approach

The Bank currently adopts the Standardised Approach for the calculation of regulatory market risk capital but uses internal models to measure and control trading market risks. The financial products warehoused, measured and controlled with internal models include vanilla FX and FX options, vanilla interest rates, overnight index swap, cross currency basis swap spread, government bonds, quasi-government bonds and corporate bonds.

Internal Model Approach

The Bank adopts a daily Value-at-Risk ("VaR") to estimate market risk within a 99% confidence interval using the historical simulation method. This methodology does not make assumptions on the distribution of returns and the correlations between risk classes. The method assumes that possible future changes in market rates may be implied by observed historical market movements.

VaR estimates are backtested against profit and loss of the trading book to validate the robustness of the methodology. The backtesting process analyses whether the exceptions are due to model deficiencies or market volatility. All model deficiencies are addressed with appropriate model enhancements.

To complement the VaR measure, stress and scenario tests are performed to identify the Bank's vulnerability to event risk. These tests serve to provide early warnings of plausible extreme losses to facilitate proactive management of market risks. The Bank's daily VaR on 31 December 2010 was RM0.88 million.

	Year-end RM'million	High RM'million	Low RM'million	Average RM'million
2010				
Total Diversified VAR	**876**	**5,982**	**700**	**2,196**
2009				
Total Diversified VAR	2,361	7,602	1,543	4,287

Interest Rate Risk In The Banking Book

The ALCO, under delegated authority from the Board, oversees the management of balance sheet risk exposure. Risk Management Division ("RMD") supports the ALCO in monitoring the interest rate risk profile of the banking book. At a tactical level, the Bank's Global Markets and Investment Management ("GMIM") Sector is responsible for the effective management of balance sheet risk in accordance with approved balance sheet risk management policies.

The primary objective of interest rate risk management is to protect and enhance capital or economic net worth through adequate, stable and reliable growth in net interest earnings under a broad range of possible economic conditions.

Exposure is quantified on a monthly basis using a combination of static analysis tools and dynamic simulation techniques. Static analysis tools include repricing schedules and sensitivity analysis. They provide indications of the potential impact of interest rate changes on interest income and price value through the analysis of the sensitivity of assets and liabilities to changes in interest rates. Interest rate sensitivity varies with different repricing periods, currency and embedded optionality, where applicable. Mismatches in the longer tenor will experience greater change in the price-value of interest rate positions than similar positions in the shorter tenor.

In the dynamic simulation process, both the earnings Net Interest Income ("NII") and Economic Value of Equity ("EVE") approaches are applied to assess interest rate risk. The potential effects of interest rate change on NII are estimated by simulating the possible future course of interest rates and expected changes in business activities over time. NII simulation is performed to quantify a forward-looking impact on net interest income for the next 12 months under various interest rate scenarios to assess the impact of interest rate movements on income.

In EVE sensitivity simulations, the present values for repricing cash flows are computed, with the focus on changes in EVE under different interest rate scenarios. This economic perspective measures interest rate risks across the full maturity profile of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating the proactive management of interest rate risks in an environment of rapid financial market changes.

The EVE sensitivity at 100 and 200 basis points parallel interest rate shocks was negative RM26 million and RM48 million (2009: negative RM33 million and RM64 million) respectively. This is computed on the banking book for major currencies (Malaysian ringgit and US dollar). The reported figures are based on the worst and best case of an upward and downward parallel movement of the yield curve. The repricing profile of loans and deposits that do not have maturity dates are generally based on the earliest possible repricing dates taking into account the notice period to be served to customers.

Liquidity Risk

The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposit withdrawals and loan disbursements, participate in new investments, and repay borrowings. Hence, liquidity is managed in a manner to address known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of policies, controls and limits which are also adequate to meet the requirements under BNM's New Liquidity Framework. These policies, controls and limits enable the Bank to monitor and manage liquidity risk to ensure that sufficient sources of funds are available over a range of market conditions. These include minimising excessive funding concentrations by diversifying the sources and terms of funding as well as maintaining a portfolio of high quality and marketable liquid assets.

The Bank takes a conservative stance in its liquidity management by continuing to gather core deposits, ensuring that liquidity limits are strictly adhered to and that there are adequate liquid assets and borrowing capacity to meet cash shortfalls.

The distribution of deposits is managed actively to ensure a balance between cost effectiveness, continued accessibility to funds, and diversification of funding sources. Important factors in ensuring liquidity are competitive pricing, proactive management of the Bank's core deposits and the maintenance of customer confidence. Core deposits are generally stable non-bank deposits such as current accounts, savings accounts and fixed deposits. The Bank monitors the stability of its core deposits by analysing their volatility over time.

Liquidity Risk (continued)

Liquidity risk is aligned with the regulatory liquidity risk management framework, and is measured and managed on a projected cash flow basis. The Bank's liquidity is monitored under various scenarios and subjected to various time band limits. Cash flow mismatch limits are established to limit the Bank's liquidity exposure.

Contingency funding plans are in place to identify liquidity crises using a series of warning indicators. Crisis escalation processes and various strategies including funding and communication have been developed to minimise the impact of any liquidity crunch.

The policy of the Bank is to be self-sufficient in its funding capabilities, although it has the support of the Group's Head Office in Singapore.

The table in Note 39(iii) to the financial statements on page 90 - presents the maturity mismatch analysis of the Bank's near and long-term time bands relating to the cash inflows and outflows based on contractual maturity arising from the Bank's activities. Behavioral adjustments were made on significant balance sheet items that had actual maturity dates that differed substantially from the Bank's contractual profile.

Operational risk

Operational risk is managed through a framework of policies, processes and procedures by which units identify, assess, monitor and control/mitigate their operational risks.

Operational Risk Self-Assessment involves identifying and assessing, inherent risks, as well as assessing the effectiveness of controls to mitigate the identified risks. Action plans to address issues are documented and monitored via Operational Risk Action Plans.

Key Operational Risk Indicators are statistical data collected and monitored by business, support units and branches on an on-going basis to facilitate early detection of potential operational control weaknesses. Trend analysis is carried out to identify systemic issues that need to be addressed.

A database of operational risk events and losses has been established to facilitate the analysis of loss trends and root causes of loss events. The analysis would help to strengthen the internal control environment. The database can also be used to compute economic capital in the future.

A Bank-wide Insurance Programme, complemented by a Group Insurance Programme, is in place to mitigate the risk of high impact operational losses.

A Product/Service Programme ensures that risks associated with the introduction of new products and services are identified, analysed and addressed prior to launch and is subject to periodic reviews. The Fair Dealing Guidelines Committee in Head Office also reviews product suitability, product risk disclosures and reputation issues associated with the distribution of retail investment products. For online products and services, extra care and precautionary measures are implemented to protect customers' confidentiality and interests.

With the increasing need to outsource for cost and operational efficiency, the Bank's Outsourcing Policy ensures that outsourcing risks are adequately identified and managed prior to entering into any new arrangement and on an on-going basis.

Effective business continuity and crisis management strategies and plans have been developed and tested to ensure prompt recovery of critical business functions in the event of major business and/or system disruptions.

Legal risk is part of operational risk. Legal risk arises from unenforceable, unfavourable, defective or unintended contracts, lawsuits or claims developments in laws and regulations, or non-compliance with applicable law and regulations. Business units work with the Bank's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Reputation risk is the adverse impact on earnings, liquidity or capital arising from negative stakeholder perception or opinion on the Bank's business practices, activities and financial condition. The Bank has a framework for managing reputation risk.

An operational risk management training and awareness programme is in place to facilitate on-going promotion of an effective risk management culture.

The Bank currently adopts Basic Indicator Approach for Operational Risk Reporting.

Equities Exposures In The Banking Book

The Bank holds equities in its Banking Book mainly for the purpose of investment in Associated Companies and for other long-term investment purpose.

Investment in Associated Companies are accounted for by using the equity method of accounting. Other equities classified under available-for-sale ("AFS") are measured at fair value.

Type of Equities	Exposures RM'million	Bank 2010 RWA RM'million
Publicly traded equity exposures * mainly acquired via loan restructuring activities	**2**	**5**
All other equity exposures * include investment in Associated Companies	**135**	**540**
	137	**545**

Cumulative realised gains/(losses) arising from sales and liquidation.

	Bank 2010 RM'million
- Loss from sale of held-for-trading securities and derivatives	(55)
- Gain from sale of available-for-sale securities	23
	(32)

Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2010.

Principal activities
The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 11 and 12 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year other than the commencement of property investment holding and property management activities of UOB Properties (KL) Bhd, formerly known as UOF(2009) Berhad.

Results

	Group RM'000	Bank RM'000
Profit before taxation	829,955	794,694
Income tax expense	(210,878)	(210,835)
Profit for the year	619,077	583,859

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of FRS139 Financial Instruments: Recognition and Measurement as disclosed in Note 2.2 to the financial statements.

Dividends
The amount of dividends paid by the Bank since 31 December 2009 was as follows:

	RM'000
In respect of the financial year ended 31 December 2009 as reported in the directors' report for that year, a final dividend of 7.9% less 25% taxation, on 470 million ordinary shares, paid on 19 April 2010.	**27,848**

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2010, of 58% less 25% taxation on 470 million ordinary shares of RM1 each, amounting to a dividend payable of RM204,450,000 will be proposed for shareholders' approval. The financial statements of the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2011.

Directors
The names of the directors of the Bank in office since the date of the last report and at the date of this report are:
Wee Cho Yaw
Wee Ee Cheong
Ng Kee Wei (retired on 8 April 2011)
Lim Kean Chye (retired on 8 April 2011)
Lee Chin Yong Francis
Chan Kok Seong
Abdul Latif Bin Yahaya
Datuk Abu Huraira Bin Abu Yazid (appointed on 5 February 2010)
Ong Sea Eng Terence (ceased on 20 May 2010)
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu (passed away on 24 November 2010)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate, other than those arising from the share options granted under the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan of the ultimate holding company, United Overseas Bank Limited ("UOB").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 30 to 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 any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Restricted Shares and Share Appreciation Rights Plan (the "Plans")

Following a review of the remuneration strategy across UOB and its subsidiaries ("UOB Group"), UOB implemented the Plans on 28 September 2007, with a view to aligning the interests of participants with that of shareholders and the UOB Group by fostering a culture of ownership and enhancing the competitiveness of the UOB Group's remuneration for selected employees.

Employees with a minimum of one-year service may be selected to participate in the Plans based on factors such as market-competitive practices, job level, individual performance, leadership skills and potential. Generally granted on an annual basis, the Remuneration Committee will determine the number of Restricted Shares ("RS") and Share Appreciation Rights ("SAR") to be granted, the vesting period and the conditions for vesting.

RS represent UOB shares that are restricted by time and performance conditions as to when they vest. Upon vesting, participants will receive UOB shares represented by the RS.

SAR are rights, which upon exercise, confer the right to receive such number of UOB shares (or by exception, cash) equivalent to the difference between the prevailing market value and the grant value of the underlying UOB shares comprised in the SAR, divided by the prevailing market value of a UOB share. The grant value is determined with reference to the average of the closing prices of UOB shares over the three days preceding the grant date. Upon vesting of SAR, participants have up to six years from the date of grant to exercise their rights.

Subject to the achievement of pre-determined return on equity ("ROE") targets of the UOB Group, 25% of the RS and SAR of the 2007 and 2008 grants and 50% of the 2009 grant, will vest after two years and the remainder after three years from the dates of grant.

Participants who leave the UOB Group before vesting of the RS and SAR will forfeit their rights unless otherwise decided by the Remuneration Committee of UOB.

The Plans shall be in force for a period of ten years or such other period as the Remuneration Committee of UOB may determine. The Plans only allow the delivery of UOB ordinary shares held in treasury by UOB.

Directors' Report

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Bank and its related corporations during the financial year were as follows:

		Number of Ordinary Shares of S$1 Each			
		1.1.2010	Acquired	Disposed	31.12.2010
Ultimate holding company: **United Overseas Bank Limited**					
Wee Cho Yaw	- Direct	16,390,248	573,119	50,000	16,913,367
	- Indirect	248,208,142	8,593,459	-	256,801,601
Wee Ee Cheong	- Direct	2,865,357	100,192	-	2,965,549
	- Indirect	147,064,793	5,142,449	-	152,207,242
Ng Kee Wei	- Direct	447,582	15,648	-	463,230
Lim Kean Chye	- Direct	117	-	-	117
Lee Chin Yong, Francis	- Direct	-	12,979	-	12,979
Chan Kok Seong	- Direct	30,000	-	-	30,000

		Number of preference shares of S$100 each			
		1.1.2010	Acquired	Disposed	31.12.2010
Ultimate holding company: **United Overseas Bank Limited**					
Wee Cho Yaw	- Direct	-	-	-	-
	- Indirect	167,700	-	-	167,700
Wee Ee Cheong	- Direct	20,000	-	-	20,000
	- Indirect	167,700	-	-	167,700

		Number of options over ordinary shares of S$1 each under UOB restricted share plan			
		1.1.2010	Granted	Lapsed	31.12.2010
Ultimate holding company: **United Overseas Bank Limited**					
Lee Chin Yong, Francis	- Direct	56,281	26,450	19,994	62,737
Chan Kok Seong	- Direct	26,189	13,250	2,930	36,509

		Number of options over ordinary shares of S$1 each under UOB share appreciation rights plan			
		1.1.2010	Granted	Lapsed	31.12.2010
Ultimate holding company: **United Overseas Bank Limited**					
Lee Chin Yong, Francis	- Direct	200,969	59,100	29,769	230,300
Chan Kok Seong	- Direct	88,214	29,550	12,616	105,148

Wee Cho Yaw and Wee Ee Cheong by virtue of their substantial interest in the shares in United Overseas Bank Limited are also deemed to have substantial interest in shares of the Bank and all the Bank's subsidiaries to the extent the Bank has an interest.

None of the other directors in office at the end of the financial year had any interests in shares in the Bank or its related corporations during the financial year.

Directors' Report

Holding companies
The holding and ultimate holding companies are Chung Khiaw Bank (Malaysia) Berhad, a company incorporated in Malaysia, and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

Business strategy for the financial year ended 31 December 2010
During the year, the country's economy demonstrated resilience despite malaise continuing to plague the US and European markets. The country's gross domestic product growth was projected to exceed 6.0% underpinned by the strong domestic sector and benign inflation rate at around 1.7%.

In the current competitive environment with constantly changing industry dynamics, the Bank remained focused on its long-term strategies to grow its consumer, small and medium enterprises ("SME") and selective large corporate business.

Overall loans registered a strong growth of 24% whilst keeping the Impaired Loan Ratio at low levels. Deposits growth has kept up with the loans growth to maintain the Loan/Deposit Ratio at 90%. The Bank continued to be a significant market player in consumer housing loans with the demand for new houses remaining strong.

During the year, interest in unit trusts fell, with the worries of a double dip in the US Economy and the problems in some Eurozone countries. Despite this, the Bank managed to end the year again as a leading unit trust distributor. The Bank also managed to retain its second position in Bijak Malaysia (an industry-led life insurance programme) bancassurance sales.

In Wealth Management, the Bank continued to put resources in strengthening its Privilege Banking platform with the Privilege Banking re-launch in September 2010. The improved UOB Privilege Banking platform now offers enhanced wealth management services to the affluent segment in Malaysia and the Bank is geared to aggressively gain market share.

On the SME front, the Bank focused on its niche market to deepen its market penetration. The Bank continues to provide efficient and competitive financing packages to retail SME customers for asset acquisition and working capital purposes. For larger SME customers, the Bank established industry specialisation in the core growth areas to tap opportunities and also leveraged the regional platform to promote cross-border lending.

For the large corporate segment, the Bank achieved strong loans growth from the oil and gas, real estate and construction sectors. The Bank continues to target top-tier corporates and provide tailor made solutions for several merger and acquisition exercises, large infrastructure project financing and cross-border investment initiatives.

In 2010, the Bank continued to provide innovative products and services for transaction banking. Three new cash management products were launched namely Cheque Writer Service, Cheque Referencing and United Cash Fund.

The Cheque Writer Service was launched in September 2010 to meet the demand for an effective solution to the local cheque fraud problems. This service benefits customers with frequent and recurring payments via cheque issuance as it is able to detect fraud on these cheques issued. Cheque Referencing was introduced to assist customers with receivables reconciliation while United Cash Fund helps customer to improve returns on their daily liquidity with the added advantage of tax savings.

In line with the Bank's commitment to provide high quality and cost effective trade solutions and services to customers, all the trade processes were centralised in Kuala Lumpur. Customers can now experience standardised service delivery and efficiencies irrespective of their location.

The Bank also successfully launched a maiden offering of a RM500 million fixed rate subordinated debt issue in the domestic bond market to strengthen its capital base in preparation for future expansion and growth as well as to enhance the efficiency of its capital structure.

During the year, the Bank extended its branch network to 45 nation-wide. Four new branches were opened in USJ Taipan, Ijok, Ampang and Cheras to enable us to better serve new and existing customers in these vibrant townships.

The Bank piloted Recycle Cash Deposit Machines at two of its branches in October 2010. Unlike the conventional Cash Deposit Machines that can only handle cash deposit functions, these new units are able to accept cash deposits and also allow the deposited cash to be withdrawn as well. Besides enhancing customers' experience, the service uptime of our Electronic Banking Centres has also improved with this implementation. The Bank was the first bank in Malaysia to introduce the Recycle Cash Deposit Machines.

UOB (Malaysia) together with four other foreign banks joined the Malaysian Electronic Payment System ("MEPS") automated teller machine ("ATM") network, allowing UOB customers access to over 10,000 ATM facilities belonging to all MEPS member banks in Malaysia once the system link-up is completed in early 2011.

Outlook for the financial year ending 31 December 2011
The Malaysian economy is projected to remain positive with the continued strong intra-regional trade while the domestic sector should benefit from the positive spin-offs from the Government's ambitious Economic Transformation Projects ("ETP"). In addition, the economy will be supported by the continuing low interest rate environment, ample liquidity and relatively easy credit accessibility.

The intense competition in the local banking industry will step up considerably once the seven newly-licensed foreign commercial banks start to ramp up their business activities.

The Bank's strong balance sheet, good distribution network and established customer franchise will provide the edge in serving the increasingly demanding needs of our current and new customers. Barring any unforeseen circumstances, the Bank expects to continue to achieve satisfactory result in 2011.

Rating by external rating agencies
Rating Agency Malaysia ("RAM") had reaffirmed the Bank's long term rating at AA1 and its short term rating at P1.

An 'AA' rating is defined by RAM as being able to offer high safety for timely repayment of financial obligations. The subscript 1 in this category indicates the higher end in the 'AA' category. A P1 rating is defined by RAM as obligations which are supported by a superior capacity for timely repayment.

Other statutory information
(a) Before the statements of financial position and income statements of the Group and of the Bank were made out, the directors took reasonable steps to:

  (i) ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

  (ii) ensure that any current assets which are unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

  (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and

  (ii) the values attributed to current assets in the financial statements of the Group and of the Bank misleading.

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

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

(e) As at the date of this report, there does not exist:

  (i) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

  (ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

Other statutory information (continued)

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Bank for the financial year in which this report is made.

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 9 March 2011.

Wee Cho Yaw

Chan Kok Seong

Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Wee Cho Yaw and Chan Kok Seong, being two of the directors of United Overseas Bank (Malaysia) Bhd, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 40 to 95 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 9 March 2011.

Wee Cho Yaw

Chan Kok Seong

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Chan Kok Seong, being the director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 40 to 95 are in my opinion 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.

Subscribed and solemnly declared by the
abovenamed Chan Kok Seong
at Kuala Lumpur in the Federal Territory
on 9 March 2011

Chan Kok Seong

Before me,

R. Vasugi Ammal
Commissioner for Oaths

Independent Auditors' Report to The Member of United Overseas Bank (Malaysia) Bhd (Incorporated in Malaysia)

for the year ended 31 December 2010

Report on the financial statements

We have audited the financial statements of United Overseas Bank (Malaysia) Bhd ("the Bank"), which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 95.

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 the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines. 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 judgement, 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 the 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 the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Independent Auditors' Report to The Member of United Overseas Bank (Malaysia) Bhd (Incorporated in Malaysia)

for the year ended 31 December 2010

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Yap Seng Chong
No. 2190/12/11(J)
Chartered Accountant

Kuala Lumpur, Malaysia
9 March 2011

Statements of Financial Position

as at 31 December 2010

		Group		Bank	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3	**9,270,889**	6,147,787	**9,270,889**	6,147,787
Securities purchased under resale agreements	4	**149,973**	899,531	**149,973**	899,531
Deposits and placements with financial institutions	5	**10,889**	400,000	**10,889**	400,000
Financial assets at fair value through profit and loss	6	**2,275,075**	1,809,646	**2,275,075**	1,809,646
Available-for-sale ("AFS") securities	7	**3,517,612**	4,892,097	**3,517,612**	4,892,097
Loans, advances and financing	8	**34,387,818**	27,749,652	**34,568,033**	27,925,412
Derivative financial assets	24	**244,248**	260,147	**244,248**	260,147
Other assets	9	**212,152**	260,432	**216,460**	260,974
Statutory deposits with Bank Negara Malaysia	10	**22,800**	8,250	**22,800**	8,250
Investment in subsidiaries	11	**-**	-	**50**	51
Investment in associates	12	**189,234**	159,418	**122,733**	122,733
Investment properties	13	**8,460**	8,640	**-**	-
Property, plant and equipment	14	**226,240**	228,151	**106,272**	108,146
Prepaid land lease payments	15	**40,270**	40,930	**-**	-
Deferred tax assets	16	**148,576**	135,666	**148,602**	135,677
Total assets		**50,704,236**	43,000,347	**50,653,636**	42,970,451
Liabilities and equity					
Deposits from customers	17	**38,964,836**	31,557,474	**38,979,301**	31,557,474
Deposits and placements of banks and other financial institutions	18	**3,903,054**	3,969,179	**3,903,480**	3,969,594
Bills and acceptances payable		**2,279,218**	2,854,488	**2,279,218**	2,854,488
Amount due to Cagamas	19	**33,344**	109,688	**33,344**	109,688
Derivative financial liabilities	24	**337,928**	391,367	**337,928**	391,367
Other liabilities	20	**528,234**	538,216	**527,363**	537,308
Taxation		**63,331**	83,742	**63,331**	83,741
Subordinated bonds	21	**498,628**	-	**498,628**	-
Total liabilities		**46,608,573**	39,504,154	**46,622,593**	39,503,660
Share capital	22	**470,000**	470,000	**470,000**	470,000
Reserves	23	**3,625,663**	3,026,193	**3,561,043**	2,996,791
Shareholders' equity		**4,095,663**	3,496,193	**4,031,043**	3,466,791
Total liabilities and equity		**50,704,236**	43,000,347	**50,653,636**	42,970,451
Commitments and contingencies	36	**47,791,176**	46,367,016	**47,791,176**	46,367,016

The accompanying notes form an integral part of the financial statements.

Income Statements
for the year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Operating revenue		**2,368,776**	2,055,415	**2,373,305**	2,055,415
Interest income	26	**1,934,938**	1,666,140	**1,940,284**	1,666,140
Interest expense	27	**(795,907)**	(717,365)	**(795,920)**	(717,365)
Net interest income		**1,139,031**	948,775	**1,144,364**	948,775
Other operating income	28	**450,873**	401,538	**450,056**	408,047
Operating income		**1,589,904**	1,350,313	**1,594,420**	1,356,822
Other operating expenses	29	**(590,838)**	(502,043)	**(600,789)**	(501,131)
Operating profit before allowance for impairment on loans, advances and financing and provision for commitments and contingencies		**999,066**	848,270	**993,631**	855,691
Allowance for impairment on loans, advances and financing	31	**(205,475)**	(150,727)	**(205,485)**	(150,727)
Net provision for commitments and contingencies		**6,548**	(3,847)	**6,548**	(3,847)
		800,139	693,696	**794,694**	701,117
Share of net profit/(loss) of associates		**29,816**	(5,214)	**-**	-
Profit before taxation		**829,955**	688,482	**794,694**	701,117
Income tax expense	32	**(210,878)**	(168,358)	**(210,835)**	(168,355)
Profit for the year attributable to equity holders of the parent		**619,077**	520,124	**583,859**	532,762
Basic earnings per share (sen)	33	**131.7**	110.7		
Dividends per share (sen)		**5.9**	5.9		

Statements of Comprehensive Income
for the year ended 31 December 2010

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Profit for the year	**619,077**	520,124	**583,859**	532,762
Other comprehensive income:				
Net (loss)/gain on revaluation of available-for-sale ("AFS") securities	**(15,835)**	9,144	**(15,835)**	9,144
Income tax relating to components of other comprehensive income	**3,959**	(2,286)	**3,959**	(2,286)
Transfer to deferred tax	**-**	11,993	**-**	11,993
Total comprehensive income for the year	**607,201**	538,975	**571,983**	551,613

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

		<------------------------ Non-distributable				------------------------>	Distributable	
Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserves RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
2010								
Balance as at 1 January 2010								
As previously reported		**470,000**	**322,555**	**470,000**	**72,797**	**28,603**	**2,132,238**	**3,496,193**
Effects from adopting FRS139		**-**	**-**	**-**	**-**	**(11,002)**	**31,119**	**20,117**
As restated		**470,000**	**322,555**	**470,000**	**72,797**	**17,601**	**2,163,357**	**3,516,310**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(11,876)**	**619,077**	**607,201**
Transactions with owners: Dividends paid: - final dividend for the year ended 31 December 2009	**34**	**-**	**-**	**-**	**-**	**-**	**(27,848)**	**(27,848)**
Balance as at 31 December 2010		**470,000**	**322,555**	**470,000**	**72,797**	**5,725**	**2,754,586**	**4,095,663**
2009								
Balance as at 1 January 2009		470,000	322,555	470,000	60,804	21,745	1,639,962	2,985,066
Total comprehensive income for the year		-	-	-	11,993	6,858	520,124	538,975
Transactions with owners: Dividends paid: - final dividend for the year ended 31 December 2008		-	-	-	-	-	(27,848)	(27,848)
Balance as at 31 December 2009		470,000	322,555	470,000	72,797	28,603	2,132,238	3,496,193

The accompanying notes form an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2010

Bank	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserves RM'000	Net unrealised reserve on AFS securities RM'000	Retained profits RM'000	Total RM'000
		<------------------------ Non-distributable				------------------------>	Distributable	
2010								
Balance as at 1 January 2010								
As previously reported		**470,000**	**322,555**	**470,000**	**-**	**28,603**	**2,175,633**	**3,466,791**
Effect from adopting FRS139		**-**	**-**	**-**	**-**	**(11,002)**	**31,119**	**20,117**
As restated		**470,000**	**322,555**	**470,000**	**-**	**17,601**	**2,206,752**	**3,486,908**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(11,876)**	**583,859**	**571,983**
Transactions with owners:								
Dividends paid:								
- final dividend for the year ended 31 December 2009	34	**-**	**-**	**-**	**-**	**-**	**(27,848)**	**(27,848)**
Balance as at 31 December 2010		**470,000**	**322,555**	**470,000**	**-**	**5,725**	**2,762,763**	**4,031,043**
2009								
Balance as at 1 January 2009		470,000	322,555	470,000	75,696	21,745	1,583,030	2,943,026
Total comprehensive income for the year		-	-	-	11,993	6,858	532,762	551,613
Transactions with owners:								
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(87,689)	-	87,689	-
Dividends paid:								
- final dividend for the year ended 31 December 2008		-	-	-	-	-	(27,848)	(27,848)
Total transactions with owners		-	-	-	(87,689)	-	59,841	(27,848)
Balance as at 31 December 2009		470,000	322,555	470,000	-	28,603	2,175,633	3,466,791

The accompanying notes form an integral part of the financial statements.

Statements of Cash Flows

for the year ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from operating activities				
Profit before taxation	**829,955**	688,482	**794,694**	701,117
Adjustments for:				
Share of net (profits)/loss of associates	**(29,816)**	5,214	**-**	-
(Gain)/loss on disposal of property, plant and equipment	**(1,062)**	28	**(1,062)**	(6,481)
Gain on disposal of foreclosed properties	**(2,266)**	-	**(2,266)**	-
Depreciation of property, plant and equipment	**38,126**	38,678	**33,574**	38,606
Depreciation of investment properties	**180**	180	**-**	180
Amortisation of prepaid land lease payments	**660**	660	**-**	660
Allowance for impairment on loans, advances and financing	**205,475**	150,727	**205,485**	150,727
Net unrealised gain on financial assets at fair value through profit and loss	**(11,186)**	(45,164)	**(11,186)**	(45,164)
Provision for commitments and contingencies	**(6,548)**	3,847	**(6,548)**	3,847
Dividend income	**(726)**	(491)	**(726)**	(491)
Interest income from available-for-sale securities	**(146,400)**	(151,105)	**(146,400)**	(151,105)
Gain from sale of available-for-sale securities	**(23,234)**	(30,932)	**(23,234)**	(30,932)
Unrealised foreign exchange (gain)/loss	**(29,890)**	28,766	**(29,890)**	28,766
Loss from sale of financial assets at fair value through profit and loss	**54,600**	23,193	**54,600**	23,193
Amortisation of premium less accretion of discount	**14,977**	24,563	**14,977**	24,563
Operating profit before working capital changes	**892,845**	736,646	**882,018**	737,486
(Increase)/decrease in operating assets:				
Loans and advances	**(6,823,528)**	(314,363)	**(6,827,993)**	(490,123)
Financial assets at fair value through profit and loss	**(508,842)**	(1,786,601)	**(508,842)**	(1,786,601)
Securities purchased under resale agreements	**749,558**	(800,610)	**749,558**	(800,610)
Statutory deposits with Bank Negara Malaysia	**(14,550)**	725,250	**(14,550)**	725,250
Derivative financial assets	**15,899**	(236,431)	**15,899**	(236,431)
Other assets	**50,525**	10,802	**46,758**	10,828
	(6,530,938)	(2,401,953)	**(6,539,170)**	(2,577,687)
Increase/(decrease) in operating liabilities:				
Deposits from customers	**7,407,361**	1,545,592	**7,421,827**	1,545,592
Deposits and placements of banks and other financial institutions	**(66,124)**	(317,898)	**(66,114)**	(317,897)
Bills and acceptances payable	**(575,270)**	(414,043)	**(575,270)**	(414,043)
Amount due to Cagamas	**(76,344)**	(27,424)	**(76,344)**	(27,424)
Derivative financial liabilities	**(53,439)**	236,431	**(53,439)**	236,431
Other liabilities	**26,454**	(46,990)	**26,491**	(47,888)
	6,662,638	975,668	**6,677,151**	974,771
Cash generated from /(used in) operations	**1,024,545**	(689,639)	**1,019,999**	(865,430)
Taxation paid	**(244,789)**	(191,796)	**(244,760)**	(191,789)
Net cash generated from/(used in) operating activities	**779,756**	(881,435)	**775,239**	(1,057,219)

The accompanying notes form an integral part of the financial statements.

Statements of Cash Flows

for the year ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	**1,210**	1,701	**1,210**	177,459
Purchase of property, plant and equipment	**(36,339)**	(30,518)	**(31,826)**	(30,492)
Interest income from available-for-sale securities	**146,400**	151,105	**146,400**	151,105
Net sale/(purchase) of available-for-sale securities	**1,371,466**	(1,260,412)	**1,371,470**	(1,260,412)
Dividend received	**718**	482	**718**	482
Net proceeds from issuance of subordinated bonds	**498,628**	-	**498,628**	-
Net cash generated from/(used in) investing activities	**1,982,083**	(1,137,642)	**1,986,600**	(961,858)
Cash flows from financing activities				
Dividends paid representing net cash used in financing activities	**(27,848)**	(27,848)	**(27,848)**	(27,848)
Net increase/(decrease) in cash and cash equivalents	**2,733,991**	(2,046,925)	**2,733,991**	(2,046,925)
Cash and cash equivalents at beginning of year	**6,547,787**	8,594,712	**6,547,787**	8,594,712
Cash and cash equivalents at end of year	**9,281,778**	6,547,787	**9,281,778**	6,547,787
Analysis of cash and cash equivalents				
Cash and short term funds	**9,270,889**	6,147,787	**9,270,889**	6,147,787
Deposits and placements with financial institutions	**10,889**	400,000	**10,889**	400,000
	9,281,778	6,547,787	**9,281,778**	6,547,787

The accompanying notes form an integral part of the financial statements.

1. Corporate information

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding companies of the Bank are Chung Khiaw Bank (Malaysia) Bhd, a company incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 11 and 12 respectively. There have been no significant changes in the nature of the principal activities during the financial year other than the commencement of property investment holding and property management activities of UOB Properties (KL) Bhd (formerly known as UOF(2009) Berhad).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 9 March 2011.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia Guidelines.

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except where otherwise indicated.

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years, except as follows:

The Group and the Bank adopted the following FRSs, amendments to FRS and IC Interpretations beginning on or after 1 January 2010:

FRSs, Amendments and Interpretations	Effective for financial period beginning on or after
FRS 4 Insurance Contracts	1 January 2010
FRS 7 Financial Instruments: Disclosures	1 January 2010
FRS 101 Presentation of Financial Statements	1 January 2010
FRS 123 Borrowing Costs	1 January 2010
FRS 139 Financial Instruments: Recognition and Measurement,	1 January 2010
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
Amendments to FRS 7: Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
Amendments to FRS 8: Operating Segments	1 January 2010
Amendments to FRS 107: Cash Flow Statements	1 January 2010
Amendments to FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2010
Amendments to FRS 110: Events After the Balance Sheet Date	1 January 2010
Amendments to FRS 117: Leases	1 January 2010
Amendments to FRS 118: Revenue	1 January 2010
Amendments to FRS 119: Employee Benefits	1 January 2010
Amendments to FRS 120: Accounting for Government Grants and Disclosure of Government Assistance	1 January 2010
Amendments to FRS 123: Borrowing Costs	1 January 2010

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

FRSs, Amendments and Interpretations	Effective for financial period beginning on or after
Amendments to FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 128: Investments in Associates	1 January 2010
Amendments to FRS 129: Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendments to FRS 131: Interest in Joint Ventures	1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2010
Amendments to FRS 134: Interim Financial Reporting	1 January 2010
Amendments to FRS 136: Impairment of Assets	1 January 2010
Amendments to FRS 138: Intangible Assets	1 January 2010
Amendments to FRS 140: Investment Property	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 14 FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
TRi-3 Presentation of Financial Statements of Islamic Financial Institutions	1 January 2010

FRS 4 and Amendments to FRS 129 are not applicable to the Group and the Bank. The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

The amendments to FRS139 include additional transitional arrangement for entities in the financial services sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 17 December 2010, whereby banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding loans/financing, net of individual impairment provision.

FRS 7 Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of *FRS 132 Financial Instruments: Disclosure and Presentation*. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Bank have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Bank's financial statements for the financial year ended 31 December 2010.

FRS 101 Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Bank have elected to present this statement as two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Bank have adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. Comparatives are not restated. The effects arising from the adoption of FRS 139 is as discussed below.

(i) **Debt securities**

Prior to 1 January 2010, investments in foreign currency debt securities were classified as available-for-sale. Upon the adoption of FRS 139, these investments are designated at 1 January 2010 as financial assets at fair value through profit and loss. The fair values of these debt securities as at 1 January 2010 amounted to RM373,093,000. The adjustments to the previous carrying amounts of available-for-sale debt securities are recognised as adjustments to the opening balance of retained earnings as at 1 January 2010.

(ii) **Impairment of trade receivables**

Prior to 1 January 2010, provision for doubtful debts was recognised when it was considered uncollectible. Upon the adoption of FRS 139, an impairment loss is recognised when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the receivable's carrying amount and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate. As at 1 January 2010, the Group has remeasured the allowance for impairment losses as at that date in accordance with FRS 139 and the difference is recognised as adjustments to the opening balance of retained earnings as at that date.

The following are effects arising from the above changes in accounting policies:

(i) **Statements of financial position**

	Increase/(decrease) Group and Bank	
	As at 31 Dec 2010 RM'000	As at 1 Jan 2010 RM'000
Group and Bank		
Assets		
Available-for-sale ("AFS") securities	(420,080)	(373,093)
Financial assets at fair value through profit and loss	420,080	373,093
Loans, advances and financing	(13,563)	31,121
Deferred tax assets	-	5,279
Liabilities and equity		
Other liabilities	(3,377)	16,283
Shareholders' equity		
Net unrealised reserve on available-for-sale securities	(55)	(11,002)
Retained profits	(10,131)	31,119

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

(ii) Income statements/other comprehensive income

	Increase/(decrease) Group and Bank As at 31 Dec 2010 RM'000
Other operating income	55
Allowance for impairment on loans, advances and financing	(13,563)
Profit before taxation	(13,508)
Income tax expense	3,377
Profit for the year attributable to equity holders of the parent	(10,131)
Other comprehensive income for the year, net of tax	(55)
	(10,186)

(iii) Earning per share

Group	Increase 2010
Earnings per share: Basic (sen per share)	(0.02)

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

FRSs, Amendments and Interpretations	Effective for financial period beginning on or after
* Amendments to FRS 132: Financial Instruments: Presentation	1 March 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combinations (revised)	1 July 2010
FRS 127: Consolidated and Separate Financial Statements (amended)	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 1 - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 1 - Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards	1 January 2011
Amendments to FRS 2 - Group Cash-settled Share-based Payment Transactions	1 January 2011
Amendments to FRS 3: Business Combinations	1 January 2011
Amendments to FRS 7 - Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 7: Financial Instruments: Disclosures	1 January 2011
Amendments to FRS 101: Presentation of Financial Statements	1 January 2011
Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates	1 January 2011
Amendments to FRS 128: Investments in Associates	1 January 2011
Amendments to FRS 131: Interests in Joint Ventures	1 January 2011
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2011

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (continued)

Standards issued but not yet effective

FRSs, Amendments and Interpretations	**Effective for financial period beginning on or after**
Amendments to FRS 134: Interim Financial Reporting	1 January 2011
Amendments to FRS 139: Financial Instruments: Recognition and Measurement	1 January 2011
IC Interpretation 4: Determining Whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
Amendments to IC Interpretation 13: Customer Loyalty Programmes	1 January 2011
TR 3: Guidance on Disclosures of Transition to IFRSs	1 January 2011
TR i-4: Shariah Compliant Sale Contracts	1 January 2011
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Amendments to IC Interpretation 14 Prepayments of a Minimum Funding Requirement	1 July 2011
FRS 124: Related Party Disclosures	1 January 2012
IC Interpretation 15: Agreements for the Construction of Real Estate	1 January 2012

* The Amendments to FRS 132 as identified in paragraphs 95A, 97AA and 97AB of the Standard shall apply to financial statements of annual periods beginning on or after 1 January 2010. The amendments in paragraphs 11, 16 and 97E of the Standard, relating to Classification of Rights Issues shall apply to financial statements of annual periods beginning on or after 1 March 2010.

The directors expect that the adoption of the FRSs, amendments and interpretations above will have no material impact on the financial statements in the period of initial application.

2.3 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

The Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

(ii) Basis of consolidation

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recently available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Bank's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(c) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(d) Recognition of interest income

Interest income is recognised using the effective interest method. Interest income includes the amortisation of premiums or accretion of discounts. The effective interest method applies the rate that exactly discounts estimated future cash receipts through the effective life of the financial instrument to the net carrying amount of the financial asset.

(e) Recognition of fees and other income

Loan arrangement, management and participation fees, commissions and service charges/fees 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 at fair value through profit and loss and available-for-sale securities are recognised on a declared basis.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(f) Repurchase agreements

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the statements of financial position.

(g) Financial assets and financial liabilities

(i) Classification

Financial assets and financial liabilities are classified as follows:

At fair value through profit and loss

Financial instruments are classified as held for trading if they are acquired for short-term profit taking. Financial derivatives are classified as held for trading unless they are designated as hedging instruments.

Financial instruments are designated as fair value through profit and loss if they meet the following criteria:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities on a different basis;
- the assets and liabilities are managed on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, except where such derivative does not significantly modify the cash flows of the instrument.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the intention and ability to hold the assets till maturity.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-sale

Non-derivative financial assets that are not classified into any of the preceding categories and are available for sale are classified in this category.

Non-trading liabilities

Non-derivative financial liabilities that are not held for active trading or designated as fair value through profit and loss are classified as non-trading liabilities.

(ii) Measurement

Initial measurement

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

Subsequent measurement

Financial instruments classified as held for trading and/or designated as fair value through profit and loss are measured at fair value with fair value changes recognised in the profit and loss account.

Available-for-sale assets are measured at fair value with fair value changes taken to the fair value reserve, and subsequently to the profit and loss upon disposal or impairment of the assets.

All other financial instruments are measured at amortised cost using the effective interest method.

Interest earned/incurred and dividend received/receivable on all non-derivative financial instruments are recognised as interest income/expense and dividend income accordingly.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(g) Financial assets and financial liabilities (continued)

(ii) Measurement (continued)

Fair value determination

Fair values of financial assets and financial liabilities with active markets are determined based on the market bid and ask prices respectively at the balance sheet date. For financial instruments with no active markets, fair values are established using valuation techniques such as making reference to recent transactions or other comparable financial instruments, discounted cash flow method and option pricing models.

(iii) Recognition and derecognition

Financial instruments are recognised when the Group becomes a party to the contractual provision of the instruments. All regular way purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised on the settlement date.

Financial instruments are derecognised when the risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the cumulative gain or loss that has been recognised in the equity are taken to the profit or loss.

(iv) Classification of impaired loans, advances and financing

The Bank classifies a loan, advance or financing as impaired when there is objective evidence that the loan is impaired. In addition, the Bank also complies with Bank Negara Malaysia's Guidelines on Classification and Impairment Provisions for Loans/Financing which states that, based on repayment conduct, a loan or financing should be classified as impaired:

- where the principal or interest/profit or both is past due for more than 90 days or 3 months. In the case of revolving facilities (e.g. overdraft facilities), the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months; or

- where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan or financing exhibits weaknesses that render a classification appropriate according to the banking institution's credit risk grading framework.

Upgrading or de-classification of an impaired account shall be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower. The Bank must also be satisfied that once the account is de-classified, the account is unlikely to be classified again in the near future.

An impaired account that is not secured by any realisable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

(v) Write-off policy

A classified account that is not secured by any realisable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenue of recovery have been exhausted.

(vi) Impairment

Individual impairment

Financial assets, other than those measured at fair value through profit and loss account are subject to impairment review at each reporting date. Impairment loss is recognised when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

For financial assets carried at amortised costs, impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The loss is recognised in the profit or loss.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(g) Financial assets and financial liabilities (continued)

(vi) Impairment (continued)

Individual impairment (continued)

For available-for-sale assets, impairment loss is determined as the difference between the assets' cost and the current fair value, less any impairment loss previously recognised in the profit and loss account. The loss is transferred from the fair value reserve to the profit or loss. For available-for-sale equity instruments, subsequent recovery of the impairment loss is written back to the fair value reserve.

Financial assets are written off when all avenues of recovery have been exhausted.

Collective impairment

Collective impairment is made for estimated losses inherent in but not currently identifiable to individual financial assets. The provision is made based on management's experience and judgement and taking into account country and portfolio risks. A minimum of 1.5% of credit exposure net of collaterals and individual impairment is maintained by the Group in accordance with the transitional provision set out in Bank Negara Malaysia's Guidelines on Classification and Impairment Provisions for Loans/ Financing.

(h) Financial derivatives

Financial derivatives with positive and negative fair values are presented as assets and liabilities in the balance sheet respectively. Derivatives embedded in other financial instruments are accounted for separately as derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit and loss.

(i) Property, plant and equipment, and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and certain leasehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and certain leasehold land are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed once every five years to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss.

Freehold land is not depreciated. Capital work-in-progress are also not depreciated as these assets are not available for use. Other leasehold land and buildings are depreciated over the period of the respective leases which range from 38 years to 99 years. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

	%
Buildings	2
Office furniture, fittings and equipment	10 - 20
Computer equipment and software	20
Motor vehicles	20

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(i) Property, plant and equipment, and depreciation (continued)

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(j) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less any accumulated depreciation and impairment losses.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at cost.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

(k) Leases

(i) Finance leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for the lease assets is in accordance with that for depreciable property, plant and equipment.

(ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases except where property held under operating leases that would otherwise meet the definition of investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

Payments made under operating leases are charged to the income statement on the straight line basis over the lease period.

(l) Foreign currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is also the Bank's functional currency.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(l) Foreign currencies (continued)

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

(m) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(n) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Post-employment benefits - Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(o) Cash and cash equivalents

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

(p) Bills and acceptances payable

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

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(q) Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2.4 Significant accounting estimates and judgements

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(a) Fair value estimation for financial assets at fair value through profit and loss and securities available-for-sale

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

The amount of securities held by the Group and the Bank which are not traded in an active market and which are determined using valuation techniques are as disclosed in Note 25.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The amount of deferred tax assets which have not been recognised by the Group is as disclosed in Note 16.

(c) Allowances for losses on loans, advances and financing

Prior to the adoption of FRS 139, allowances for impaired loans and advances were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS139, the Bank assesses at the end of each reporting period whether there is objective evidence that a loan is impaired. Loans and advances that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.

The amendments to FRS139 also include additional transitional arrangement for entities in the financial services sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provision for Loans/Financing, whereby banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding loans/financing, net of individual impairment provision.

(d) Impairment of assets

Assessment of impairment of securities available-for-sale is made in line with the guidance in the revised BNM/GP8 to determine when the investment is other than temporarily impaired. Management judgement is required to evaluate the duration and extent by which the fair value of the financial instruments are below its carrying value and when there is indication of permanent impairment in the carrying value of the financial instruments.

3. Cash and short-term funds

	Group and Bank	
	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	**720,318**	393,363
Money at call and deposit placements maturing within one month	**8,550,571**	5,754,424
	9,270,889	6,147,787

4. Securities purchased under resale agreement

Reverse Repo are treated as collateralised lending and the amounts lent are reported as assets.

	Group and Bank	
	2010 RM'000	2009 RM'000
Asset received for Reverse Repo transaction, at fair value	**149,973**	899,531

5. Deposits and placements with financial institutions

	Group and Bank	
	2010 RM'000	2009 RM'000
Bank Negara Malaysia	**-**	400,000
Other financial institutions	**10,889**	-
	10,889	400,000

6. Financial assets at fair value through profit and loss

	Group and Bank	
	2010 RM'000	2009 RM'000
Held-for-trading securities		
At fair value:		
Malaysian Government treasury bills	**42,791**	68,711
Malaysian Government securities	**52,715**	366,977
Bank Negara Malaysia Bills	**1,601,588**	1,310,765
Bankers' acceptances and Islamic accepted bills	**147,655**	53,191
Cagamas bonds	**10,246**	10,002
Total held-for-trading securities	**1,854,995**	1,809,646
Designated as fair value through profit and loss		
Outside Malaysia:		
Private debt securities	**420,080**	-
Total financial assets at fair value through profit and loss	**2,275,075**	1,809,646

7. Available-for-sale ("AFS") securities

	Group and Bank	
	2010 RM'000	2009 RM'000
At fair value:		
Money market instruments:		
Malaysian Government treasury bills	**132,809**	-
Malaysian Government securities	**540,803**	2,436,136
Bank Negara Malaysia Bills	**1,392,716**	778,994
Negotiable instruments of deposits	**-**	440,000
Cagamas bonds	**1,186,681**	722,933
	3,253,009	4,378,063
Private debt securities of companies incorporated:		
In Malaysia:		
Corporate bonds	**244,706**	101,482
Outside Malaysia:		
Corporate bonds	**-**	373,093
	244,706	474,575
Quoted securities:		
Shares of corporations outside Malaysia	**5,191**	-
Shares of corporations in Malaysia	**2,158**	4,479
Corporate loan stock	**-**	1,336
	7,349	5,815
At cost:		
Unquoted securities:		
Shares	**12,272**	33,368
Private debt securities	**276**	276
	12,548	33,644
Total available-for-sale securities	**3,517,612**	4,892,097

8. Loans, advances and financing

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Overdrafts #	**2,561,532**	2,432,649	**2,561,930**	2,432,649
Term loans and revolving credits				
Housing loans	**13,125,569**	11,142,582	**13,125,569**	11,142,582
Syndicated term loans	**596,834**	216,540	**596,834**	216,540
Other term loans/financing*	**12,217,627**	8,888,184	**12,397,444**	9,063,944
Credit cards receivable	**1,322,621**	969,407	**1,322,621**	969,407
Bills receivable	**179,505**	97,864	**179,505**	97,864
Trust receipts	**852,649**	664,854	**852,649**	664,854
Claims on customers under acceptance credits	**4,331,757**	3,987,881	**4,331,757**	3,987,881
Staff loans				
- Executive directors	**-**	369	**-**	369
- Others	**79,287**	89,456	**79,287**	89,456
Others	**6,849**	186	**6,849**	186
	35,274,230	28,489,972	**35,454,445**	28,665,732
Unearned interest	**(52,580)**	(22,049)	**(52,580)**	(22,049)
Gross loans, advances and financing	**35,221,650**	28,467,923	**35,401,865**	28,643,683
Allowance for losses on loans and financing				
- Individual impairment	**(278,563)**	(283,602)	**(278,563)**	(283,602)
- Collective impairment	**(555,269)**	(434,669)	**(555,269)**	(434,669)
Net loans, advances and financing	**34,387,818**	27,749,652	**34,568,033**	27,925,412

Included in overdraft is an amount due from a subsidiary, UOB Properties (KL) Bhd (formerly known as UOF (2009) Berhad), of RM398,000 (2009:Nil).

* Other term loans/financing includes a loan to subsidiaries, UOB Properties Bhd (formerly known as UOB 2006 Bhd) and UOB Properties (KL) Bhd (formerly known as UOF (2009) Berhad), of RM175,792,000 (2009: RM175,760,000) and RM4,025,000 (2009:Nil) respectively.

(i) By maturity structure:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Maturing within one year	**11,705,461**	9,897,627	**11,705,859**	9,897,627
One year to three years	**1,502,550**	956,355	**1,502,550**	956,355
Three years to five years	**1,368,609**	1,169,662	**1,368,609**	1,169,662
Over five years	**20,645,030**	16,444,279	**20,824,847**	16,620,039
	35,221,650	28,467,923	**35,401,865**	28,643,683

(ii) By type of customer:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Domestic non-bank financial institutions				
- Stockbroking companies	**-**	1	**-**	1
- Others	**116,628**	105,286	**116,628**	105,286
Domestic business enterprises				
- Small medium enterprises	**8,387,058**	6,748,764	**8,387,058**	6,748,764
- Others	**7,937,850**	6,238,007	**8,118,065**	6,413,767
Individuals	**16,007,497**	13,262,502	**16,007,497**	13,262,502
Other domestic entities	**144**	-	**144**	-
Foreign entities	**2,772,473**	2,113,363	**2,772,473**	2,113,363
	35,221,650	28,467,923	**35,401,865**	28,643,683

8. Loans, advances and financing (continued)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(iii) By interest/profit rate sensitivity:				
Fixed rate				
Housing loans/financing	**64,904**	77,395	**64,904**	77,395
Other fixed rate loan/financing	**2,091,146**	1,383,820	**2,091,146**	1,383,820
Variable rate				
BLR plus	**31,670,282**	26,097,508	**31,670,680**	26,097,508
Cost-plus	**1,060,671**	637,576	**1,240,488**	813,336
Other variable rates	**334,647**	271,624	**334,647**	271,624
	35,221,650	28,467,923	**35,401,865**	28,643,683
(iv) By sector:				
Agriculture, hunting, forestry and fishing	**266,054**	217,815	**266,054**	217,815
Mining and quarrying	**71,633**	13,635	**71,633**	13,635
Manufacturing	**5,013,507**	4,508,983	**5,013,507**	4,508,983
Electricity, gas and water	**49,116**	9,723	**49,116**	9,723
Construction	**1,936,901**	1,640,355	**1,936,901**	1,640,355
Wholesale & retail trade and restaurants & hotels	**5,069,577**	4,352,009	**5,069,577**	4,352,009
Transport, storage and communication	**354,489**	336,670	**354,489**	336,670
Finance, insurance and business services	**2,056,005**	724,203	**2,056,005**	899,963
Real estate	**1,560,215**	1,195,184	**1,740,430**	1,195,184
Community, social and personal services	**94,877**	80,756	**94,877**	80,756
Households of which:				
- purchase of residential properties	**13,765,796**	11,721,453	**13,765,796**	11,721,453
- purchase of non residential properties	**1,855,713**	1,250,853	**1,855,713**	1,250,853
- others	**3,123,617**	2,412,381	**3,123,617**	2,412,381
Others	**4,150**	3,903	**4,150**	3,903
	35,221,650	28,467,923	**35,401,865**	28,643,683
(v) Movements in impaired loans, advances and financing are as follows:				
At beginning of the year	**1,020,358**	1,197,845	**1,020,358**	1,197,845
Classified as impaired during the year	**508,876**	711,481	**508,876**	711,481
Amount recovered	**(319,980)**	(343,881)	**(319,980)**	(343,881)
Reclassified as non-impaired	**(217,200)**	(197,008)	**(217,200)**	(197,008)
Amount written off	**(122,486)**	(348,079)	**(122,486)**	(348,079)
At end of the year	**869,568**	1,020,358	**869,568**	1,020,358
Individual impairment	**(278,563)**	(283,602)	**(278,563)**	(283,602)
Net impaired loans, advances and financing	**591,005**	736,756	**591,005**	736,756
Ratio of net impaired loans, advances and financing to net loans, advances and financing	**1.7%**	2.7%	**1.7%**	2.6%

8. Loans, advances and financing (continued)

	Group and Bank	
	2010 RM'000	2009 RM'000
(vi) Movements in allowance for losses on loans, advances and financing are as follows:		
Collective Impairment		
Balance as at 1 January	**434,669**	427,189
Allowance made during the year	**120,600**	7,480
Balance as at 31 December	**555,269**	434,669
As % of gross loans, advances and financing (excluding loan to Government) less individual impairment	**1.6%**	1.5%
Individual Impairment		
Balance as at 1 January		
As previously reported	**283,602**	426,112
Effect from adopting FRS139	**(31,121)**	-
As restated	**252,481**	426,112
Allowance made during the year	**292,726**	286,635
Amount written back in respect of recoveries	**(119,521)**	(77,221)
Transfer to impairment losses in value of securities	**-**	(3,034)
Amount written off	**(122,568)**	(348,890)
Interest recognition on impaired loans	**(24,555)**	-
Balance as at 31 December	**278,563**	283,602
(vii) Impaired loans according to economic sectors are as follows:		
Agriculture, hunting, forestry and fishing	**1,866**	3,522
Manufacturing	**308,353**	371,754
Construction	**42,198**	41,153
Wholesale & retail trade and restaurants & hotels	**127,356**	121,874
Transport, storage and communication	**2,916**	3,641
Finance, insurance and business services	**20,306**	11,366
Real estate	**14,310**	19,250
Community, social and personal services	**2,482**	1,238
Households of which:		
- purchase of residential properties	**276,543**	360,787
- purchase of non residential properties	**14,587**	20,153
- others	**58,651**	65,620
	869,568	1,020,358

9. Other assets

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Other receivables, deposits and prepayments	**139,431**	176,412	**143,093**	176,360
Accrued interest receivable	**39,237**	44,545	**39,237**	44,545
Amount due from subsidiaries	**-**	-	**646**	594
Precious metal accounts (Note (a))	**33,484**	35,450	**33,484**	35,450
Foreclosed properties held for sale (Note (b))	**-**	4,025	**-**	4,025
	212,152	260,432	**216,460**	260,974

9. Other assets (continued)

(a) Precious metal accounts relate to precious metals on-loan to customers of the Bank. These precious metals are borrowed from the ultimate holding company on a back-to-back basis.

The net balance due from customers of the Bank are stated at the gross amounts loaned amounting to RM90,663,000 (2009: RM95,026,000) net of cash collateral received from the customers of RM57,179,000 (2009: RM59,576,000). The amount due to ultimate holding company is classified as other accruals and provisions in other liabilities (Note 20).

Both the gross amounts loaned to customers and the amount due to the ultimate holding company are marked-to-market based on the prevailing prices of the respective precious metals as quoted by the ultimate holding company.

(b) Assets are classified as held for sale if their carrying amount will be recovered principally through sale rather than through continual use. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Foreclosed properties held for sale are not subject to depreciation.

10. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amounts of which are determined as a set percentage of total eligible liabilities.

11. Investment in subsidiaries

	Bank	
	2010 RM'000	**2009 RM'000**
Unquoted shares in Malaysia, at cost	**50**	51

The Bank disposed UOB Properties (KL) Bhd (formerly known as UOF (2009) Bhd) in the financial year to its subsidiary UOB Properties Bhd (formerly known as UOB (2006) Bhd). There was no material effects arising from this disposal to the financial statements of the Bank.

The subsidiaries of the Bank, all of which are incorporated in Malaysia and held directly by the Bank, are as follows:

	Paid-up capital RM	Group's effective interest 2010 %	Group's effective interest 2009 %	Principal activities
UOB Smart Solutions Sdn Bhd	10,000	100	100	Outsourcing services
UOB Properties (KL) Bhd (formerly known as UOF (2009) Bhd)	2	100	100	Property investment holding and property management company
UOBM Nominees (Tempatan) Sdn Bhd	10,000	100	100	Nominee services
UOBM Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services
United Overseas Nominees (Tempatan) Sdn Bhd	20	100	100	Nominee services
United Overseas Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services
UOB Properties Bhd (formerly known as UOB (2006) Bhd)	7	100	100	Property holding company
UOB Credit Bhd	2	100	100	Leasing company
UOB 2006 Nominees (Tempatan) Sdn Bhd	10,000	100	100	Dormant
UOB 2006 Nominees (Asing) Sdn Bhd	10,000	100	100	Dormant

All trading transactions of United Overseas Nominees (Tempatan) Sdn Bhd, United Overseas Nominees (Asing) Sdn Bhd, UOBM Nominees (Asing) Sdn Bhd and UOBM Nominees (Tempatan) Sdn Bhd are entered into as agents for the Bank and the records accordingly are incorporated into the books and financial statements of the Bank.

All subsidiaries are audited by Ernst & Young.

12. Investment in associates

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unquoted shares, at cost	**122,733**	122,733	**122,733**	122,733
Share of post-acquisition reserves	**66,501**	36,685	**-**	-
	189,234	159,418	**122,733**	122,733

The associates, all of which are incorporated in Malaysia, are as follows:

	Group's effective interest		Principal activities
	2010 %	2009 %	
OSK-UOB Unit Trust Management Berhad	**30**	30	Management of unit trust funds
Uni.Asia Capital Sdn Bhd	**49**	49	Investment holding company

The financial statements of the above associates are coterminous with those of the Group, except for Uni.Asia Capital Sdn Bhd which has a financial year end of 31 March to conform with its holding company's financial year end.

The summarised financial information of the associates are as follows:

	2010 RM'000	2009 RM'000
Assets and liabilities	**586,115**	526,179
Non-current assets	**2,007,339**	1,789,230
Total assets	**2,593,454**	2,315,409
Current liabilities	**682,546**	751,417
Non-current liabilities	**1,459,289**	1,201,913
Total liabilities	**2,141,835**	1,953,330
Results		
Revenue	**951,822**	762,082
Profit/(loss) before taxation	**82,208**	(9,485)
Profit/(loss) for the year	**65,580**	(14,617)

The amount of goodwill included within the Group's carrying amount of investment in associates is RM19,755,000 (2009: RM19,755,000).

13. Investment properties

	Group	
	2010 RM'000	2009 RM'000
At 1 January	**8,640**	8,820
Depreciation charge	**(180)**	(180)
At 31 December	**8,460**	8,640

14. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2010							
Cost or valuation							
At 1 January 2010							
At cost	-	-	136,600	217,941	6,153	6,203	366,897
At valuation	31,253	100,802	-	-	-	-	132,055
	31,253	100,802	136,600	217,941	6,153	6,203	498,952
Additions	-	-	4,226	15,881	3,218	13,016	36,341
Disposals	-	-	(1,984)	(641)	(2,565)	-	(5,190)
At 31 December 2010	31,253	100,802	138,842	233,181	6,806	19,219	530,103
Representing:							
At cost	-	-	138,842	233,181	6,806	19,219	398,048
At valuation	31,253	100,802	-	-	-	-	132,055
At 31 December 2010	31,253	100,802	138,842	233,181	6,806	19,219	530,103
Accumulated depreciation and impairment							
At 1 January 2010	823	11,550	90,466	162,929	5,033	-	270,801
Depreciation charge	-	4,477	9,266	23,574	809	-	38,126
Disposals	-	-	(1,863)	(635)	(2,566)	-	(5,064)
At 31 December 2010	823	16,027	97,869	185,868	3,276	-	303,863
Net carrying amount							
At cost	-	-	40,973	47,313	3,530	19,219	111,035
At valuation	30,430	84,775	-	-	-	-	115,205
At 31 December 2010	30,430	84,775	40,973	47,313	3,530	19,219	226,240

14. Property, plant and equipment (continued)

Group	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2009							
Cost or valuation							
At 1 January 2009							
At cost	-	-	132,079	208,108	6,153	2,227	348,567
At valuation	31,253	95,926	-	-	-	-	127,179
	31,253	95,926	132,079	208,108	6,153	2,227	475,746
Additions	-	3,635	6,348	16,559	-	3,976	30,518
Disposals	-	-	(586)	(6,726)	-	-	(7,312)
Reclassification	-	1,241	(1,241)	-	-	-	-
At 31 December 2009	31,253	100,802	136,600	217,941	6,153	6,203	498,952
Representing:							
At cost	-	-	136,600	217,941	6,153	6,203	366,897
At valuation	31,253	100,802	-	-	-	-	132,055
At 31 December 2009	31,253	100,802	136,600	217,941	6,153	6,203	498,952
Accumulated depreciation and impairment							
At 1 January 2009	823	6,570	81,515	144,646	4,156	-	237,710
Depreciation charge	-	4,695	9,771	23,335	877	-	38,678
Disposals	-	-	(535)	(5,052)	-	-	(5,587)
Reclassification	-	285	(285)	-	-	-	-
At 31 December 2009	823	11,550	90,466	162,929	5,033	-	270,801
Net carrying amount							
At cost	-	-	46,134	55,012	1,120	6,203	108,469
At valuation	30,430	89,252	-	-	-	-	119,682
At 31 December 2009	30,430	89,252	46,134	55,012	1,120	6,203	228,151

14. Property, plant and equipment (continued)

Bank	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2010							
Cost							
At 1 January 2010							
At cost	-	-	135,808	218,184	6,153	6,203	366,348
Additions	-		4,057	15,881	3,218	8,670	31,826
Disposals	-	-	(1,984)	(641)	(2,565)	-	(5,190)
At 31 December 2010	-	-	137,881	233,424	6,806	14,873	392,984
Accumulated depreciation and impairment							
At 1 January 2010	-	-	90,159	163,010	5,033	-	258,202
Depreciation charge	-	-	9,216	23,549	809	-	33,574
Disposals	-	-	(1,863)	(635)	(2,566)	-	(5,064)
At 31 December 2010	-	-	97,512	185,924	3,276	-	286,712
Net carrying amount							
At 31 December 2010	-	-	40,369	47,500	3,530	14,873	106,272

14. Property, plant and equipment (continued)

Bank	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2009							
Cost or valuation							
At 1 January 2009							
At cost	-	-	131,310	208,352	6,153	2,227	348,042
At valuation	31,253	95,926	-	-	-	-	127,179
	31,253	95,926	131,310	208,352	6,153	2,227	475,221
Additions	-	3,635	6,325	16,556	-	3,976	30,492
Disposals	(31,253)	(100,802)	(586)	(6,724)	-	-	(139,365)
Reclassification	-	1,241	(1,241)	-	-	-	-
At 31 December 2009	-	-	135,808	218,184	6,153	6,203	366,348
Representing:							
At cost	-	-	135,808	218,184	6,153	6,203	366,348
At valuation	-	-	-	-	-	-	-
At 31 December 2009	-	-	135,808	218,184	6,153	6,203	366,348
Accumulated depreciation and impairment							
At 1 January 2009	823	6,570	81,256	144,748	4,156	-	237,553
Depreciation charge	-	4,695	9,723	23,311	877	-	38,606
Disposals	(823)	(11,550)	(535)	(5,049)	-	-	(17,957)
Reclassification	-	285	(285)	-	-	-	-
At 31 December 2009	-	-	90,159	163,010	5,033	-	258,202
Net carrying amount							
At cost	-	-	45,649	55,174	1,120	6,203	108,146
At valuation	-	-	-	-	-	-	-
At 31 December 2009	-	-	45,649	55,174	1,120	6,203	108,146

Land and buildings were revalued on 8 December 2009 by Knight Frank, Ooi & Zaharin Sdn Bhd, an independent qualified valuer using the comparative and investment method to reflect the fair value.

The net book values of land and buildings, had these assets been carried at cost less accumulated depreciation are as follows:

	Group	
	2010 RM'000	2009 RM'000
Freehold land	**12,131**	12,131
Freehold building	**10,635**	11,042
Long leasehold building	**29,121**	25,883
	51,887	49,056

15. Prepaid land lease payments

	Group	
	2010 RM'000	2009 RM'000
Long term leasehold land		
At 1 January	**40,930**	41,590
Amortisation for the year	**(660)**	(660)
At 31 December	**40,270**	40,930

16. Deferred tax assets

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January				
As previously reported	**135,666**	55,946	**135,677**	55,964
Effect from adopting FRS139	**5,279**	-	**5,279**	-
As restated	**140,945**	55,946	**140,956**	55,964
Recognised in the income statement (Note 32)	**3,672**	70,013	**3,687**	70,006
Recognised in equity	**3,959**	9,707	**3,959**	9,707
At 31 December	**148,576**	135,666	**148,602**	135,677
An analysis of the Group's and the Bank's deferred tax position is as follows:				
- Deferred tax assets	**164,944**	155,114	**164,944**	155,114
- Deferred tax liabilities	**(16,368)**	(19,448)	**(16,342)**	(19,437)
	148,576	135,666	**148,602**	135,677

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

Deferred tax assets

Group	Collective impairment for losses on loans, advances and financing RM'000	Others RM'000	Total RM'000
At 1 January 2009	106,797	(11,283)	95,514
Charged to income statement	1,870	57,730	59,600
At 31 December 2009	108,667	46,447	155,114
Effect from adopting FRS139	-	1,612	1,612
As restated	108,667	48,059	156,726
Charged to income statement	30,150	(21,932)	8,218
At 31 December 2010	138,817	26,127	164,944
Bank			
At 1 January 2009	106,797	(11,285)	95,512
Charged to income statement	1,870	57,732	59,602
At 31 December 2009	108,667	46,447	155,114
Effect from adopting FRS139	-	1,612	1,612
As restated	108,667	48,059	156,726
Charged to income statement	30,150	(21,932)	8,218
At 31 December 2010	138,817	26,127	164,944

16. Deferred tax assets (continued)

Deferred tax liabilities

Group	Property, plant and equipment RM'000	Net unrealised reserves on AFS securities RM'000	Revaluation of land and buildings RM'000	Total RM'000
At 1 January 2009	10,572	7,248	21,748	39,568
Charged to income statement	(658)	-	(9,755)	(10,413)
Recognised in equity	-	2,286	(11,993)	(9,707)
At 31 December 2009	9,914	9,534	-	19,448
Effect from adopting FRS139	-	(3,667)	-	(3,667)
As restated	9,914	5,867	-	15,781
Charged to income statement	4,546	-	-	4,546
Recognised in equity	-	(3,959)	-	(3,959)
At 31 December 2010	14,460	1,908	-	16,368
Bank				
At 1 January 2009	10,552	7,248	21,748	39,548
Charged to income statement	(649)	-	(9,755)	(10,404)
Recognised in equity	-	2,286	(11,993)	(9,707)
At 31 December 2009	9,903	9,534	-	19,437
Effect from adopting FRS139	-	(3,667)	-	(3,667)
As restated	9,903	5,867	-	15,770
Charged to income statement	4,531	-	-	4,531
Recognised in equity	-	(3,959)	-	(3,959)
At 31 December 2010	14,434	1,908	-	16,342

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2010 RM'000	2009 RM'000
Unutilised tax losses	**57,767**	63,190
Unabsorbed capital allowances	**11,069**	11,069
	68,836	74,259

The unutilised tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

17. Deposits from customers

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Demand deposits	**6,554,962**	5,248,217	**6,568,414**	5,248,217
Savings deposits	**2,714,454**	2,289,056	**2,714,454**	2,289,056
Fixed deposits	**17,762,547**	16,508,244	**17,763,560**	16,508,244
Negotiable instruments of deposits	**229,620**	406,467	**229,620**	406,467
Money market deposits	**11,307,916**	6,790,096	**11,307,916**	6,790,096
Others	**395,337**	315,394	**395,337**	315,394
	38,964,836	31,557,474	**38,979,301**	31,557,474

(i) The maturity structure of fixed deposits and negotiable instruments of deposits is as follows:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Due within six months	**14,809,586**	13,345,012	**14,810,599**	13,345,012
Six months to one year	**2,969,999**	3,338,468	**2,969,999**	3,338,468
One year to three years	**185,908**	144,911	**185,908**	144,911
Three years to five years	**26,674**	86,320	**26,674**	86,320
	17,992,167	16,914,711	**17,993,180**	16,914,711

(ii) The deposits are sourced from the following customers:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Business enterprises	**18,565,252**	14,587,798	**18,579,717**	14,587,798
Individuals	**16,820,827**	15,380,057	**16,820,827**	15,380,057
Others	**3,578,757**	1,589,619	**3,578,757**	1,589,619
	38,964,836	31,557,474	**38,979,301**	31,557,474

18. Deposits and placements of banks and other financial institutions

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Licensed banks	**1,280,144**	782,441	**1,280,144**	782,856
Licensed investment banks	**30,000**	-	**30,000**	-
Bank Negara Malaysia	**2,303,013**	1,763,006	**2,303,013**	1,763,006
Other financial institutions	**289,897**	1,423,732	**290,323**	1,423,732
	3,903,054	3,969,179	**3,903,480**	3,969,594

19. Amount due to Cagamas

	Group and Bank	
	2010 RM'000	2009 RM'000
At 1 January	**109,688**	137,112
Repayments	**(76,344)**	(27,424)
At 31 December	**33,344**	109,688

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on pre-determined prudent criteria. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the statements of financial position.

20. Other liabilities

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Provision for commitments and contingencies (Note (i))	**5,571**	5,671	**5,571**	5,671
Accrued interest payable	**158,216**	135,407	**157,315**	135,407
Accruals and provisions for operational expenses	**99,953**	100,229	**99,953**	99,321
Other accruals and provisions (Note (ii))	**264,494**	296,909	**264,524**	296,909
	528,234	538,216	**527,363**	537,308

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
(i) Movements in provision for commitments and contingencies are as follows:				
At 1 January				
As previously reported	**5,671**	1,825	**5,671**	1,825
Adjustment due to FRS139	**6,447**	-	**6,447**	-
As restated	**12,118**	1,825	**12,118**	1,825
Provision made during the year	**15,353**	5,898	**15,353**	5,898
Amount written back in respect of recoveries	**(21,900)**	(2,052)	**(21,900)**	(2,052)
At 31 December	**5,571**	5,671	**5,571**	5,671

(ii) Included in other accruals and provisions is an amount due to the ultimate holding company of RM90,663,000 (2009: RM95,026,000) in relation to precious metals on loan to customers of the Bank as disclosed in Note 9.

21. Subordinated bonds

	Group and Bank	
	2010 RM'000	2009 RM'000
RM500 million Subordinated Bonds 2010 / 2020, at par	**500,000**	-
Unamortised expenses relating to issue of Subordinated Bonds	**(1,372)**	-
	498,628	-

On 29 March 2010, the Bank issued RM500 million 10 year Subordinated Bonds due in 2020 callable with step-up in 2015 (the "Bonds").

The Bonds bear interest at the rate of 4.88% per annum from 29 March 2010 to 29 September 2015 and thereafter, at the rate of 5.88% per annum from 29 September 2015 to the date of early redemption in full of such Bonds or maturity date of the Bonds (whichever is earlier).

The interest is payable semi-annually in arrears on 29 March and 29 September each year commencing 29 September 2010.

The Bonds have been rated AA2 by Rating Agency Malaysia Bhd and they qualify as Tier 2 capital for the purpose of determining the Bank's capital adequacy ratio.

22. Share capital

	Group and Bank	
	2010 RM'000	2009 RM'000
Authorised:		
2,000,000,000 ordinary shares of RM1 each	**2,000,000**	2,000,000
Issued and fully paid-up:		
470,000,000 ordinary shares of RM1 each	**470,000**	470,000

23. Reserves

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-distributable					
Share premium		**322,555**	322,555	**322,555**	322,555
Statutory reserve	(a)	**470,000**	470,000	**470,000**	470,000
Revaluation reserves		**72,797**	72,797	**-**	-
Net unrealised reserves on AFS securities		**5,725**	28,603	**5,725**	28,603
		871,077	893,955	**798,280**	821,158
Distributable					
Retained profit	(b)	**2,754,586**	2,132,238	**2,762,763**	2,175,633
Total reserves		**3,625,663**	3,026,193	**3,561,043**	2,996,791

(a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and is not distributable as dividends.

(b) Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

The Bank did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the Section 108 balance to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act, 2007. As at 31 December 2010 and 2009, the Bank has sufficient credit in the Section 108 balance to pay franked dividends out of its entire retained earnings.

The impact to reserves of the Group and the Bank resulting from *FRS139 Financial Instruments: Recognition and Measurement* is as presented in the Statements of Changes in Equity.

24. Financial derivatives

Financial derivatives are instruments whose values change in response to the change in one or more "underlying", such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. The fair values of the derivatives are as follows:

	Group and Bank		
	Contract or underlying principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2010			
Foreign exchange contracts			
- forwards	**1,613,805**	**5,514**	**17,404**
- swaps	**7,241,624**	**104,218**	**55,490**
Interest rate related contracts			
- forwards	**60,000**	**81**	**87**
- swaps	**24,379,950**	**132,867**	**263,399**
Options	**678,942**	**1,568**	**1,548**
		244,248	**337,928**
2009			
Foreign exchange contracts			
- forwards	1,713,859	5,655	96
- swaps	2,491,936	19,358	17,834
Interest rate related contracts			
- forwards	60,000	53	64
- swaps	22,885,060	232,042	372,194
Options	1,391,989	3,039	1,179
		260,147	391,367

The table above analyses the notional principal amounts and the positive and negative fair values of the Group's and Bank's financial derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date for both trading and hedging instruments. They do not necessarily indicate the amounts of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive and negative fair values represent the favourable and unfavourable fair values respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at reporting date.

25. Fair value of financial assets and financial liabilities

(a) Determination of fair value and fair value hierarchy

Presented below is the Group's and the Bank's classified financial instruments carried at fair value by level of the following fair value measurement hierarchy:

Level 1 - Unadjusted quoted prices in active market for identical financial instrument
Level 2 - Inputs other than quoted prices that are observable either directly or indirectly
Level 3 - Inputs that are not based on observable market data

	2010 Group and Bank			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets at fair value through profit and loss	1,854,995	420,080	-	2,275,075
Available-for-sale securities	3,260,358	257,254	-	3,517,612
Derivative financial assets	244,248	-	-	244,248
Total financial assets	5,359,601	677,334	-	6,036,935
Total financial assets carried at fair value				6,036,935
Liabilities				
Derivative financial liabilities	337,928	-	-	337,928
Total financial liabilities	337,928	-	-	337,928
Total financial liabilities carried at fair value				337,928

Where available, quoted and observable market prices are used as the measure of fair values, such as for government treasury bills and securities and quoted securities. Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions, the principal ones being as follows:

(i) Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the balance sheet date.

(ii) For financial derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(b) Fair value of financial instruments that are not carried at fair value and whose cost could not be reliably measured

Included in the available-for-sale assets as at 31 December 2010 were investment equity securities of RM12,548,000 of the Group and the Bank that were carried at cost as their fair values could not be reliably measured. These securities were acquired for long term investment purpose.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant.

25. Fair value of financial assets and financial liabilities (continued)

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

For cash and short term funds, securities purchased under resale agreements, deposits and placements with/of banks and other financial institutions, deposits from customers with short-term or no stated maturity, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts.

For loans, advances and financing and deposits from customers with longer-term maturity, fair values are estimated using discounted cash flow method.

For subordinated bonds issued, fair values are determined based on quoted market prices.

The estimated fair values of these financial instruments carried at cost or amortised cost approximate their carrying amounts as shown in the statements of financial position as at the reporting date.

26. Interest income

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans and advances				
- Interest income other than recoveries from impaired loans	**1,500,667**	1,266,593	**1,506,013**	1,266,593
- Recoveries from impaired loans	**76,858**	72,305	**76,858**	72,305
Money at call and deposit placements with financial institutions	**172,530**	174,621	**172,530**	174,621
Financial assets at fair value through profit and loss	**51,982**	24,212	**51,982**	24,212
Available-for-sale securities	**146,400**	151,105	**146,400**	151,105
Others	**1,478**	1,867	**1,478**	1,867
	1,949,915	1,690,703	**1,955,261**	1,690,703
Amortisation of premium less accretion of discount	**(14,977)**	(24,563)	**(14,977)**	(24,563)
	1,934,938	1,666,140	**1,940,284**	1,666,140

27. Interest expense

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits and placements of banks and other financial institutions	**92,441**	72,961	**92,454**	72,961
Deposits from customers	**677,201**	627,766	**677,201**	627,766
Loans sold to Cagamas	**4,701**	5,729	**4,701**	5,729
Subordinated Bonds	**18,748**	-	**18,748**	-
Others	**2,816**	10,909	**2,816**	10,909
	795,907	717,365	**795,920**	717,365

28. Other operating income

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Fee income				
- Commission	**97,525**	81,624	**97,525**	81,624
- Guarantee fees	**33,625**	25,281	**33,625**	25,281
- Service charges and fees	**143,170**	117,725	**143,170**	117,725
- Commitment fee	**20,206**	19,707	**20,211**	19,707
- Arrangement and participation fees	**23,418**	2,001	**23,418**	2,001
	317,944	246,338	**317,949**	246,338
Investment income				
- Loss from sale of financial assets at fair value through profit and loss	**(54,600)**	(23,193)	**(54,600)**	(23,193)
- Gain from sale of available-for-sale securities	**23,234**	30,932	**23,234**	30,932
- Unrealised gain on financial assets at fair value through profit and loss	**11,241**	45,164	**11,241**	45,164
- Gross dividends from:				
- available-for-sale securities quoted in Malaysia	**726**	491	*726*	491
	(19,399)	53,394	**(19,399)**	53,394
Other income				
- Foreign exchange gain/(loss)				
- realised	**100,265**	113,675	**100,265**	113,675
- unrealised	**29,890**	(28,766)	**29,890**	(28,766)
- Rental income from operating leases, other than those from investment properties	**166**	235	**55**	235
- Rental income from investment properties	**710**	600	**-**	600
- Gain/(loss) on disposal of property plant and equipment	**1,062**	(28)	**1,062**	6,481
- Gain on disposal of foreclosed properties	**2,266**	-	**2,266**	-
- Other operating income	**4,262**	3,797	**4,262**	3,797
- Others	**13,707**	12,293	**13,706**	12,293
	152,328	101,806	**151,506**	108,315
	450,873	401,538	**450,056**	408,047

29. Other operating expenses

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Personnel expenses	**331,396**	280,217	**327,837**	279,747
Establishment related expenses	**115,237**	114,382	**127,049**	113,311
Promotion and marketing related expenses	**27,132**	22,381	**29,403**	23,177
General administrative expenses	**117,073**	85,063	**116,500**	84,896
	590,838	502,043	**600,789**	501,131
Personnel expenses				
- Wages, salaries and bonus	**253,167**	218,127	**250,084**	217,730
- Defined contribution retirement plan	**40,485**	34,486	**40,057**	34,433
- Other employee benefits	**37,744**	27,604	**37,696**	27,584
	331,396	280,217	**327,837**	279,747
Establishment related expenses				
- Depreciation of property, plant and equipment	**38,126**	38,678	**33,574**	38,606
- Depreciation of investment property	**180**	180	**-**	180
- Amortisation of prepaid land lease payments	**660**	660	**-**	660
- Hire of equipment	**93**	54	**93**	54
- Information technology costs	**11,514**	12,499	**11,514**	12,499
- Repair and maintenance	**16,080**	15,477	**15,669**	15,442
- Rental of premises	**10,131**	8,665	**24,897**	8,619
- Others	**38,453**	38,169	**41,302**	37,251
	115,237	114,382	**127,049**	113,311
Promotion and marketing related expenses				
- Advertising and publicity	**14,721**	12,323	**14,706**	12,322
- Others	**12,411**	10,058	**14,697**	10,855
	27,132	22,381	**29,403**	23,177
General administrative expenses				
- Fees and commissions paid	**68,885**	38,482	**68,549**	38,430
- Auditors' remuneration	**440**	482	**423**	474
- Others	**47,748**	46,099	**47,528**	45,992
	117,073	85,063	**116,500**	84,896
The above expenditure includes the following:				
CEO and directors' remuneration (Note 30)	**1,835**	1,666	**1,835**	1,666

30. CEO and directors' remuneration

Remuneration in aggregate for all directors charged to the income statement for the year is as follows:

	Group and Bank	
	2010 RM'000	2009 RM'000
CEO		
- Salary and other remuneration	**801**	752
- Bonus	**530**	435
- Fees	**40**	40
- Benefits-in-kind	**4**	4
Non-executive Directors		
- Fees	**460**	435
Total	**1,835**	1,666

The number of directors of the Group and the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

	No. of Directors	
	2010	2009
Executive director:		
RM1,000,000 to RM1,500,000	**1**	1
Non-executive directors:		
RM1 to RM50,000	**3**	3
RM50,001 to RM100,000	**5**	5

The total remuneration (including benefit-in-kind) of the Directors of the the Bank are as follows:

	Remuneration received from the Bank				
	Salary RM'000	Fees RM'000	Bonus RM'000	Benefits-in-kind RM'000	Total RM'000
2010					
Executive Director:					
Chan Kok Seong	801	40	530	4	1,375
Non-Executive Directors:					
Wee Cho Yaw	-	70	-	-	70
Wee Ee Cheong	-	40	-	-	40
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu (deceased)	-	55	-	-	55
Ng Kee Wei	-	60	-	-	60
Lim Kean Chye	-	55	-	-	55
Lee Chin Yong, Francis	-	50	-	-	50
Ong Sea Eng, Terence	-	28	-	-	28
Abdul Latif Bin Yahaya	-	52	-	-	52
Datuk Abu Huraira Bin Abu Yazid	-	50	-	-	50
	801	500	530	4	1,835

31. Allowance for losses on loans, advances and financing

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Allowance for impaired loans, advances and financing:				
(a) Individual Impairment				
- made in the financial year	**292,726**	286,635	**292,726**	286,635
- written back in the financial year	**(119,521)**	(77,221)	**(119,521)**	(77,221)
(b) Collective Impairment				
- made in the financial year	**120,600**	7,480	**120,600**	7,480
Impaired loans, advances and financing:				
- written off/(back)	**895**	(30)	**895**	(30)
- recovered	**(89,225)**	(66,137)	**(89,215)**	(66,137)
	205,475	150,727	**205,485**	150,727

32. Income tax expense

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Income tax:				
Malaysian income tax in respect of current financial year	**229,213**	219,748	**229,179**	219,738
(Over)/underprovision in prior years	**(14,663)**	18,623	**(14,657)**	18,623
	214,550	238,371	**214,522**	238,361
Deferred tax (Note 16):				
Relating to origination and reversal of temporary differences	**(25,004)**	(43,186)	**(25,010)**	(43,179)
Under/(over)provision in prior years	**21,332**	(26,827)	**21,323**	(26,827)
	(3,672)	(70,013)	**(3,687)**	(70,006)
	210,878	168,358	**210,835**	168,355

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank is as follows:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Profit before taxation	**829,955**	688,482	**794,694**	701,117
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	**207,489**	172,120	**198,673**	175,279
Income not subject to tax	**(734)**	(114)	**(734)**	(114)
Expenses not deductible for tax purposes	**6,241**	1,398	**6,230**	1,394
Effects of share of associates' post-tax (profit)/loss included in Group's profit before taxation	**(8,787)**	3,158	**-**	-
(Over)/underprovision of tax expense in prior years	**(14,663)**	18,623	**(14,657)**	18,623
Under/(over)provision of deferred tax in prior years	**21,332**	(26,827)	**21,323**	(26,827)
Tax expense for the year	**210,878**	168,358	**210,835**	168,355

33. Earnings per share

The earnings per ordinary share of the Group has been calculated based on the net profit after taxation of RM619,077,000 (2009: RM520,124,000) and on the number of ordinary shares of RM1 each in issue during the year of 470,000,000 (2009: 470,000,000).

34. Dividends

	Group and Bank			
	2010		2009	
	Net dividend per share sen	**Amount of dividend, net of tax RM'000**	**Net dividend per share sen**	**Amount of dividend, net of tax RM'000**
Proposed final dividend	**43.5**	**204,450**	5.9	27,848

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2010, of 58% less 25% taxation on 470,000,000 ordinary shares of RM1 each, amounting to dividend payable of RM204,450,000 (43.5 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2011.

35. Significant related party transactions and balances

(a) Related parties and relationships

The related parties of and their relationship (other than those disclosed in Notes 11 and 12 to the financial statements) with the Bank are as follows:

Related parties	Relationship
United Overseas Bank Limited	Ultimate holding company
Chung Khiaw Bank (Malaysia) Bhd	Holding company
Chung Khiaw Realty Limited	Other related parties

(b) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Non-Executive Directors of the Bank and certain members of senior management of the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These significant related party transactions were carried out on commercial terms and at market rates. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

	Ultimate holding company RM'000	**Subsidiaries RM'000**	**Associates RM'000**	**Key management personnel RM'000**	**Other related companies RM'000**
2010					
Income					
- Interest on placements, loans and advances	**15,699**	**5,339**	**1,213**	**153**	**-**
- Rental income	**-**	**-**	**-**	**-**	**-**
- Commission income	**54**	**11**	**-**	**-**	**-**
- Dividend income	**-**	**-**	**-**	**-**	**-**
- Service charges income	**830**	**-**	**-**	**-**	**-**
	16,583	**5,350**	**1,213**	**153**	**-**

35. Significant related party transactions and balances (continued)

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Key management personnel RM'000	Other related companies RM'000
2010 (continued)					
Expenditure					
- Interest on deposits	**55,633**	**13**	**550**	**365**	**436**
- Rental expense	**-**	**14,987**	**-**	**-**	**560**
- Other expense	**2,300**	**4,004**	**-**	**-**	**-**
	57,933	**19,004**	**550**	**365**	**996**
Amount due from					
- Cash and short-term funds	**332,354**	**-**	**-**	**-**	**42**
- Loans, advances and financing	**-**	**180,215**	**25,933**	**6,626**	**-**
- Other assets	**-**	**646**	**-**	**-**	**-**
	332,354	**180,861**	**25,933**	**6,626**	**42**
Amount due to					
- Deposits from customers	**-**	**14,892**	**610**	**26,614**	**27,654**
- Deposits and placements of banks and other financial institutions	**223,620**	**-**	**32,164**	**-**	**18**
- Other liabilities	**112,921**	**-**	**-**	**-**	**-**
	336,541	**14,892**	**32,774**	**26,614**	**27,672**
2009					
Income					
- Interest on placements, loans and advances	25,629	-	726	117	-
- Rental income	41	-	-	-	127
- Commission income	42	-	-	-	-
- Dividend income	732	-	-	-	-
- Gain on disposal of land and buildings	-	6,508	-	-	-
	26,444	6,508	726	117	127
Expenditure					
- Interest on deposits	50,916	-	570	714	193
- Rental expense	3,000	-	-	-	541
	53,916	-	570	714	734
Amount due from					
- Cash and short-term funds	835,020	-	-	-	633
- Loans, advances and financing	-	175,760	19,672	4,181	-
- Other assets	-	594	-	-	-
	835,020	176,354	19,672	4,181	633
Amount due to					
- Deposits from customers	-	415	3,777	25,106	18,476
- Deposits and placements of banks and other financial institutions	1,362,519	-	24,518	-	17
- Other liabilities	108,965	-	-	-	-
	1,471,484	415	28,295	25,106	18,493

35. Significant related party transactions and balances (continued)

The remuneration of key management personnel included in the income statement was as follows:

	Group and Bank	
	2010 RM'000	2009 RM'000
Short-term employee benefits	**14,411**	8,224
Post employment benefits:		
Defined contribution retirement plan	**2,075**	1,340
Share based payment*	**3,509**	1,808
	19,995	11,372

* In the previous financial year, key management personnel of the Bank were granted options to subscribe in shares of the ultimate holding company under the its Restricted Share Plan and Share Appreciation Rights Plan. As at 31 December 2010 the number of options held by key management personnel under these two plans were 66,650 (2009: 46,100) and 148,500 (2009: 87,150), respectively.

36. 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.

	Group and Bank		
2010	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	**1,659,443**	**1,659,443**	**1,073,401**
Transaction-related contingent items	**1,565,669**	**782,964**	**467,133**
Short-term self-liquidating trade-related contingencies	**321,933**	**64,387**	**47,733**
Foreign exchange related contracts			
- less than one year	**8,087,126**	**199,476**	**46,229**
Interest rate related contracts			
- less than one year	**7,341,125**	**30,347**	**8,923**
- more than one year to less than five years	**14,807,248**	**413,264**	**170,541**
- five years and above	**2,204,303**	**163,376**	**101,501**
Equity related contracts			
- less than one year	**173,155**	**5,195**	**1,235**
- more than one year to less than five years	**105,816**	**4,233**	**1,915**
Others	**11,525,358**	**1,081,859**	**174,924**
Total	**47,791,176**	**4,404,543**	**2,093,536**
2009			
Direct credit substitutes	1,382,564	1,382,564	1,089,443
Transaction-related contingent items	1,394,726	697,363	468,582
Short-term self-liquidating trade-related contingencies	422,051	84,410	78,583
Irrevocable commitments to extend credit			
- maturity more than one year	1,550,700	-	-
- maturity less than one year	12,565,656	-	-
Foreign exchange related contracts			
- less than one year	3,532,561	62,203	18,946
- more than one year to less than five years	673,234	51,192	10,238
Interest rate related contracts			
- less than one year	4,230,129	17,350	3,470
- more than one year to less than five years	16,734,931	565,851	113,170
- five years and above	1,980,000	161,292	32,259
Others	1,900,464	-	-
Total	46,367,016	3,022,225	1,814,691

36. Commitments and contingencies (continued)

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

Foreign exchange and interest rate related contracts for the Group and the Bank are subject to market risk and credit risk.

The Bank has implemented the Basel II IRB approach for weighted assets computation effective from June 2010.

37. Capital commitments

	Group and Bank	
	2010 RM'000	2009 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	**54,294**	34,424
- authorised but not contracted for	**21,012**	11,831
	75,306	46,255

38. Lease commitments

The Group as Lessee

The Group and the Bank have non-cancellable long term lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Future minimum rentals payments:				
Not later than 1 year	**7,463**	6,131	**7,397**	6,086
Later than 1 year and not later than 5 years	**5,095**	5,794	**5,082**	5,780
	12,558	11,925	**12,479**	11,866

39. Financial risk management

The Bank's business activities involve the use of financial instruments, including derivatives. These activities expose the Bank to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

The Bank's financial risks are centrally managed by the various specialist committees within the delegated authority by the Board of Directors. These various specialist committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by the Executive Committee and/or Board of Directors.

The Risk Management Division assumes the independent oversight of risks undertaken by the Bank, and takes the lead in the formulation and approval of risk policies, controls and processes. The Market Risk Control Unit within the Risk Management Division enforces Global Markets and Investment Management's compliance with trading policies and limits. This is further enhanced by the periodic risk assessment audit carried out by the Bank's Internal Audit.

The main financial risks that the Bank is exposed to and how they are being managed are set out below:

(a) Credit Risk

Credit risk is defined as the risk of loss arising from any failure by a borrower or a counterparty to fulfill its financial obligations as and when they fall due.

The Executive Committee (EXCO) is delegated the authority by the Board of Directors to oversee all credit matters. It also oversees the implementation of the Bank's Basel II Internal Ratings-Based Approach ("IRBA") framework and the respective IRBA models and risk estimates.

39. Financial risk management (continued)

(a) Credit Risk (continued)

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Bank are cash, marketable securities, real estate, equipment and inventory. Policies and processes are in place to monitor collateral concentration.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all non-performing and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked and analysed by business and product lines. Significant trends are reported to the Credit Management Committee and the Executive Committee.

(i) Credit exposure

	Group 2010 RM'000	Bank 2010 RM'000
Cash and short-term funds	9,270,889	9,270,889
Securities purchased under resale agreements	149,973	149,973
Deposits and placements with financial institutions	10,889	10,889
Financial assets at fair Value through profit and loss	2,275,075	2,275,075
Available-for-sale ("AFS") securities	3,517,612	3,517,612
Loans, advances and financing	34,387,818	34,568,033
Derivative financial assets	244,248	244,248
Others	73,367	73,367
	49,929,871	50,110,086
Other assets not subject to credit risk	774,365	543,550
	50,704,236	50,653,636
Contingent assets	36,265,818	36,265,818
Commitments	11,525,358	11,525,358
	98,495,412	98,444,812

39. Financial risk management (continued)

(a) Credit risk (continued)

(ii) The following table set out the credit risk concentration by economic sectors of the Group and the Bank:

Group 2010	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Fair value through profit and loss RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Individual impairment and collective impairment RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	266,054	(5,790)	-	260,264	249,688
Mining and quarrying	-	-	-	71,633	(1,132)	-	70,501	327,457
Manufacturing	-	-	-	5,013,507	(220,606)	-	4,792,901	4,159,636
Electricity, gas and water	-	-	-	49,116	(776)	-	48,340	127,996
Construction	-	-	40,293	1,936,901	(49,920)	2	1,927,276	2,809,493
Wholesale & retail trade and restaurants & hotels	-	-	-	5,069,577	(131,128)	-	4,938,449	3,396,147
Transport, storage, and communication	-	184,057	28,924	354,490	(7,071)	4,719	565,119	136,812
Finance, insurance, and business services	9,431,751	2,004,197	3,305,008	1,875,862	(39,302)	311,406	16,888,922	32,674,512
Real estate	-	-	1,089	1,740,358	(29,370)	-	1,712,077	244,324
Community, social and personal services	-	-	-	94,878	(1,568)	-	93,310	30,845
Households	-	-	-	18,745,126	(347,105)	-	18,398,021	3,630,544
Others	-	86,822	142,298	4,149	(66)	1,488	234,691	3,722
	9,431,751	2,275,076	3,517,612	35,221,651	(833,834)	317,615	49,929,871	47,791,176
Other assets not subject to credit risk	-	-	-	-	-	774,365	774,365	-
	9,431,751	2,275,076	3,517,612	35,221,651	(833,834)	1,091,980	50,704,236	47,791,176
Group 2009								
Agriculture, hunting, forestry and fishing	-	-	-	217,815	(4,771)	-	213,044	312,441
Mining and quarrying	-	-	-	13,635	(209)	-	13,426	270,908
Manufacturing	-	-	169,590	4,508,983	(216,811)	1,140	4,462,902	4,420,218
Electricity, gas and water	-	-	-	9,723	(149)	-	9,574	182,929
Construction	-	-	39,051	1,640,355	(48,819)	100	1,630,687	2,689,420
Wholesale & retail trade and restaurants & hotels	-	-	-	4,352,009	(110,430)	-	4,241,579	3,928,912
Transport, storage, and communication	-	-	203,503	336,670	(5,264)	5,124	540,033	293,773
Finance, insurance, and business services	7,447,318	1,809,646	4,479,406	724,203	(14,711)	283,515	14,729,377	28,195,009
Real estate	-	-	547	1,195,184	(19,885)	-	1,175,846	737,233
Community, social and personal services	-	-	-	80,756	(1,238)	-	79,518	45,622
Households	-	-	-	15,384,687	(295,924)	-	15,088,763	5,271,503
Others	-	-	-	3,903	(60)	394,343	398,186	19,048
	7,447,318	1,809,646	4,892,097	28,467,923	(718,271)	684,222	42,582,935	46,367,016
Other assets not subject to credit risk	-	-	-	-	-	417,412	417,412	-
	7,447,318	1,809,646	4,892,097	28,467,923	(718,271)	1,101,634	43,000,347	46,367,016

39. Financial risk management (continued)
(a) Credit risk (continued)

Bank 2010	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Fair value through profit and loss RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Individual impairment and collective impairment RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	266,054	(5,790)	-	260,264	249,688
Mining and quarrying	-	-	-	71,633	(1,132)	-	70,501	327,457
Manufacturing	-	-	-	5,013,507	(220,606)	-	4,792,901	4,159,636
Electricity, gas and water	-	-	-	49,116	(776)	-	48,340	127,996
Construction	-	-	40,293	1,936,901	(49,920)	2	1,927,276	2,809,493
Wholesale & retail trade and restaurants & hotels	-	-	-	5,069,577	(131,128)	-	4,938,449	3,396,147
Transport, storage, and communication	-	184,057	28,924	354,490	(7,071)	4,719	565,119	136,812
Finance, insurance,	-	-	-	-	-	-	-	-
and business services	9,431,751	2,004,197	3,305,008	2,056,077	(39,302)	311,406	17,069,137	32,674,512
Real estate	-	-	1,089	1,740,358	(29,370)	-	1,712,077	244,324
Community, social and personal services	-	-	-	94,878	(1,568)	-	93,310	30,845
Households	-	-	-	18,745,126	(347,105)	-	18,398,021	3,630,544
Others	-	86,822	142,298	4,149	(66)	1,488	234,691	3,722
	9,431,751	2,275,076	3,517,612	35,401,866	(833,834)	317,615	50,110,086	47,791,176
Other assets not subject to credit risk	-	-	-	-	-	543,550	543,550	-
	9,431,751	2,275,076	3,517,612	35,401,866	(833,834)	861,165	50,653,636	47,791,176

Bank 2009	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Fair value through profit and loss RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Individual impairment and collective impairment RM'000	Other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	217,815	(4,771)	-	213,044	312,441
Mining and quarrying	-	-	-	13,635	(209)	-	13,426	270,908
Manufacturing	-	-	169,590	4,508,983	(216,811)	1,140	4,462,902	4,420,218
Electricity, gas and water	-	-	-	9,723	(149)	-	9,574	182,929
Construction	-	-	39,051	1,640,355	(48,819)	100	1,630,687	2,689,420
Wholesale & retail trade and restaurants & hotels	-	-	-	4,352,009	(110,430)	-	4,241,579	3,928,912
Transport, storage, and communication	-	-	203,503	336,670	(5,264)	5,124	540,033	293,773
Finance, insurance, and business services	7,447,318	1,809,646	4,479,406	899,963	(14,711)	283,515	14,905,137	28,195,009
Real estate	-	-	547	1,195,184	(19,885)	-	1,175,846	737,233
Community, social and personal services	-	-	-	80,756	(1,238)	-	79,518	45,622
Households	-	-	-	15,384,687	(295,924)	-	15,088,763	5,271,503
Others	-	-	-	3,903	(60)	358,252	362,095	19,048
	7,447,318	1,809,646	4,892,097	28,643,683	(718,271)	648,131	42,722,604	46,367,016
Other assets not subject to credit risk	-	-	-	-	-	247,847	247,847	-
	7,447,318	1,809,646	4,892,097	28,643,683	(718,271)	895,978	42,970,451	46,367,016

39. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Credit quality of gross loans and debt securities

Gross loans are graded in accordance with BNM Guideline as follows:

	2010	
	Group and Bank	
	RM'000	RM'000
Passed	34,110,635	34,290,850
Special mention	241,447	241,447
Substandard	603,501	603,501
Doubtful	25,272	25,272
Loss	240,795	240,795
	35,221,650	35,401,865

(iv) Ageing analysis of past due and impaired assets

	2010	
Group and Bank	Past due but not impaired RM'000	Impaired RM'000
Current	-	21,328
Within 90 days	1,549,148	47,012
Over 90 to 180 days	-	126,438
Over 180 days	-	674,790
	1,549,148	869,568

Included in the financial assets that are neither past due nor impaired as at 31 December 2010 were the renegotiated financial assets of RM290,516,000.

(v) Past due and impaired assets analysed by industry

		2010	
Group and Bank	Past due but not impaired RM'000	Impaired RM'000	Individual impairment RM'000
Agriculture, hunting, forestry and fishing	2,563	1,866	1,609
Manufacturing	310,233	308,353	143,617
Construction	106,835	42,198	19,609
Wholesale & retail trade and restaurants & hotels	173,194	127,356	51,801
Transport, storage and communication	18,373	2,916	1,490
Finance, insurance and business services	47,525	20,306	6,906
Real estate	43,833	14,310	1,886
Community, social and personal services	13,526	2,482	69
Households of which:			
- purchase of residential properties	651,318	276,543	29,023
- purchase of non residential properties	69,608	14,587	1,284
- others	112,140	58,651	21,269
	1,549,148	869,568	278,563

39. Financial risk management (continued)

(a) Credit risk (continued)

(vi) Security coverage of impaired assets

Gross loans are graded in accordance with BNM Guideline as follows:

Group and Bank	2010 RM'000
Secured impaired assets	556,334
Unsecured impaired assets	313,234
	869,568
Estimated fair value of collateral for secured impaired assets	
Properties	555,411
Marketable securities, fixed deposits and others	923
	556,334

(b) Market risk

(i) **Foreign exchange risk**

Foreign exchange risk is the risk to earnings and value of financial instruments arising from adverse fluctuations in foreign exchange rates, caused by fundamental and economic factors.

The Bank's foreign exchange exposures arise mainly from its foreign exchange position-taking or proprietary business, and customer facilitation business. To mitigate foreign currency risk, the Bank predominately uses foreign currency outright forward and swap contracts to hedge its foreign exchange exposures.

Foreign exchange risk is managed through market risk processes, risk limits and policies as approved by the Executive Committee. The limits, procedures and policies, such as the level of exposure by currency in total for both overnight and intra-day positions, are independently monitored by Market Risk Control.

(ii) **Interest rate risk**

Interest rate risk is the impact to earnings and economic value of the Bank due to fluctuations in interest rates.

Interest rate exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Bank's policies as approved by the Board.

The economic value of equity ("EVE") sensitivity at 100 and 200 basis points parallel interest rate shocks were negative RM26 million and RM48 million (2009: negative RM33 million and RM64 million) respectively. This is computed on the banking book for major currencies (Ringgit Malaysia and US dollar). The reported figures are based on the worst case of an upward and downward parallel movement of the yield curve. The repricing profile of loans and deposits that do not have maturity dates are generally based on the earliest possible repricing dates taking into account the notice period to be served to customers.

(iii) **Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as and when they fall due, such as upon maturity of deposits and draw-down of loans.

The Bank manages liquidity risk in accordance with the liquidity framework approved by the Asset and Liability Committee ("ALCO") and which are also adequate to meet the requirements under Bank Negara Malaysia's New Liquidity Framework. This framework comprises policies, controls and limits. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan. The Bank is also required by the respective local regulators to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets.

39. Financial risk management (continued)

(iii) Liquidity risk (continued)

(a) The following table shows the maturity analysis of the Bank's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Bank has a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 3 months" time band) but historically a stable source of long-term funding for the Bank.

Group 2010	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	8,550,571	-	-	-	-	720,318	9,270,889
Securities purchased under resale agreement	149,973	-	-	-	-	-	149,973
Deposits and placements with financial institutions	-	-	10,889	-	-	-	10,889
Financial assets at fair value through profit and loss	1,680,135	130,351	12,786	502,314	-	-	2,325,586
Available-for-sale securities	1,411,430	269,907	382,761	1,414,871	441,635	19,897	3,940,501
Loans, advances and financing	8,676,333	2,213,851	2,124,074	9,718,202	26,967,527	-	49,699,987
Derivative financial assets	-	-	-	-	-	244,248	244,248
Other assets	5,954	-	-	187	-	820,529	826,670
	20,474,396	2,614,109	2,530,510	11,635,574	27,409,162	1,804,992	66,468,743
Liabilities							
Deposits from customers	33,253,082	2,286,827	3,038,807	266,783	93,552	25,785	38,964,836
Deposits and placements of banks and other financial institutions	2,712,118	14,611	34,234	177,387	886,375	78,329	3,903,054
Bills and acceptances payables	2,028,299	25,586	-	-	-	225,333	2,279,218
Amount due to Cagamas	1,022	1,034	31,288	-	-	-	33,344
Derivative financial liabilities	-	-	-	-	-	337,928	337,928
Other liabilities	-	-	-	-	-	585,281	585,281
Subordinated bonds	12,100	-	12,300	585,367	-	-	609,767
	38,006,621	2,328,058	3,116,629	1,029,537	979,927	1,252,656	46,713,428
Net maturity mismatches	(17,532,225)	286,051	(586,119)	10,606,037	26,429,235		

39. Financial risk management (continued)
(iii) Liquidity risk (continued)

Bank 2010	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	8,550,571	-	-	-	-	720,318	9,270,889
Securities purchased under resale agreement	149,973	-	-	-	-	-	149,973
Deposits and placements with financial institutions	-	-	10,889	-	-	-	10,889
Financial assets at fair value through profit and loss	1,680,135	130,351	12,786	502,314	-	-	2,325,586
Available-for-sale securities	1,411,430	269,907	382,761	1,414,871	441,635	19,897	3,940,501
Loans, advances and financing	8,856,548	2,213,851	2,124,074	9,718,202	26,967,527	-	49,880,202
Derivative financial assets	-	-	-	-	-	244,248	244,248
Other assets	5,954	-	-	187	-	589,714	595,855
	20,654,611	2,614,109	2,530,510	11,635,574	27,409,162	1,574,177	66,418,143
Liabilities							
Deposits from customers	33,267,547	2,286,827	3,038,807	266,783	93,552	25,785	38,979,301
Deposits and placements of banks and other financial institutions	2,712,544	14,611	34,234	177,387	886,375	78,329	3,903,480
Bills and acceptances payables	2,028,299	25,586	-	-	-	225,333	2,279,218
Amount due to Cagamas	1,022	1,034	31,288	-	-	-	33,344
Derivative financial liabilities	-	-	-	-	-	337,928	337,928
Other liabilities	-	-	-	-	-	584,410	584,410
Subordinated bonds	12,100	-	12,300	585,367	-	-	609,767
	38,021,512	2,328,058	3,116,629	1,029,537	979,927	1,251,785	46,727,448
Net maturity mismatches	(17,366,901)	286,051	(586,119)	10,606,037	26,429,235		

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 36. These have been incorporated in the net off-balance sheet position for year ended 31 December 2010. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

In the previous financial year, the Group and the Bank's disclosure on exposure to liquidity risk was based on discounted contractual terms whereas under the new FRS7 disclosure, the Group and the Bank's liquidity risk as at 31 December 2010 was based on contractual undiscounted repayment obligation.

39. Financial risk management (continued)

(iv) Value-at risk

The Group adopts a daily Value-at-Risk ("VaR") to estimate market risk within a 99% confidence interval using the historical simulation method. This methodology does not make assumptions on the distribution of returns and the correlations between risk classes. The method assumes that possible future changes in market rates may be implied by observed historical market movements. The level of VaR is dependent on the exposures, as well as market prices and volatilities. The table below shows the VaR profile by risk classes.

	Year end RM'million	High RM'million	Low RM'million	Average RM'million
2010				
Interest rate	**693**	**3,247**	**497**	**1,272**
Foreign Exchange	**553**	**1,575**	**81**	**455**
Basis Swap Spread	**596**	**4,457**	**523**	**1,781**
Total Diversified VAR	**876**	**5,982**	**700**	**2,196**
2009				
Interest rate	2,543	2,872	840	1,606
Foreign Exchange	808	1,421	33	257
Basis Swap Spread	1,224	5,562	1,222	3,462
Total Diversified VAR	2,361	7,602	1,543	4,287

40. Segment information

Operating segment

The following segment information has been prepared in accordance with FRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance. The Group's businesses are organised into the following four segments based on the types of products and services that it provides:

Retail

Retail segment covers Consumer, Privilege and Business Banking. Consumer Banking serves the individual customers, while Business Banking serves small enterprises with a wide range of products and services, including deposits, loans, investments, credit and debit cards and insurance products. Privilege Banking provides an extended range of financial services, including wealth management and restricted products such as structured notes, funds of hedge funds, and high net worth insurance plans to the wealthy and affluent customers.

Institutional Financial Services ("IFS")

IFS segment encompasses Commercial Banking, Corporate Banking, Corporate Finance, Debt Capital Markets and Private Banking. Commercial Banking serves the medium and large enterprises, while Corporate Banking serves large local corporations, government linked companies and agencies, including non-bank financial institutions. Both Commercial Banking and Corporate Banking provide customers with a broad range of products and services that include current accounts, deposits, lending, asset finance, ship finance, trade finance, structured finance, cash management and cross-border payments. Corporate Finance provides services that include lead managing and underwriting equity offerings and corporate advisory services. Debt Capital Markets specialises in solution-based structures to meet clients' financing requirements in structuring, underwriting and arranging syndicated loans for general corporate needs, leveraged buy-outs, project and structured finance, and underwriting and lead managing bond issues. Private Banking caters to the high net worth individuals and accredited investors, offering financial and portfolio planning, including investment management, asset management and estate planning.

Global Markets and Investment Management ("GMIM")

GMIM segment provides a comprehensive range of treasury products and services, including foreign exchange, money market, fixed income, derivatives, margin trading, futures broking, gold products, as well as an array of structured products. It is a dominant player in treasury instruments as well as a provider of banknote services in the country. It also engages in asset management, proprietary investment activities and management of excess liquidity and capital funds.

Others

The others segment includes property-related activities, insurance businesses and income and expenses not attributable to other operating segments.

40. Segment information (continued)
Operating segment (continued)

Group 2010	Retail RM'000	IFS RM'000	GMIM RM'000	Others RM'000	Elimination RM'000	Total RM'000
Operating income	875,730	451,365	144,398	139,923	(21,512)	1,589,904
Other operating expense	(161,998)	(30,152)	(16,877)	(403,366)	21,555	(590,838)
Allowance for impairment on Loans, advances and financing	(16,712)	(68,523)	-	(120,240)	-	(205,475)
Allowance made for Commitments and contingencies	(27)	6,575	-	-	-	6,548
Share of profit of associate (net of tax)	-	-	-	29,816	-	29,816
Profit before taxation	696,993	359,265	127,521	(353,867)	43	829,955
Gross loans	22,600,814	12,799,842	1,198	11	(180,215)	35,221,650
Deposits from customers	19,267,401	8,033,855	11,421,430	242,150	-	38,964,836
Group 2009						
Operating income	745,100	343,775	105,699	163,051	(7,312)	1,350,313
Other operating expense	(126,504)	(17,618)	(15,682)	(342,142)	(97)	(502,043)
Allowance for impairment on Loans, advances and financing	(57,717)	(85,943)	-	(7,067)	-	(150,727)
Allowance made for Commitments and contingencies	(5)	(3,842)	-	-	-	(3,847)
Share of loss of associate (net of tax)	-	-	-	(5,214)	-	(5,214)
Profit before taxation	560,874	236,372	90,017	(191,372)	(7,409)	688,482
Gross loans	18,669,421	9,974,262	-	-	(175,760)	28,467,923
Deposits from customers	17,442,279	6,639,672	7,062,784	412,739	-	31,557,474

41. Capital management and capital adequacy

The Group's capital management objective is to maintain an optimal level of capital. Policies are set to ensure that the capital maintained is adequate to support business growth, taking into consideration regulatory requirements, the underlying risk the Group's business and other factors such as rating targets. The policies endorsed by the Board of Directors are overseen by senior management.

The Group computes capital adequacy ratios in accordance with Bank Negara Malaysia's guideline.

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Tier I capital				
Paid-up share capital	**470,000**	470,000	**470,000**	470,000
Share premium	**322,555**	322,555	**322,555**	322,555
Retained profits	**2,754,586**	2,132,238	**2,762,763**	2,175,633
Statutory reserve	**470,000**	470,000	**470,000**	470,000
Less: Deferred tax assets	**(148,576)**	(135,666)	**(148,602)**	(135,677)
	3,868,565	3,259,127	**3,876,716**	3,302,511
Tier II capital				
Subordinated bonds	**500,000**	-	**500,000**	-
RM collective impairment (proportion of Standardised Approach's RWA)	*95,275*	-	**91,670**	-
Surplus of total Eligible Provisions over total Expected Loss (IRB approach)	**112,163**	-	**112,163**	-
Collective impairment for losses on loans, advances and financing	**-**	434,669	**-**	434,669
	707,438	434,669	**703,833**	434,669
Total capital	**4,576,003**	3,693,796	**4,580,549**	3,737,180
Less: Investment in subsidiaries	**-**	-	**(50)**	(51)
Capital base	**4,576,003**	3,693,796	**4,580,499**	3,737,129

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

	Group		Bank	
	2010	2009	2010	2009
Core capital ratio	**14.77%**	13.25%	**14.92%**	13.49%
Risk-weighted capital ratio	**17.47%**	15.02%	**17.63%**	15.26%
Core capital ratio (net of proposed dividends)	**13.99%**	13.14%	**14.14%**	13.37%
Risk-weighted capital ratio (net of proposed dividends)	**16.69%**	14.91%	**16.85%**	15.15%

For the financial year ended 31 December 2010, the capital ratios are computed in accordance with the Basel II IRB approach. The comparative figures were computed based on Basel I.

(b) Analysis of gross risk-weighted assets in the various categories of risk-weights is as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Total RWA for credit risk	**22,565,776**	23,888,430	**22,390,278**	23,785,088
Total RWA for market risk	**523,537**	597,641	**523,537**	597,641
Total RWA for operational risk	**2,527,863**	-	**2,527,863**	-
Large Exposure for Equity Holdings RWA	**427,009**	106,752	**427,009**	106,752
Additional RWA due to Capital floor	**142,638**	-	**106,316**	-
	26,186,823	24,592,823	**25,975,003**	24,489,481

42. Credit exposure arising from credit transactions with connected parties

	2010	2009
Outstanding credit exposures with connected parties (RM'000)	**375,983**	284,094
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**0.740%**	2.800%
Percentage of outstanding credit exposures to connected parties which is impaired or in default	**0.000%**	0.001%

The credit exposures above are derived based on Bank Negara Malaysia's revised guidelines on Credit Transaction and Exposure with Connected Parties, which is effective from 1 January 2008.

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