

UNITED OVERSEAS BANK (MALAYSIA) BHD
(Company No. 271809 K)
AND ITS SUBSIDIARY COMPANIES
(Incorporated in Malaysia)

PILLAR 3 DISCLOSURE
31 DECEMBER 2015

Domiciled in Malaysia
Registered Office:
Level 11, Menara UOB
Jalan Raja Laut,
50350 Kuala Lumpur

**Attestation by Chief Executive Officer pursuant to BASEL II – Pillar 3 Disclosures
as at 31 December 2015**

To the best of my knowledge, I hereby attest that United Overseas Bank (Malaysia) Bhd's Pillar 3 Disclosures for the financial year ended 31 December 2015 is prepared in accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3).



Wong Kim Choong
Chief Executive Officer



Date: 4 February 2016

Pillar 3 Disclosure

United Overseas Bank (Malaysia) Bhd ('UOBM'), in compliance with the requirements under Bank Negara Malaysia 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'. This supplements the related information in the Notes to the Financial Statements. The disclosures are 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. For the purpose of computing capital adequacy requirements at the Bank level, investments in subsidiary and investment in associates are deducted from regulatory capital in compliance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

The transfer of funds or regulatory capital within the Group is generally subject to regulatory approval.

Capital Adequacy

Our approach to capital management is to ensure that the UOBM Group maintains strong capital levels to support our businesses and growth, to meet regulatory capital requirements at all times and to maintain a good credit rating.

We achieve these objectives through the UOBM Group's Internal Capital Adequacy Assessment Process ("ICAAP") whereby we actively monitor and manage the UOBM Group's capital position over a medium-term horizon, involving the following:

- setting capital targets for the Bank. As part of this, we take into account future regulatory changes and stakeholder expectations;
- forecasting capital demand for material risks based on the UOBM Group's risk appetite. This is evaluated across all business segments and includes the UOBM Group's capital position before and after mitigation actions under adverse but plausible stressed conditions; and
- determining the availability and composition of different capital components.

Two committees oversee our capital planning and assessment process. The Risk Management Committee assists the Board with the management of risks arising from the business of the UOBM Group while the Risk and Capital Committee manages the UOBM Group's ICAAP, overall risk profile and capital requirements. The UOBM Group's capital position, capital management plan, the contingency capital plan, as well as any capital management actions, are submitted to the senior management team and/or to the Board for approval.

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CAPITAL ADEQUACY

The aggregate breakdown of Risk-Weighted Assets ("RWA") by exposures in each category of the Bank for the current financial year ended 31 December 2015 were as follows:-

Item	Exposure Class	Exposures Pre	Exposures Post	RWA	Minimum Capital
		Credit Risk	Credit Risk		
		Mitigation ("CRM")	Mitigation ("CRM")		Requirement at 8%
		RM'000	RM'000	RM'000	RM'000
1.0	Credit Risk				
1.1	Exempted Exposures under the Standardised Approach (SA)				
	<i>On-Balance Sheet Exposures</i>				
	Sovereigns / Central Banks	15,935,875	15,935,875	-	-
	Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	100,036	100,036	20,007	1,600
	Insurance Cos, Securities Firms & Fund Managers	10,273	242	242	19
	Corporates	534,403	532,294	532,083	42,567
	Other Assets	994,158	994,158	802,583	64,207
	Defaulted Exposures	7,589	7,589	11,383	911
	Total On-Balance Sheet Exposures	17,582,334	17,570,194	1,366,298	109,304
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	375,245	375,245	272,749	21,820
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	137,645	136,171	126,794	10,143
	Total Off-Balance Sheet Exposures	512,890	511,416	399,543	31,963
	Total On and Off-Balance Sheet Exposures (SA)	18,095,224	18,081,610	1,765,841	141,267
1.2	Exposures under the Foundation IRB Approach (FIRB)				
	<i>On-Balance Sheet Exposures</i>				
	Banks, DFIs and MDBs	3,345,265	3,345,265	863,741	69,099
	Corporates	25,185,715	22,388,111	25,271,451	2,021,716
	Equity (Simple Risk Weight)	78,532	78,532	310,390	24,831
	Defaulted Exposures	642,380	629,993	-	-
	Total On-Balance Sheet Exposures	29,251,892	26,441,901	26,445,582	2,115,646
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	1,569,597	1,566,501	769,035	61,523
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	8,640,601	7,712,209	7,406,950	592,556
	Defaulted Exposures	21,174	20,859	-	-
	Total Off-Balance Sheet Exposures	10,231,372	9,299,569	8,175,985	654,079
	Total On and Off-Balance Sheet Exposures (FIRB)	39,483,264	35,741,470	34,621,567	2,769,725
1.3	Exposures under the Advance IRB Approach (AIRB)				
	<i>On-Balance Sheet Exposures</i>				
	Corporates	23,967	23,967	6,419	514
	Residential Mortgages	28,067,570	28,067,570	3,041,079	243,286
	Qualifying Revolving Retail	2,236,755	2,236,755	942,361	75,389
	Other Retail	14,941,327	14,941,327	2,630,775	210,462
	Defaulted Exposures	626,266	626,266	779,713	62,377
	Total On-Balance Sheet Exposures	45,895,885	45,895,885	7,400,347	592,028
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	3,881	3,881	2,890	231
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	6,530,388	6,530,388	866,078	69,286
	Defaulted Exposures	155	155	261	21
	Total Off-Balance Sheet Exposures	6,534,424	6,534,424	869,229	69,538
	Total On and Off-Balance Sheet Exposures (AIRB)	52,430,309	52,430,309	8,269,576	661,566
	Total Exposures under IRB Approach	91,913,573	88,171,779	42,891,143	3,431,291
	Total (Exempted Exposures and Exposures under the IRB Approach) after scaling factor	-	-	47,230,453	3,778,436
2.0	Large Exposures Risk Requirement	-	-	-	-
3.0	Market Risk	Long Position	Short Position		
	Interest Rate Risk	37,384,320	30,954,299	923,957	73,917
	Foreign Currency Risk	407,765	365,164	50,343	4,027
	Commodity Risk	430,565	428,670	165,404	13,232
	Options Risk	-	-	27,810	2,225
4.0	Operational Risk (Basic Indicator Approach)			4,673,789	373,903
5.0	Total RWA and Capital Requirements			53,071,756	4,245,741

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CAPITAL ADEQUACY (Cont'd.)

The aggregate breakdown of Risk-Weighted Assets ("RWA") by exposures in each category of the Bank for the financial year ended 31 December 2014 were as follows:-

Item	Exposure Class	Exposures Pre CRM	Exposures Post CRM	RWA	Minimum Capital Requirement at 8%
		RM'000	RM'000	RM'000	RM'000
1.0	Credit Risk				
1.1	Exempted Exposures under the Standardised Approach (SA)				
	<i>On-Balance Sheet Exposures</i>				
	Corporates	1,618,098	1,616,068	1,616,068	129,285
	Other Assets	450,287	450,287	358,703	28,696
	Defaulted Exposures	7,565	7,565	11,347	908
	Total On-Balance Sheet Exposures	2,075,950	2,073,920	1,986,118	158,889
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	378,998	378,998	216,459	17,317
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	128,417	126,554	126,554	10,124
	Total Off-Balance Sheet Exposures	507,415	505,552	343,013	27,441
	Total On and Off-Balance Sheet Exposures (SA)	2,583,365	2,579,472	2,329,132	186,331
1.2	Exposures under the Foundation IRB Approach (FIRB)				
	<i>On-Balance Sheet Exposures</i>				
	Sovereigns / Central Banks	18,833,792	18,833,792	-	-
	Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	3,007,600	3,007,600	666,568	53,325
	Corporates	24,022,107	21,513,970	22,872,579	1,829,806
	Equity (Simple Risk Weight)	113,329	113,329	447,181	35,774
	Defaulted Exposures	532,297	520,373	-	-
	Total On-Balance Sheet Exposures	46,509,125	43,989,065	23,986,328	1,918,906
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	1,093,694	1,078,101	500,755	40,060
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	4,658,178	3,844,165	3,184,787	254,783
	Defaulted Exposures	9,049	7,472	-	-
	Total Off-Balance Sheet Exposures	5,760,921	4,929,738	3,685,542	294,844
	Total On and Off-Balance Sheet Exposures (FIRB)	52,270,046	48,918,803	27,671,870	2,213,750
1.3	Exposures under the Advance IRB Approach (AIRB)				
	<i>On-Balance Sheet Exposures</i>				
	Residential Mortgages	26,790,525	26,790,525	2,799,487	223,959
	Qualifying Revolving Retail	2,147,490	2,147,490	988,983	79,119
	Other Retail	14,212,469	14,212,469	2,600,406	208,032
	Defaulted Exposures	571,450	571,450	551,702	44,136
	Total On-Balance Sheet Exposures	43,721,934	43,721,934	6,940,578	555,246
	<i>Off-Balance Sheet Exposures</i>				
	OTC Derivatives	6,255	6,255	2,517	201
	Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	2,944,089	2,944,089	426,934	34,155
	Defaulted Exposures	80	80	100	8
	Total Off-Balance Sheet Exposures	2,950,424	2,950,424	429,551	34,364
	Total On and Off-Balance Sheet Exposures (AIRB)	46,672,358	46,672,358	7,370,129	589,610
	Total Exposures under IRB Approach	98,942,404	95,591,161	35,041,999	2,803,360
	Total (Exempted Exposures and Exposures under the IRB Approach) after scaling factor	-	-	39,473,651	3,157,892
2.0	Large Exposures Risk Requirement	-	-	-	-
3.0	Market Risk				
		Long Position	Short Position		
	Interest Rate Risk	34,776,665	26,371,966	542,441	43,395
	Foreign Currency Risk	487,906	533,407	101,595	8,128
	Commodity Risk	388,406	386,783	148,527	11,882
	Options Risk	-	-	10,800	864
4.0	Operational Risk (Basic Indicator Approach)			4,344,262	347,541
5.0	Total RWA and Capital Requirements			44,621,275	3,569,702

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CAPITAL STRUCTURE

The Bank, on 29 March 2010 issued RM500 million subordinated bonds maturing on 29 March 2020. The bonds were fully redeemed on 30 March 2015.

The Bank, on 30 August 2013 issued RM500 million subordinated bonds at 4.55% p.a., maturing on 29 August 2023.

The Bank, on 8 May 2015 issued RM 1 billion subordinated bonds at 4.65% p.a. maturing on 8 May 2025.

Both subordinated bonds are for working capital, general funding and corporate funding purposes.

For main features of the subordinated bonds, refer to Note 18 in the Financial Statements.

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<u>Common Equity Tier 1 ("CET1") Capital/</u>				
<u>Tier 1 Capital</u>				
Paid-up share capital	470,000	470,000	470,000	470,000
Share premium	322,555	322,555	322,555	322,555
Retained profits	6,305,544	5,691,949	6,368,438	5,753,972
Statutory reserve	470,000	470,000	470,000	470,000
Other reserves	223,531	184,481	56,387	58,230
Regulatory adjustments applied in the calculation of CET1 Capital	(238,046)	(201,767)	(90,887)	(76,539)
Total CET1/Tier 1 Capital	7,553,584	6,937,218	7,596,493	6,998,218
<u>Tier 2 Capital</u>				
Tier 2 Capital instruments	1,500,000	900,000	1,500,000	900,000
Loan/financing loss provision				
- Surplus eligible provisions over expected losses	169,563	222,867	175,551	222,867
- Collective impairment provisions	25,697	58,999	22,073	53,678
Regulatory adjustments applied in the calculation of Tier 2 Capital	65,250	(24,091)	(8,143)	(80,019)
Total Tier 2 Capital	1,760,510	1,157,775	1,689,481	1,096,526
Total Capital	9,314,094	8,094,993	9,285,974	8,094,744

The capital adequacy ratios of the Group and the Bank were as follows:

	Group		Bank	
	2015	2014	2015	2014
CET1/Tier 1 ratio	14.155%	15.461%	14.314%	15.684%
Total Capital	17.455%	18.042%	17.497%	18.141%
CET1/Tier 1 ratio (net of proposed dividends)	13.455%	14.452%	13.610%	14.668%
Total Capital (net of proposed dividends)	16.754%	17.032%	16.793%	17.126%

RISK MANAGEMENT

RISK MANAGEMENT OVERVIEW

Effective risk management is integral to the Bank's business success. The Bank's approach to risk management is to ensure that risks are managed within the levels established by the Bank's various senior management committees and approved by the Board and/or its committees.

The Bank has established a comprehensive framework of policies and procedures to identify, measure, monitor and control risks. These are guided by the Group's Risk Management Principles which advocate:

- delivery of sustainable long-term growth using sound risk management principles and business practices;
- continual improvement of risk discovery capabilities and risk controls; and
- business development based on a prudent, consistent and efficient risk management framework.

RISK MANAGEMENT GOVERNANCE AND FRAMEWORK

The Board oversees a governance structure that is designed to ensure that the Bank's business activities are:

- conducted in a safe and sound manner and in line with the highest standards of professionalism;
- consistent with the Bank's overall business strategy and risk appetite; and
- subjected to adequate risk management and internal controls.

In this, the Board is supported by the Risk Management Committee ("RMC").

The Bank has established senior management committees to assist in making business decisions with due consideration to risks and returns. The main senior management committees involved in this are the Executive Committee ("EXCO"), Management Committee ("MC"), Asset and Liability Committee ("ALCO"), In-Country Credit Committee ("ICCC"), Technology & Corporate Infrastructure Committee ("TCIC"), Operational Risk Management Committee ("ORMC") and the Risk and Capital Committee ("RCC"). These committees also assist the RMC in specific risk areas.

The RMC reviews the overall risk appetite and level of risk capital to maintain for the Bank. Senior management and the senior management committees are authorised to delegate risk appetite limits by location, business lines, and/or broad product lines.

RISK APPETITE

The Bank has established a risk appetite framework to define the amount of risk that the Bank is able and willing to take in pursuit of its business objectives. The risk appetite defines suitable thresholds and limits across key areas including but not limited to credit risk, country risk, market risk, liquidity risk, operational risk and reputational risk. The objective of establishing a risk appetite framework is not to limit risk-taking but to ensure that the Bank's risk profile is aligned with its business strategy. Our risk-taking approach is focused on businesses which we understand and are well equipped to manage the risk involved. The Bank will continue to upgrade its risk management, information technology and other capabilities to support its strategic aspirations. UOBM's risk appetite framework is updated and approved annually by the Board. Management monitors and reports the risk limits to the Board.

BASEL FRAMEWORK

The Bank has adopted the Basel Framework and observes the Bank Negara Malaysia ("BNM") Risk Weighted Capital Adequacy Framework (Basel II) for banks incorporated in Malaysia. UOBM continues to adopt a prudent and proactive approach in navigating the evolving regulatory landscape, with emphasis on sound risk management principles in delivering sustainable returns.

The Bank has adopted the Foundation Internal Ratings-Based ("FIRB") approach for its non-retail exposures and the Advanced Internal Ratings-Based ("AIRB") approach for its retail exposures. For Market risks, the Bank has adopted the Standardised Approach ("SA"). For Operational risks, the Bank has adopted the Basic Indicator Approach ("BIA").

The Bank has adopted the Internal Capital Adequacy Assessment Process ("ICAAP") to assess on an ongoing basis the amount of capital necessary to support its activities. The ICAAP is reviewed periodically to ensure that the Bank remains well-capitalised after considering all material risks. Stress testing is conducted to determine capital adequacy under stressed conditions.

CREDIT RISK

Credit risk is the risk of loss arising from any failure by a borrower or counterparty to meet its financial obligations when such obligations fall due. Credit risk is the single largest risk that the Bank faces in its core business as a commercial bank, arising primarily from loans and other lending-related commitments to retail, corporate and institutional borrowers. Treasury and capital market operations, and investments also expose the Bank to counterparty and issuer credit risks.

The Bank's portfolio is also reviewed and stress-tested regularly, and the Bank continuously monitors the operating environment to identify emerging risks and to formulate mitigating actions.

Credit Risk Governance and Organisation

The Credit Working Group ("CWG"), ICCC and EXCO are the key oversight committees for credit risk and supports the CEO and Risk Management Committee in managing the Bank's overall credit risk exposures. The committees serves as an executive forum for discussions on all credit-related issues including the credit risk management framework, policies, processes, infrastructure, methodologies and systems. The EXCO also reviews and assesses the Bank's credit portfolios and credit risk profiles.

The Risk Management Division is responsible for the reporting, analysis and management of all elements of credit risk. It develops Bank-wide credit policies and guidelines, and focuses on facilitating business development within a prudent, consistent and efficient credit risk management framework.

Credit Risk Policies and Processes

The Bank has established credit policies and processes to manage credit risk in the following key areas:

Credit approval process

To maintain the independence and integrity of the credit approval process, the credit origination and approval functions are clearly segregated. Credit approval authority is delegated to officers based on their experience, seniority and track record, and credit approval is based on a risk-adjusted scale according to a borrower's credit rating. All credit approval officers are guided by credit policies and credit acceptance guidelines that are periodically reviewed to ensure their continued relevance to the Bank's business strategy and the business environment.

CREDIT RISK (Cont'd.)

Credit concentration risk

Credit concentration risk may arise from a single large exposure or from multiple exposures that are closely correlated. This is managed by setting exposure limits on obligors, portfolios, borrowers, industries and countries, generally expressed as a percentage of the Bank's eligible capital base. Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. Regular assessments of emerging risks and in-depth reviews of industry trends are performed to provide a forward-looking view on developments that could impact the Bank's portfolio.

Country risk

The Bank manages its country risk exposures within an established framework that involves setting limits for each country. Such limits are based on the country's risk rating, economic potential measured by its gross domestic product and the Bank's business strategy.

Credit stress test

Credit stress testing is a core component of the Bank's credit portfolio management process. Various regulatory and internal stress tests are conducted periodically. The main purpose of credit stress testing is to provide a forward-looking assessment of the Bank's credit portfolio under adverse economic scenarios. Under stress scenarios such as a severe recession, significant losses from the credit portfolio may occur. Stress tests are used to assess if the Bank's capital can withstand such a severe scenario, identify the vulnerability of various business units under such a scenario and formulate the appropriate mitigating action.

The Bank's stress test scenarios consider potential and plausible macroeconomic and geopolitical events in varying degrees of likelihood and severity. These are developed through consultation with relevant business units and approved by senior management.

Credit Monitoring and Remedial Management

The Bank regularly monitors credit exposures, portfolio performance and emerging risks that may impact its credit risk profile. The Board and senior management are updated on credit trends through internal risk reports. The reports also provide alerts on key economic, political and environmental developments across major portfolios and countries, so that mitigating actions can be taken if necessary.

Delinquency monitoring

The Bank monitors closely the delinquency of borrowing accounts as it is a key indicator of credit quality. An account is considered as delinquent when payment is not received on due date. Any delinquent accounts, including a revolving credit facility (such as an overdraft) with limit excesses, is closely monitored and managed through a disciplined process by officers from business units and risk management function. Where appropriate, such accounts are also subject to more frequent credit reviews.

CREDIT RISK (Cont'd.)

Classification and loan loss impairment

The Bank classifies its credit portfolios according to the borrower's ability to repay the credit facility from their normal source of income.

All borrowing accounts are categorised into 'Pass', 'Special Mention' or 'Non-Performing' categories. Non-Performing accounts are further categorised as 'Substandard', 'Doubtful' or 'Loss' in accordance with the Bank's Policy. Any account which is delinquent (or in excess for a revolving credit facility such as an overdraft) for more than 90 days will be categorised automatically as "Non-Performing". In addition, any account that exhibits weaknesses which is likely to jeopardise repayment on existing terms may be categorised as 'Non-Performing'.

Upgrading and declassification of a Non-Performing 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 declassified, the account is unlikely to be classified again in the near future.

A rescheduled or restructured account shall be categorised as Non-Performing when the account exhibits signs of increase in credit risk. The rescheduled or restructured account is to be placed on the appropriate classified grade based on the Bank's assessment of the financial condition of the borrower and the ability of the borrower to repay under the rescheduled or restructured terms. A rescheduled or restructured account must comply fully with the rescheduled or restructured terms before it can be declassified.

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

Bank Special Asset Management

Special Asset Management Department ("SAMD") manages the Non-Performing portfolios of the Bank. SAMD proactively manages a portfolio of Non-Performing Loan ("NPL") accounts, with the primary intention of nursing these accounts back to health and transferring them back to the respective business units. SAMD 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 realizable 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.

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CREDIT RISK

(i) Credit Exposures by Sector

The Bank as at 31 December 2015	Sovereigns /	Public	Banks,	Insurance	Corporates	Retail	Residential	Equity	Other	Grand Total
	Central	Sector	Banks,	Cos,	(including		Mortgages	Exposures	Assets	
	Banks	Entities	DFIs and	Firms and	Specialised					
	RM'000	RM'000	MDBs	Fund	Lending and	RM'000	RM'000	RM'000	RM'000	RM'000
			RM'000	Managers	SMEs)					RM'000
Agriculture, Hunting, Forestry and Fishing	-	-	2,864	-	1,192,345	-	-	-	-	1,195,209
Mining and Quarrying	-	-	867,537	-	217,458	-	-	-	-	1,084,995
Manufacturing	-	-	37,596	-	6,053,272	-	-	-	-	6,090,868
Electricity, Gas and Water	-	-	-	-	92,297	-	-	-	-	92,297
Construction	-	-	29,292	-	13,026,238	-	-	-	-	13,055,530
Wholesale, Retail Trade, Restaurant and Hotels	-	-	30,084	-	7,022,074	-	-	-	-	7,052,158
Transport, Storage and Communication	-	-	-	-	945,231	-	-	-	-	945,231
Finance, Insurance and Business Services	34,464	-	3,248,806	294,930	2,085,648	-	-	-	-	5,663,848
Real Estate	-	-	-	-	3,307,320	-	-	-	-	3,307,320
Community, Social and Personal Services	-	-	-	-	24,301	-	-	-	-	24,301
Households	-	-	-	-	176	21,169,312	31,212,476	-	-	52,381,964
Others	15,915,191	75,595	932,364	-	1,086,329	-	-	78,532	-	18,088,011
Other Assets not subject to Credit Risk	-	-	-	-	-	-	-	-	1,027,066	1,027,066
Grand Total	15,949,655	75,595	5,148,543	294,930	35,052,689	21,169,312	31,212,476	78,532	1,027,066	110,008,798

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CREDIT RISK (Cont'd.)

(i) Credit Exposures by Sector (cont'd.)

The Bank as at 31 December 2014	Sovereigns /	Public	Banks,	Insurance	Corporates	Retail	Residential	Equity	Other	Grand Total
	Central Banks	Sector Entities	DFIs and MDBs	Cos, Securities Firms and Fund Managers	(including Specialised Lending and SMEs)		Mortgages	Exposures	Assets	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, Hunting, Forestry and Fishing	-	-	-	-	960,109	-	-	-	-	960,109
Mining and Quarrying	-	-	-	-	1,201,338	-	-	-	-	1,201,338
Manufacturing	-	-	-	-	5,356,715	-	-	-	-	5,356,715
Electricity, Gas and Water	-	-	-	-	42,560	-	-	-	-	42,560
Construction	-	-	-	-	8,298,546	-	-	-	-	8,298,546
Wholesale, Retail Trade, Restaurant and Hotels	-	-	-	-	6,133,435	-	-	-	-	6,133,435
Transport, Storage and Communication	-	-	-	-	923,464	-	-	-	-	923,464
Finance, Insurance and Business Services	52,698	-	2,531,107	206,408	2,121,038	-	-	-	-	4,911,252
Real Estate	-	-	-	-	3,819,680	-	-	-	-	3,819,680
Community, Social and Personal Services	-	-	-	-	93,955	-	-	-	-	93,955
Households	-	-	-	-	2,492	18,697,634	27,974,725	-	-	46,674,851
Others	18,881,093	88,620	1,783,813	-	1,747,585	-	-	113,329	-	22,614,441
Other Assets not subject to Credit Risk	-	-	-	-	-	-	-	-	495,424	495,424
Grand Total	18,933,791	88,620	4,314,920	206,408	30,700,918	18,697,634	27,974,725	113,329	495,424	101,525,769

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CREDIT RISK (Cont'd.)

(ii) Credit Exposures by Remaining Contractual Maturities

	Sovereigns / Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Cos, Securities Firms and Fund Managers	Corporates (including Specialised Lending and SMEs)	Retail	Residential Mortgages	Equity Exposures	Other Assets	Grand Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
The Bank as at 31 December 2015										
< 3 Months	3,574,692	7,671	1,144,913	10,181	2,285,526	163,469	-	-	-	7,186,452
3 - 6 Months	-	-	96,956	1,875	18,358	461	-	-	-	117,650
6 - 12 Months	-	30,934	18,928	-	8,231	-	-	-	-	58,093
1 - 3 Years	11,930,426	36,990	3,466,868	268,000	19,100,869	6,223,005	1,612,586	-	1,027,066	43,665,810
3 - 5 Years	444,537	-	357,925	14,070	7,307,548	299,983	240,749	-	-	8,664,812
> 5 Years	-	-	62,953	804	6,332,157	14,482,394	29,359,141	78,532	-	50,315,981
Grand Total	15,949,655	75,595	5,148,543	294,930	35,052,689	21,169,312	31,212,476	78,532	1,027,066	110,008,798

	Sovereigns / Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Cos, Securities Firms and Fund Managers	Corporates (including Specialised Lending and SMEs)	Retail	Residential Mortgages	Equity Exposures	Other Assets	Grand Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
The Bank as at 31 December 2014										
< 3 Months	502,709	5,651	183,669	19,123	3,061,188	166,364	-	-	437	3,939,142
3 - 6 Months	-	5,800	84,242	34,763	32,603	3,012	-	-	-	160,420
6 - 12 Months	-	9,629	140,545	8,868	12,947	129	-	-	-	172,117
1 - 3 Years	18,212,380	67,541	3,499,782	129,585	15,769,812	6,099,552	1,485,357	-	494,987	45,758,996
3 - 5 Years	218,702	-	394,096	13,371	5,354,998	326,567	267,153	-	-	6,574,887
> 5 Years	-	-	12,585	697	6,469,371	12,102,010	26,222,214	113,329	-	44,920,207
Grand Total	18,933,791	88,620	4,314,920	206,408	30,700,918	18,697,634	27,974,725	113,329	495,424	101,525,769

CREDIT RISK (Cont'd)**(iii) Past due and impaired loans analysed by industry**

	2015		2014	
	Past due but not impaired RM'000	Impaired loans RM'000	Past due but not impaired RM'000	Impaired loans RM'000
The Bank				
Agriculture, Hunting, Forestry and Fishing	1,427	-	1,758	-
Mining and Quarrying	503	360	1,752	-
Manufacturing	280,344	204,103	203,521	240,290
Electricity, Gas and Water	-	-	703	-
Construction	670,814	200,318	492,083	214,039
Wholesale, Retail Trade, Restaurant and Hotels	384,065	140,881	328,076	123,950
Transport, Storage and Communication	29,089	100,232	19,887	4,245
Finance, Insurance and Business Services	42,620	17,355	51,421	15,447
Real Estate	251,394	48,921	196,023	15,611
Community, Social and Personal Services	4,961	862	3,185	960
Households:	1,910,889	503,149	1,591,498	454,527
- purchase of residential properties	1,303,155	370,721	1,139,158	341,406
- purchase of non residential properties	383,134	49,585	262,396	43,532
- others	224,600	82,843	189,944	69,589
	3,576,106	1,216,181	2,889,907	1,069,069

(iv) Individual and collective impairment provisions analysed by industry

	2015		2014	
	Individual impairment RM'000	Collective impairment RM'000	Individual impairment RM'000	Collective impairment RM'000
The Bank				
Agriculture, Hunting, Forestry and Fishing	-	58,852	-	39,702
Mining and Quarrying	73	1,931	-	9,880
Manufacturing	62,125	186,924	85,129	148,818
Electricity, Gas and Water	-	4,428	-	606
Construction	33,022	125,323	9,516	127,241
Wholesale, Retail Trade, Restaurant and Hotels	32,818	185,436	47,857	104,658
Transport, Storage and Communication	126	7,543	1,815	15,512
Finance, Insurance and Business Services	5,318	70,651	5,270	70,438
Real Estate	1,818	94,228	1,867	104,934
Community, Social and Personal Services	134	954	352	1,421
Households:				
- purchase of residential properties	26,740	127,758	27,768	127,675
- purchase of non residential properties	3,820	48,836	6,843	37,988
- others	17,860	105,631	16,783	119,240
Others	-	1,003	-	1,605
	183,854	1,019,498	203,200	909,718

Impaired loans and impairment provision by geographical area

Past due loans, impaired loans and impairment provision were from customers residing in Malaysia.

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CREDIT RISK (Cont'd)

(v) Charges and write-offs for individual impairment provisions analysed by industry:

The Bank	2015		2014	
	Individual impairment made during the year	Write-offs during the year	Individual impairment made during the year	Write-offs during the year
	RM'000	RM'000	RM'000	RM'000
Agriculture, Hunting, Forestry and Fishing	-	-	-	-
Mining and Quarrying	76	-	-	-
Manufacturing	42,197	27,816	44,430	67,271
Electricity, Gas and Water	-	-	-	-
Construction	35,397	-	2,335	9,235
Wholesale, Retail Trade, Restaurant and Hotels	46,545	27,533	51,190	19,386
Transport, Storage and Communication	25,974	-	3,071	-
Finance, Insurance and Business Services	2,589	727	628	6,771
Real Estate	248	-	575	-
Community, Social and Personal Services	27	-	308	20
Households:				
- purchase of residential properties	27,708	3,749	31,676	3,004
- purchase of non residential properties	3,400	4,708	3,612	594
- others	88,847	82,761	79,795	74,246
	273,008	147,294	217,620	180,527

(vi) Movements in allowance for losses on loans, advances and financing were as follows:

The Bank	2015	2014
	RM'000	RM'000
Collective Impairment		
Balance as at 1 January	909,718	727,504
Allowance made during the year	109,780	182,214
Amount written back	-	-
Balance as at 31 December	<u>1,019,498</u>	<u>909,718</u>
Individual Impairment		
Balance as at 1 January	203,200	274,857
Allowance made during the year	273,008	217,620
Amount written back in respect of recoveries	(139,523)	(110,584)
Amount written off	(147,294)	(180,527)
Interest recognition on impaired loans	(2,492)	4,254
Transfer to debt restructuring	-	(2,420)
Other adjustment	(3,045)	-
Balance as at 31 December	<u>183,854</u>	<u>203,200</u>

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CREDIT RISK (Cont'd)

(vii) Geographical Analysis

	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
The Bank as at 31 December 2015			
Cash and short-term funds	7,235,848	499,503	7,735,351
Securities purchased under resale agreements	4,984,364	-	4,984,364
Deposits and placements with financial institutions	1,846	11,236	13,082
Financial assets at fair value through profit or loss ("FVTPL")	1,834,666	-	1,834,666
Available-for-sale securities ("AFS")	5,228,465	-	5,228,465
Loans and advances	64,297,031	6,761,244	71,058,275
Derivative financial assets	953,909	76,723	1,030,632
Other assets	104,660	-	104,660
Statutory deposits with BNM	2,212,280	-	2,212,280
	86,853,069	7,348,706	94,201,775
Commitments and Contingencies	78,103,509	8,888,839	86,992,348
The Bank as at 31 December 2014			
Cash and short-term funds	10,199,046	634,301	10,833,347
Securities purchased under resale agreements	499,826	-	499,826
Deposits and placements with financial institutions	130,516	-	130,516
Financial assets at fair value through profit or loss ("FVTPL")	2,392,138	-	2,392,138
Available-for-sale securities ("AFS")	9,228,698	22,145	9,250,843
Loans and advances	60,514,815	6,600,765	67,115,580
Derivative financial assets	746,723	159,223	905,946
Other assets	96,610	-	96,610
Statutory deposits with BNM	1,960,350	-	1,960,350
	85,768,722	7,416,434	93,185,156
Commitments and Contingencies	68,435,939	7,858,428	76,294,367

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CREDIT RISK (Cont'd.)

Credit Exposures under Basel II

Under Basel II, credit risk for the various asset classes may be computed using a combination of:

- Standardised Approach ("SA");
- Foundation Internal Ratings-Based ("FIRB") Approach; and
- 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* RM'million	FIRB RM'million	AIRB RM'million
Total Credit Exposures	18,082	35,790	52,382

*Amount under Standardized Approach refers to credit exposures where IRB Approach is not applicable.

UOBM had on 7th 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.

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.

(viii) The aggregate breakdown of Credit Risk Exposures by Risk Weights of the Bank were as follows:-

Risk Weights	The Bank as at 31 December 2015							
	Sovereigns / Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Cos, Securities Firms and Fund Managers	Corporates	Other Assets	Total Exposures after Netting and CRM	Total RWA
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	15,949,655	-	-	-	488	191,575	16,141,718	-
10%	-	-	-	-	-	-	-	-
20%	-	75,595	107,044	-	-	-	182,639	36,527
35%	-	-	-	-	-	-	-	-
50%	-	-	63,467	-	-	-	63,467	31,734
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	-	284,814	565,892	835,491	1,686,197	1,686,197
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	-	7,589	-	7,589	11,383
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	15,949,655	75,595	170,511	284,814	573,969	1,027,066	18,081,610	1,765,841

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(viii) The aggregate breakdown of Credit Risk Exposures by Risk Weights of the Bank were as follows (cont'd.):-

Risk Weights	The Bank as at 31 December 2014							
	Sovereigns / Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Cos, Securities Firms and Fund Managers	Corporates	Other Assets	Total Exposures after Netting and CRM	Total RWA
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	-	-	-	-	-	91,583	91,583	-
10%	-	-	-	-	-	-	-	-
20%	-	88,620	80,943	-	-	-	169,563	33,913
35%	-	-	-	-	-	-	-	-
50%	-	-	53,777	-	-	-	53,777	26,888
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	-	206,323	1,646,820	403,841	2,256,984	2,256,984
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	-	7,565	-	7,565	11,347
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	-	88,620	134,720	206,323	1,654,385	495,424	2,579,472	2,329,132

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CREDIT RISK (Cont'd)

(ix) Rated Exposures according to ratings by ECAI's for the financial year ended 31 December 2015:-

Exposure Class	Ratings of Corporates by Approved ECAIs (RM'000)					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	B to D	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
On and Off-Balance Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	75,595
Insurance Cos, Securities Firms and Fund Managers		-	-	-	-	284,814
Corporates		-	-	-	-	573,969
Total		-	-	-	-	934,378

Exposure Class	Ratings of Banking Institutions by Approved ECAIs (RM'000)						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated	
On and Off-Balance Sheet Exposures							
Banks, DFIs and MDBs		117,712	8	28,791	-	-	24,000
Total		117,712	8	28,791	-	-	24,000

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs (RM'000)						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated	
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	15,949,655	-	-	-	-
Total		-	15,949,655	-	-	-	-

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CREDIT RISK (Cont'd)

(ix) Rated Exposures according to ratings by ECAI's for the financial year ended 31 December 2014:-

Exposure Class	Ratings of Corporates by Approved ECAIs (RM'000)					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
<u>On and Off-Balance Sheet Exposures</u>						
<u>Credit Exposures (using Corporate Risk Weights)</u>						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	88,620
Insurance Cos, Securities Firms and Fund Managers		-	-	-	-	206,323
Corporates		-	-	-	-	1,654,385
Total		-	-	-	-	1,949,328

Exposure Class	Ratings of Banking Institutions by Approved ECAIs (RM'000)						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated	
<u>On and Off-Balance Sheet Exposures</u>							
Banks, DFIs and MDBs		26,676	90,824	4,644	1,078	-	11,498
Total		26,676	90,824	4,644	1,078	-	11,498

CREDIT RISK (Cont'd)

Internal credit rating system

The Bank employs internal rating models to support the assessment of credit risk and the assignment of exposures to rating grades or pools. Internal ratings are used pervasively by the Bank in the areas of credit approval, credit review and monitoring, credit stress testing, limits setting, pricing and collections.

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.

Credit risk models are independently validated before they are implemented to ensure they are fit for purpose. The robustness of these rating models is monitored on an ongoing basis, and all models are subject to annual reviews conducted by model owners to ascertain that the chosen risk factors and assumptions continue to remain relevant for the respective portfolios. All new models, model changes and annual reviews are approved by the EXCO or Board, depending on the materiality of the portfolio.

Non-Retail Exposures

The Bank has adopted the FIRB approach for its non-retail exposures. Under this approach, the probability of default ("PD") for each borrower is estimated using internal models. These PD models employ qualitative and quantitative factors to provide an assessment of the borrower's ability to meet their financial obligations, and are calibrated to provide an estimate of the likelihood of default over one-year time horizon. A default is considered to have occurred if:

- the obligor is unlikely to pay its credit obligations in full to the Bank, without recourse by the Bank to actions such as realising the security; or
- the obligor is past due for more than 90 days on any credit obligation to the Bank.

Supervisory loss given default ("LGD") and exposure at default ("EAD") parameters prescribed by the BNM are used together with the internal credit ratings to calculate risk weights and regulatory capital requirements.

While the Bank's internal risk rating grades may show some correlation with the rating grades of External Credit Assessment Institutions ("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 class. Credit risk factors used to derive a borrower's risk rating include its financial strength, quality of management, business risks, and the industry in which it operates. The borrower risk rating process is augmented by facility risk ratings, which take into account 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. The Large Corporate and SME models are mapped to the rating scale by calibration that takes into account the Bank'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"), Commodities Finance ("CF"), and Project Finance ("PF"). Internal risk grades are derived based on a comprehensive assessment of financial and non-financial risk factors using internal scorecards.

Income Producing Real Estate ("IPRE")

The rating grade structure for IPRE exposures follows that of the corporate asset class, with 16 pass grades.

CREDIT RISK (Cont'd)

Commodities Finance ("CF") and Project Finance ("PF")

Risk grades derived for CF and PF exposures are mapped to four supervisory slotting categories, which determines the risk weights to be applied to such exposures.

Bank asset class

The Bank has developed an internal Bank scorecard to rate exposures in this asset class, which takes into account asset quality, capital adequacy, liquidity, management, regulatory environment and robustness of the overall banking system. 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:

- i. Simple Risk Weight ("SRW") Method for its equity investment portfolio; and
- ii. 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 subject to the supervisory risk weights, while investment exposures adopting the PD/LGD method are rated using the Bank's internal Bank scorecard.

Retail Exposures

The Bank has adopted the AIRB Approach for its retail exposures, which comprises residential mortgages, qualifying revolving retail exposures and other retail exposures.

Exposures within each of these asset classes are not managed individually, but as part of a pool of similar exposures based on borrower and transaction characteristics. Internal risk segmentation models are used to estimate PD, LGD and Exposure At Default ("EAD") parameters for each of these exposure pools based on historical internal loss data. Where internal loss data is insufficient to provide robust risk estimates, the segmentation models may incorporate internal and/or external proxies and, where necessary, may be augmented with appropriate margins of conservatism.

Residential Mortgage Asset Class

This includes any credit facility (such as housing loan, term loan, overdraft) secured against a mortgage of a residential property or properties which meet criteria stipulated by BNM. Residential Mortgage exposures are assessed and managed using the Bank's framework of credit policies, procedures and the risk segmentation models.

Qualifying Revolving Retail Exposures ("QRRE") Asset Class

This includes credit card exposures and unsecured credit lines which meet the criteria stipulated by BNM. QRRE are assessed and managed using a combination of application and behavioral scorecards, risk segmentation models, as well as internal credit policies and procedures.

Other Retail Asset Class

This includes commercial properties, share financing and any other retail exposures not classified as Residential Mortgage or QRRE.

These exposures are assessed and managed using the Bank's framework of credit policies, procedures and risk segmentation models.

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.

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CREDIT RISK (Cont'd)

Credit risk profile

The following tables showed the breakdown of exposures by RWA and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2015:-

Exposures under the IRB Approach by Risk Grade

CRR Band	1-9	10-16	17-20 (Default)
	RM'000	RM'000	RM'000
<u>Non Retail Exposures (EAD)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	19,643,454	14,166,471	665,297
Specialised Lending (CF and PF)	-	-	-
Bank	4,871,760	106,271	-
Total Non Retail Exposures	24,515,214	14,272,742	665,297
<u>Undrawn Commitments</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	3,238,173	507,440	6,594
Specialised Lending (CF and PF)	-	-	-
Bank	-	-	-
Total Undrawn Commitments	3,238,173	507,440	6,594
<u>Exposure Weighted Average LGD (%)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	42%	40%	45%
Specialised Lending (CF and PF)	0%	0%	0%
Bank	45%	45%	0%
<u>Exposure Weighted Average Risk Weight (%)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	79%	123%	0%
Specialised Lending (CF and PF)	0%	0%	0%
Bank	27%	64%	0%

PD Range of Retail Exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
	RM'000	RM'000	RM'000	RM'000
<u>Retail Exposures (EAD)</u>				
Residential Mortgages	26,192,528	1,227,022	3,392,590	400,336
Qualifying Revolving Retail	1,157,944	431,790	1,153,792	47,777
Other Retail	13,093,554	2,550,822	2,556,458	177,175
Total Retail Exposures	40,444,026	4,209,634	7,102,840	625,288
<u>Undrawn Commitments</u>				
Residential Mortgages	2,077,753	512,800	154,017	-
Qualifying Revolving Retail	313,009	92,269	101,494	-
Other Retail	2,145,428	705,576	247,136	240
Total Undrawn Commitments	4,536,190	1,310,645	502,647	240
<u>Exposure Weighted Average LGD (%)</u>				
Residential Mortgages	11.64%	12.60%	11.87%	12.15%
Qualifying Revolving Retail	31.44%	47.39%	50.49%	61.83%
Other Retail	16.29%	22.89%	21.88%	23.37%
<u>Exposure Weighted Average Risk Weight (%)</u>				
Residential Mortgages	6.68%	19.83%	39.02%	74.01%
Qualifying Revolving Retail	6.12%	21.64%	74.46%	417.46%
Other Retail	12.21%	26.14%	34.16%	160.44%

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CREDIT RISK (Cont'd)

Credit risk profile (cont'd.)

The following tables showed the breakdown of exposures by RWA and EAD for the Bank using the respective internal rating scale for the model applicable to the asset classes for the financial year ended 31 December 2014:-

Exposures under the IRB Approach by Risk Grade (cont'd.)

CRR Band	1-9	10-16	17-20 (Default)
	RM'000	RM'000	RM'000
<u>Non Retail Exposures (EAD)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	19,496,449	8,932,455	560,588
Specialised Lending (CF and PF)	-	-	-
Sovereign	18,933,791	-	-
Bank	4,157,906	22,155	-
Total Non Retail Exposures	42,588,146	8,954,610	560,588
<u>Undrawn Commitments</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	137,054	29,610	-
Specialised Lending (CF and PF)	-	-	-
Sovereign	-	-	-
Bank	-	-	-
Total Undrawn Commitments	137,054	29,610	-
<u>Exposure Weighted Average LGD (%)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	41%	42%	44%
Specialised Lending (CF and PF)	0%	0%	0%
Sovereign	45%	0%	0%
Bank	45%	45%	0%
<u>Exposure Weighted Average Risk Weight (%)</u>			
Large Corporate, SMEs and Specialised Lending (IPRE)	74%	130%	0%
Specialised Lending (CF and PF)	0%	0%	0%
Sovereign	0%	0%	0%
Bank	25%	183%	0%

PD Range of Retail Exposures	0.00% to 1.00%	1.01% to 2.00%	2.01% to 99.99%	SD to default
	RM'000	RM'000	RM'000	RM'000
<u>Retail Exposures (EAD)</u>				
Residential Mortgages	24,205,099	646,440	2,750,027	373,159
Qualifying Revolving Retail	1,001,187	425,981	1,166,091	30,570
Other Retail	11,711,389	2,120,031	2,074,585	167,800
Total Retail Exposures	36,917,674	3,192,451	5,990,703	571,530
<u>Undrawn Commitments</u>				
Residential Mortgages	752,928	3,054	55,058	-
Qualifying Revolving Retail	274,904	89,313	81,552	-
Other Retail	1,351,593	154,677	178,755	-
Total Undrawn Commitments	2,379,425	247,044	315,365	-
<u>Exposure Weighted Average LGD (%)</u>				
Residential Mortgages	11.54%	11.30%	11.79%	12.38%
Qualifying Revolving Retail	31.68%	47.28%	52.00%	65.10%
Other Retail	16.52%	25.09%	26.31%	24.05%
<u>Exposure Weighted Average Risk Weight (%)</u>				
Residential Mortgages	6.76%	17.72%	39.63%	63.79%
Qualifying Revolving Retail	6.19%	21.35%	77.99%	340.00%
Other Retail	12.50%	28.42%	40.93%	125.03%

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CREDIT RISK (Cont'd)

Retail Exposures under the IRB Approach by Expected Loss ("EL") Range for the financial year ended 31 December 2015 were as follows:-

EL% Range of Retail Exposures	0.0 to 1.0%	1.0 to 5.0%	5.0 to 10.0%	10.0 to 30.0%	30.0% to 100%
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Retail Exposures (EAD)</u>					
Residential Mortgages	30,169,572	877,492	32,050	133,362	-
Qualifying Revolving Retail	1,588,598	788,993	155,500	181,077	77,135
Other Retail	17,277,327	865,707	175,128	36,152	23,695
Total Retail Exposures	49,035,497	2,532,192	362,678	350,591	100,830
<u>Undrawn Commitments</u>					
Residential Mortgages	2,736,153	7,906	511	-	-
Qualifying Revolving Retail	378,515	117,511	6,307	3,983	455
Other Retail	3,039,823	51,030	4,752	2,535	240
Total Undrawn Commitments	6,154,491	176,447	11,570	6,518	695
<u>Exposure Weighted Average Risk Weight (%)</u>					
Residential Mortgages	10.07%	62.13%	89.55%	0.09%	0.00%
Qualifying Revolving Retail	8.93%	50.61%	115.80%	181.72%	223.63%
Other Retail	15.63%	52.94%	113.47%	169.33%	21.57%

Retail Exposures under the IRB Approach by Expected Loss ("EL") Range for the financial year ended 31 December 2014 were as follows:-

EL% Range of Retail Exposures	0.0 to 1.0%	1.0 to 5.0%	5.0 to 10.0%	10.0 to 30.0%	30.0% to 100%
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Retail Exposures (EAD)</u>					
Residential Mortgages	27,038,487	737,450	61,240	137,547	-
Qualifying Revolving Retail	1,426,602	779,282	160,655	176,839	80,451
Other Retail	14,978,821	800,730	222,740	39,457	32,057
Total Retail Exposures	43,443,910	2,317,462	444,636	353,843	112,507
<u>Undrawn Commitments</u>					
Residential Mortgages	809,124	1,917	-	-	-
Qualifying Revolving Retail	341,633	89,281	10,048	4,421	386
Other Retail	1,628,621	44,556	7,313	4,614	-
Total Undrawn Commitments	2,779,378	135,754	17,361	9,035	386
<u>Exposure Weighted Average Risk Weight (%)</u>					
Residential Mortgages	9.58%	61.46%	56.53%	0.09%	0.00%
Qualifying Revolving Retail	9.31%	50.71%	116.65%	168.12%	191.00%
Other Retail	15.95%	55.20%	98.51%	167.73%	26.47%

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CREDIT RISK (Cont'd)

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 2015.

Comparison of actual loss and expected loss by asset class

Asset Class	Actual Loss (as at 31 December 2015)	Expected Loss (as at 31 December 2014)	Actual Loss (as at 31 December 2014)	Expected Loss (as at 31 December 2013)
	RM'000	RM'000	RM'000	RM'000
Corporate	51,618	290,912	18,575	252,176
Bank	-	4,053	-	1,140
Retail	66,223	182,120	56,335	196,494
Total	117,841	477,085	74,910	449,811

The actual loss in 2015 is lower than the expected loss computed as at 31 December 2014 due to exceptional recovery in 2015.

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:

- i. EL as at 31 December 2014 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.
- ii. 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.

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CREDIT RISK (Cont'd)

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 2015.

Loans, advances and financing

Movements in allowance for losses on loans, advances and financing are as follows:	The Bank	
	2015	2014
	RM'000	RM'000
Collective impairment		
Balance as at 1 January	909,718	727,504
Allowance made during the year	109,780	182,214
Balance as at 31 December	1,019,498	909,718
Individual impairment		
Balance as at 1 January	203,200	274,857
Allowance made during the year	273,008	217,620
Amount written back in respect of recoveries	(139,523)	(110,584)
Transfer to impairment losses in value of securities	-	-
Amount written off	(147,294)	(180,527)
Interest recognition on impaired loans	(2,492)	4,254
Transfer to debt restructuring	-	(2,420)
Other adjustment	(3,045)	-
Balance as at 31 December	183,854	203,200
Allowance for losses on loans, advances and financing		
(a) Individual Impairment		
- made in the financial year	273,008	217,620
- written back in the financial year	(139,523)	(110,584)
(b) Collective Impairment		
- made in the financial year	109,780	182,214
- written back	-	-
Impaired loans, advances and financing:		
- written off	3,696	11,586
- recovered	(42,215)	(44,422)
	204,746	256,414

CREDIT RISK MITIGATION

Potential credit losses are mitigated using a variety of instruments such as collateral, derivatives and guarantees. 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 and 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, inventory and receivables. Policies and processes are in place to monitor collateral concentration.

Appropriate haircuts are applied to the market value of collateral, reflecting the underlying nature of the collateral, quality, volatility and liquidity. In addition, collateral taken by the Bank has to fulfill certain eligibility criteria (such as legal certainty across relevant jurisdictions) in order to be eligible for Internal Ratings-Based ("IRB") purposes.

In extending credit facilities to small and medium enterprises ("SMEs"), personal guarantees are also often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

For IRB purposes, 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 the PD of an eligible guarantor of an exposure will be used for calculating the capital requirement.

Exposures arising from FX and derivatives are typically mitigated through agreements such as the International Swaps and Derivatives Association ("ISDA") Master Agreements and the Credit Support Annex ("CSA"). Such agreements help to minimize credit exposure by allowing the Bank to offset what it owes to a counterparty against what is due from that counterparty in the event of a default.

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.

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CREDIT RISK MITIGATION (Cont'd.)

The Credit Risk Mitigation ("CRM") of the Bank for the financial year ended 31 December 2015 were as follows:-

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
<u>Credit Risk</u>				
<u>On-Balance Sheet Exposures</u>				
Sovereign/Central Banks	15,935,875	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs and MDBs	3,445,301	-	-	-
Insurances Cos, Securities Firms and Fund Managers	10,273	-	-	-
Corporates	25,744,086	976,742	1,520,770	1,288,976
Regulatory Retail	17,201,046	-	-	-
Residential Mortgages	28,067,999	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	994,158	-	-	-
Specialised Financing/Investment	-	-	-	-
Equity Exposures	78,532	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	1,097,773	-	1,037	9,896
Total On-Balance Sheet Exposures	92,575,043	976,742	1,521,807	1,298,872
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	1,694,728	1,735	3,096	-
Credit Derivatives	-	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	15,539,235	211,409	813,569	116,297
Defaulted Exposures	9,041	-	200	70
Total Off-Balance Sheet Exposures	17,243,004	213,144	816,865	116,367
Total On and Off-Balance Sheet Exposures	109,818,047	1,189,886	2,338,672	1,415,239

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CREDIT RISK MITIGATION (Cont'd.)

The Credit Risk Mitigation ("CRM") of the Bank for the financial year ended 31 December 2014 were as follows:-

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
<u>Credit Risk</u>				
<u>On-Balance Sheet Exposures</u>				
Sovereign/Central Banks	18,833,792	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs and MDBs	3,007,600	-	-	-
Insurances Cos, Securities Firms and Fund Managers	206,408	-	-	-
Corporates	25,433,796	1,326,543	1,415,952	1,094,213
Regulatory Retail	16,362,214	-	-	-
Residential Mortgages	26,790,525	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	450,287	-	-	-
Specialised Financing/Investment	-	-	-	-
Equity Exposures	113,329	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	917,688	19,000	2,109	6,048
Total On-Balance Sheet Exposures	92,115,639	1,345,543	1,418,061	1,100,261
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	1,478,949	5,648	14,249	1,345
Credit Derivatives	-	-	-	-
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	7,728,429	156,293	741,743	74,132
Defaulted Exposures	8,107	-	1,462	70
Total Off-Balance Sheet Exposures	9,215,485	161,941	757,454	75,547
Total On and Off-Balance Sheet Exposures	101,331,124	1,507,484	2,175,515	1,175,808

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OFF-BALANCE SHEET EXPOSURES AND COUNTERPARTY CREDIT RISK

Credit Exposures from Foreign Exchange and Derivatives

Pre-settlement limits for FX and derivative transactions are established using the potential future exposures ("PFE") approach. This approach takes into consideration the transaction currency and tenor to address the credit risk exposures arising from adverse market movements.

The Off-Balance Sheet Exposures and their related counterparty credit risk of the Bank for the financial year ended 31 December 2015 were as follows:-

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,709,647		2,709,647	1,926,742
Transaction related contingent items	4,756,334		2,356,956	1,442,940
Short Term Self Liquidating trade related contingencies	478,850		106,401	81,925
Foreign exchange related contracts	22,705,594	632,037	965,068	452,158
One year or less	22,269,024	580,338	886,191	373,404
Over one year to five years	436,570	51,699	78,877	78,754
Over five years	-	-	-	-
Interest/Profit rate related contracts	22,702,771	145,234	740,766	496,438
One year or less	5,023,307	4,851	24,238	9,240
Over one year to five years	15,821,072	125,935	574,884	333,368
Over five years	1,858,392	14,448	141,644	153,830
Equity related contracts	754,267	13,450	54,439	24,726
One year or less	538,475	11,246	40,350	16,168
Over one year to five years	215,792	2,204	14,089	8,558
Over five years	-	-	-	-
Commodity contracts	1,070,028	77,446	188,449	71,353
One year or less	870,028	77,446	164,449	59,353
Over one year to five years	200,000	-	24,000	12,000
Over five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	11,541,428		7,021,964	4,400,914
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	11,788,087		856,304	283,191
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	8,402,569		2,262,136	261,420
Unutilised credit card lines	82,773		16,555	16,555
Off-balance sheet for securitisation exposures	-		-	-
Total	86,992,348	868,167	17,278,685	9,458,362

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OFF-BALANCE SHEET EXPOSURES AND COUNTERPARTY CREDIT RISK (Cont'd.)

Credit Exposures from Foreign Exchange and Derivatives (cont'd.)

The Off-Balance Sheet Exposures and their related counterparty credit risk of the Bank for the financial year ended 31 December 2014 were as follows:-

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	RWA
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,284,617		2,284,617	1,596,309
Transaction related contingent items	4,308,410		2,131,960	1,432,231
Short Term Self Liquidating trade related contingencies	303,122		72,428	35,560
Foreign exchange related contracts	28,225,912	658,539	848,292	343,074
One year or less	27,635,265	607,710	765,392	262,353
Over one year to five years	590,647	50,829	82,900	80,721
Over five years	-	-	-	-
Interest/Profit rate related contracts	20,007,324	96,737	497,294	277,962
One year or less	5,264,883	8,552	17,116	9,336
Over one year to five years	14,578,461	84,741	466,895	258,472
Over five years	163,980	3,444	13,283	10,154
Equity related contracts	1,097,907	20,700	73,947	34,445
One year or less	657,720	14,625	47,313	19,670
Over one year to five years	440,187	6,075	26,634	14,775
Over five years	-	-	-	-
Commodity contracts	665,815	96,893	163,475	127,569
One year or less	665,815	96,893	163,475	127,569
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,792,002		209,253	170,685
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	10,082,012		753,635	160,193
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,456,903		2,113,519	239,000
Unutilised credit card lines	70,343		70,343	14,069
Off-balance sheet for securitisation exposures	-		-	-
Total	76,294,367	872,869	9,218,763	4,431,097

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MARKET RISK

Market risk is governed by the Bank Asset and Liability Committee ("ALCO"), which meets monthly to review and provide directions on market risk matters. The Market Risk Management ("MRM") and Balance Sheet Risk Management ("BSRM") of the Risk Management Division ("RMD") supports the RMC, RCC, 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. The valuation methodologies employed by the Group are in line with sound market practices. Valuation and Risk Models are independently validated. In addition, 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 continuously reviewed and enhanced to ensure that the complexities of the business are appropriately controlled.

Overall market risk appetite is balanced at the 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.

Market Risk appetite is provided for the trading exposure within the Bank.

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, plain vanilla interest rate, overnight index swap, cross currency basis swap spread, government bonds, quasi government bonds, corporate bonds, commodity contracts and commodity options.

Internal Model Approach

The Bank estimates a daily Value-at-Risk ("VaR") within a 99 per cent confidence interval using the historical simulation method, as a control for market risk. The method assumes that possible future changes in market rates may be implied by observed historical market movements.

As VaR is the statistical measure for potential losses, the VaR measures are backtested against profit or 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 backtest exceptions are tabled at ALCO with recommended actions and resolutions.

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 daily VaR on 31 December 2015 was RM 2.29 million.

	Year End RM'000	High RM'000	Low RM'000	Average RM'000
2015				
Interest rate	2,568	4,168	504	2,744
Foreign exchange	940	8,598	348	2,414
Commodities	371	1,614	56	594
Total diversified VaR	2,291	9,443	1,087	3,532
2014				
Interest rate	530	2,467	341	1,010
Foreign exchange	303	3,371	202	954
Basis swap spread	486	3,637	379	638
Commodities	573	2,988	-	633
Total diversified VaR	801	5,159	647	1,685

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business. Operational risk includes legal and compliance risk but excludes strategic risk and business risk.

The objective is to manage operational risk at appropriate levels relative to the markets in which the businesses operate.

Operational risk is managed through a framework of policies and procedures by which Business and Support Units properly identify, assess, monitor, mitigate and report their risks. The Operational Risk Management Committee attended by senior management meets monthly to provide oversight of operational risk matters across the Bank.

The strategy for managing operational risk in the Bank is anchored on the three lines of defence concept which are as follows :

- The first line of defence is accountable for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities. The responsibility for managing day-to-day operational risk rests with each Line of Business.
- In the second line, Operational Risk Management is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and reporting of operational risk issues to senior management, relevant management committees and Board of Directors.
- Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

A key component of the operational risk management framework is risk identification and control self-assessments. This is achieved through the bank-wide implementation of a set of operational risk tools:

- a) Key Risk and Control Self-Assessment ("KRCSA") - KRCSA is a tool for Business/Support Unit Heads to assess their unit's operational risk profile involves identifying and assessing, inherent risks of key processes, as well as evaluating the effectiveness of controls to mitigate the identified risks. Action plans to address operational risk issues are documented and monitored via Operational Risk Action Plans.
- b) Key Operational Risk Indicators ("KORI") are statistical data collected and monitored by business and support units on an ongoing basis to enable early detection of operational control weaknesses.
- c) A database of operational risk incident and losses has been established to facilitate the analysis of loss trends and root causes.
- d) Management Risk Awareness ("MRA") is a tool for Business/Support Units to self-declare existing material operational risks or newly identified material operational risks arising from new products / processes, change in business environment etc. that are encountered in the day-to-day business activities, but have not yet resulted in an operational incident, so that timely and appropriate risk mitigating actions can be implemented.

(Note: At this juncture, operational risk incident, MRA and action plans are inputted into a web-based system known as Governance, Risk & Compliance ("GRC") System which allows the Bank to document, track and analyse the ORM details).

OPERATIONAL RISK (Cont'd.)

Several risk mitigation policies and programmes are in place to maintain a sound operating environment.

An outsourcing policy ensures that all significant risks arising from outsourcing arrangements are identified and effectively managed on a continuous basis.

A Product/Service Programme ensures that risks associated with the introduction of new products and services are identified, analysed and addressed prior to product launch and is subject to periodic reviews.

A business continuity and crisis management programme has been developed and tested to ensure prompt recovery of critical business functions following unforeseen events. Senior management provides an annual attestation to the Board on the state of business continuity readiness of the Bank.

A technology risk management framework has been established, enabling the Bank to manage technology risks in a systematic and consistent manner.

Regulatory compliance risk refers to the risk of non-compliance with laws, regulations, rules, standards and codes of conduct. This risk is identified, monitored and managed through a structured framework of policies, procedures and guidelines maintained by the Bank. The framework also manages the risk of breaches and sanctions relating to Anti-Money Laundering and Countering the Financing of Terrorism.

The Bank actively manages fraud and bribery risks. Tools and policies, including a whistle-blowing programme, a material risk notification protocol and a fraud risk awareness training programme, have been developed to manage such risks. All employees are guided by a Code of Conduct, which includes anti-bribery and corruption provisions.

Reputation risk is the risk of adverse impact on earnings, liquidity or capital arising from negative stakeholder perception or opinion of the Bank's business practices, activities and financial condition. The Bank recognises the impact of reputation risk and a framework has been developed to identify and manage the risk across the Bank.

To mitigate operational losses resulting from significant risk events, a bank insurance programme covering crime, fraud, civil liability, property damage, public liability, as well as directors' and officers' liability has been put in place.

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EQUITIES (Disclosures for Banking Book position)

The following table presented the equity exposures in the banking book.

These exposures were classified under available-for-sale ("AFS") securities which were being measured at fair value.

Type of Equities	Bank			
	31 December 2015		31 December 2014	
	Exposures	RWA	Exposures	RWA
	RM'000	RM'000	RM'000	RM'000
Publicly traded equity exposures * mainly acquired via loan restructuring activities	3,737	11,210	6,136	18,409
All other equity exposures	74,795	299,180	107,193	428,772
	78,532	310,390	113,329	447,181

	Bank	
	2015	2014
	RM'000	RM'000
Realised gains arising from sales and liquidation	31,311	1,435
Unrealised gains included in fair value reserve	3,471	5,870

DISCLOSURE FOR INTEREST RATE RISK / RATE OF RETURN RISK IN THE BANKING BOOK ("IRR / RORBB")**Interest Rate Risk In Banking Book**

The ALCO maintains oversight of the effectiveness of the interest rate risk management structure. The BSRM supports the ALCO in monitoring the interest rate risk profile of the banking book.

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.

Banking book interest rate risk 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, currencies 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 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, expected changes in business activities over time. Changes in interest rates are simulated using different interest rate scenarios such as changes in the shape of the yield curve, including high and low rates, as well as positive and negative tilt scenarios. NII simulation is performed to quantify a forward looking impact on NII 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 reported figures are based on the upward and downward parallel movement of the yield curve. The repricing profile of loans is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers.

The risks arising from the trading book, such as interest rates, foreign exchange rates and equity prices are managed and controlled under the market risk framework that is discussed under the Market Risk section.

DISCLOSURE FOR INTEREST RATE RISK / RATE OF RETURN RISK IN THE BANKING BOOK ("IRR / RORBB")**Interest Rate Sensitivity Analysis - Banking Book**

The table below showed the results at 100 and 200 basis points parallel interest rate shocks to Economic Value of Equity ("EVE") and Net Interest Income ("NII"). The reported figures were based on the 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.

Economic Value of Equity ("EVE")

Currency	Increase/(Decrease) in basis points	Sensitivity of EVE	Increase/(Decrease) in basis points	Sensitivity of EVE
	31 December 2015	31 December 2015	31 December 2015	31 December 2015
		RM'million		RM'million
Total	+ 200/(200)	162.7/(159.0)	+ 100/(100)	80.8/(79.9)
MYR	+ 200/(200)	166.8/(160.3)	+ 100/(100)	82.8/(81.3)
USD	+ 200/(200)	(4.1)/1.4	+ 100/(100)	(2.1)/1.4

Currency	Increase/(Decrease) in basis points	Sensitivity of EVE	Increase/(Decrease) in basis points	Sensitivity of EVE
	31 December 2014	31 December 2014	31 December 2014	31 December 2014
		RM'million		RM'million
Total	+ 200/(200)	188.2/(157.6)	+ 100/(100)	93.6/(81.9)
MYR	+ 200/(200)	160.3/(153.7)	+ 100/(100)	79.6/(78.0)
USD	+ 200/(200)	27.9/(3.9)	+ 100/(100)	14.0/(3.9)

Net Interest Income ("NII")

Currency	Increase/(Decrease) in basis points	Sensitivity of NII	Increase/(Decrease) in basis points	Sensitivity of NII
	31 December 2015	31 December 2015	31 December 2015	31 December 2015
		RM'million		RM'million
Total	+ 200/(200)	296.8/(307.1)	+ 100/(100)	109.5/(116.5)
MYR	+ 200/(200)	303.7/(303.7)	+ 100/(100)	113.0/(113.1)
USD	+ 200/(200)	(6.9)/(3.4)	+ 100/(100)	(3.4)/(3.4)

Currency	Increase/(Decrease) in basis points	Sensitivity of NII	Increase/(Decrease) in basis points	Sensitivity of NII
	31 December 2014	31 December 2014	31 December 2014	31 December 2014
		RM'million		RM'million
Total	+ 200/(200)	398.9/(373.2)	+ 100/(100)	160.1/(152.4)
MYR	+ 200/(200)	379.4/(371.2)	+ 100/(100)	150.3/(150.3)
USD	+ 200/(200)	19.5/(2.1)	+ 100/(100)	9.8/(2.1)

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. In addition to these controls and policies, the Bank also actively manages and monitors daily BNM and Group's Basel III Liquidity Coverage Ratio ("LCR"). 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 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.

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 business-as-usual and stress scenarios. Cash flow mismatch limits are established to limit the Bank's liquidity exposure. The Bank also employs liquidity early warning indicators and trigger points to signal possible contingency situations.

With regard to the regulatory requirements on LCR which are effective from 1 June 2015, the Bank's ratios were above 100 per cent for both the All Currency LCR and the Ringgit Malaysia LCR as at 31 December 2015.

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 Group's Head Office in Singapore.

The table in Note 38 to the financial statements on page 124 - Bank 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.