



**UNITED OVERSEAS BANK (MALAYSIA) BHD**  
Annual Report 2011



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**Sweet Rambutans by Georgette Chen**  
**Oil on Canvas**

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This painting by Georgette Chen is one of the most acclaimed pieces in UOB's art collection. The Group started its collection in the 1970s as a way to support the local arts scene. Through this programme, UOB has collected more than 1,500 artworks which are displayed at the Group's offices worldwide.

As UOB is acknowledged as one of the pioneer banks in Singapore, so too is Chen recognised as a forerunner of the visual arts scene in the country. The rambutan fruit is a signature element of Chen's still-life paintings. Chen who is known for her Post-Impressionist style has blended western and eastern elements in this artwork.

Chen has forged a reputation for her portraits, landscape and still-life paintings. She was conferred the Cultural Medallion in 1982. A national arts scholarship has been established in her name.



## 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 more than 500 branches and 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 the country.

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.

For further information, please visit [www.uob.com.my](http://www.uob.com.my).

## Chairman's Statement



“UOB (Malaysia) will remain vigilant in monitoring and managing risks and expenses as we continue to build our IT and branch infrastructure, to strengthen our talent pool and to enhance our capabilities to improve the delivery of quality services and products to meet the needs of our customers.”

### 2011 Review

Despite the challenging global economic environment, United Overseas Bank (Malaysia) Bhd (“UOB (Malaysia)”) continued to deliver strong growth in 2011. UOB (Malaysia) delivered a record net profit before tax of RM1,028.5 million, an increase of RM198.6 million or 23.9% over the previous year. This equated to an improved return on equity (after tax) of 18.1% compared with 16.3% in 2010.

Total income increased by 17.9% to RM1,874.3 million (2010: RM1,589.9 million), driven by higher net interest income and other operating income. Net interest income grew by 15.5% to RM1,316.1 million (2010: RM1,139.0 million), largely from strong loans growth. Gross loans, which increased by 35.4% to RM47.7 billion (2010: RM35.2 billion), outpaced the industry growth of 13.6%. Non-bank deposits rose by 35.1% to RM52.6 billion (2010: RM39.0 billion).

Other operating income increased by 23.8% to RM558.1 million (2010: RM450.9 million). This was driven by higher fee income from wealth management, treasury, trade and cash management activities. Bank employee costs and other operating expenses increased by 17.7% to RM695.3 million (2010: RM590.8 million) as the Group continued to invest in talent development and IT infrastructure. Overall, expenses were well managed with a healthy cost-to-income ratio of 37.1%.

Allowance for impairment on loans, advances, financing, commitments and contingencies reduced by 13.0% to RM173.1 million (2010: RM198.9 million), mainly due to lower individual impairment made by RM71.5 million but offset by an increase in collective impairment by RM45.7 million due to the exceptionally strong loans growth. Asset quality continued to improve with gross non-performing loans (NPL) ratio reduced to 1.7% from 2.5% and net NPL ratio similarly improved to 1.3% from 1.7% during the year.

## 2012 Outlook

The global economic outlook remains uncertain with risk of further deterioration as the effects of economic malaise coming out of Europe and the United States impact other markets. For Malaysia, the effect is likely to be that economic growth will moderate as export markets weaken.

However, a counter to this is that with the progressive implementation of the country's Economic Transformation Programme, domestic demand will be boosted. This increase in domestic demand will help to offset partially the underperformance in net exports. Domestic demand will also be sustained by Malaysia's robust commodity sector, leading to a fast growing middle income population in rural and semi-urban areas. Malaysia's GDP is still expected to grow by 4% to 5% in 2012.

Competition in the Malaysian financial sector is expected to intensify in 2012 as industry participants focus more sharply on their lending and deposits acquisition businesses. This, in turn, will lead to further margin compressions on both sides. While loans growth is expected to moderate, banks will look to maximise all lending relationships to cross-sell and grow fee-based income.

The expansion of major local banks into the region and the entry of new players in the local market will further intensify competition for talent in the banking industry. Operating costs are likely to rise as interest margins continue to decline.

UOB (Malaysia) will remain vigilant in monitoring and managing risks and expenses as we continue to build our IT and branch infrastructure, to strengthen our talent pool and to enhance our capabilities to improve the delivery of quality services and products to meet the needs of our customers.

## Acknowledgement

I would like to thank the Board of Directors for their wise counsel and guidance during the year. In particular, I want to acknowledge the immense contributions from our two directors, Mr Lim Kean Chye and Mr Ng Kee Wei, who retired in 2011.

Finally, on behalf of the Board of Directors, I would like to express our appreciation to the management and employees for their commitment and contributions to making UOB (Malaysia) one of the leading foreign banks in Malaysia, and to our customers for their continued support.

## Wee Cho Yaw

*Chairman*

February 2012

# Board of Directors and its Committees

## Board Of Directors

Wee Cho Yaw (Chairman)  
*Non-Independent Non-Executive Director*

Wee Ee Cheong  
*Non-Independent Non-Executive Director*

Lee Chin Yong Francis  
*Non-Independent Non-Executive Director*

Abdul Latif Bin Yahaya  
*Independent Non-Executive Director*

Datuk Abu Huraira Bin Abu Yazid  
*Independent Non-Executive Director*

Chan Kok Seong  
*Non-Independent Executive Director*

Ng Kee Wei  
*Independent Non-Executive Director*  
(Retired w.e.f. 8 April 2011)

Lim Kean Chye  
*Independent Non-Executive Director*  
(Retired w.e.f. 8 April 2011)

## Audit Committee

Abdul Latif Bin Yahaya (Chairman)

Datuk Abu Huraira Bin Abu Yazid

Lee Chin Yong Francis  
(Appointed w.e.f. 9 March 2011)

## Risk Management Committee

Datuk Abu Huraira Bin Abu Yazid (Chairman)  
(Appointed as Chairman w.e.f. 9 March 2011)

Abdul Latif Bin Yahaya

Lee Chin Yong Francis  
(Appointed w.e.f. 9 March 2011)

## Remuneration Committee

Datuk Abu Huraira Bin Abu Yazid (Chairman)  
(Appointed as Chairman and Member w.e.f. 9 March 2011)

Wee Cho Yaw

Wee Ee Cheong  
(Appointed w.e.f. 9 March 2011)

Lee Chin Yong Francis

## Nominating Committee

Abdul Latif Bin Yahaya (Chairman)

Wee Cho Yaw

Wee Ee Cheong  
(Appointed w.e.f. 9 March 2011)

Lee Chin Yong Francis

Datuk Abu Huraira Bin Abu Yazid  
(Appointed w.e.f. 9 March 2011)



### **Wee Cho Yaw – Chairman**

A banker with more than 50 years' experience, 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 Indonesia, 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 the 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 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 an Honorary Doctor of Letters by National University of Singapore in 2008. He was also conferred the Distinguished Service Order, Singapore's highest National Day Awards in 2011, for his outstanding contributions in community work.

### **Wee Ee Cheong**

Mr Wee was appointed to the Board on 23 March 1994 and last re-elected as Director on 19 December 2011. He is a member of the Remuneration and Nominating Committees.

A career banker, Mr Wee joined United Overseas Bank (UOB) in 1979, and has extensive experience handling various functions across the Bank. He served as Deputy Chairman and President of the Bank from 2000 to April 2007 before being appointed as Chief Executive Officer ("CEO") on 27 April 2007. He is a member of the UOB Executive and Board Risk Management Committees.

He also holds directorships in 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 Vice President Commissioner of PT Bank UOB Indonesia.

Mr Wee is actively engaged in regional business development through his participation in key industry bodies. He serves as a council member of The Association of Banks in Singapore and 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 Singapore-China Foundation, Visa APCMEA Senior Client Council and Advisory Board of INSEAD East Asia Council and International Council.

He is a director of the Wee Foundation, as well as the patron of the Nanyang Academy of Fine Arts. Mr Wee is an honorary council member of the Singapore Chinese Chamber of Commerce & Industry. He had previously served as Deputy Chairman of the Housing & Development Board, and as a director of the Port of Singapore Authority, UOL Group and Pan Pacific 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 Audit, Risk Management, Remuneration and Nominating Committees.

Mr Lee joined UOB in 1980. He currently leads the Group's consumer and small business retail divisions. Prior to his appointment in Singapore in 2003, he was the 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.

## Board of Directors' Profiles

### **Chan Kok Seong**

Mr Chan was appointed as CEO of UOB (Malaysia) in 2003 and subsequently appointed to the Board on 3 August 2006. He was last re-elected as Director on 31 May 2010. Mr Chan also sits on the board of Uni.Asia General Insurance Bhd and Uni.Asia Life Assurance Bhd.

Mr Chan 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.

He started his career with the Central Bank of Malaysia, where he served for over eight years, involved primarily in policy development for control and banking practices, including the development of regulatory framework for new financial instruments. Prior to joining UOB (Malaysia) in July 1998, Mr Chan was Head of Risk Management Division in Arab-Malaysian Merchant Bank and was responsible for market, liquidity, counterparty and other risks associated with money market and derivative dealing activities.

### **Encik Abdul Latif Bin Yahaya**

Encik Abdul Latif was appointed to the Board on 19 June 2008 as an Independent Non-Executive Director and last re-elected as Director on 18 June 2011. He is the Chairman of the Bank's Audit and Nominating Committees and a member of the Risk Management Committee. Encik 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, Zag T 3 Sdn Bhd and Sumadhura Technologies (M) 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. Encik 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, Encik 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 CEO/Vice Chairman of Orix Leasing Malaysia Berhad. In 2008, he assumed the position of Managing Director/CEO 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 and Remuneration Committees. He is also a member of the Audit and Nominating Committees. Datuk Abu sits on the board in other private companies such as Equinox 8 Sdn Bhd, HY Connections Sdn Bhd, Jalur Sajju Sdn Bhd and Printis Transport Technologies Sdn Bhd.

He holds a Bachelor of Economics majoring in Business Management from the 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 the card business. He was appointed the General Manager in Public Bank from 1991 to 2000. In 2000, Datuk Abu was appointed the CEO of National Savings Bank, a position he held until 2004. Datuk Abu was also a member of VISA International's Advisor's Debit Group, Commercial Products Planning Committee and the Membership, Rules & Risk Committee.

From 2001 to 2009, he assumed the position of Executive Director of Pos Malaysia Berhad. He was also appointed in 2007 as a member of a three-man Executive Committee at Board level to manage Transmile Berhad. In 2009, he was appointed Chairman of Social Security Organisation (SOCISO), a position he had held on till today.

## Senior Management

Chan Kok Seong  
Chief Executive Officer

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

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

Ng Ling Tee Steven  
Managing Director  
Country Head, Specialised Financing

Beh Wee Khee  
Executive Director  
Country Head, Commercial Banking II

Chan Shu Peng  
Executive Director  
Head, Retail  
Technology & Operations

Chui Keng Leng Raymond  
Executive Director  
Country Head, Business Banking

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

Goh Cheng Ean  
Executive Director  
Head, High Networth Banking  
Personal Financial Services

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

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

Low Choon Seong  
Executive Director  
Country Head, Credit - Middle Market

Lum Chee Onn  
Executive Director  
Country Head, Technology & Operations

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

Ong Yee Ben  
Executive Director  
Country Head, Internal Audit

Por Peng Seong Alex  
Executive Director  
Country Head, Risk Management

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

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

Tan Mei Lin Linda  
Executive Director  
Country Head, Special Assets Management

Wee Hock Kiong  
Executive Director  
Country Head, Credit - Retail

## Secretary

Ong Kit Ping

## 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  
SWIFT: UOVBYKL  
Email: uobcustomerservice@uob.com.my  
Website: www.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: Mona Tan Swee Ling

### Jalan Imbi Branch

197-199, Jalan Imbi  
55100 Kuala Lumpur  
Tel: 03-2143 5722  
Fax: 03-2148 9725  
Manager: Tan Ah Ng

### Jalan Pudu Branch

408-410, Jalan Pudu  
55100 Kuala Lumpur  
Tel: 03-9222 5135 / 03-9222 9022  
Fax: 03-9221 6667  
Manager: Lee Kim Thye

### Jalan Sultan Ismail Branch

Unit 1-6, Ground Floor, President House  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Tel: 03-2142 8828  
Fax: 03-2141 1212  
Manager: Evon Chan Lai Yee

### 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  
Manager: Jonathan How Boon Seong

## 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

## Selangor

### Central Area II

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

### 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: Ryo Gim Tong Wei

### Klang Branch

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

### 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: En Chung Teck

### 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: Kennedy Choo Wei Hong

### 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: Chua Chee Teck

## Selangor

### 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

### Ampang Branch

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

### Cheras Branch

35, Jalan Desa Cahaya 11  
Taman Desa Bukit Cahaya  
56100 Cheras  
Tel: 03-9106 2788  
Fax: 03-9105 3281  
Manager: James Tan Chee Hock

### Damansara Uptown Branch

Ground Floor, No.1, Jalan SS21/58  
Uptown 1, Damansara Uptown  
47400 Petaling Jaya  
Tel: 03-7726 2299  
Fax: 03-7727 5566  
Manager: Christopher Ching Chia How

### Jalan Othman Branch

39-45, Jalan Othman  
46000 Petaling Jaya  
Tel: 03-7788 3333  
Fax: 03-7783 8131  
Manager: James Lim Wee Yeow

### Jalan Tengah Branch

2-6, Jalan Tengah  
46200 Petaling Jaya  
Tel: 03-7956 9057 / 03-7958 2282  
Fax: 03-7955 9110  
Managers: Ameena Beevi Bt Mohamed Saleh

### Puchong Branch

6, Jalan Kenari 5, Bandar Puchong Jaya  
47100 Puchong  
Tel: 03-8076 8989  
Fax: 03-8076 8181  
Manager: Georgina Tia Lee Ping

## Pahang / Terengganu / Kelantan

### East Coast Area

2, Jalan Besar  
25000 Kuantan  
Tel: 09-516 1820  
Fax: 09-513 8266  
Area Manager: Liew Chai Kar

## Pahang

### Kuantan Branch

2, Jalan Besar  
25000 Kuantan  
Tel: 09-514 4155 / 09-516 1844 / 09-516 4755  
Fax: 09-513 8266  
Manager: Liew Chai Kar

### Bentong Branch

61-62, Jalan Loke Yew  
28700 Bentong  
Tel: 09-222 1600 / 09-222 1778  
Fax: 09-222 5882  
Manager: Leong Yew Fook

### Raub Branch

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

## Terengganu

### Kuala Terengganu Branch

51, Jalan Sultan Ismail  
20200 Kuala Terengganu  
Tel: 09-622 1644 / 09-622 7912  
Fax: 09-623 4644  
Manager: Cheow Chee Seng

## Kelantan

### Kota Bahru Branch

3999, Jalan Tok Hakim  
15000 Kota Bahru  
Tel: 09-748 2699 / 09-748 3066  
Fax: 09-748 4307  
Manager: Shahrarom Bin Kahar

# Branch Network

## Perak / Pulau Pinang / Kedah

### 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

## Perak

### Ipoh Branch

2, Jalan Dato' Seri Ahmad Said  
30450 Ipoh  
Tel: 05-254 0008 / 05-254 0200  
Fax: 05-254 9092  
Manager: Choo Kin Chuan

## Pulau Pinang

### 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

### Butterworth Branch

4071 & 4072, Jalan Bagan Luar  
12000 Butterworth  
Tel: 04-314 8000  
Fax: 04-332 4300  
Manager: Phuah Ah Keng

### Jalan Kelawei Branch

9, Jalan Kelawei  
10250 Pulau Pinang  
Tel: 04-226 1777  
Fax: 04-226 2382  
Manager: Lee Ai Pin

### Lebuh Bishop Branch

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

## Kedah

### Alor Setar Branch

55, Jalan Gangsa  
Kawasan Perusahaan Mergong 2  
05150 Alor Setar  
Tel: 04-732 1366  
Fax: 04-733 0621  
Manager: Chang Tow Heng

### 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

## Melaka / Johor

### South Area Centre

Bangunan UOB  
8, Jalan Ponderosa 2/1  
Taman Ponderosa  
81100 Johor Bahru  
Tel: 07-360 6878 / 07-355 3755  
Fax: 07-360 6826  
Area Manager: Koh Boon Huat

## 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

## Johor

### 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: Maria Tan Swee Tin

### Batu Pahat Branch

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

### 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: Ricky Teo Choh Meng

### Kluang Branch

14-16, Jalan Datok Kapt Ahmad  
86000 Kluang  
Tel: 07-772 1967 / 07-772 5968 / 07-772 1969  
Fax: 07-773 0267 / 07-772 1977  
Manager: Eric Lin Yok Kong

### Kulai Branch

31-1 & 31-2, Jalan Raya  
Kulai Besar, 81000 Kulai  
Tel: 07-663 1232 / 07-663 1342  
Fax: 07-663 5287  
Manager: Ben Liew Kar Voon

### Taman Ponderosa Branch

Bangunan UOB  
Ground Floor, No. 8, Jalan Ponderosa 2/1  
Taman Ponderosa, 81100 Johor Bahru  
Tel: 07-360 6800  
Fax: 07-355 3761  
Manager: Tee Boon Siang

## Sabah / Sarawak

### East Malaysia Area

Bangunan UOB  
70, Jalan Gaya  
88000 Kota Kinabalu  
Tel: 088-526 000  
Fax: 088-222 438  
Area Manager: Chua Chai Hua

## Sabah

### Kota Kinabalu Branch

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

### Sandakan Branch

2nd Avenue  
90000 Sandakan  
Tel: 089-212 028 / 089-217 833  
Fax: 089-225 577  
Manager: Chew Yung Fu

### Tuaran Branch

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

## Sarawak

### Sibu Branch

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

### Miri Branch

108-110, Jalan Bendahara  
98000 Miri  
Tel: 085-433 322  
Fax: 085-422 221  
Manager: George Lai Ted Min

### Kuching Branch

1-3, Main Bazaar  
93000 Kuching  
Tel: 082-421 291  
Fax: 082-428 546  
Manager: Jean Si Poi Ne

### Bintulu Branch

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



## Corporate Governance

The Board of United Overseas Bank (Malaysia) Bhd (“UOB (Malaysia)”) remains firmly committed in 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 six distinguished members. Three of the members, namely Mr Wee Cho Yaw, Mr Wee Ee Cheong, and Mr Lee Chin Yong Francis are Non-Independent Non-Executive Directors, while Encik 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 led and managed by a competent and experienced Board with a wide and varied range of expertise in banking, finance, business and management to provide breadth and depth to Board discussions. There are differing roles in the Board with the Executive Director having direct responsibility for business operations while the Non-Independent Non-Executive Directors have the necessary skill and experience to bring forward an independent judgment. The Independent Non-Executive Directors have the experience and business acumen necessary to bring additional element of check and balance to the Board as they do not participate in the day-to-day running of the Bank. All Board members participate actively in Board deliberations and where a potential conflict with his duties or interests as director arises, it is mandatory for the director concerned to declare the fact and nature of his interest at the Board Meeting and abstain from deliberation and decision-making.

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 UOB (Malaysia). 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 director’s responsibilities in complying with relevant legislation and regulations.

Directors are fully cognisant 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 UOB (Malaysia). 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 2011					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	4	N/A	N/A	N/A	-	3
Wee Ee Cheong <sup>+</sup>	5	36	N/A	N/A	1	2
Lee Chin Yong Francis <sup>1</sup>	6	42	3	3	1	4
Ng Kee Wei <sup>*</sup>	1	N/A	1	N/A	N/A	1
Lim Kean Chye <sup>°</sup>	1	N/A	N/A	N/A	N/A	1
Abdul Latif Bin Yahaya	6	N/A	4 <sup>^</sup>	4	N/A	4 <sup>^</sup>
Datuk Abu Huraira Bin Abu Yazid <sup>@</sup>	6	N/A	4	4 <sup>^</sup>	1 <sup>^</sup>	2
Chan Kok Seong	6	42 <sup>^</sup>	N/A	N/A	N/A	N/A
<b>Number of meetings held in 2011</b>	<b>6</b>	<b>44</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>4</b>

<sup>+</sup> Mr Wee Ee Cheong was appointed as a member of the Remuneration Committee and Nominating Committee on 9 March 2011.

<sup>1</sup> Mr Lee Chin Yong Francis was appointed as a member of the Audit Committee and Risk Management Committee on 9 March 2011.

<sup>\*</sup> Mr Ng Kee Wei resigned as a member of the Audit Committee, Risk Management Committee and Nominating Committee on 9 March 2011 and retired as a Director on 8 April 2011.

<sup>°</sup> Mr Lim Kean Chye resigned as a member of the Remuneration Committee and Nominating Committee on 9 March 2011 and retired as a Director on 8 April 2011.

<sup>@</sup> Datuk Abu Huraira Bin Abu Yazid was appointed as a member of the Nominating Committee and member and Chairman of the Remuneration Committee on 9 March 2011.

<sup>^</sup> Chairman of Committee

Note: Effective 18 January 2012, the composition of Executive Committee has changed and is no longer a Board Committee.



## Board Committees

There are currently four board committees appointed by the Board, namely the Audit Committee, Risk Management Committee, Remuneration Committee and Nominating Committee. The role and responsibilities of each committee is set out under the respective committees' terms of reference, which have been approved by the Board. Details of the membership of the four board committees are set out on page 8.

## Audit Committee

The Audit Committee ("AC") comprises of two Independent Non-Executive Directors and a Non-Independent Non-Executive Director. 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 of two Independent Non-Executive Directors and a Non-Independent Non-Executive Director. 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 Chief Executive Officer 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.

# Corporate Governance

## Remuneration Committee

The Remuneration Committee (“RC”) comprises of an Independent Non-Executive Director and three Non-Independent Non-Executive Directors. The role of the RC is to provide a formal and transparent procedure for developing remuneration policy for directors, the Chief Executive Officer 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 Chief Executive Officer 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 of two Independent Non-Executive Directors and three Non-Independent Non-Executive Directors. The NC is empowered by the Board to among 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 four meetings during the year.

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

## 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 prospect of the Bank. The Board is assisted by the Audit Committee 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 39.

## Internal Audit

The Bank has a well-established internal audit function which reports to the Audit Committee (“AC”) functionally and to the Chief Executive Officer administratively. The primary role of Internal Audit is to provide independent assessment of the adequacy and effectiveness of the Bank’s system of risk management, control and governance processes. It operates within the framework defined in its Internal Audit Charter.

Internal Audit reviews and audits the Bank’s businesses and operations and the operations of its subsidiaries according to a risk-based audit plan. The plan is reviewed annually and tabled to the AC for approval. Its responsibilities include but are not limited to the audits of operations, lending practices, financial controls, 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 and Chief Executive Officer of the Group and the Head of Group Audit monthly.

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'. 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 disclosure have been included under '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 Bank Negara Malaysia'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

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

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

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

- i. assessment of capital and business risks across business segments, products and geographies, and the integration of such assessment with the budgeting process;
- ii. 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;
- iii. assessment of short-term and long-term capital needs, including stress testing and scenario reviews, for the purposes of capital management and planning; and
- iv. 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:

- i. promotion of sustainable long-term growth through embracing sound risk management principles and business practices;
- ii. continual improvement of risk discovery capabilities and establishment of appropriate value-creating risk controls; and
- iii. 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.

# Pillar 3 Disclosure

## 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.

#### Country Risk

Country Risk is managed within an established framework that includes setting of limits for each country based on the country's risk rating as well as the Group’s business strategy. Country exposures will be regularly analysed and significant trends will be reported to CMC and EXCO.

#### 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 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 2011, in the event of a two-notch downgrading of UOB (Malaysia)'s credit rating, UOB (Malaysia) 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 foreign exchange (“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 CMC and the 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 ("NPL") are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with Bank's Policy.

Upgrading and de-classification of a NPL account to 'Pass' or 'Special Mention' status 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.

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 declassified.

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

United Overseas Bank (Malaysia) Bhd (UOB (Malaysia)) had on 7 January 2010 received approval from Bank Negara Malaysia (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 <sup>a</sup> RM'million	FIRB RM'million	AIRB RM'million
<b>Total Credit Exposures</b>	<b>6,554</b>	<b>38,348</b>	<b>26,555</b>

<sup>a</sup> Amount under Standardised Approach refers to credit exposures where IRB Approach is not applicable, or portfolios that will eventually adopt IRB Approach.

## Pillar 3 Disclosure

### 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 creditworthiness 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:

	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Financial / Other Eligible Collateral	2011 RM'million
<b>Total</b>	<b>537</b>		<b>2,540</b>

  

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

## 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 Bank Negara Malaysia.

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%	676
51% to 100%	5,476
101% and above	53
Deducted	-
<b>Total</b>	<b>6,205</b>

## 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 IRB Approach:

Risk weights	Specialised Lending RM'million	Equity RM'million
0% to 50%	-	-
51% to 100%	-	-
101% and above	-	145
<b>Total</b>	<b>-</b>	<b>145</b>

## 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.

## Pillar 3 Disclosure

### 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:

- i. 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
- ii. 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 the Large Corporate and SME models to rate exposures in this asset class. The rating structure consists of two dimensions:

- i. 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.
- ii. 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:

- i. the exposure is typically to an entity (often a special purpose vehicle (SPV)) which is created specifically to finance and/or operate physical assets;
- ii. the borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation besides from the income that it receives from the asset(s) being financed;
- iii. the terms of the obligation give the Bank a substantial degree of control over the asset(s) and the income that it generates; and
- iv. 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 ECAs. 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 ECAs. 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. 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 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 under the AIRB Approach, 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 do not cover an appropriate mix of economic conditions and/or are 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 do 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 are 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.

## Pillar 3 Disclosure

### 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:

- i. the borrower is an individual person/s;
- ii. the residential properties are or will be occupied by the borrower, or is rented;
- iii. the loan is secured by first and subsequent legal charges, deeds of assignment or strata titles on the property; and
- iv. 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:

- i. the exposures are revolving, unsecured, and uncommitted (both contractually and in practice);
- ii. the exposures are to individuals;
- iii. the maximum exposure to a single individual in the sub-portfolio is RM500,000 or less; and
- iv. 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, 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:

- i. exposures to individuals;
- ii. 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-sized enterprises (SMEs); and
- iii. 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.

## 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	18,053	19,704
Defaulted	-	453
<b>Total</b>	<b>18,053</b>	<b>20,157</b>

### Sovereign Exposures

CRR band	Credit RWA RM'million	EAD RM'million
1 - 16	-	16,637
Defaulted	-	-
<b>Total</b>	<b>-</b>	<b>16,637</b>

### Bank Exposures

CRR band	Credit RWA RM'million	EAD RM'million
1 - 16	445	1,372
Defaulted	-	-
<b>Total</b>	<b>445</b>	<b>1,372</b>

### Retail (Residential Mortgage) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	1,050	13,974
2.01% to 99.99%	1,017	3,313
Default	97	261
<b>Total</b>	<b>2,164</b>	<b>17,548</b>

### Retail (QRRE) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	108	977
2.01% to 99.99%	752	1,036
Default	49	20
<b>Total</b>	<b>909</b>	<b>2,033</b>

### Retail (Other Retail) Exposures

PD band	Credit RWA RM'million	EAD RM'million
0.00% to 2.00%	187	2,361
2.01% to 99.99%	931	4,576
Default	13	37
<b>Total</b>	<b>1,131</b>	<b>6,974</b>

## 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 2011.

### Comparison of actual loss and expected loss

	Actual Loss (as at 31 December 2011) RM'million	Expected loss (as at 31 December 2010) RM'million	Actual Loss (as at 31 December 2010) RM'million
<b>Total</b>	<b>7</b>	<b>308</b>	<b>78</b>

The actual loss in 2011 is lower than in 2010 due to the improving economic environment in 2011 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 2010 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 directions 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 Bank. This ensures that the Group and 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 Rate, 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 daily VaR on 31 December 2011 was RM1.51 million.

	Year-end RM'million	High RM'million	Low RM'million	Average RM'million
<b>2011</b>				
Total Diversified VAR	1.51	3.93	0.57	1.36
<b>2010</b>				
Total Diversified VAR	0.88	5.98	0.70	2.20

## Pillar 3 Disclosure

### 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”) Division is responsible for the effective management of balance sheet risk in accordance with approved balance sheet risk management policies.

The primary objective in managing balance sheet risk 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 (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. 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 were negative RM2 million and positive RM3 million (2010: negative RM26 million and RM48 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 Bank Negara Malaysia’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 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 Group's Head Office in Singapore.

The table in Note 39(iii) to the financial statements on page 91 - 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. Behavioural 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 Product Sales Committee in Head Office also reviews product suitability, product risk disclosures and reputation issues associated with the distribution of retail investment products.

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.

## Pillar 3 Disclosure

### 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 2011 RWA RM'million	Exposures RM'million	Bank 2010 RWA RM'million
Publicly Traded Equity Exposures * mainly acquired via loan restructuring activities	2	7	2	5
All Other Equity Exposures * include investment in Associated Companies	143	571	135	540
	145	578	137	545

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

	Bank 2011 RM'million	Bank 2010 RM'million
- Loss from sale of held-for-trading securities and derivatives	(58)	(55)
- Gain from sale of available-for-sale securities	28	23
	(30)	(32)



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 2011.

## 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.

## Results

	Group RM'000	Bank RM'000
Profit before taxation	1,028,511	1,007,322
Income tax expense	(252,384)	(254,116)
Profit for the year	776,127	753,206

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.

## Dividends

The amount of dividends paid by the Bank since 31 December 2010 was as follows:

	RM'000
In respect of the financial year ended 31 December 2010 as reported in the directors' report for that year, a final dividend of 58% less 25% taxation, on 470 million ordinary shares, paid on 15 April 2011.	204,450

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2011, of 75% less 25% taxation on 470 million ordinary shares of RM1 each, amounting to a dividend payable of RM264,375,000 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 2012.

## 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

Lee Chin Yong Francis

Chan Kok Seong

Abdul Latif Bin Yahaya

Datuk Abu Huraira Bin Abu Yazid

Ng Kee Wei (retired on 8 April 2011)

Lim Kean Chye (retired on 8 April 2011)

# Directors' Report

## 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 ("UOBL").

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 UOBL and its subsidiaries ("UOBL Group"), UOBL implemented the Plans on 28 September 2007, with a view to aligning the interests of participants with that of shareholders and the UOBL Group by fostering a culture of ownership and enhancing the competitiveness of the UOBL 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 UOBL shares that are restricted by time and performance conditions as to when they vest. Upon vesting, participants will receive UOBL shares represented by the RS.

SAR are rights, which upon exercise, confer the right to receive such number of UOBL shares (or by exception, cash) equivalent to the difference between the prevailing market value and the grant value of the underlying UOBL shares comprised in the SAR, divided by the prevailing market value of a UOBL share. The grant value is determined with reference to the average of the closing prices of UOBL 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 UOBL Group, 25% of the RS and SAR of the 2008 grants and 50% of the 2009, 2010 and 2011 grants, will vest after two years and the remainder after three years from the dates of grant.

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

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

## 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:

		1.1.2011	Number of Ordinary Shares of S\$1 Each		31.12.2011
			Acquired	Disposed	
<b>Ultimate holding company:</b>					
<b>United Overseas Bank Limited</b>					
Wee Cho Yaw	- Direct	16,913,367	469,554	-	17,382,921
	- Indirect	256,801,601	7,061,379	-	263,862,980
Wee Ee Cheong	- Direct	2,965,549	82,329	-	3,047,878
	- Indirect	152,207,242	4,225,628	-	156,432,870
Lee Chin Yong Francis	- Indirect	12,979	25,872	-	38,851
Chan Kok Seong	- Direct	30,000	-	-	30,000
	- Indirect	6,872	11,702	-	18,574
<hr/>					
		1.1.2011	Number of preference shares of S\$100 each		31.12.2011
			Acquired	Disposed	
<b>Ultimate holding company:</b>					
<b>United Overseas Bank Limited</b>					
Wee Cho Yaw	- Indirect	167,700	-	-	167,700
Wee Ee Cheong	- Direct	20,000	-	-	20,000
	- Indirect	167,700	-	-	167,700
<hr/>					
		1.1.2011	Number of options over ordinary shares of S\$1 each under UOB restricted share plan		31.12.2011
			Granted	Vested	
<b>Ultimate holding company:</b>					
<b>United Overseas Bank Limited</b>					
Lee Chin Yong Francis	- Direct	62,737	29,750	25,512	66,975
Chan Kok Seong	- Direct	29,637	14,900	11,512	33,025
<hr/>					
		1.1.2011	Number of options over ordinary shares of S\$1 each under UOB share appreciation rights plan		31.12.2011
			Granted	Vested	
<b>Ultimate holding company:</b>					
<b>United Overseas Bank Limited</b>					
Lee Chin Yong Francis	- Direct	162,437	116,950	82,887	196,500
Chan Kok Seong	- Direct	76,162	58,500	37,387	97,275
<hr/>					
		1.1.2011	Number of options over ordinary shares of S\$1 each under UOB vested share appreciation rights plan		31.12.2011
			Vested	Exercised/Lapsed	
<b>Ultimate holding company:</b>					
<b>United Overseas Bank Limited</b>					
Lee Chin Yong Francis	- Direct	67,863	82,887	-	150,750
Chan Kok Seong	- Direct	28,986	37,387	-	66,373

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 2011

During the year, the Group continued to deliver against its five year strategic plan. Key to this strategy is to expand our consumer and SME customer base, while selectively growing our top tier corporate client base.

As part of the strategy to attract more consumer customers, several new initiatives were launched focused on delivering excellent service and quality products to our customers.

This focus has enabled us to maintain our position as one of the leading unit trust distributors in Malaysia. The year also marked a new chapter for our Bancassurance business with the announcement of Prudential Assurance Malaysia Berhad as our Bancassurance preferred partner. This enabled us to deliver greater value to our customers looking for protection with the benefit of savings and investment. The move also strengthened our Privilege Banking customer base.

During the year, we launched a gold investment account product and were pleased when 5,000 new accounts were opened within a short period of time. This new gold product proved popular as it gave customers the opportunity to manage their risk exposure in an uncertain investment climate.

We also achieved significant milestones with the repositioning of our credit card portfolio. Customers have responded well to our re-launch of ONE Card which offers better rewards for purchases. Strong outstanding balance growth, supported by targeted portfolio initiatives, has provided more value to our customers and has increased our market share in Malaysia.

On the security front, we provided added authentication for internet transactions which delivered greater security for our customers. This is part of our ongoing efforts to ensure customer security and confidence in the banking sector.

On the SME front, we continued to strengthen our niche market position. Industry specialisation was introduced to better serve customer segments related to contract financing deals and real estate financing. Customers leveraged from our regional connectivity as they sought to expand their businesses beyond Malaysia. Following increased customer demand for cash management solutions and other deposit products, we also set up a dedicated Corporate Wealth Management team to better meet the needs of our customers.

In 2011, we continued to support our top tier corporate clients in the real estate, construction and oil and gas sectors. With the support of our clients we increased our lending business, secured more deposits from our corporate clients and offered innovative products such as the United Cash Fund which gave customers the opportunity to enjoy a higher rate of return against conventional Fixed Deposits as well as being tax efficient.

All these initiatives were given prominent recognition when the Group was named Malaysia's Rising Star Trade Finance Bank (Foreign Bank Category) 2011 by The Asset, the renowned magazine's Triple A Awards for Trade Finance. This was a second consecutive win for our Transaction Banking business.

We continued to invest in our IT infrastructure and to develop our human resource capability to more effectively compete in an increasingly challenging market. In the near future, we will be hubbing our core banking systems to allow quicker time-to-market and improved service level initiatives to our customer. At the same time, UOB Group will be able to achieve greater operational efficiency, synergy and economies of scale.

## Outlook for the Financial Year ending 31 December 2012

Malaysia's gross domestic product is still expected to grow moderately at 4% - 5% in 2012 despite the challenging global economic outlook. Domestic demand will be supported by the progressive implementation of Economic Transformation Programme (ETP) projects and the robust commodity sectors.

In 2012, we expect to grow our loan base moderately in selected economic sectors while intensifying deposit acquisition across all non-bank customer segments. We will build and grow our fee-based business and continue to add value to our customer propositions for consumer, SME and large corporations.

While competition in the local banking sector will intensify further with lower net interest margin and higher staff costs, we are confident the Group will deliver satisfactory results in 2012 via higher sales productivity and greater operational efficiency.

## 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, income statements and statements of comprehensive income of the Group and of the Bank were made out, the directors took reasonable steps:
  - i. to 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. to ensure that any current assets which were 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 so 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 than those arising in the normal course of business of the Group and of the Bank.
- (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.

# Directors' Report

## **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 2 April 2012.

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 42 to 97 are drawn up in accordance with 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 2011 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 2 April 2012.

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 42 to 97 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 2 April 2012

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 2011

## **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 2011 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 97.

## **Directors' Responsibility for the Financial Statements**

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **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 of financial statements that give a true and fair view 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 2011 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 2011

## Report on Other Legal and Regulatory Requirements

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

- i. 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.
- ii. We are satisfied that the financial statements 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.
- iii. The auditors' reports on the financial statements 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 members 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

Kuala Lumpur, Malaysia  
2 April 2012

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

# Statements of Financial Position

as at 31 December 2011

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Assets</b>					
Cash and short-term funds	3	13,863,225	9,270,889	13,863,225	9,270,889
Securities purchased under resale agreements	4	-	149,973	-	149,973
Deposits and placements with financial institutions	5	11,686	10,889	11,686	10,889
Financial assets at fair value through profit and loss	6	2,474,507	2,275,075	2,474,507	2,275,075
Available-for-sale ("AFS")	7	2,825,137	3,517,612	2,825,137	3,517,612
Loans, advances and financing	8	46,710,776	34,387,818	46,894,627	34,568,033
Derivative financial assets	24	256,860	244,248	256,860	244,248
Other assets	9	474,396	212,152	478,413	216,460
Statutory deposits with Bank Negara Malaysia	10	1,363,000	22,800	1,363,000	22,800
Investment in subsidiaries	11	-	-	50	50
Investment in associates	12	206,343	189,234	122,733	122,733
Investment properties	13	8,280	8,460	-	-
Property, plant and equipment	14	252,585	226,240	119,013	106,272
Prepaid land lease payments	15	39,674	40,270	-	-
Deferred tax assets	16	290,595	148,576	290,655	148,602
<b>Total assets</b>		<b>68,777,064</b>	<b>50,704,236</b>	<b>68,699,906</b>	<b>50,653,636</b>
<b>Liabilities and equity</b>					
Deposits from customers	17	52,643,082	38,964,836	52,655,065	38,979,301
Deposits and placements of banks and other financial institutions	18	6,528,773	3,903,054	6,529,200	3,903,480
Bills and acceptances payable		2,843,787	2,279,218	2,843,787	2,279,218
Amount due to Cagamas	19	-	33,344	-	33,344
Derivative financial liabilities	24	347,948	337,928	347,948	337,928
Other liabilities	20	1,148,878	528,234	1,147,084	527,363
Tax payable		103,562	63,331	103,538	63,331
Subordinated bonds	21	498,902	498,628	498,902	498,628
<b>Total liabilities</b>		<b>64,114,932</b>	<b>46,608,573</b>	<b>64,125,524</b>	<b>46,622,593</b>
Share capital	22	470,000	470,000	470,000	470,000
Reserves	23	4,192,132	3,625,663	4,104,382	3,561,043
<b>Shareholders' equity</b>		<b>4,662,132</b>	<b>4,095,663</b>	<b>4,574,382</b>	<b>4,031,043</b>
<b>Total liabilities and equity</b>		<b>68,777,064</b>	<b>50,704,236</b>	<b>68,699,906</b>	<b>50,653,636</b>
<b>Commitments and contingencies</b>	36	<b>47,361,699</b>	<b>47,791,176</b>	<b>47,361,699</b>	<b>47,791,176</b>

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

## Income Statements

for the year ended 31 December 2011

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Operating revenue		<b>3,085,832</b>	2,368,776	<b>3,099,267</b>	2,373,305
Interest income	26	<b>2,546,692</b>	1,934,938	<b>2,553,321</b>	1,940,284
Interest expense	27	<b>(1,230,546)</b>	(795,907)	<b>(1,230,571)</b>	(795,920)
Net interest income		<b>1,316,146</b>	1,139,031	<b>1,322,750</b>	1,144,364
Other operating income	28	<b>558,123</b>	450,873	<b>562,095</b>	450,056
Operating income		<b>1,874,269</b>	1,589,904	<b>1,884,845</b>	1,594,420
Other operating expenses	29	<b>(695,286)</b>	(590,838)	<b>(704,441)</b>	(600,789)
Operating profit before allowance for impairment on loans, advances and financing and provision for commitments and contingencies		<b>1,178,983</b>	999,066	<b>1,180,404</b>	993,631
Allowance for impairment on loans, advances and financing	31	<b>(173,401)</b>	(205,475)	<b>(173,402)</b>	(205,485)
Net write back of provision for commitments and contingencies		<b>320</b>	6,548	<b>320</b>	6,548
Share of net profit of associates		<b>1,005,902</b>	800,139	<b>1,007,322</b>	794,694
		<b>22,609</b>	29,816	-	-
Profit before taxation		<b>1,028,511</b>	829,955	<b>1,007,322</b>	794,694
Income tax expense	32	<b>(252,384)</b>	(210,878)	<b>(254,116)</b>	(210,835)
Profit for the year attributable to equity holders of the parent		<b>776,127</b>	619,077	<b>753,206</b>	583,859
Basic earnings per share (sen)	33	<b>165.2</b>	131.7		
Dividends per share (sen)	34	<b>56.3</b>	43.5		

## Statements of Comprehensive Income

for the year ended 31 December 2011

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit for the year	<b>776,127</b>	619,077	<b>753,206</b>	583,859
Other comprehensive income:				
Net loss on revaluation of available-for-sale ("AFS") securities	<b>(7,222)</b>	(15,835)	<b>(7,222)</b>	(15,835)
Income tax relating to components of other comprehensive income	<b>1,805</b>	3,959	<b>1,805</b>	3,959
Total comprehensive income for the year	<b>770,710</b>	607,201	<b>747,789</b>	571,983

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

# Consolidated Statement of Changes In Equity

for the year ended 31 December 2011

Group	Note	<----- Non-distributable ----->					Distributable	
		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
<b>2011</b>								
Balance as at 1 January 2011		470,000	322,555	470,000	72,797	5,725	2,754,586	4,095,663
Total comprehensive income for the year		-	-	-	-	(5,417)	776,127	770,710
Reversal of revaluation deficit upon disposal of land and building		-	-	-	209	-	-	209
Transactions with owners:								
Dividends paid:								
- final dividend for the year ended 31 December 2010	34	-	-	-	-	-	(204,450)	(204,450)
Balance as at 31 December 2011		470,000	322,555	470,000	73,006	308	3,326,263	4,662,132
<b>2010</b>								
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		-	-	-	-	-	(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

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

# Statement of Changes in Equity

for the year ended 31 December 2011

Bank	Note	<----- Non-distributable ----->					Distributable	
		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
<b>2011</b>								
Balance as at 1 January 2011		470,000	322,555	470,000	-	5,725	2,762,763	4,031,043
Total comprehensive income for the year		-	-	-	-	(5,417)	753,206	747,789
Transactions with owners:								
Dividends paid:								
- final dividend for the year ended 31 December 2010	34	-	-	-	-	-	(204,450)	(204,450)
Balance as at 31 December 2011		470,000	322,555	470,000	-	308	3,311,519	4,574,382
<b>2010</b>								
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		-	-	-	-	-	(27,848)	(27,848)
Balance as at 31 December 2010		470,000	322,555	470,000	-	5,725	2,762,763	4,031,043

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

# Statements of Cash Flows

for the year ended 31 December 2011

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	1,028,511	829,955	1,007,322	794,694
Adjustments for:				
Share of net profits of associates	(22,609)	(29,816)	-	-
Loss/(Gain) on disposal of property, plant and equipment	153	(1,062)	483	(1,062)
Gain on disposal of foreclosed properties	-	(2,266)	-	(2,266)
Write back of property impairment	(2,487)	-	-	-
Depreciation of property, plant and equipment	31,580	38,126	27,223	33,574
Depreciation of investment properties	180	180	-	-
Amortisation of prepaid land lease payments	660	660	-	-
Allowance for impairment on loans, advances and financing	173,401	205,475	173,402	205,485
Net unrealised gain on financial assets at fair value through profit and loss	881	(11,186)	881	(11,186)
Net write back of provision for commitments and contingencies	(320)	(6,548)	(320)	(6,548)
Dividend income	(594)	(726)	(7,927)	(726)
Interest income from available-for-sale securities	(128,419)	(146,400)	(128,419)	(146,400)
Gain from sale/recovery of available-for-sale securities	(27,602)	(23,234)	(27,602)	(23,234)
Unrealised foreign exchange loss/(gain)	42,474	(29,890)	42,474	(29,890)
Loss from sale of financial assets at fair value through profit and loss	63,079	54,880	63,079	54,880
Gain from sale of precious metals	(5,222)	(280)	(5,222)	(280)
Amortisation of premium less accretion of discount from:				
- financial assets at fair value through profit and loss	572	956	572	956
- available-for-sale securities	6,998	14,021	6,998	14,021
Operating profit before working capital changes	1,161,236	892,845	1,152,944	882,018
(Increase)/decrease in operating assets:				
Loans and advances	(12,496,359)	(6,823,528)	(12,499,994)	(6,827,993)
Financial assets at fair value through profit and loss	(258,170)	(508,842)	(258,170)	(508,842)
Securities purchased under resale agreements	149,973	749,558	149,973	749,558
Statutory deposits with Bank Negara Malaysia	(1,340,200)	(14,550)	(1,340,200)	(14,550)
Derivative financial assets	(12,612)	15,899	(12,612)	15,899
Other assets	(262,242)	50,525	(261,952)	46,758
	(14,219,610)	(6,530,938)	(14,222,955)	(6,539,170)
Increase/(decrease) in operating liabilities:				
Deposits from customers	13,678,248	7,407,361	13,675,765	7,421,827
Deposits and placements of banks and other financial institutions	2,625,719	(66,124)	2,625,720	(66,114)
Bills and acceptances payable	564,569	(575,270)	564,569	(575,270)
Amount due to Cagamas	(33,344)	(76,344)	(33,344)	(76,344)
Derivative financial liabilities	10,020	(53,439)	10,020	(53,439)
Other liabilities	578,763	26,454	577,838	26,491
	17,423,975	6,662,638	17,420,568	6,677,151
Cash generated from operations	4,365,601	1,024,545	4,350,557	1,019,999
Taxation paid	(352,357)	(244,789)	(352,311)	(244,760)
Net cash generated from operating activities	4,013,244	779,756	3,998,246	775,239

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

# Statements of Cash Flows

for the year ended 31 December 2011

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property, plant and equipment	1,708	1,210	417	1,210
Purchase of property, plant and equipment	(57,154)	(36,339)	(40,865)	(31,826)
Interest income from available-for-sale securities	128,419	146,400	128,419	146,400
Net sale/(purchase) of available-for-sale securities	705,285	1,371,466	705,285	1,371,470
Dividend received	6,081	718	6,081	718
Net cash generated from investing activities	784,339	1,483,455	799,337	1,487,972
<b>Cash flows from financing activities</b>				
Net proceeds from issuance of subordinated bonds	-	498,628	-	498,628
Dividends paid	(204,450)	(27,848)	(204,450)	(27,848)
Net cash (used in)/generated from financing activities	(204,450)	470,780	(204,450)	470,780
<b>Net increase in cash and cash equivalents</b>	<b>4,593,133</b>	<b>2,733,991</b>	<b>4,593,133</b>	<b>2,733,991</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>9,281,778</b>	<b>6,547,787</b>	<b>9,281,778</b>	<b>6,547,787</b>
<b>Cash and cash equivalents at end of year</b>	<b>13,874,911</b>	<b>9,281,778</b>	<b>13,874,911</b>	<b>9,281,778</b>
<b>Analysis of cash and cash equivalents</b>				
Cash and short term funds	13,863,225	9,270,889	13,863,225	9,270,889
Deposits and placements with financial institutions	11,686	10,889	11,686	10,889
	13,874,911	9,281,778	13,874,911	9,281,778

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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 2 April 2012.

## 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 2011:

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	1 January 2011
FRS 7 Disclosures for First-time Adopters	
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 Effect of Changes in Foreign Exchange Rates	1 January 2011
Amendments to FRS 128: Investments in Associates	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)

FRSs, Amendments and Interpretations	Effective for financial period beginning on or after
Amendments to FRS 131: Interest in Joint Ventures	1 January 2011
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2011
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

\* The amendments to FRS 132: Financial Instruments: Presentation in paragraphs 11, 16 and 97E, are relating to Classification of Rights Issues.

Except for the new disclosures required under the Amendments to FRS 7, the directors expect that the adoption of the other accounting standards, amendments to accounting standards; interpretations and technical release above will not have any material impact on the financial statements in the current year.

### 2.3 Malaysian Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

### 2.4 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.

In the Bank'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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (a) Subsidiaries and basis of consolidation (continued)

##### (i) Subsidiaries (continued)

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 by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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.

#### (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 statement of financial position 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.

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (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.

#### (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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (g) Financial assets and financial liabilities (continued)

##### (i) Classification (continued)

###### 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.

###### 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 reporting 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:

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (g) Financial assets and financial liabilities (continued)

##### (iv) Classification of impaired loans, advances and financing (continued)

- 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.

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.

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 statements of financial position 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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (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 reporting 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	12.5 - 20
Motor vehicles	20

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.

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (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 statements of financial position 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.

##### 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 reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting 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.



# Notes to the Financial Statements

for the year ended 31 December 2011

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies (continued)

#### (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 reporting date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or 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 in less than one month held for the purpose of meeting short term commitments and are 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.

#### (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. Significant accounting policies (continued)

### 2.5 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 a 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 reporting 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

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 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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 3. Cash and short-term funds

	Group and Bank	
	2011	2010
	RM'000	RM'000
Cash and balances with banks and other financial institutions	386,271	720,318
Money at call and deposit placements maturing within one month	13,476,954	8,550,571
	<b>13,863,225</b>	<b>9,270,889</b>

## 4. Securities purchased under resale agreement

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

	Group and Bank	
	2011	2010
	RM'000	RM'000
Asset received for Reverse Repo transaction, at fair value	-	149,973

## 5. Deposits and placements with financial institutions

	Group and Bank	
	2011	2010
	RM'000	RM'000
Licensed banks	511	-
Other financial institutions	11,175	10,889
	<b>11,686</b>	<b>10,889</b>

## 6. Financial assets at fair value through profit and loss

	Group and Bank	
	2011	2010
	RM'000	RM'000
<b>Held-for-trading securities</b>		
<b>At fair value:</b>		
Malaysian Government treasury bills	120,013	42,791
Malaysian Government Securities	286,580	52,715
Bank Negara Malaysia Bills	1,507,196	1,601,588
Bankers' acceptances and Islamic accepted bills	37,844	147,655
Cagamas bonds	-	10,246
<b>Total held-for-trading securities</b>	<b>1,951,633</b>	<b>1,854,995</b>
<b>Designated as fair value through profit and loss</b>		
<b>Inside Malaysia but denominated in United States Dollar</b>		
Private debt securities	522,874	420,080
<b>Total financial assets at fair value through profit and loss</b>	<b>2,474,507</b>	<b>2,275,075</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 7. Available-for-sale (“AFS”) securities

	Group and Bank	
	2011 RM'000	2010 RM'000
<b>At fair value:</b>		
<b>Money market instruments:</b>		
Malaysian Government treasury bill	-	132,809
Malaysian Government Securities	274,438	540,803
Bank Negara Malaysia Bills	1,939,484	1,392,716
Cagamas bonds	418,087	1,186,681
	<b>2,632,009</b>	<b>3,253,009</b>
<b>Private debt securities of companies incorporated:</b>		
In Malaysia:		
Corporate bonds	170,556	244,706
	<b>170,556</b>	<b>244,706</b>
<b>Quoted securities:</b>		
Shares of corporations outside Malaysia	7,842	5,191
Shares of corporations in Malaysia	2,182	2,158
	<b>10,024</b>	<b>7,349</b>
<b>At cost:</b>		
<b>Unquoted securities:</b>		
Shares	12,272	12,272
Private debt securities	276	276
	<b>12,548</b>	<b>12,548</b>
<b>Total available-for-sale securities</b>	<b>2,825,137</b>	<b>3,517,612</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 8. Loans, advances and financing

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Overdrafts #	2,676,449	2,561,532	2,676,449	2,561,930
Term loans and revolving credits				
Housing loans	17,240,962	13,125,569	17,240,962	13,125,569
Syndicated term loans	848,493	596,834	848,493	596,834
Other term loans/financing*	18,693,916	12,217,627	18,877,767	12,397,444
Credit cards receivable	1,656,020	1,322,621	1,656,020	1,322,621
Bills receivable	196,464	179,505	196,464	179,505
Trust receipts	1,421,533	852,649	1,421,533	852,649
Claims on customers under acceptance credits	4,927,815	4,331,757	4,927,815	4,331,757
Staff loans - Others	73,036	79,287	73,036	79,287
Others	9,717	6,849	9,717	6,849
	47,744,405	35,274,230	47,928,256	35,454,445
Unearned interest	(62,745)	(52,580)	(62,745)	(52,580)
Gross loans, advances and financing	47,681,660	35,221,650	47,865,511	35,401,865
Allowance for losses on loans and financing				
- Individual impairment	(249,315)	(278,563)	(249,315)	(278,563)
- Collective impairment	(721,569)	(555,269)	(721,569)	(555,269)
Net loans, advances and financing	46,710,776	34,387,818	46,894,627	34,568,033
<p># Included in overdraft is an amount due from a subsidiary, UOB Properties (KL) Bhd of RM nil (2010: RM398,000).</p> <p>* Other term loans/financing includes a loan to subsidiaries, UOB Properties Bhd and UOB Properties (KL) Bhd of RM175,796,000 (2010: RM175,792,000) and RM8,055,000 (2010: RM4,025,000) respectively.</p>				
<b>(i) By maturity structure:</b>				
Maturing within one year	13,751,193	11,705,461	13,751,193	11,705,859
One year to three years	1,263,462	1,502,550	1,263,462	1,502,550
Three years to five years	2,886,776	1,368,609	2,886,776	1,368,609
Over five years	29,780,229	20,645,030	29,964,080	20,824,847
	47,681,660	35,221,650	47,865,511	35,401,865
<b>(ii) By type of customer:</b>				
Domestic non-bank financial institutions				
- Stockbroking companies	8	-	8	-
- Others	256,531	116,628	256,531	116,628
Domestic business enterprises				
- Small medium enterprises	11,527,835	8,387,058	11,527,835	8,387,058
- Others	10,150,067	7,937,850	10,333,918	8,118,065
Individuals	21,813,502	16,007,497	21,813,502	16,007,497
Other domestic entities	116	144	116	144
Foreign entities	3,933,601	2,772,473	3,933,601	2,772,473
	47,681,660	35,221,650	47,865,511	35,401,865

# Notes to the Financial Statements

for the year ended 31 December 2011

## 8. Loans, advances and financing (continued)

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>(iii) By interest/profit rate sensitivity:</b>				
Fixed rate				
Housing loans/financing	58,053	64,904	58,053	64,904
Other fixed rate loan/financing	2,950,070	2,091,146	2,950,070	2,091,146
Variable rate				
BLR plus	42,883,908	31,670,282	42,883,908	31,670,680
Cost-plus	1,122,256	1,060,671	1,306,107	1,240,488
Other variable rates	667,373	334,647	667,373	334,647
	<b>47,681,660</b>	<b>35,221,650</b>	<b>47,865,511</b>	<b>35,401,865</b>
<b>(iv) By sector:</b>				
Agriculture, hunting, forestry and fishing	540,462	266,054	540,462	266,054
Mining and quarrying	82,556	71,633	82,556	71,633
Manufacturing	6,200,739	5,013,507	6,200,739	5,013,507
Electricity, gas and water	43,854	49,116	43,854	49,116
Construction	3,519,461	1,936,901	3,519,461	1,936,901
Wholesale & retail trade and restaurants & hotels	6,621,331	5,069,577	6,621,331	5,069,577
Transport, storage and communication	518,524	354,489	518,524	354,489
Finance, insurance and business services	2,253,738	2,056,005	2,253,738	2,056,005
Real estate	2,305,881	1,560,215	2,489,732	1,740,430
Community, social and personal services	212,430	94,877	212,430	94,877
Households of which:				
- purchase of residential properties	18,053,741	13,765,796	18,053,741	13,765,796
- purchase of non residential properties	3,379,329	1,855,713	3,379,329	1,855,713
- others	3,914,131	3,123,617	3,914,131	3,123,617
Others	35,483	4,150	35,483	4,150
	<b>47,681,660</b>	<b>35,221,650</b>	<b>47,865,511</b>	<b>35,401,865</b>
<b>(v) Movements in impaired loans, advances and financing are as follows:</b>				
At beginning of the year	869,568	1,020,358	869,568	1,020,358
Classified as impaired during the year	518,035	508,876	518,035	508,876
Amount recovered	(289,956)	(319,980)	(289,956)	(319,980)
Reclassified as non-impaired	(157,787)	(217,200)	(157,787)	(217,200)
Amount written off	(106,464)	(122,486)	(106,464)	(122,486)
At end of the year	833,396	869,568	833,396	869,568
Individual impairment	(249,315)	(278,563)	(249,315)	(278,563)
Net impaired loans, advances and financing	<b>584,081</b>	<b>591,005</b>	<b>584,081</b>	<b>591,005</b>
Ratio of net impaired loans, advances and financing to net loans, advances and financing	<b>1.3%</b>	<b>1.7%</b>	<b>1.2%</b>	<b>1.7%</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 8. Loans, advances and financing (continued)

	Group and Bank	
	2011 RM'000	2010 RM'000
<b>(vi) Movements in allowance for losses on loans, advances and financing are as follows:</b>		
<b>Collective Impairment</b>		
Balance as at 1 January	555,269	434,669
Allowance made during the year	166,300	120,600
Balance as at 31 December	721,569	555,269
As % of gross loans, advances and financing (excluding loan to Government) less individual impairment	1.5%	1.6%
<b>Individual Impairment</b>		
Balance as at 1 January		
As previously reported	278,563	283,602
Effect from adopting FRS139	-	(31,121)
As restated	278,563	252,481
Allowance made during the year	210,473	292,726
Amount written back in respect of recoveries	(116,985)	(119,521)
Amount written off	(116,149)	(122,568)
Interest recognition on impaired loans	(6,587)	(24,555)
Balance as at 31 December	249,315	278,563
<b>(vii) Impaired loans according to economic sectors are as follows:</b>		
Agriculture, hunting, forestry and fishing	634	1,866
Manufacturing	257,876	308,353
Construction	106,778	42,198
Wholesale & retail trade and restaurants & hotels	122,472	127,356
Transport, storage and communication	5,071	2,916
Finance, insurance and business services	19,357	20,306
Real estate	10,528	14,310
Community, social and personal services	895	2,482
Households of which:		
- purchase of residential properties	239,435	276,543
- purchase of non residential properties	14,952	14,587
- others	55,398	58,651
	833,396	869,568

## 9. Other assets

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Other receivables, deposits and prepayments	186,058	139,431	189,690	143,093
Accrued interest receivable	45,528	39,237	45,528	39,237
Amount due from subsidiaries	-	-	385	646
Precious metal accounts (Note (a))	242,810	33,484	242,810	33,484
	474,396	212,152	478,413	216,460

# Notes to the Financial Statements

for the year ended 31 December 2011

## 9. Other assets (continued)

- (a) Precious metal accounts relate to precious metals on-loan to customers of the Bank and purchased from the ultimate holding company. Precious metals on-loan to customers of the Bank 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 RM73,790,000 (2010: RM90,663,000) net of cash collateral received from the customers of RM59,257,000 (2010: RM72,407,000). The amount due to ultimate holding company for precious metals borrowed is classified as other accruals and provisions in other liabilities (Note 20). Precious metals purchased from the ultimate holding company is RM228,278,000 (2010: RM15,228,000).

The gross amounts loaned to customers, the amount due to the ultimate holding company and precious metals purchased from 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.

## 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	
	2011 RM'000	2010 RM'000
Unquoted shares in Malaysia, at cost	50	50

The Bank disposed UOB Properties (KL) Bhd in the previous financial year to its subsidiary UOB Properties 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		Principal activities
		2011 %	2010 %	
UOB Smart Solutions Sdn Bhd	10,000	100	100	Outsourcing services
UOB Properties (KL) 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	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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 12. Investment in associates

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares, at cost	122,733	122,733	122,733	122,733
Share of post-acquisition reserves	83,610	66,501	-	-
	206,343	189,234	122,733	122,733

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

	Group's effective interest		Principal activities
	2011 %	2010 %	
OSK-UOB Investment Management Berhad (formerly known as 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:

	2011 RM'000	2010 RM'000
<b>Assets and liabilities</b>		
Current assets	1,421,918	586,115
Non-current assets	1,989,677	2,007,339
Total assets	3,411,595	2,593,454
Current liabilities	1,330,297	682,546
Non-current liabilities	1,579,733	1,459,289
Total liabilities	2,910,030	2,141,835
<b>Results</b>		
Revenue	982,462	951,822
Profit before taxation	79,483	82,208
Profit for the year	50,921	65,580

The amount of goodwill included within the Group's carrying amount of investment in associates is RM19,755,000 (2010: RM19,755,000).

## 13. Investment properties

	Group	
	2011 RM'000	2010 RM'000
At 1 January	8,460	8,640
Depreciation charge	(180)	(180)
At 31 December	8,280	8,460



# Notes to the Financial Statements

for the year ended 31 December 2011

## 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
<b>At 31 December 2011</b>							
<b>Cost or valuation</b>							
At 1 January 2011							
At cost	-	-	138,842	233,181	6,806	19,219	398,048
At valuation	31,253	100,802	-	-	-	-	132,055
	31,253	100,802	138,842	233,181	6,806	19,219	530,103
Additions	1,500	-	12,367	24,605	814	17,868	57,154
Transfer	5,330	1,920	-	-	-	(7,250)	-
Disposals	(611)	(905)	(2,669)	(4,962)	(887)	-	(10,034)
At 31 December 2011	37,472	101,817	148,540	252,824	6,733	29,837	577,223
Representing:							
At cost	-	-	148,540	252,824	6,733	29,837	437,934
At valuation	37,472	101,817	-	-	-	-	139,289
At 31 December 2011	37,472	101,817	148,540	252,824	6,733	29,837	577,223
<b>Accumulated depreciation and impairment</b>							
At 1 January 2011							
Depreciation charge	-	4,264	9,087	17,064	1,150	-	31,565
Disposals	(161)	(589)	(1,940)	(4,790)	(887)	-	(8,367)
Impairment writeback	(662)	(1,761)	-	-	-	-	(2,423)
At 31 December 2011	-	17,941	105,016	198,142	3,539	-	324,638
<b>Net carrying amount</b>							
At cost							
At valuation	37,472	83,876	-	-	-	-	121,348
At 31 December 2011	37,472	83,876	43,524	54,682	3,194	29,837	252,585

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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
<b>At 31 December 2010</b>							
<b>Cost or valuation</b>							
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
<b>Accumulated depreciation and impairment</b>							
At 1 January 2010							
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
<b>Net carrying amount</b>							
At cost							
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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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
<b>At 31 December 2011</b>							
<b>Cost</b>							
At 1 January 2011							
At cost	-	-	137,881	233,424	6,806	14,873	392,984
Additions	-	-	12,323	24,605	814	10,373	48,115
Transfer	-	-	-	-	-	(7,250)	(7,250)
Disposals	-	-	(2,669)	(4,962)	(887)	-	(8,518)
At 31 December 2011	-	-	147,535	253,067	6,733	17,996	425,331
<b>Accumulated depreciation and impairment</b>							
At 1 January 2011	-	-	97,512	185,924	3,276	-	286,712
Depreciation charge	-	-	9,021	17,052	1,150	-	27,223
Disposals	-	-	(1,940)	(4,790)	(887)	-	(7,617)
At 31 December 2011	-	-	104,593	198,186	3,539	-	306,318
<b>Net carrying amount</b>							
At 31 December 2011	-	-	42,942	54,881	3,194	17,996	119,013
<b>At 31 December 2010</b>							
<b>Cost</b>							
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
<b>Accumulated depreciation and impairment</b>							
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
<b>Net carrying amount</b>							
At 31 December 2010	-	-	40,369	47,500	3,530	14,873	106,272

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	
	2011 RM'000	2010 RM'000
Freehold land	18,699	12,131
Freehold building	12,051	10,635
Long leasehold building	28,135	29,121
	58,885	51,887

# Notes to the Financial Statements

for the year ended 31 December 2011

## 15. Prepaid land lease payments

	Group	
	2011 RM'000	2010 RM'000
<b>Long term leasehold land</b>		
At 1 January	40,270	40,930
Amortisation for the year	(660)	(660)
Impairment writeback	64	-
At 31 December	39,674	40,270

## 16. Deferred tax assets

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January				
As previously reported	148,576	135,666	148,602	135,677
Effect from adopting FRS139	-	5,279	-	5,279
As restated	148,576	140,945	148,602	140,956
Recognised in the income statement (Note 32)	140,214	3,672	140,248	3,687
Recognised in equity	1,805	3,959	1,805	3,959
At 31 December	290,595	148,576	290,655	148,602
An analysis of the Group's and the Bank's deferred tax position is as follows:				
- Deferred tax assets	308,146	164,944	308,146	164,944
- Deferred tax liabilities	(17,551)	(16,368)	(17,491)	(16,342)
	290,595	148,576	290,655	148,602

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 2010	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
Charged to income statement	41,575	101,627	143,202
At 31 December 2011	180,392	127,754	308,146
<b>Bank</b>			
At 1 January 2010	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
Charged to income statement	41,575	101,627	143,202
At 31 December 2011	180,392	127,754	308,146

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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 2010	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
Charged to income statement	2,988	-	-	2,988
Recognised in equity	-	(1,805)	-	(1,805)
At 31 December 2011	17,448	103	-	17,551
<b>Bank</b>				
At 1 January 2010	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
Charged to income statement	2,954	-	-	2,954
Recognised in equity	-	(1,805)	-	(1,805)
At 31 December 2011	17,388	103	-	17,491

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

	Group	
	2011 RM'000	2010 RM'000
Unutilised tax losses	40,656	57,767
Unabsorbed capital allowances	11,069	11,069
	51,725	68,836

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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 17. Deposits from customers

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Demand deposits #	8,232,769	6,554,962	8,243,714	6,568,414
Savings deposits	2,739,425	2,714,454	2,739,425	2,714,454
Fixed deposits #	24,516,626	17,762,547	24,517,664	17,763,560
Negotiable instruments of deposits	1,937,141	229,620	1,937,141	229,620
Others	15,217,121	11,703,253	15,217,121	11,703,253
	<b>52,643,082</b>	<b>38,964,836</b>	<b>52,655,065</b>	<b>38,979,301</b>

# Included in demand deposits and fixed deposits are amounts due to subsidiaries of RM10,945,000 (2010: RM13,452,000) and RM1,038,000 (2010: RM1,013,000), respectively.

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

Due within six months	19,708,555	14,809,586	19,709,593	14,810,599
Six months to one year	6,605,688	2,969,999	6,605,688	2,969,999
One year to three years	119,767	185,908	119,767	185,908
Three years to five years	19,757	26,674	19,757	26,674
	<b>26,453,767</b>	<b>17,992,167</b>	<b>26,454,805</b>	<b>17,993,180</b>

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

Business enterprises				
- Subsidiaries	-	-	11,983	14,465
- Others	24,110,906	18,565,252	24,110,906	18,565,252
Individuals	21,367,320	16,820,827	21,367,320	16,820,827
Others	7,164,856	3,578,757	7,164,856	3,578,757
	<b>52,643,082</b>	<b>38,964,836</b>	<b>52,655,065</b>	<b>38,979,301</b>

## 18. Deposits and placements of banks and other financial institutions

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Licensed banks in Malaysia	99,655	1,280,144	99,655	1,280,144
Licensed investment banks in Malaysia	-	30,000	-	30,000
Bank Negara Malaysia	1,460,545	2,303,013	1,460,545	2,303,013
Other financial institutions outside Malaysia	4,968,573	289,897	4,969,000	290,323
	<b>6,528,773</b>	<b>3,903,054</b>	<b>6,529,200</b>	<b>3,903,480</b>

## 19. Amount due to Cagamas

	Group and Bank	
	2011 RM'000	2010 RM'000
At 1 January	33,344	109,688
Repayments	(33,344)	(76,344)
At 31 December	-	33,344

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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 20. Other liabilities

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Provision for commitments and contingencies (Note (i))	5,250	5,570	5,250	5,570
Accrued interest payable	244,809	158,216	243,909	157,315
Accruals and provisions for operational expenses	109,771	99,953	109,771	99,953
Other accruals and provisions (Note (ii))	789,048	264,495	788,154	264,525
	<b>1,148,878</b>	528,234	<b>1,147,084</b>	527,363

(i) Movements in provision for commitments and contingencies are as follows:

At 1 January				
As previously reported	5,570	5,671	5,570	5,671
Adjustment due to FRS139	-	6,447	-	6,447
As restated	5,570	12,118	5,570	12,118
Provision made during the year	478	15,352	478	15,352
Amount written back in respect of recoveries	(798)	(21,900)	(798)	(21,900)
At 31 December	<b>5,250</b>	5,570	<b>5,250</b>	5,570

(ii) Included in other accruals and provisions is an amount due to the ultimate holding company of RM73,790,000 (2010: RM90,663,000) in relation to precious metals on loan to customers of the Bank as disclosed in Note 9 and RM229,152,000 (2010: RM14,724,000) for precious metals purchased from the ultimate holding company.

## 21. Subordinated bonds

	Group and Bank	
	2011 RM'000	2010 RM'000
RM500 million Subordinated Bonds 2010 / 2020, at par	500,000	500,000
Unamortised expenses relating to issue of Subordinated Bonds	(1,098)	(1,372)
	<b>498,902</b>	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 March 2015 and thereafter, at the rate of 5.88% per annum from 30 March 2015 to the date of early redemption in full of such Bonds or maturity date of the Bonds (whichever is earlier).

The Bonds may be redeemed at par at the option of the bank, in whole but not in part, on 30 March 2015 or at any interest payment date thereafter.

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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 22. Share capital

	Group and Bank	
	2011 RM'000	2010 RM'000
<b>Authorised:</b>		
2,000,000,000 ordinary shares of RM1 each	2,000,000	2,000,000
<b>Issued and fully paid-up:</b>		
470,000,000 ordinary shares of RM1 each	470,000	470,000

## 23. Reserves

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Non-distributable</b>					
Share premium		322,555	322,555	322,555	322,555
Statutory reserve	(a)	470,000	470,000	470,000	470,000
Revaluation reserves		73,006	72,797	-	-
Net unrealised reserves on AFS securities		308	5,725	308	5,725
		<b>865,869</b>	871,077	<b>792,863</b>	798,280
<b>Distributable</b>					
Retained profit	(b)	3,326,263	2,754,586	3,311,519	2,762,763
<b>Total reserves</b>		<b>4,192,132</b>	3,625,663	<b>4,104,382</b>	3,561,043

- (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 Section 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 2011 and 2010, 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 FRS 139 Financial Instruments: Recognition and Measurement is as presented in the Statements of Changes in Equity.



# Notes to the Financial Statements

for the year ended 31 December 2011

## 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
<b>2011</b>			
Foreign exchange contracts			
- forwards	2,539,564	31,286	49,807
- swaps	5,112,429	44,159	31,242
Interest rate related contracts			
- forwards	30,000	116	-
- swaps	23,086,189	177,349	264,569
Options	1,161,020	3,950	2,330
		256,860	347,948
<b>2010</b>			
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

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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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

	2011			Total RM'000
	Group and Bank			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>Assets</b>				
Financial assets at fair value through profit and loss	1,951,633	522,874	-	2,474,507
Available-for-sale securities	2,642,033	183,104	-	2,825,137
Derivative financial assets	-	256,860	-	256,860
Total financial assets	4,593,666	962,838	-	5,556,504
Total financial assets carried at fair value				5,556,504
<b>Liabilities</b>				
Derivative financial liabilities	-	347,948	-	347,948
Total financial liabilities	-	347,948	-	347,948
Total financial liabilities carried at fair value				347,948
<b>2010</b>				
Group and Bank				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>Assets</b>				
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	5,115,353	921,582	-	6,036,935
Total financial assets carried at fair value				6,036,935
<b>Liabilities</b>				
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 unquoted 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 reporting date.

# Notes to the Financial Statements

for the year ended 31 December 2011

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

### (a) Determination of fair value and fair value hierarchy (continued)

- (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 2011 were investment equity securities of RM12,548,000 (2010: 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.

### (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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans and advances				
- Interest income other than recoveries from impaired loans	2,033,286	1,500,667	2,039,915	1,506,013
- Recoveries from impaired loans	65,320	76,858	65,320	76,858
Money at call and deposit placements with financial institutions	287,271	172,530	287,271	172,530
Financial assets at fair value through profit and loss	38,913	51,982	38,913	51,982
Available-for-sale securities	128,419	146,400	128,419	146,400
Others	1,053	1,478	1,053	1,478
	2,554,262	1,949,915	2,560,891	1,955,261
Amortisation of premium less accretion of discount on:				
Financial assets at fair value through profit and loss	(572)	(956)	(572)	(956)
Available-for-sale securities	(6,998)	(14,021)	(6,998)	(14,021)
	2,546,692	1,934,938	2,553,321	1,940,284

# Notes to the Financial Statements

for the year ended 31 December 2011

## 27. Interest expense

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits and placements of banks and other financial institutions	108,238	92,441	108,263	92,454
Deposits from customers	1,082,367	677,201	1,082,367	677,201
Loans sold to Cagamas	1,429	4,701	1,429	4,701
Subordinated Bonds	24,673	18,748	24,673	18,748
Others	13,839	2,816	13,839	2,816
	<b>1,230,546</b>	<b>795,907</b>	<b>1,230,571</b>	<b>795,920</b>

## 28. Other operating income

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Fee income				
- Commission	145,450	97,525	145,450	97,525
- Guarantee fees	44,878	33,625	44,878	33,625
- Service charges and fees	162,830	143,170	163,067	143,170
- Commitment fee	21,694	20,206	21,701	20,211
- Arrangement and participation fees	7,836	23,418	7,836	23,418
	<b>382,688</b>	<b>317,944</b>	<b>382,932</b>	<b>317,949</b>
Investment income/(loss)				
- Loss from sale of financial assets at fair value through profit and loss	(63,079)	(54,880)	(63,079)	(54,880)
- Gain from sale of precious metals	5,222	280	5,222	280
- Gain from sale/recovery of available-for-sale securities	27,602	23,234	27,602	23,234
- Unrealised (loss)/gain on financial assets at fair value through profit and loss	(881)	11,241	(881)	11,241
- Gross dividends from:				
- available-for-sale securities quoted in Malaysia	594	726	594	726
- associate	-	-	7,333	-
	<b>(30,542)</b>	<b>(19,399)</b>	<b>(23,209)</b>	<b>(19,399)</b>
Other income				
- Foreign exchange gain/(loss)				
- realised	224,080	100,265	224,080	100,265
- unrealised	(42,474)	29,890	(42,474)	29,890
- Rental income from operating leases, other than those from investment properties	184	166	70	55
- Rental income from investment properties	658	710	-	-
- (Loss)/gain on disposal of property plant and equipment	(153)	1,062	(483)	1,062
- Gain on disposal of foreclosed properties	-	2,266	-	2,266
- Write back of property impairment				
- Freehold land and buildings	2,423	-	-	-
- Long term leasehold land	64	-	-	-
- Other operating income	4,546	4,262	4,546	4,262
- Others	16,649	13,707	16,633	13,706
	<b>205,977</b>	<b>152,328</b>	<b>202,372</b>	<b>151,506</b>
	<b>558,123</b>	<b>450,873</b>	<b>562,095</b>	<b>450,056</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 29. Other operating expenses

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Personnel expenses	<b>408,634</b>	331,396	<b>401,692</b>	327,837
Establishment related expenses	<b>118,003</b>	115,237	<b>128,904</b>	127,049
Promotion and marketing related expenses	<b>37,732</b>	27,132	<b>43,829</b>	29,403
General administrative expenses	<b>130,917</b>	117,073	<b>130,016</b>	116,500
	<b>695,286</b>	590,838	<b>704,441</b>	600,789
Personnel expenses				
- Wages, salaries and bonus	<b>314,307</b>	253,167	<b>308,395</b>	250,084
- Defined contribution retirement plan	<b>49,109</b>	40,485	<b>48,308</b>	40,057
- Other employee benefits	<b>45,218</b>	37,744	<b>44,989</b>	37,696
	<b>408,634</b>	331,396	<b>401,692</b>	327,837
Establishment related expenses				
- Depreciation of property, plant and equipment	<b>31,580</b>	38,126	<b>27,223</b>	33,574
- Depreciation of investment properties	<b>180</b>	180	-	-
- Amortisation of prepaid land lease payments	<b>660</b>	660	-	-
- Hire of equipment	<b>56</b>	93	<b>56</b>	93
- Information technology costs	<b>13,226</b>	11,514	<b>13,226</b>	11,514
- Repair and maintenance	<b>20,113</b>	16,080	<b>19,187</b>	15,669
- Rental of premises	<b>11,172</b>	10,131	<b>25,511</b>	24,897
- Others	<b>41,016</b>	38,453	<b>43,701</b>	41,302
	<b>118,003</b>	115,237	<b>128,904</b>	127,049
Promotion and marketing related expenses				
- Advertising and publicity	<b>20,126</b>	14,721	<b>20,069</b>	14,706
- Others	<b>17,606</b>	12,411	<b>23,760</b>	14,697
	<b>37,732</b>	27,132	<b>43,829</b>	29,403
General administrative expenses				
- Fees and commissions paid	<b>79,649</b>	68,885	<b>79,034</b>	68,549
- Auditors' remuneration				
- Statutory Audit	<b>465</b>	463	<b>424</b>	424
- Other services	<b>141</b>	51	<b>135</b>	45
	<b>606</b>	514	<b>559</b>	469
- Others	<b>50,662</b>	47,674	<b>50,423</b>	47,482
	<b>130,917</b>	117,073	<b>130,016</b>	116,500
<b>The above expenditure includes the following:</b>				
CEO and directors' remuneration (Note 30)	<b>1,909</b>	1,835	<b>1,909</b>	1,835

# Notes to the Financial Statements

for the year ended 31 December 2011

## 30. CEO and directors' remuneration

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

	Group and Bank	
	2011 RM'000	2010 RM'000
CEO		
- Salary and other remuneration	867	801
- Fees	40	40
- Bonus	630	530
- Benefits-in-kind	4	4
Non-executive Directors		
- Fees	368	460
<b>Total</b>	<b>1,909</b>	<b>1,835</b>

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:

	Number of Directors	
	2011	2010
Executive director:		
RM1,000,000 to RM1,500,000	1	1
Non-executive directors:		
RM1 to RM50,000	1	3
RM50,001 to RM100,000	4	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
<b>2011</b>					
<b>Executive Director:</b>					
Chan Kok Seong	867	40	630	4	1,541
<b>Non-Executive Directors:</b>					
Wee Cho Yaw	-	70	-	-	70
Datuk Abu Huraira Bin Abu Yazid	-	68	-	-	68
Abdul Latif Bin Yahaya	-	63	-	-	63
Lee Chin Yong Francis	-	60	-	-	60
Wee Ee Cheong	-	50	-	-	50
Ng Kee Wei (retired on 8 April 2011)	-	30	-	-	30
Lim Kean Chye (retired on 8 April 2011)	-	27	-	-	27
	<b>867</b>	<b>408</b>	<b>630</b>	<b>4</b>	<b>1,909</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 30. CEO and directors' remuneration (continued)

	Remuneration received from the Bank				Total RM'000
	Salary RM'000	Fees RM'000	Bonus RM'000	Benefits- in-kind RM'000	
<b>2010</b>					
<b>Executive Director:</b>					
Chan Kok Seong	801	40	530	4	1,375
<b>Non-Executive Directors:</b>					
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		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Allowance for impaired loans, advances and financing:				
(a) Individual Impairment				
- made in the financial year	<b>210,474</b>	292,726	<b>210,474</b>	292,726
- written back in the financial year	<b>(116,985)</b>	(119,521)	<b>(116,985)</b>	(119,521)
(b) Collective Impairment				
- made in the financial year	<b>166,300</b>	120,600	<b>166,300</b>	120,600
Impaired loans, advances and financing:				
- written (back)/off	<b>(8,027)</b>	895	<b>(8,027)</b>	895
- recovered	<b>(78,361)</b>	(89,225)	<b>(78,360)</b>	(89,215)
	<b>173,401</b>	205,475	<b>173,402</b>	205,485

# Notes to the Financial Statements

for the year ended 31 December 2011

## 32. Income tax expense

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Income tax:				
Malaysian income tax in respect of current financial year	393,354	229,213	395,106	229,179
Over provision in prior years	(756)	(14,663)	(742)	(14,657)
	<b>392,598</b>	214,550	<b>394,364</b>	214,522
Deferred tax (Note 16):				
Relating to origination and reversal of temporary differences	(138,239)	(25,004)	(138,258)	(25,010)
(Over)/under provision in prior years	(1,975)	21,332	(1,990)	21,323
	<b>(140,214)</b>	(3,672)	<b>(140,248)</b>	(3,687)
	<b>252,384</b>	210,878	<b>254,116</b>	210,835

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 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		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit before taxation	1,028,511	829,955	1,007,322	794,694
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	257,128	207,489	251,831	198,673
Income not subject to tax	(146)	(734)	(139)	(734)
Expenses not deductible for tax purposes	3,785	6,241	5,156	6,230
Effects of share of associates' post-tax profit included in Group's profit before taxation	(5,652)	(8,787)	-	-
Over provision of tax expense in prior years	(756)	(14,663)	(742)	(14,657)
(Over)/under provision of deferred tax in prior years	(1,975)	21,332	(1,990)	21,323
Tax expense for the year	<b>252,384</b>	210,878	<b>254,116</b>	210,835

## 33. Earnings per share

The earnings per ordinary share of the Group has been calculated based on the net profit after taxation of RM776,127,000 (2010: RM619,077,000) and on the number of ordinary shares of RM1 each in issue during the year of 470,000,000 (2010: 470,000,000).



# Notes to the Financial Statements

for the year ended 31 December 2011

## 34. Dividends

	Group and Bank			
	2011		2010	
	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	56.3	264,375	43.5	204,450

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2011, of 75% less 25% taxation on 470,000,000 ordinary shares of RM1 each, amounting to dividend payable of RM264,375,000 (56.3 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 2012.

## 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
<b>2011</b>					
Income					
- Interest on placements, loans and advances	1,866	6,611	1,617	143	-
- Commission income	81	23	-	-	-
- Dividend income	-	-	7,333	-	-
- Service charges income	758	240	-	-	-
	2,705	6,874	8,950	143	-

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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
<b>2011 (continued)</b>					
Expenditure					
- Interest on deposits	67,111	25	669	489	1,464
- Rental expense	-	14,995	-	-	560
- Other expenses	1,805	4,233	-	-	-
	<b>68,916</b>	<b>19,253</b>	<b>669</b>	<b>489</b>	<b>2,024</b>
Amount due from					
- Cash and short-term funds	79,958	-	-	-	5,070
- Loans, advances and financing	-	183,851	25,797	4,225	-
- Other assets	228,278	385	-	-	-
	<b>308,236</b>	<b>184,236</b>	<b>25,797</b>	<b>4,225</b>	<b>5,070</b>
Amount due to					
- Deposits from customers	-	11,983	-	27,449	-
- Deposits and placements of banks and other financial institutions	4,879,813	427	25,186	-	57,595
- Other liabilities	109,982	-	-	-	-
	<b>4,989,795</b>	<b>12,410</b>	<b>25,186</b>	<b>27,449</b>	<b>57,595</b>
<b>2010</b>					
Income					
- Interest on placements, loans and advances	15,699	5,339	1,213	153	-
- Commission income	54	11	-	-	-
- Service charges income	830	-	-	-	-
	<b>16,583</b>	<b>5,350</b>	<b>1,213</b>	<b>153</b>	<b>-</b>
Expenditure					
- Interest on deposits	55,633	13	550	365	436
- Rental expense	-	14,987	-	-	560
- Other expenses	2,300	4,004	-	-	-
	<b>57,933</b>	<b>19,004</b>	<b>550</b>	<b>365</b>	<b>996</b>
Amount due from					
- Cash and short-term funds	332,354	-	-	-	42
- Loans, advances and financing	-	180,215	25,933	6,626	-
- Other assets	15,228	646	-	-	-
	<b>347,582</b>	<b>180,861</b>	<b>25,933</b>	<b>6,626</b>	<b>42</b>
Amount due to					
- Deposits from customers	-	14,465	610	26,614	27,654
- Deposits and placements of banks and other financial institutions	223,620	427	32,164	-	18
- Other liabilities	112,921	-	-	-	-
	<b>336,541</b>	<b>14,892</b>	<b>32,774</b>	<b>26,614</b>	<b>27,672</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 35. Significant related party transactions and balances (continued)

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

	Group and Bank	
	2011 RM'000	2010 RM'000
Short-term employee benefits	17,148	14,411
Post employment benefits:		
Defined contribution retirement plan	2,548	2,075
Share based payment*	8,031	3,509
	<b>27,727</b>	<b>19,995</b>

\* In the prior financial years, 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 2011 the number of options held by key management personnel under these two plans were 70,600 (2010: 66,650) and 276,600 (2010: 148,500), 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.

2011	Principal amount RM'000	Group and Bank	
		Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,512,859	1,512,859	963,105
Transaction-related contingent items	2,022,840	1,011,592	581,449
Short-term self-liquidating trade-related contingencies	299,645	59,929	33,079
Foreign exchange related contracts			
- less than one year	6,851,811	164,834	61,300
Interest rate related contracts			
- less than one year	10,024,443	65,672	15,233
- more than one year to less than five years	11,074,119	345,269	178,851
- five years and above	1,962,794	167,309	127,669
Equity related contracts			
- less than one year	16,135	3,142	1,077
- more than one year to less than five years	146,920	2,333	803
Others	13,450,133	1,222,937	201,981
<b>Total</b>	<b>47,361,699</b>	<b>4,555,876</b>	<b>2,164,547</b>
<b>2010</b>			
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
<b>Total</b>	<b>47,791,176</b>	<b>4,404,543</b>	<b>2,093,536</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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 had implemented the Basel II Internal Ratings-Based Approach for weighted assets computation effective from June 2010.

## 37. Capital commitments

	Group and Bank	
	2011 RM'000	2010 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	26,091	54,294
- authorised but not contracted for	-	21,012
	26,091	75,306

## 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Future minimum rentals payments:				
Not later than 1 year	7,684	7,463	7,440	7,397
Later than 1 year and not later than 5 years	6,874	5,095	6,716	5,082
	14,558	12,558	14,156	12,479

## 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 fulfil 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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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	2011 RM'000	2010 RM'000
Cash and short-term funds	13,863,225	9,270,889
Securities purchased under resale agreements	-	149,973
Deposits and placements with financial institutions	11,686	10,889
Financial assets at fair value through profit and loss	2,474,507	2,275,075
Available-for-sale ("AFS") securities	2,825,137	3,517,612
Loans, advances and financing	46,710,776	34,387,818
Derivative financial assets	256,860	244,248
Others	288,341	73,367
	<b>66,430,532</b>	49,929,871
Other assets not subject to credit risk	2,346,533	774,365
	<b>68,777,065</b>	50,704,236
Contingent assets	33,911,566	36,265,818
Commitments	13,450,133	11,525,358
	<b>116,138,764</b>	98,495,412
<b>Bank</b>		
Cash and short-term funds	13,863,225	9,270,889
Securities purchased under resale agreements	-	149,973
Deposits and placements with financial institutions	11,686	10,889
Financial assets at fair value through profit and loss	2,474,507	2,275,075
Available-for-sale ("AFS") securities	2,825,137	3,517,612
Loans, advances and financing	46,894,627	34,568,033
Derivative financial assets	256,860	244,248
Others	288,725	73,367
	<b>66,614,767</b>	50,110,086
Other assets not subject to credit risk	2,085,139	543,550
	<b>68,699,906</b>	50,653,636
Contingent assets	33,911,566	36,265,818
Commitments	13,450,133	11,525,358
	<b>116,061,605</b>	98,444,812

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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 2011	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	Derivative financial assets and other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	540,462	(8,793)	-	531,669	291,468
Mining and quarrying	-	-	-	82,556	(1,254)	-	81,302	253,408
Manufacturing	-	-	-	6,200,739	(224,200)	-	5,976,539	5,153,644
Electricity, gas and water	-	-	-	43,854	(666)	-	43,188	104,771
Construction	-	-	39,020	3,519,461	(68,859)	3	3,489,625	3,716,348
Wholesale & retail trade and restaurants & hotels	-	-	-	6,621,331	(141,440)	-	6,479,891	4,081,391
Transport, storage, and communication	-	186,986	29,804	518,524	(9,500)	4,823	730,637	330,656
Finance, insurance and business services	13,874,911	2,129,151	2,653,115	2,253,738	(44,374)	539,115	21,405,656	29,178,109
Real estate	-	-	882	2,305,881	(39,183)	-	2,267,580	246,845
Community, social and personal services	-	-	-	212,430	(3,285)	-	209,145	69,283
Households	-	-	-	25,347,201	(428,790)	-	24,918,411	3,697,970
Others	-	158,370	102,316	35,484	(540)	1,260	296,889	237,806
	13,874,911	2,474,507	2,825,137	47,681,660	(970,884)	545,201	66,430,532	47,361,699
Other assets not subject to credit risk	-	-	-	-	-	2,346,533	2,346,533	-
	13,874,911	2,474,507	2,825,137	47,681,660	(970,884)	2,891,734	68,777,065	47,361,699
<b>Group 2010</b>								
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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (a) Credit risk (continued)

Bank 2011	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	Derivative financial assets and other assets RM'000	Total RM'000	Commitments and Contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	540,462	(8,793)	-	531,669	291,468
Mining and quarrying	-	-	-	82,556	(1,254)	-	81,302	253,408
Manufacturing	-	-	-	6,200,739	(224,200)	-	5,976,539	5,153,644
Electricity, gas and water	-	-	-	43,854	(666)	-	43,188	104,771
Construction	-	-	39,020	3,519,461	(68,859)	3	3,489,625	3,716,348
Wholesale & retail trade and restaurants & hotels	-	-	-	6,621,331	(141,440)	-	6,479,891	4,081,391
Transport, storage, and communication	-	186,986	29,804	518,524	(9,500)	4,823	730,637	330,656
Finance, insurance, and business services	13,874,911	2,129,151	2,653,115	2,253,738	(44,374)	539,499	21,406,040	29,178,109
Real estate	-	-	882	2,489,732	(39,183)	-	2,451,431	246,845
Community, social and personal services	-	-	-	212,430	(3,285)	-	209,145	69,283
Households	-	-	-	25,347,201	(428,790)	-	24,918,411	3,697,970
Others	-	158,370	102,316	35,483	(540)	1,260	296,889	237,806
	13,874,911	2,474,507	2,825,137	47,865,511	(970,884)	545,585	66,614,767	47,361,699
Other assets not subject to credit risk	-	-	-	-	-	2,085,139	2,085,139	-
	13,874,911	2,474,507	2,825,137	47,865,511	(970,884)	2,630,724	68,699,906	47,361,699
<b>Bank 2010</b>								
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

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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:

	2011	
	Group and Bank	
	RM'000	RM'000
Passed	46,658,161	46,842,012
Special mention	190,103	190,103
Substandard	593,833	593,833
Doubtful	25,503	25,503
Loss	214,060	214,060
	<b>47,681,660</b>	<b>47,865,511</b>

  

	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
	<b>35,221,650</b>	<b>35,401,865</b>

#### (iv) Ageing analysis of past due and impaired assets

	2011	
	Past due but not impaired	Impaired
Group and Bank	RM'000	RM'000
Current	-	52,994
Within 90 days	2,195,830	132,250
Over 90 to 180 days	-	112,421
Over 180 days	-	535,731
	<b>2,195,830</b>	<b>833,396</b>

  

	2010	
	Past due but not impaired	Impaired
Group and Bank	RM'000	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
	<b>1,549,148</b>	<b>869,568</b>

Included in the financial assets that are neither past due nor impaired as at 31 December 2011 were the renegotiated financial assets of RM 291,508,000 (2010: RM290,516,000).



# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (a) Credit risk (continued)

#### (v) Past due and impaired assets analysed by industry

Group and Bank	Past due but not impaired RM'000	2011	
		Impaired RM'000	Individual impairment RM'000
Agriculture, hunting, forestry and fishing	1,498	634	591
Manufacturing	285,087	257,876	132,854
Construction	228,631	106,778	15,783
Wholesale & retail trade and restaurants & hotels	376,467	122,472	41,669
Transport, storage and communication	12,983	5,071	1,670
Finance, insurance and business services	49,760	19,357	10,317
Real estate	60,517	10,528	1,394
Community, social and personal services	16,442	895	60
Households of which:			
- purchase of residential properties	926,286	239,435	26,700
- purchase of non residential properties	99,582	14,952	1,062
- others	138,577	55,398	17,215
	2,195,830	833,396	249,315

Group and Bank	Past due but not impaired RM'000	2010	
		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

#### (vi) Security coverage of impaired assets

Group and Bank	2011	2010
	RM'000	RM'000
Secured impaired assets	546,173	556,334
Unsecured impaired assets	287,223	313,234
	833,396	869,568
Estimated fair value of collateral for secured impaired assets		
Properties	545,054	555,411
Marketable securities, fixed deposits and others	119	923
	545,173	556,334

# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (a) Credit risk (continued)

#### (vii) Effects of holding collateral

The credit risk of financial assets of the Group and the Bank is mitigated by the collaterals held against the financial assets.

All impaired loan, advances and financing are subject to individual assessment impairment review as at the current and previous financial year end. The collateral mitigates credit risk and would reduce the extent of impairment allowance for the assets subject to impairment review.

For loan, advances and financing, individual assessment allowance as at the date of the statement of financial position would have been higher by approximately RM546,173,000 (2010: RM556,334,000) without the collateral held.

#### (viii) Repossessed collateral

These are assets obtained by taking possession of collateral held as security against loans, advances and financing.

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in Other assets on the Statements of Financial Position. The Group and the Bank do not occupy repossessed properties for its business use.

For the financial years ended 31 December 2011 and 2010, there are no repossessed collaterals.

### (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 RM2 million and RM3 million (2010: negative RM26 million and RM48 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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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 2011	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
<b>Assets</b>							
Cash and short-term funds	13,476,954	-	-	-	-	386,271	13,863,225
Deposits and placements with financial institutions	11,175	-	-	-	-	511	11,686
Financial assets at fair value through profit and loss	767,327	1,031,894	64,931	589,667	354,639	-	2,808,458
Available-for-sale securities	1,841,261	267,357	13,745	629,116	86,981	913,731	3,752,191
Loans, advances and financing	10,645,753	2,452,548	3,144,420	13,331,033	40,357,906	-	69,931,660
Derivative financial assets	-	-	-	-	-	256,860	256,860
Other assets	11,510	-	-	-	-	2,606,864	2,618,374
	26,753,980	3,751,799	3,223,096	14,549,816	40,799,526	4,164,237	93,242,454
<b>Liabilities</b>							
Deposits from customers	41,470,239	4,243,396	6,631,888	265,947	-	31,612	52,643,082
Deposits and placements of banks and other financial institutions	3,592,765	836,423	687,355	334,779	1,042,071	35,380	6,528,773
Bills and acceptances payables	2,538,445	43,726	-	-	-	261,616	2,843,787
Derivative financial liabilities	-	-	-	-	-	347,948	347,948
Other liabilities	-	-	-	-	-	1,252,440	1,252,440
Subordinated bonds	12,151	-	12,200	561,016	-	-	585,367
	47,613,600	5,123,545	7,331,443	1,161,742	1,042,071	1,928,996	64,201,397
Net maturity mismatches	(20,859,620)	(1,371,746)	(4,108,347)	13,388,074	39,757,455		

# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (iii) Liquidity risk (continued)

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
<b>Assets</b>							
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
<b>Liabilities</b>							
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		

# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (iii) Liquidity risk (continued)

Bank 2011	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
<b>Assets</b>							
Cash and short-term funds	13,476,954	-	-	-	-	386,271	13,863,225
Deposits and placements with financial institutions	11,175	-	-	-	-	511	11,686
Financial assets at fair value through profit and loss	767,327	1,031,894	64,931	589,667	354,639	-	2,808,458
Available-for-sale securities	1,841,261	267,357	13,745	629,116	86,981	913,731	3,752,191
Loans, advances and financing	10,829,605	2,452,548	3,144,420	13,331,033	40,357,906	-	70,115,512
Derivative financial assets	-	-	-	-	-	256,860	256,860
Other assets	11,510	-	-	-	-	2,345,845	2,357,355
	26,937,832	3,751,799	3,223,096	14,549,816	40,799,526	3,903,218	93,165,287
<b>Liabilities</b>							
Deposits from customers	41,482,222	4,243,396	6,631,888	265,947	-	31,612	52,655,065
Deposits and placements of banks and other financial institutions	3,593,192	836,423	687,355	334,779	1,042,071	35,380	6,529,200
Bills and acceptances payables	2,538,445	43,726	-	-	-	261,616	2,843,787
Derivative financial liabilities	-	-	-	-	-	347,948	347,948
Other liabilities	-	-	-	-	-	1,250,622	1,250,622
Subordinated bonds	12,151	-	12,200	561,016	-	-	585,367
	47,626,010	5,123,545	7,331,443	1,161,742	1,042,071	1,927,178	64,211,989
Net maturity mismatches	(20,688,178)	(1,371,746)	(4,108,347)	13,388,074	39,757,455		
<b>Bank 2010</b>							
<b>Assets</b>							
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
<b>Liabilities</b>							
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		

# Notes to the Financial Statements

for the year ended 31 December 2011

## 39. Financial risk management (continued)

### (iii) Liquidity risk (continued)

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 2011. 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.

Under the new FRS7 disclosure, the Group and the Bank's disclosure on exposure to liquidity risk was based on contractual undiscounted repayment obligation.

### (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'000	High RM'000	Low RM'000	Average RM'000
<b>2011</b>				
Interest rate	881	3,178	495	1,163
Foreign Exchange	427	3,645	118	671
Basis Swap Spread	999	2,675	429	810
Total Diversified VAR	1,511	3,929	570	1,358
<b>2010</b>				
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

## 40. Segment information

### Operating segment

The following segment information has been prepared in accordance with FRS8 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, Business and Private 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 insurance plans to the wealthy and affluent customers. 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.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 40. Segment information (continued)

### Institutional Financial Services (“IFS”)

IFS segment encompasses Commercial Banking, Corporate Banking, Financial Institutions Group (“FIG”), Corporate Finance and Debt Capital Markets. Commercial Banking serves the medium and large enterprises, while Corporate Banking serves large local corporations, government-linked companies and agencies, and FIG serves financial institutions. Commercial Banking, Corporate Banking and FIG 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.

### 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 Singapore dollar treasury instruments as well as a provider of banknote services in the region. It also engages in asset management, proprietary investment activities and management of excess liquidity and capital funds.

### Others

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

Group 2011	Retail RM'000	IFS RM'000	GMIM RM'000	Others RM'000	Elimination RM'000	Total RM'000
Operating income	987,699	601,519	140,348	175,878	(31,176)	1,874,269
Other operating expense	(481,416)	(118,758)	(37,259)	(83,923)	26,070	(695,286)
Allowance for impairment on Loans, advances and financing	(32,366)	24,422	-	(165,457)	-	(173,401)
Allowance made for Commitments and contingencies	50	270	-	-	-	320
Share of profit of associate (net of tax)	-	-	-	22,609	-	22,609
Profit before taxation	473,967	507,453	103,089	(50,893)	(5,106)	1,028,511
Gross loans	30,478,522	17,203,130	8	183,852	(183,852)	47,681,660
Deposits from customers	25,645,154	9,758,347	17,223,831	27,733	(11,983)	52,643,082
<b>Group 2010</b>						
Operating income	846,107	464,558	147,858	152,893	(21,512)	1,589,904
Other operating expense	(393,249)	(104,579)	(26,153)	(88,412)	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	436,118	298,031	121,706	(25,943)	43	829,955
Gross loans	22,600,814	12,619,627	1,198	180,226	(180,215)	35,221,650
Deposits from customers	19,797,127	7,504,130	11,651,050	26,994	(14,465)	38,964,836

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Tier I capital</b>				
Paid-up share capital	470,000	470,000	470,000	470,000
Share premium	322,555	322,555	322,555	322,555
Retained profits	3,326,263	2,754,586	3,311,519	2,762,763
Statutory reserve	470,000	470,000	470,000	470,000
Less: Deferred tax assets	(290,595)	(148,576)	(290,655)	(148,602)
	<b>4,298,223</b>	<b>3,868,565</b>	<b>4,283,419</b>	<b>3,876,716</b>
<b>Tier II capital</b>				
Subordinated bonds	500,000	500,000	500,000	500,000
RM collective impairment (proportion of Standardised Approach's RWA)	115,881	95,275	112,027	91,670
Surplus of total Eligible Provisions over total Expected Loss (IRB approach)	148,086	112,163	148,086	112,163
	<b>763,967</b>	<b>707,438</b>	<b>760,113</b>	<b>703,833</b>
Total capital	<b>5,062,190</b>	<b>4,576,003</b>	<b>5,043,532</b>	<b>4,580,549</b>
Less: Investment in subsidiaries	-	-	(50)	(50)
Capital base	<b>5,062,190</b>	<b>4,576,003</b>	<b>5,043,482</b>	<b>4,580,499</b>

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

	Group		Bank	
	2011	2010	2011	2010
Core capital ratio	12.87%	14.77%	12.88%	14.92%
Risk-weighted capital ratio	15.16%	17.47%	15.16%	17.63%
Core capital ratio (net of proposed dividends)	12.08%	13.99%	12.08%	14.14%
Risk-weighted capital ratio (net of proposed dividends)	14.37%	16.69%	14.37%	16.85%

The capital ratios are computed in accordance with the Basel II IRB approach.

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Total RWA for credit risk	29,402,963	22,565,776	29,217,085	22,390,278
Total RWA for market risk	646,320	523,537	646,320	523,537
Total RWA for operational risk	2,914,892	2,527,863	2,974,057	2,527,863
Large Exposure for Equity Holdings RWA	427,009	427,009	427,009	427,009
Additional RWA due to Capital floor	-	142,638	-	106,316
	<b>33,391,184</b>	<b>26,186,823</b>	<b>33,264,471</b>	<b>25,975,003</b>



# Notes to the Financial Statements

for the year ended 31 December 2011

## 42. Credit exposure arising from credit transactions with connected parties

	2011	2010
Outstanding credit exposures with connected parties (RM'000)	494,228	375,983
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	1.030%	0.740%
Percentage of outstanding credit exposures to connected parties which is impaired or in default	0.001%	0.000%

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.

**UNITED OVERSEAS BANK (MALAYSIA) BHD**

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