United Overseas Bank (Malaysia) Bhd

Annual Report 2008

Contents

Brief profile

About United Overseas Bank (Malaysia) Bhd

United Overseas Bank (Malaysia) Bhd ["UOB (Malaysia)"] was incorporated in 1993. It is a subsidiary of United Overseas Bank Limited ("UOB"), a leading bank in Singapore with a global network of over 500 branches/offices and subsidiaries/associates in 18 countries and territories in Asia Pacific, Western Europe and North America.

UOB has had a presence in Malaysia since 1951. Today, UOB (Malaysia) operates 41 branches throughout Malaysia, making it the foreign bank with the largest branch network in the country.

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

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

Chairman's statement

2008 Financial Performance

Given the challenging environment, United Overseas Bank (Malaysia) Bhd ["UOB Malaysia"] Group delivered a profit before tax of RM518 million, a decline of RM142 million as compared to the previous year (2007: RM660 million). However, the Group continued to benefit from its core strength. Net interest income grew by 11% to RM963 million (2007: RM869 million) despite lower interest recoveries from non-performing loans ("NPL") as compared to 2007. Other operating income was negatively impacted by the unprecedented volatility in global financial markets and declined by 30% to RM285 million (2007: RM410 million). Operating expenses increased by 12% to RM506 million (2007: RM450 million) as a result of higher personnel cost and continuous investment in infrastructure. The Group's net NPL ratio was marginally higher at 2.8% (2007: 2.7%) while allowances set aside for loan losses increased by 22%.

At the end of the year, the Group's shareholders fund strengthened to RM3.0 billion (2007: RM2.7 billion) and total assets increased by 15% to RM41.4 billion (2007: RM36.0 billion). Loans growth remained healthy, although at a slower pace. Gross loans increased by 11% to RM28.4 billion (2007: RM25.7 billion) while non bank deposits increased by 23% to RM30.0 billion (2007: RM24.4 billion).

2009 Prospects And Plans

The unprecedented global financial crisis has adversely affected consumers' and investors' confidence and economic activities will likely be weak through much of 2009. In this uncertain environment, the Group continues to be vigilant in monitoring and managing risks and expenses and intends to continue to grow business in a prudent and disciplined fashion. At the same time, we are taking pro-active measures to manage NPLs and impairment charges.

Acknowledgement

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

I extend a very warm welcome to Encik Abdul Latif Bin Yahaya who joined the Board on 19 June 2008.

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

Wee Cho Yaw
February 2009

Board of directors

Board of Directors
Wee Cho Yaw
Chairman

Wee Ee Cheong
Lee Chin Yong Francis
Ong Sea Eng Terence
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu
Ng Kee Wei
Lim Kean Chye
Abdul Latif Bin Yahaya
(Appointed on 19 June 2008)
Chan Kok Seong

Executive Committee
Wee Ee Cheong
Chairman

Lee Chin Yong Francis
Chan Kok Seong

Audit Committee
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu
Chairman

Ng Kee Wei
Ong Sea Eng Terence
(Appointed on 26 March 2008)
Abdul Latif Bin Yahaya
(Appointed on 24 October 2008)
Lee Chin Yong Francis
(Resigned on 26 March 2008)

Risk Management Committee
Ng Kee Wei
Chairman

Ong Sea Eng Terence
Abdul Latif Bin Yahaya
(Appointed on 24 October 2008)
Lim Kean Chye
(Appointed on 26 March 2008 and resigned on 24 October 2008)
Lee Chin Yong Francis
(Resigned on 26 March 2008)

Remuneration Committee
Lim Kean Chye
Chairman

Wee Cho Yaw
Lee Chin Yong Francis

Nominating Committee
Lim Kean Chye
Chairman

Wee Cho Yaw
Lee Chin Yong Francis
Ng Kee Wei
Ong Sea Eng Terence

Corporate information

Senior Management

Chan Kok Seong
Director & Chief Executive Officer

Tay Han Chong
Senior Vice President & Senior Head
Personal Financial Services Division

Aw Tee Woo
Senior Vice President & Head
Consumer Credit
Credit Management Division

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

Chun Choy Wan
Senior Vice President & Head
Centralised Credit Operations / Legal & Secretariat
Delivery Channels & Operations Division

Kan Wing Yin
Senior Vice President & Head
Commercial Banking Division

Khoo Chock Seang
Senior Vice President & Head
Sales Management
Personal Financial Services Division

Lai Tak Kong
Senior Vice President & Head
Corporate Banking Division

Lee Voon Seng
Senior Vice President & Head
Human Resources Division

Leong Sow Yoke
Senior Vice President & Head
Internal Audit Division

Lin Kok Hoi
Senior Vice President & Head
Operations / Channel Support
Delivery Channels & Operations Division

Loong See Meng Steven
Senior Vice President & Head
Corporate Credit
Credit Management Division

Lum Chee Onn
Senior Vice President & Head
Information Technology Division

Mohd Fhauzi Bin Muridan
Senior Vice President & Head
Bumiputera Business Banking Division

Ng Ling Tee Steven
Managing Director & Head
Loan Syndication & Structured Finance
Debt Capital Markets
Investment Banking Division

Por Peng Seong Alex
Senior Vice President & Head
Risk Management Division

Quah Chei Jin Albert
Senior Vice President & Head / Chief Financial Officer
Corporate Services Division

Seow Hooi Choon James
First Vice President & Head
Business Banking Division

Yong Chow Kung Lawrence
Senior Vice President & Head
Transaction Banking Division

Yong Yen Ee
Senior Vice President & Head
Commercial Credit
Credit Management Division

Corporate information

Company Secretary
Chun Choy Wan

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

Share Capital
Authorised: RM2,000,000,000
Paid Up: RM470,000,000

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
Phone: 03-2692 7722
Fax: 03-2691 0281
Cable: BANKUOBMKUALALUMPUR
Telex: MA 34191 UOBMHO
Website: uob.com.my
Email: uob121@uob.com.my

Branch network

Federal Territory

Kuala Lumpur Main Branch
Level 2, Menara UOB
Jalan Raja Laut, 50350 Kuala Lumpur
Phone: 03-2692 4511
Fax: 03-2691 3110
Manager: Yew Beng Guay Janny

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

Jalan Pudu Branch
408-410, Jalan Pudu
55100 Kuala Lumpur
Phone: 03-9222 5135 / 03-9222 9022
Fax: 03-9221 6667
Manager: Wong Siew Ling Kelly

Jalan Imbi Branch
197-199, Jalan Imbi
55100 Kuala Lumpur
Phone: 03-2143 5722
Fax: 03-2148 9725
Manager: Ho Fong Kun

Jalan Sultan Ismail (Parkroyal) Branch
Unit 1-6, Ground Floor, President House
Jalan Sultan Ismail, 50250 Kuala Lumpur
Phone: 03-2142 8828
Fax: 03-2141 1212
Manager: Fong Weng Chuin

Kepong Branch
82, Ground Floor
Jalan 3/62D, Medan Putra Business Centre
Sri Menjalara, Off Jalan Damansara
52200 Kuala Lumpur
Phone: 03-6286 6888
Fax: 03-6275 3668
Manager: Chen Fu Xiang Samuel

Selangor

Jalan Tengah Branch
2-6, Jalan Tengah, 46200 Petaling Jaya
Phone: 03-7955 6576 / 03-7958 2282
Fax: 03-7955 9110
Manager: Choo Wei Hong Kennedy

Jalan Othman Branch
39-45, Jalan Othman, 46000 Petaling Jaya
Phone: 03-7788 3333
Fax: 03-7783 8131
Manager: Lew Siew Teap

Kota Damansara Branch
48, Jalan PJU 5/8
Dataran Sunway, Kota Damansara
47810 Petaling Jaya
Phone: 03-6140 9881
Fax: 03-6140 9771
Manager: Quah Boo Lek Christopher

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

Klang Branch
2108, Jalan Meru, 41050 Klang
Phone: 03-3342 0712 / 03-3342 0713
Fax: 03-3342 1135
Manager: Chui Keng Leng Raymond

Shah Alam Branch
2A, Ground Floor, Wisma SunwayMas
Jalan Tengku Ampuan Zabedah C9/C
Section 9, 40100 Shah Alam
Phone: 03-5891 6213
Fax: 03-5891 6052
Manager: Abdul Razak Bin Abdul Malek

Puchong Branch
6, Jalan Kenari 5, Bandar Puchong Jaya
47100 Puchong
Phone: 03-8076 8989
Fax: 03-8076 8181
Manager: Wong Yin Pheng

Branch network

Perak

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

Melaka

Plaza Mahkota Branch
1, Jalan PM5, Plaza Mahkota
75000 Melaka
Phone: 06-283 8840 / 06-283 8841
Fax: 06-283 8868
Manager: Sim Meow Hui

Malim Branch
1, Jalan PPM 8
Plaza Pandan, Malim Business Park
Jalan Balai Panjang, 75250 Melaka
Phone: 06-336 4336
Fax: 06-336 4337
Manager: Sneah Thean Keng

Pahang

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

Bentong Branch
61-62, Jalan Loke Yew
28700 Bentong
Phone: 09-222 1600 / 09-222 1778
Fax: 09-222 5882
Manager: How Boon Seong Jonathan

Raub Branch
14 & 16, Jalan Tun Razak
27600 Raub
Phone: 09-355 1187 / 09-355 3766
Fax: 09-355 5955
Manager: How Boon Seong Jonathan

Negeri Sembilan

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

Northern Region

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

Pulau Pinang

Lebuh Bishop Branch
64E-H, Lebuh Bishop
10200 Pulau Pinang
Phone: 04-258 8000
Fax: 04-261 0868
Manager: Phuah Ah Keng

Jalan Kelawei Branch
9, Jalan Kelawei
10250 Pulau Pinang
Phone: 04-226 1777
Fax: 04-226 2382
Manager: Koay Jin Hee Jean

Butterworth Branch
4071 & 4072, Jalan Bagan Luar
12000 Butterworth
Phone: 04-314 8000
Fax: 04-332 4300
Manager: Lee Gim See Julie

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

Branch network

Kedah

Sungai Petani Branch
177 & 178, Jalan Kelab Cinta Sayang
Taman Ria Jaya, 08000 Sungai Petani
Phone: 04-442 8828
Fax: 04-442 9828
Manager: Tia Lee Ping Georgina

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

Kelantan

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

Terengganu

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

Southern Region

South Regional Centre
2, Jalan Wong Ah Fook
80000 Johor Bahru
Phone: 07-223 4241
Fax: 07-226 0892
Regional Manager: Koh Boon Huat

Johor

Jalan Wong Ah Fook Branch
2, Jalan Wong Ah Fook
80000 Johor Bahru
Phone: 07-219 6300 / 07-224 1344 / 07-224 1388
Fax: 07-224 3706
Manager: Goh Boon Siang

Taman Molek Branch
26 & 28, Jalan Molek 1/13
Taman Molek, 81100 Johor Bahru
Phone: 07-358 2121
Fax: 07-358 1378
Manager: Tong Yik Moy Kay

Batu Pahat Branch
Ground Floor, Wisma Sing Long
9, Jalan Zabedah, 83000 Batu Pahat
Phone: 07-432 8999
Fax: 07-433 8122
Manager: Lin Yok Kong Eric

Kluang Branch
14-16 Jalan Dato Capt. Ahmad
86000 Kluang
Phone: 07-772 1967 / 07-772 5968 / 07-772 1969
Fax: 07-773 0267 / 07-772 1977
Manager: Leong Yew Fook

Jalan Bakri, Muar Branch
10, Jalan Pesta 1/1
Kg. Kenangan Tun Dr. Ismail (1)
Jalan Bakri, 84000 Muar
Phone: 06-955 5881
Fax: 06-953 1181
Manager: Lim Lian Eng Grace

Kulai Branch
31-1 & 31-2, Jalan Raya
Kulai Besar, 81000 Kulai
Phone: 07-663 1232 / 07-663 1342
Fax: 07-663 5287
Manager: Oh Seng Hu

Branch network

Sabah

Kota Kinabalu Branch
Ground Floor
Wisma Great Eastern Life
65, Jalan Gaya
88000 Kota Kinabalu
Phone: 088-319 555
Fax: 088-314 888
Manager: Chua Chai Hua

Tuaran Branch
9 & 10, Jalan Datuk Dusing
89208 Tuaran
Phone: 088-788 567
Fax: 088-788 979
Manager: Chua Chai Hua

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

Sarawak

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

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

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

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

Corporate governance

The Board is fully committed to ensuring that the principles and best practices as set out in the Malaysian Code on Corporate Governance are applied in United Overseas Bank (Malaysia) Bhd ("UOB (Malaysia)").

Board of Directors

The Board of UOB (Malaysia) comprises nine distinguished members. Four of the members, namely Dr Wee Cho Yaw, Mr Wee Ee Cheong, Mr Ong Sea Eng Terence and Mr Lee Chin Yong Francis are non-independent non-executive directors, while YABhg Tun Dato' Seri Utama Dr Lim Chong Eu, Mr Ng Kee Wei, Mr Lim Kean Chye and En Abdul Latif Bin Yahaya are Independent non-executive directors. Mr Chan Kok Seong is the only non-independent executive director. The directors each have distinguished careers in banking, finance, law, public, business and management sectors and possess varied skills and experience to provide breadth and depth to Board discussions.

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 ("CEO"). It meets regularly to review UOB (Malaysia)'s business plans and the operating results achieved.

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 2008					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	5	-	-	-	1	1
Wee Ee Cheong	6	31	-	-	-	-
Ong Sea Eng Terence	6	-	3*	4	-	2
Lee Chin Yong Francis	6	36	1#	1#	1	2
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu	5	-	4	-	-	-
Ng Kee Wei	6	-	3	4	-	2
Lim Kean Chye	6	-	-	3^	1	2
Abdul Latif Bin Yahaya	3°	-	-	-	-	-
Chan Kok Seong	6	36	-	-	-	-
Number of meetings held in 2008	**6**	**37**	**4**	**4**	**1**	**2**

* Mr Ong Sea Eng Terence was appointed to the Audit Committee on 26 March 2008.
\# Mr Lee Chin Yong Francis resigned from the Audit Committee and Risk Management Committee on 26 March 2008.
^ Mr Lim Kean Chye was appointed to the Risk Management Committee on 26 March 2008 and resigned on 24 October 2008.
° En Abdul Latif Bin Yahaya was appointed to the Board on 19 June 2008, and to the Audit Committee and Risk Management Committee on 24 October 2008.

Board Committees

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

Corporate governance

Executive Committee

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

The CEO is responsible for the day-to-day operations of UOB (Malaysia). The Board has conferred upon the EXCO and the CEO certain discretionary limits and authority for credit and loan approvals, treasury and investment activities, capital expenditure, budgeting and human resource management.

Audit Committee

The role of the Audit Committee ("AC") is to assist the Board to examine financial reports and oversee audit matters. The AC meets at least four times a year. Additional meetings may be called by the Chairman of the AC to discuss specific audit issues if necessary.

The AC meets with the external auditors annually to discuss the annual financial statements and their audit findings. It also meets with the external auditors whenever it deems necessary.

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 of the Company's internal control and risk management systems. 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 role of the Risk Management Committee ("RMC") is to assist the Board to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. During the year, the RMC had four meetings.

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

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

Remuneration Committee

The role of the Remuneration Committee ("RC") is to provide a formal and transparent procedure for developing remuneration policy for directors, the CEO and key senior management officers and to ensure that compensation is competitive and consistent with the licensed institution's culture, objectives and strategy. During the year, the RC met once.

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

Corporate governance

Nominating Committee

The Nominating Committee ("NC") provides a formal and transparent procedure for the appointment of directors and CEO as well as assessment of the effectiveness of individual directors, the Board as a whole and the performance of the CEO and key senior management officers. During the year, the NC had two meetings.

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

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 AC to oversee the Bank's financial reporting by scrutinising the information to be disclosed to ensure accuracy, adequacy and completeness.

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements of the Bank is set out on page 29.

Internal Controls

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

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

The results of each audit are reported to the AC and management and their resolution action plans and progress are tracked monthly. 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 for noting and action where necessary. In addition, the Chief Internal Auditor also reports key audit findings and other control concerns to the Deputy Chairman of the Board and the Group Chief Internal Auditor monthly.

Risk management

As the management of risk is fundamental to the financial soundness and integrity of the Bank, risk evaluation forms an integral part of the Bank's business strategy development. The Bank's risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework and that returns are commensurate with the risks taken.

The Board of Directors has the overall responsibility of determining the type and level of business risks that the Bank undertakes in achieving its corporate objectives. The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these committees are subject to review by the Exco of the Board. The Board has appointed the Risk Management Committee 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.

The various Committees comprise top management and senior executives of the Bank who meet regularly to deliberate on matters relating to the key types of risks under their respective supervision. The key risks are credit risk, balance sheet risk, liquidity risk, market risk and operational and reputational risk.

The **In-Country Credit Committee** deals with approval of credit applications and review of existing credit portfolio.

The **Credit Management Committee** deals with all credit risk matters, including formulation and review of credit policies and assessment of risk profiles.

The **Asset Liability Committee** ("ALCO") formulates, review and approves policies and stategies regarding the balance sheet structure, liquidity needs and trading activities.

The **Risk Management Division** acts as catalyst for the development and maintenance of sound risk management policies, strategies and procedures within the Bank. The Division is independent of other business units in the Bank which are involved in risk taking activities. The Division also provides functional support to both the ALCO and Credit Management Committee as well as assisting the Management in managing risk inherent to the Bank.

The **Compliance** function is an independent function. It performs the role of safeguarding the Bank against regulatory risks through formulation of appropriate policies for compliance with all applicable laws, regulations and professional standards. This includes establishing anti-money laundering/counter-financing of terrorism policies. In consultations with the business and support units, internal controls are evaluated and embedded in the process to ensure compliance with the said rules, regulations and professional standards. Compliance also conducts training to familiarise staff with their compliance obligations.

Credit Risk Management

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

Credit risk is the single largest risk faced by the Bank. It is inherent in the activities of the Bank such as loans and lending-related commitments, treasury and capital market operations, and investments. Business units have primary responsibilities for the day-to-day and active management of credit risks.

Risk management

The Executive Committee ("EXCO") is established by the Board of Directors to formulate the Bank's business strategies and conduct on-going monitoring of the Bank's performance. The EXCO, under delegated authority from the Board of Directors, approves credit policies, guidelines and procedures to control and monitor such risks. It has day-to-day responsibility for identifying and managing portfolio and risk concentration issues, including industry sector exposure. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Bank maintains a well-diversified and high quality credit portfolio.

For the timely recognition of asset impairment, recovery action and the avoidance of undue concentration, a disciplined process is in place to regularly monitor, review and report the Bank's portfolio risks. These include large credit exposures by obligor groups, sectors, security types, internal credit ratings, industries, countries as well as level of non-performing loans, appropriateness of classification and adequacy of provisioning.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly reviews of all non-performing and special-mention loans, to ensure 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.

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 to ensure that the CDLs are tiered according to the borrower's rating. The Bank has in place a very stringent process for the delegation of CDLs based on the experience, seniority, and track record of the officer. All officers with the authority to approve credits are guided by credit policies and guidelines with distinction made for institutional and individual borrowers. These credit policies and guidelines, which cover key parameters associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance.

An internal credit rating system, which incorporates both statistical models and expert-judgement scorecards, has been developed, implemented and used as part of the credit approval process. Statistical models were built for portfolios with sufficient default data, and expert judgement scorecards were developed for low default portfolios.

Generally, a borrower is assigned a Customer Risk Rating ("CRR") and a Facility Risk Rating ("FRR"). The CRR is a borrower's standalone credit rating and is derived after a comprehensive assessment of its financial condition, the quality of its management, business risks and the industry it operates in. The FRR incorporates transaction-specific dimensions such as availability and types of collateral, seniority of the exposures and facility structures.

Consumer exposures are managed on a portfolio basis. The Bank has scorecards and stringent product programmes for credit underwriting purposes.

Connected Party Transactions

During 2007, the Bank replaced the policies governing approval of credit facilities with "Related Parties", to "Connected Parties", to comply with the revision in Bank Negara Malaysia ("BNM")'s guidelines on Credit Transactions and Exposures with Connected Parties.

Risk management

Credit Risk Concentration

Risk concentrations by industry are monitored closely to avoid undue concentration in any particular industry. Industry risk refers to the likelihood of groups of customers being adversely affected by economic developments impacting a particular industry in which such customers operate. Exposure concentrations and non-performing loans by industry type are analysed and significant trends reported to the Credit Management Committee as well as to the EXCO and the Board of Directors.

In particular, the trends and composition of exposures to property-related loans are closely monitored, analysed and reported on an on-going basis to ensure that exposures are within regulatory limits and internal guidelines.

Credit Stress Test

To assess the potential loss arising from the impact of plausible adverse events on the Bank's credit portfolio, credit stress tests are periodically conducted. The extent of the plausible credit impairments is analysed to determine if the potential losses are within the Bank's risk tolerance.

The Bank incorporates periodic credit stress testing as an integral part of its portfolio management process. This allows the Bank to assess the potential credit losses arising from the impact of plausible adverse events.

Basel II

Over the last few years, as part of the Bank's plans to adopt best practice in risk management, substantial investments and significant progress were made in aligning to the requirements of the International Convergence of Capital Measurement and Capital Standards framework ("Basel II"). This effort includes investments in human resources, information technology systems, processes, and the development of internal models to estimate risk.

The Bank intends to adopt an Internal Rating Based Approach ("IRBA") in the management of its credit exposures. To this end, significant changes have been made to the Bank's organisational structure, policies and procedures to ensure that internal risk ratings are integral to the Group's credit decision and management processes.

At the same time, the Bank has mapped all its business activities to the business lines defined by Basel II under the Standardised Approach for operational risk. To complement these initiatives, work is in progress in our parent bank to develop and implement a process to assess the adequacy of the Bank's capital to support the risks inherent to its core banking activities.

The Bank is committed to continue strengthening and investing in its risk management systems, processes and procedures to adopt best practices in its risk management framework.

Management of Performing Loans, Non-Performing Loans and Cumulative Provisions

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 the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with BNM GP3, except the Bank has lowered the default period to three months instead of six months. Interest income on all Non-Performing Loans is suspended. Such loans will remain classified until servicing of the account is satisfactory. Classified loans are transferred to Special Assets Management to maximise recovery prospects.

Risk management

Loan classification	Description
Pass	All payments are current and full repayment of interest and principal from normal sources is not in doubt.
Special Mention	There is some potential weakness in the borrower's creditworthiness, but the extent of any credit deterioration does not warrant its classification as a Non-Performing Loan.
Substandard	There is weakness in the borrower's creditworthiness that jeopardises normal repayment. Default has occurred or is likely to occur or the repayment schedule has been restructured. A credit (except consumer loan) is greater than 90 days past due but less than 270 days past due. Consumer loan greater than 90 days but less than 120 days past due falls under this classification.
Doubtful	A credit (except consumer loan) is greater than 270 days past due but less than 365 days past due. Consumer loan greater than 120 days but less than 180 days past due falls under this classification.
Loss	A credit (except consumer loan) is greater than 365 days past due. Consumer loan greater than 180 days past due falls under this classification.

Specific provisions are made for each loan grade in the following manner:

Loan classification	Provision
Substandard	20% of any unsecured loan outstanding less interest-in-suspense
Doubtful	50% of any unsecured loan outstanding less interest-in-suspense
Loss	100% of any unsecured loan outstanding less interest-in-suspense

A classified account is written off where there is no realisable tangible collateral securing the account and all feasible avenues of recovery have been exhausted.

Bank Non-Performing Loans and Cumulative Provisions

The following table depicts the Bank's comparative non-performing loans ("NPLs") and cumulative specific and general provisions as at 31 December 2007 and 31 December 2008:

	The Bank	
	Dec 2008 RM'000	Dec 2007 RM'000
Total non-performing loans	**1,197,845**	1,037,482
General provision	**427,189**	384,739
Total specific provision	**426,112**	341,847
Cumulative provision	**853,301**	726,586
Ratios (%)		
NPLs/Gross total loans	**4.2%**	4.0%
NPLs/Net total loans	**2.8%**	2.7%
Cumulative provisions/NPLs	**71.2%**	70.0%

Rescheduled and Restructured Accounts

A rescheduled account is one where repayment terms have been modified, but the principal terms and conditions of the original contract have not changed significantly. This is done to alleviate a temporary cash flow difficulty experienced by a borrower. It is expected that the problem is short-term and not likely to recur. The full amount of the debt is still repayable and no loss of principal or interest is expected.

When an account has been rescheduled three months before it meets the criteria for auto classification, the account can be graded as 'Performing'. However, if the rescheduling takes place after the account has been graded as 'Non-Performing', it remains as such and is upgraded to 'Pass' after six months and provided there are no excesses and past dues.

Risk management

A restructured account is one where the original terms and conditions of the facilities have been modified significantly to assist the borrower to overcome financial difficulties where the longer-term prospect of the business or project is still deemed to be viable. A restructuring exercise could encompass a change in the credit facility type, or in the repayment schedule including moratorium, or extension of interest and/or principal payments and reduction of accrued interest, including forgiveness of interest and/or reduction in interest rate charged.

When an account has been restructured based on financial consideration, the account will be graded as 'Non-Performing'. It can only be upgraded to 'Pass' after six months when all payments are current in terms of the restructured terms and conditions and there is no reasonable doubt as to the ultimate collectability of principal and interest.

Special Asset Management

The Bank has set up a centralised and independent department named Special Asset Management Department to manage NPL and non-performing asset ("NPA") portfolios. SAM consists of two sub-units, namely the Restructuring Unit and the Recovery Unit. The two sub-units will manage the NPL and NPA portfolios of the Bank. Responsibilities include formulating account strategy/action plan, negotiating/reaching agreement with borrower on restructuring/recovery plan, seeking approval and implementing the restructuring/recovery plan, monitoring/reviewing the progress/effectiveness of the restructuring/recovery plan and where necessary making changes to the restructuring/recovery plan.

Balance Sheet Risk Management

Balance sheet risk is defined as the potential change in earnings arising from the effect of movements in interest rates on the structural banking book of the Bank that is not of a trading nature.

The ALCO, under delegated authority from the Board of Directors, approves policies, strategies and limits in relation to the management of structural balance sheet risk exposures. This risk is monitored and managed within a framework of approved policies and limits, and is reported monthly to ALCO. The decisions of ALCO and highlights of its monthly risk management reports are reviewed by the Bank's Board of Directors and Risk Management Committee.

The balance sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest repricing and maturity dates of these assets and liabilities. The Bank assesses the impact of changes in interest rates over time on the banking book by projecting the corresponding changes in Net Interest Income ("NII") and Economic Value of Equity ("EVE") of the Bank. The primary objective of balance sheet risk management, therefore, is to monitor and avert significant volatility in NII and EVE.

The table in note 38 to the financial statements represents the Bank's interest rate risk sensitivity based on repricing mismatches as at 31 December 2008. Interest rate risk will arise when more assets/liabilities than liabilities/assets are repriced in a given time band. A positive interest rate sensitivity gap exists where more interest-sensitive assets than interest-sensitive liabilities reprice during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest-sensitive liabilities than interest-sensitive assets reprice during a given time period. As at 31 December 2008, the Bank had an overall positive interest rate sensitivity gap of RM7,918 million, excluding non-interest-sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent to which repayments are made earlier or later than the contracted dates.

Risk management

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

Liquidity Risk Management

Liquidity risk is defined as the risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity risk arises from the general funding of the Bank's banking activities and in the management of its assets and liabilities, including off-balance sheet items. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposit withdrawals and loan disbursements, participate in new investments, and repay of borrowings. Hence, liquidity is managed in a manner that addresses known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of policies, controls and limits approved by the Bank's ALCO which are in line with the policies of UOB Group and which are also adequate to meet the requirements under Bank Negara Malaysia's New Liquidity Framework. These policies, controls and limits ensure that the Bank maintains well-diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

Aligning to the regulatory liquidity risk management framework, liquidity risk is measured and managed on a projected cash flow basis. The Bank is monitored under "business as usual", "bank-specific crisis" and "general market crisis" scenarios. Cash flow mismatch limits are established to limit the Bank's liquidity exposure. The Bank has also employed liquidity early warning indicators and established trigger points to signal possible contingency situations. At the tactical level, the Bank's Global Markets and Investment Management ("GMIM") Division's Asset Liability Management unit is responsible for the active management of cash flows in accordance with the Bank's approved liquidity risk management policies and limits.

Liquidity contingency funding plans are in place to identify potential liquidity crisis through early warning indicators and detail the crisis escalation process and various strategies, including funding and communication strategies to be taken, to minimise the impact of a liquidity crunch. Although, the Bank have self-sufficient funding capabilities, funding will also be provided by the UOB Group's Head Office in Singapore to the Bank should the need arise.

Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from adverse movement in the level of market prices or rates, with the three key components being interest rate risk, foreign currency risk and equity risk.

Interest rate risk refers to the volatility in net interest income as a result of changes in levels of interest rates and shifts in the composition of the assets and liabilities. Foreign currency risk is defined as the risk which arises from adverse exchange rate movements on the foreign exchange positions from time to time and equity risk is the risk which arises from adverse movements in the price of equities on the equity positions taken from time to time.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio. Market risk is governed by the Group ALCO, which provides risk oversight and policy guidance.

Risk management

Market risk is managed using a framework of risk management processes based on market risk management policies and risk control procedures, as well as risk and loss limits. Mark-to-market technique is used to revalue marketable securities, equities and foreign currency positions. Mark-to-market of trading positions are then compared against predetermined market risk limits. The market risk limits are set after taking into account the risk appetitie of the Bank, and the risk-return relationship. Risk and loss limits are proposed by every trading desk/division, reviewed by the Market Risk Management Department and approved by Group ALCO annually. Group ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The trading positions and limits are regularly reported to the Management.

The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Middle Office, which is responsible to monitor, control and report all market and liquidity risk exposures arising from the activities and operations of UOB (Malaysia) GMIM, including daily mark-to-market valuation of GMIM product exposures.

To complement the Value at Risk ("VAR"), stress and scenario test are performed on the trading portfolio to identify the bank's vulnerability to event risks. The test serves to provide early warning of plausible extreme losses to facilitate proactive management of market risks.

Operational Risk Management

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

Operational risk is managed through a framework of policies, techniques and procedures as approved by the parent bank. There are periodic risk management reports reviewed by Senior Management and Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- building of Operational Risk Profiles ("ORPs");
- conduct of Operational Risk Self Assessment ("ORSA") based on the ORPs;
- development of an Operational Risk Action Plan ("ORAP");
- monitoring of Key Operational Risk Indicators ("KORIs");
- collection and analysis of risk events/loss data; and
- process for monitoring and reporting operational risk issues.

The building of the ORPs involves risk identification, the assessment of inherent or absolute risks, as well as the identification and classification of management controls. The methodology provides the tool for the profiling of significant operational risks to which business and support units are exposed. These units then define the key management policies/procedures/controls that have been established to address the identified operational risks.

As part of the continual assessment, ORSA provides the business/support heads with an analytical tool to identify the wider operational risks, assess the adequacy of controls over these risks, and identify control deficiencies at an early stage so that timely action can be taken.

Where actions need to be taken, these are documented in the form of an ORAP for monitoring and reporting to management.

Processes and procedures of the business units are reviewed to ensure that they reflect current practices and the appropriate controls are in place with clear delineation of roles, responsibilities and accountability.

Risk management

KORIs are statistical data that are collected and monitored regularly by business units on an on-going basis for the early detection of potential areas of operational control weakness. Trend analysis is carried out to determine whether there are systemic issues to be addressed.

A policy and framework on incident reporting was established to ensure consistent and accurate loss data collection. The loss database is being built and will facilitate the conduct of root cause analysis, thereby strengthening the operational risk management capability of the business units.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, business continuity management and crisis management strategies and plans have been developed to mitigate the potential impact of major business and/or system disruptions.

In line with the increasing need to outsource internal operations to achieve cost efficiency, a policy has been established to ensure that outsourcing risks are identified and managed prior to entering into the arrangements as well as on an on-going basis.

Risk transfer mechanisms, such as insurance, to mitigate the risk of high-loss events also form part of this framework. Identified operational risks with relatively high residual risk assessment ratings and new risks that are beyond the control of the Bank will be scrutinized for insurability.

As part of preparations to comply with Basel II, the Bank has mapped all its business activities to the eight business lines as defined by the Basel Committee on Banking Supervision.

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts. This is managed through consultation with the Bank's legal counsel and external counsel with the relevant laws, regulations, policies and procedures in the respective areas.

The Bank has put in place Compliance Officers to monitor and enforce compliance with the relevant laws, regulations, policies and procedures in their respective areas.

Directors' report

for the year ended 31 December 2008

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 2008.

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 10 and 11 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	**518,469**	**515,209**
Income tax expense	**(129,638)**	**(129,620)**
Net profit for the year	**388,831**	**385,589**

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 2007 was as follows:

	RM'000
In respect of the financial year ended 31 December 2007 as reported in the directors' report for that year, a final dividend of 50% less 26% taxation, on 470 million ordinary shares, paid on 11 April 2008.	**173,900**

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2008, of 7.9% less 25% taxation on 470 million ordinary shares of RM1 each, amounting to a dividend payable of RM27,847,500 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 2009.

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
YABhg Tun Dato' Seri Utama Dr Lim Chong Eu
Ng Kee Wei
Lim Kean Chye
Lee Chin Yong Francis
Ong Sea Eng Terence
Chan Kok Seong
Abdul Latif Bin Yahaya (appointed on 19 June 2008)

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 Executive Share Option Scheme, UOB Restricted Share Plan and UOB Share Appreciation Rights Plan of the ultimate holding company.

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 27 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.

Directors' report

for the year ended 31 December 2008

Executive Share Options Scheme of United Overseas Bank Limited ("UOB ESOS")

(a) On 6 October 1999, the ultimate holding company's shareholders approved the adoption of the UOB ESOS scheme to replace the previous Executives' Share Option Scheme. Under the UOB ESOS scheme, options may be granted to employees in the corporate grade of Vice President (or an equivalent rank) and above and selected employees below the corporate grade of Vice President (or an equivalent rank), and to directors and controlling shareholders. Particulars of the share options granted under this scheme in 2004 (hereinafter called "Options 2004") have been set out in the ultimate holding company's directors' report for the financial year ended 31 December 2008.

(b) The share options which were granted pursuant to the UOB ESOS carry the right to subscribe for new ordinary shares of United Overseas Bank Limited at the following prices:

Options	Option Period	Offer Price S$
2004	29 November 2005 to 28 November 2009	13.67

(c) The share options expire at the end of the respective option periods unless they lapse earlier in the event of death, bankruptcy or cessation of employment of the participant or the take-over or winding up of the Bank.

(d) The holders of the options have no right to participate, by virtue of the options, in any share issue of any other company.

Restricted shares and share appreciation rights plan

Following the review of remuneration strategy across the Group, the Bank implemented the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan on 28 September 2007 and made grants to selected employees of the Group. The objectives of the plans are to motivate key talents and high potentials whose contributions are essential to the long-term growth and success of the Group, foster commitment towards the Group's long-term goals, and enhance alignment to shareholders' interests.

Under the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan, participants will receive fully-paid ordinary shares in United Overseas Bank Limited and market-price share appreciation rights, respectively, free of charge, provided that the prescribed return on equity performance target is met at the end of the prescribed performance period. The actual number of shares and share appreciation rights to be given ultimately at the end of the prescribed period will depend on the level of attainment of the performance target. The performance period for 25% of the grant is two years and the remaining 75% is three years. The share appreciation rights are exercisable two years after the grant date and expire in the sixth year. Upon exercise of the vested share appreciation rights, participants will receive the gains in the form of ordinary shares in United Overseas Bank Limited at market price. Only in exceptional cases, the Bank may settle its obligations under the share plans in cash or a combination of cash and shares. The share plans only allow the purchase and delivery of existing ordinary shares in United Overseas Bank Limited to participants upon the vesting of the grants.

Directors' interests

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

			Number of Ordinary Shares of S$1 Each		
		1.1.2008	Acquired	Disposed	31.12.2008
Ultimate holding corporation: United Overseas Bank Limited					
Wee Cho Yaw	- Direct	16,390,248	-	-	16,390,248
	- Indirect	247,008,142	200,000	-	247,208,142
Wee Ee Cheong	- Direct	2,794,899	70,458	-	2,865,357
	- Indirect	146,135,251	-	(70,458)	146,064,793
Ng Kee Wei	- Direct	447,582	-	-	447,582
Lim Kean Chye	- Direct	117	-	-	117
Ong Sea Eng Terence	- Indirect	5,000	-	-	5,000
Chan Kok Seong	- Direct	29,000	-	(29,000)	-

Directors' report

for the year ended 31 December 2008

Directors' interests (continued)

		1.1.2008	Number of Preference Shares of S$100 Each Acquired	Disposed	31.12.2008
Ultimate holding corporation: United Overseas Bank Limited					
Wee Cho Yaw	- Direct	-	155,900	-	155,900
Wee Ee Cheong	- Direct	-	20,000	-	20,000
Ong Sea Eng Terence	- Indirect	-	10,000	-	10,000

		Number of Options Over Ordinary Shares of S$1 Each under UOB ESOS 1.1.2008	Granted	Exercised	31.12.2008
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong Francis	- Direct	25,000	-	-	25,000

		1.1.2008	Number of Options Over Ordinary Shares of S$1 Each under UOB Restricted Share Plan Granted	Exercised	31.12.2008
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong Francis	- Direct	20,109	19,650	-	39,759
Ong Sea Eng Terence	- Direct	17,160	17,400	-	34,560
Chan Kok Seong	- Direct	8,433	8,850	-	17,283

		1.1.2008	Number of Options Over Ordinary Shares of S$1 Each under UOB Share Appreciation Rights Plan Granted	Exercised	31.12.2008
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong Francis	- Direct	85,355	83,250	-	168,605
Ong Sea Eng Terence	- Direct	72,839	73,850	-	146,689
Chan Kok Seong	- Direct	35,794	37,550	-	73,344

Dr Wee Cho Yaw and Mr 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.

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.

Directors' report

for the year ended 31 December 2008

Business strategy for the financial year ended 31 December 2008

2008 was indeed a challenging year for banks around the world. The Bank, as a committed long-term player, has always adopted a prudent and disciplined approach in seeking quality and sustainable growth. It continued to focus on its long-term strategies to grow its consumer and SME businesses.

Consumer banking started the year well, but the environment deteriorated in the second half of the year with the uncertainties brought upon by the global financial crisis and economic slowdown. The drastic reduction in sales of unit trust investment products was, however, partly off-set by the growth in sales of dual currency investments and bancassurance products. Besides widening its investment product range, the Bank has also enhanced its wealth management services by the launch of Islamic will writing service. In April 2008, the Bank launched the only savings account in Malaysia that pays interest based on the client's total assets with the Bank. The Bank's continuous efforts to meet its customers' needs have helped it to significantly grow its privilege customer base and its consumer loans in 2008.

The Bank continued to leverage its niche market to grow its SME market share by offering integrated financial solutions. During the year, the Bank has rolled out a series of well-received cash management solutions specially designed for its commercial customers to help them manage their liquidity effectively while maximising returns and cost savings. To strengthen its footprint in the lucrative remittance business, the Bank has entered into a tripartite partnership leveraging on the strong Western Union brand and the extensive branch network of a local development bank to reach the target market of outward remittances which spread across the length and breadth of the country. To further fortify its innovative strength in trade services, the Bank has launched a breakthrough service: the UOB SMS notification service which opens up an instantaneous channel of communication.

The Bank has also greatly improved its operational efficiency and customer services with the implementation of Real-time Electronic Transfer of Funds And Securities ("RENTAS") Straight Through Processing ("STP") where the payment turnaround time has improved by 50%. Enhancements to the Bank's debt collection capabilities with the introduction of an auto-dialer system also resulted in significant productivity gains.

Outlook for the financial year ending 31 December 2009

The global economy will likely continue its bearish trend in 2009. The Malaysian economy will not be insulated from the global downturn given the country's sensitivities to the slump in manufactured exports and commodities prices. However, the Bank expects domestic private consumption and fiscal pump-priming to help cushion the slowdown and avert a recession in 2009.

The global financial crisis has dramatically reshaped the world's banking landscape. The global climate remains challenging as financial institutions grapple to rebuild their balance sheets. Lending activities are expected to be affected due to market slowdown and banks becoming more cautious in lending.

The Bank recognises the tough times ahead but is confident of meeting these challenges with its financial and balance sheet strength, valued distribution network and business franchise, and a committed and well-trained workforce.

Rating by external rating agencies

Rating Agency Malaysia ("RAM") had reaffirmed the Bank's long term rating at AA1 and it's 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 balance sheets and income statements 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 value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.

Directors' report

for the year ended 31 December 2008

Other statutory information (continued)

(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.

(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 twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations when they fall due; and

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

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2009.

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 31 to 78 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2008 and of the results and cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February, 2009.

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 31 to 78 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 25 February, 2009

Chan Kok Seong

Before me,

R. Vasugi Ammal, PJK
Commissioner for Oaths

Independent auditor's report to the members of United Overseas Bank (Malaysia) Bhd

for the year ended 31 December 2008

Report on the financial statements

We have audited the financial statements of United Overseas Bank (Malaysia) Bhd ("the Bank"), which comprise the balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements 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 31 to 78.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Companies Act 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of 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 2008 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

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

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

Other matters

This report is made solely to the 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

Choong Mei Ling
No. 1918/09/10(J)
Chartered Accountant

Kuala Lumpur, Malaysia
25 February, 2009

Balance sheet

as at 31 December 2008

		Group		Bank	
		2008	2007	2008	2007
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3	**7,846,411**	1,141,316	**7,846,411**	1,141,316
Securities purchased under resale agreements		**98,921**	2,430,909	**98,921**	2,430,909
Deposits and placements with financial institutions	4	**748,301**	726,277	**748,301**	726,277
Held-for-trading securities	5	**1,074**	577,497	**1,074**	577,497
Available-for-sale ("AFS") securities	6	**3,616,172**	4,375,018	**3,616,172**	4,375,018
Loans, advances and financing	7	**27,586,016**	25,004,640	**27,586,016**	25,004,640
Other assets	8	**286,048**	419,897	**286,616**	420,403
Statutory deposits with Bank Negara Malaysia	9	**733,500**	817,000	**733,500**	817,000
Investment in subsidiaries	10	**-**	-	**51**	51
Investment in associates	11	**164,632**	161,372	**122,733**	122,733
Investment properties	12	**8,820**	9,000	**8,820**	9,000
Property, plant and equipment	13	**238,036**	242,500	**237,668**	242,119
Prepaid land lease payments	14	**41,590**	41,387	**41,590**	41,387
Deferred tax assets	15	**55,946**	69,728	**55,964**	69,728
Total assets		**41,425,467**	36,016,541	**41,383,837**	35,978,078
Liabilities and equity					
Deposits from customers	16	**30,011,882**	24,433,395	**30,011,882**	24,433,395
Deposits and placements of banks and other financial institutions	17	**4,287,077**	4,716,958	**4,287,491**	4,717,367
Bills and acceptances payable		**3,268,531**	3,027,681	**3,268,531**	3,027,681
Amount due to Cagamas	18	**137,112**	316,115	**137,112**	316,115
Other liabilities	19	**698,624**	715,400	**698,617**	715,326
Taxation		**37,175**	62,822	**37,178**	62,822
Total liabilities		**38,440,401**	33,272,371	**38,440,811**	33,272,706
Share capital	20	**470,000**	470,000	**470,000**	470,000
Reserves	21	**2,515,066**	2,274,170	**2,473,026**	2,235,372
Shareholders' equity		**2,985,066**	2,744,170	**2,943,026**	2,705,372
Total liabilities and equity		**41,425,467**	36,016,541	**41,383,837**	35,978,078
Commitments and contingencies	33	**45,534,687**	52,243,292	**45,534,687**	52,243,292

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

Income statements

for the year ended 31 December 2008

		Group		Bank	
		2008	2007	2008	2007
	Note	RM'000	RM'000	RM'000	RM'000
Operating revenue	22	**2,233,980**	2,224,208	**2,233,980**	2,247,564
Interest income	23	**1,960,789**	1,824,838	**1,960,789**	1,824,830
Interest expense	24	**(997,606)**	(956,052)	**(997,606)**	(956,052)
Net interest income		**963,183**	868,786	**963,183**	868,778
Other operating income	25	**285,090**	410,164	**285,090**	434,157
Operating income		**1,248,273**	1,278,950	**1,248,273**	1,302,935
Other operating expenses	26	**(506,107)**	(450,299)	**(506,099)**	(452,743)
Operating profit before allowance for losses on loans, advances and financing and provision for commitments and contingencies		**742,166**	828,651	**742,174**	850,192
Allowance for losses on loans, advances and financing	28	**(226,368)**	(185,787)	**(226,376)**	(185,789)
Net (provision)/write back of provision for commitments and contingencies		**(589)**	72	**(589)**	72
Net income		**515,209**	642,936	**515,209**	664,475
Share of profit of associates		**3,260**	17,497	**-**	-
Profit before taxation		**518,469**	660,433	**515,209**	664,475
Income tax expense	29	**(129,638)**	(177,219)	**(129,620)**	(181,685)
Profit for the year attributable to equity holders of the parent		**388,831**	483,214	**385,589**	482,790
Basic earnings per share (sen)	30	**82.7**	102.8		
Dividends per share (sen)	31	**5.9**	37.0	**5.9**	37.0

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

Consolidated statement of changes in equity

for the year ended 31 December 2008

		<---------------------------- Non-distributable			---------------------------->		Distributable	
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Statutory reserve RM'000**	**Revaluation reserves RM'000**	**Net unrealised (deficit)/ reserves on AFS securities RM'000**	**Retained profits RM'000**	**Total RM'000**
2008								
Balance as at 1 January 2008		**470,000**	**322,555**	**470,000**	**59,831**	**(3,247)**	**1,425,031**	**2,744,170**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**388,831**	**388,831**
Net unrealised gain on AFS securities		**-**	**-**	**-**	**-**	**33,323**	**-**	**33,323**
Transfer to deferred tax	**15**	**-**	**-**	**-**	**973**	**(8,331)**	**-**	**(7,358)**
Dividends paid:								
- final dividend for the year ended 31 December 2007	**31**	**-**	**-**	**-**	**-**	**-**	**(173,900)**	**(173,900)**
Balance as at 31 December 2008		**470,000**	**322,555**	**470,000**	**60,804**	**21,745**	**1,639,962**	**2,985,066**
2007								
Balance as at 1 January 2007		470,000	322,555	470,000	37,504	(37)	1,110,423	2,410,445
Net profit for the year		-	-	-	-	-	483,214	483,214
Revaluation of properties		-	-	-	28,317	-	-	28,317
Impairment losses	12	-	-	-	(637)	-	-	(637)
Share of revaluation reserve from associated company		-	-	-	160	-	-	160
Net unrealised loss on AFS securities		-	-	-	-	(4,280)	-	(4,280)
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,944)	-	2,944	-
Transfer to deferred tax	15	-	-	-	(2,569)	1,070	-	(1,499)
Dividends paid:								
- final dividend for the year ended 31 December 2006	31	-	-	-	-	-	(171,550)	(171,550)
Balance as at 31 December 2007		470,000	322,555	470,000	59,831	(3,247)	1,425,031	2,744,170

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

Statement of changes in equity

for the year ended 31 December 2008

		<---- Non-distributable				---->	Distributable	
Bank	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Statutory reserve RM'000**	**Revaluation reserves RM'000**	**Net unrealised (deficit)/ reserves on AFS securities RM'000**	**Retained profits RM'000**	**Total RM'000**
2008								
Balance as at 1 January 2008		**470,000**	**322,555**	**470,000**	**74,723**	**(3,247)**	**1,371,341**	**2,705,372**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**385,589**	**385,589**
Net unrealised gain on AFS securities		**-**	**-**	**-**	**-**	**33,323**	**-**	**33,323**
Transfer to deferred tax	15	**-**	**-**	**-**	**973**	**(8,331)**	**-**	**(7,358)**
Dividends paid:								
- final dividend for the year ended 31 December 2007	31	**-**	**-**	**-**	**-**	**-**	**(173,900)**	**(173,900)**
Balance as at 31 December 2008		**470,000**	**322,555**	**470,000**	**75,696**	**21,745**	**1,583,030**	**2,943,026**
2007								
Balance as at 1 January 2007		470,000	322,555	470,000	52,556	(37)	1,057,157	2,372,231
Net profit for the year		-	-	-	-	-	482,790	482,790
Revaluation of properties		-	-	-	28,317	-	-	28,317
Impairment losses	12	-	-	-	(637)	-	-	(637)
Net unrealised loss on AFS securities		-	-	-	-	(4,280)	-	(4,280)
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,944)	-	2,944	-
Transfer to deferred tax	15	-	-	-	(2,569)	1,070	-	(1,499)
Dividends paid:								
- final dividend for the year ended 31 December 2006	31	-	-	-	-	-	(171,550)	(171,550)
Balance as at 31 December 2007		470,000	322,555	470,000	74,723	(3,247)	1,371,341	2,705,372

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

Cash flow statements

for the year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Bank 2008 RM'000	Bank 2007 RM'000
Cash Flows From Operating Activities					
Profit before taxation		**518,469**	660,433	**515,209**	664,475
Adjustments for:					
Share of profits of associates		**(3,260)**	(17,497)	**-**	-
(Gain)/loss on disposal of property, plant and equipment		**(64)**	365	**(64)**	(266)
Depreciation of property, plant and equipment		**38,308**	34,293	**38,244**	34,066
Depreciation of investment properties		**180**	363	**180**	363
Amortisation of prepaid land lease payments		**660**	451	**660**	451
Gain on disposal of subsidiary		**-**	(250)	**-**	(300)
Impairment of property, plant and equipment		**-**	100	**-**	100
Allowance for losses on loans, advances and financing		**226,368**	185,787	**226,376**	185,789
Bad debts written off		**-**	-	**-**	3,677
Net unrealised loss on held-for-trading securities derivatives		**107,466**	24,062	**107,466**	24,062
Provision/(write back) of provision for commitments and contingencies		**589**	(72)	**589**	(72)
Dividend income		**(1,353)**	(808)	**(1,353)**	(24,701)
Interest income from available-for-sale securities		**(158,870)**	(159,209)	**(158,870)**	(159,209)
Gain from sale of available-for-sale securities		**(20,431)**	(6,274)	**(20,431)**	(6,274)
Unrealised foreign exchange gain		**(60,823)**	(9,729)	**(60,823)**	(9,729)
Loss/(gain) from sale of held-for-trading securities and derivatives		**8,590**	(58,728)	**8,590**	(58,728)
Amortisation of premium less accretion of discount		**8,022**	6,839	**8,022**	6,839
Operating profit before working capital changes		**663,851**	660,126	**663,795**	660,543
Decrease/(increase) in operating assets:					
Loans and advances		**(2,807,746)**	(4,958,256)	**(2,807,752)**	(4,958,258)
Held-for-trading securities		**460,367**	706,427	**460,367**	706,427
Securities purchased under resale agreements		**2,331,988**	674,146	**2,331,988**	674,146
Statutory deposits with Bank Negara Malaysia		**83,500**	(320,000)	**83,500**	(320,000)
Other assets		**133,847**	10,999	**133,785**	(8,644)
		201,956	(3,886,684)	**201,888**	(3,906,329)
Increase in operating liabilities:					
Deposits from customers		**5,578,487**	5,446,235	**5,578,487**	5,446,235
Deposits and placements of banks and other financial institutions		**(429,881)**	1,587,246	**(429,876)**	1,586,633
Obligation on securities sold under repurchase agreements		**-**	(3,709,795)	**-**	(3,709,795)
Bills and acceptances payable		**240,850**	330,051	**240,850**	330,051
Amount due to Cagamas		**(179,003)**	(243,915)	**(179,003)**	(243,915)
Other liabilities		**43,461**	219,297	**43,525**	219,339
		5,253,914	3,629,119	**5,253,983**	3,628,548
Cash generated from operations		**6,119,721**	402,561	**6,119,666**	382,762
Taxation paid		**(148,850)**	(200,752)	**(148,846)**	(200,752)
Net cash generated from operating activities		**5,970,871**	201,809	**5,970,820**	182,010

Cash flow statements

for the year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Bank 2008 RM'000	Bank 2007 RM'000
Cash Flows From Investing Activities					
Proceeds from disposal of property, plant and equipment		**3,245**	3,519	**3,245**	3,494
Purchase of property, plant and equipment		**(37,888)**	(51,972)	**(37,837)**	(51,709)
Net cash inflow from disposal of subsidiary	10	**-**	265	**-**	400
Interest income from available-for-sale securities		**158,870**	159,209	**158,870**	159,209
Net sale/(purchase) of available-for-sale securities		**804,580**	(1,075,656)	**804,580**	(1,075,656)
Dividend received		**1,341**	594	**1,341**	20,020
Net cash generated/(used in) from investing activities		**930,148**	(964,041)	**930,199**	(944,242)
Cash flows from financing activities					
Dividends paid representing net cash used in financing activities		**(173,900)**	(171,550)	**(173,900)**	(171,550)
Net increase/(decrease) in cash and cash equivalents		**6,727,119**	(933,782)	**6,727,119**	(933,782)
Cash and cash equivalents at beginning of year		**1,867,593**	2,801,375	**1,867,593**	2,801,375
Cash and cash equivalents at end of year		**8,594,712**	1,867,593	**8,594,712**	1,867,593
Analysis of cash and cash equivalents					
Cash and short term funds	3	**7,846,411**	1,141,316	**7,846,411**	1,141,316
Deposits and placements with financial institutions	4	**748,301**	726,277	**748,301**	726,277
		8,594,712	1,867,593	**8,594,712**	1,867,593

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

Notes to the financial statements

for the year ended 31 December 2008

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 10 and 11 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 25 February, 2009.

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 FRS

On 1 January 2008, the Group and the Bank adopted the following revised FRS, amendment to FRS and Interpretations:

FRS 107: Cash Flow Statements
FRS 111: Construction Contracts
FRS 112: Income Taxes
FRS 118: Revenue
FRS 120: Accounting for Government Grants and Disclosure of Government Assistance
FRS 134: Interim Financial Reporting
FRS 137: Provisions, Contingent Liabilities and Contingent Assets
Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 1: Changes in Existing, Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7: Applying the approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8: Scope of FRS 2

The revised FRS, amendment to FRS and Interpretations above do not have any significant impact on the financial statements of the Group and the Bank.

The following are the FRS and IC Interpretations which have been issued by the Malaysian Accounting Standards Board ("MASB") as of the balance sheet date but are not yet effective:

FRS, Amendments to FRS and Interpretations	Effective for financial periods beginning on/after
FRS 7: Financial Instruments: Disclosures	1 January 2010
FRS 8: Operating Segments	1 July 2009
FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010

The new FRS and Interpretations above are expected to have no significant impact on the financial statements of the Group and the Bank upon their initial application.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

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

The Group and the Bank are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

With effect from 1 January 2005, upon the Group and the Bank's adoption of Bank Negara Malaysia's ("BNM") revised BNM/GP8, certain principles in connection with the recognition, derecognition and measurement of financial instruments which are similar to those prescribed by FRS 139 have been adopted by the Group and the Bank. These accounting policies are set out in Notes 2.3(h) to the financial statements.

On 20 October 2008, BNM had issued a circular setting out the limited circumstances in which banking institutions are allowed to reclassify financial instruments currently held in the securities held-for-trading portfolio into the securities available-for-sale and securities held-to-maturity portfolios. This concession is only effective for the period from 1 July 2008 to 31 December 2009. As at 31 December 2008, the Group and the Bank have not adopted the concession.

2.3 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

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

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

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

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

(ii) Basis of consolidation

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

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

(b) Associates

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

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

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(b) Associates (continued)

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

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

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

(c) Goodwill

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

(d) Recognition of interest income

Interest income is recognised in the income statement on an accrual basis. Interest income includes the amortisation of premiums or accretion of discounts. Interest income is recognised on an effective yield basis. 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.

Customers' accounts are classified as non-performing where repayments are in arrears for more than three months from the date of default instead of six months based on the minimum requirements of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline for loans and overdrafts, trade bills, bankers' acceptances and trust receipts.

Interest accrued and recognised as income prior to the date the customers' accounts are classified as non-performing shall be reversed out of the income statements and the accrued interest out of the balance sheet. Subsequently, interest earned on non-performing accounts are recognised as income on a cash basis.

(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 held-for-trading and available-for-sale securities are recognised on a declared basis.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(f) Allowance for losses on loans, advances and financing

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

A general allowance based on a percentage of the loan portfolio of the Bank is also made to cover possible losses which are not specifically identified.

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

The Bank observes the minimum allowance policy of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline except that the Bank has lowered the default period to three months instead of six months.

Values assigned to collateral held for non-performing loans secured by properties is determined based on the realisable values of the properties on the following basis:

(i) assigning fifty percent of the realisable values of the properties held as collateral for non-performing loans which are in arrears for more than five years but less than seven years; and

(ii) no value assigned to the reaisable value of the properties held as collateral for non-performing loans which are in arrears for more than seven years.

The portion of non-performing loans where no realisable value has been assigned will be written off.

Bank Negara Malaysia has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under revised BNM/GP8 in the current and previous financial years.

(g) 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 balance sheet.

(h) Securities

The holding of the securities portfolio of the Group and the Bank are segregated based on the following categories and valuation methods:

(i) Held-for-trading securities

Securities are classified as held-for-trading if they are acquired and held principally for the intention of resale in the near term. The held-for-trading securities will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of held-for-trading securities are recognised in the income statement.

(ii) Available-for-sale securities

Available-for-sale securities are financial assets that are not classified as held-for-trading or held-to-maturity. The available-for-sale securities are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity. When the financial assets are sold, collected, disposed of or impaired, the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

The estimated fair value is based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the balance sheet date.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 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 balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

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

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

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.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 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 balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used.

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

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

(ii) Operating leases

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

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

(l) Derivative financial instruments

Derivative financial instruments are recognised at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivatives is recognised in the income statement.

(m) 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 balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

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

(n) 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 balance sheet 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.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(n) Income tax (continued)

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

(o) 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”).

(p) Cash and cash equivalents

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

(q) Other assets

Other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

(r) Bills and acceptances payable

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

(s) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(t) Liabilities

Deposits from customers, and deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(u) Impairment of non-financial assets

The carrying amounts of non-financial assets, other than investment property and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(u) Impairment of non-financial assets (continued)

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(v) Financial instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The accounting policies for financial instruments recognised on the balance sheet are disclosed in the individual policy statements associated with each item.

(i) Equity instruments

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.

Notes to the financial statements

for the year ended 31 December 2008

2. Significant accounting policies (continued)

2.4 Significant accounting estimates and judgements

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

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

(a) Fair value estimation for securities held-for-trading and securities available-for-sale

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

(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.

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

Whilst the assessment of allowance for losses required for loans, advances and financing is made in accordance with the requirements of BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandards, Bad and Doubtful Debts, the Bank exercises judgement in the valuation of certain collateral when assessing the levels of loan loss allowance required.

(d) Impairment of assets

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

3. Cash and short-term funds

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

	Group and Bank	
	2008 RM'000	**2007 RM'000**
Cash and balances with banks and other financial institutions	**339,813**	597,316
Money at call and deposit placements maturing within one month	**7,506,598**	544,000
	7,846,411	1,141,316

4. Deposits and placements with financial institutions

	Group and Bank	
	2008 RM'000	**2007 RM'000**
Licensed banks	**89,978**	33,080
Other financial institutions	**658,323**	693,197
	748,301	726,277

Notes to the financial statements

for the year ended 31 December 2008

5. Held-for-trading securities

	Group and Bank	
	2008 RM'000	2007 RM'000
At fair value:		
Malaysian Government securities	-	164,251
Islamic private debt securities	-	85,575
Private debt securities	**1,074**	327,671
Total held-for-trading securities	**1,074**	577,497

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

	Group and Bank	
	2008 RM'000	2007 RM'000
At fair value:		
Money market instruments:		
Bank Negara Malaysia Bills	**639,161**	226,925
Bankers' acceptances	-	355,776
Malaysian Government treasury bills	-	63,506
Malaysian Government securities	**867,320**	838,137
Negotiable instruments of deposits	**920,399**	1,930,015
Cagamas bonds	**396,136**	303,895
Private debt securities	**760,012**	635,999
	3,583,028	4,354,253
Quoted securities:		
Shares of corporations in Malaysia	**1,862**	2,575
Corporate loan stocks	**6,069**	5,642
	7,931	8,217
At cost:		
Unquoted securities:		
Shares	**24,937**	12,272
Private debt securities	**276**	276
	25,213	12,548
Total available-for-sale securities	**3,616,172**	4,375,018

Notes to the financial statements
for the year ended 31 December 2008

7. Loans, advances and financing

	Group and Bank	
	2008 RM'000	2007 RM'000
Overdrafts	**2,667,272**	2,807,803
Term loans and revolving credits		
Housing loans	**10,278,098**	8,477,711
Syndicated term loans	**196,766**	423,427
Other term loans/financing	**8,977,655**	7,761,387
Credit cards receivable	**946,782**	909,878
Bills receivable	**109,357**	109,501
Trust receipts	**824,098**	879,447
Claims on customers under acceptance credits	**4,349,495**	4,272,907
Staff loans		
Executive directors	**410**	450
Others	**100,323**	95,722
Others	**11,933**	9,737
	28,462,189	25,747,970
Unearned interest	**(22,872)**	(16,744)
Gross loans, advances and financing	**28,439,317**	25,731,226
Allowance for losses on loans and financing		
Specific	**(426,112)**	(341,847)
General	**(427,189)**	(384,739)
Net loans, advances and financing	**27,586,016**	25,004,640

(i) By maturity structure:		
Maturing within one year	**11,033,035**	11,439,396
One year to three years	**1,083,307**	978,522
Three years to five years	**1,204,312**	1,165,654
Over five years	**15,118,663**	12,147,654
	28,439,317	25,731,226

(ii) By type of customer		
Domestic banking institutions	**-**	34,761
Domestic non-bank financial institutions		
Stockbroking companies	**8**	-
Others	**120,728**	79,923
Domestic business enterprises		
Small medium enterprises	**6,736,092**	6,728,691
Others	**7,383,104**	6,928,583
Government	**-**	49,300
Individuals	**12,584,469**	11,203,375
Other domestic entities	**167**	3,031
Foreign entities	**1,614,749**	703,562
	28,439,317	25,731,226

(iii) By interest/profit rate sensitivity		
Fixed rate		
Housing loans/financing	**99,901**	95,376
Other fixed rate loan/ financing	**1,009,148**	951,484
Variable rate		
BLR plus	**25,901,090**	23,137,335
Cost-plus	**862,631**	1,061,899
Other variable rates	**566,547**	485,132
	28,439,317	25,731,226

Notes to the financial statements

for the year ended 31 December 2008

7. Loans, advances and financing (continued)

	Group and Bank	
	2008	2007
	RM'000	RM'000
(iv) By sector:		
Agriculture, hunting forestry and fishing	**104,734**	117,329
Mining and quarrying	**23,227**	34,946
Manufacturing	**5,299,541**	5,127,661
Electricity, gas and water	**7,669**	28,815
Construction	**1,758,885**	1,512,810
Wholesale & retail trade and restaurants & hotels	**4,452,525**	3,811,760
Transport, storage and communication	**554,572**	521,347
Finance, insurance and business services	**1,056,513**	1,445,962
Real estate	**880,992**	1,032,166
Community, social and personal services	**88,603**	105,019
Households of which:		
purchase of residential properties	**10,762,690**	8,854,145
purchase of non residential properties	**1,171,878**	981,387
others	**2,275,348**	2,108,159
Others	**2,140**	49,720
	28,439,317	25,731,226
(v) Movements in non-performing loans, advances and financing are as follows:		
At beginning of the year	**1,037,482**	1,227,859
Classified as non-performing during the year	**761,139**	441,253
Amount recovered	**(199,143)**	(241,300)
Reclassified as performing	**(231,752)**	(185,785)
Amount written off	**(169,881)**	(204,545)
At end of the year	**1,197,845**	1,037,482
Specific allowance	**(426,112)**	(341,847)
Net non-performing loans, advances and financing	**771,733**	**695,635**
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	**2.8%**	2.7%
(vi) Movements in allowance for losses on loans, advances and financing are as follows:		
General allowance		
Balance as at 1 January	**384,739**	305,969
Allowance made during the year	**42,450**	78,770
Balance as at 31 December	**427,189**	384,739
As % of gross loans, advances and financing (excluding loan to Government) less specific allowance	**1.5%**	1.5%
Specific allowance		
Balance as at 1 January	**341,847**	352,240
Allowance made during the year	**323,730**	251,780
Amount written back in respect of recoveries	**(68,885)**	(58,844)
Amount written off	**(170,580)**	(203,329)
Balance as at 31 December	**426,112**	341,847

Notes to the financial statements

for the year ended 31 December 2008

7. Loans, advances and financing (continued)

	Group and Bank	
	2008 RM'000	2007 RM'000
(vii) Non performing loans according to economic sectors are as follows:		
Agriculture, hunting forestry and fishing	**3,608**	1,122
Mining and quarrying	**-**	596
Manufacturing	**446,921**	366,344
Construction	**27,516**	33,272
Wholesale & retail trade and restaurants & hotels	**185,839**	195,505
Transport, storage and communication	**7,159**	9,715
Finance, insurance and business services	**73,136**	9,690
Real estate	**12,099**	50,321
Community, social and personal services	**10,172**	14,910
Households of which:		
purchase of residential properties	**303,085**	234,388
purchase of non residential properties	**19,023**	13,610
others	**109,287**	108,009
	1,197,845	1,037,482

8. Other assets

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Other receivables, deposits and prepayments	**159,266**	297,550	**159,214**	297,511
Derivative assets	**23,740**	18,391	**23,740**	18,391
Accrued interest receivable	**51,115**	50,883	**51,115**	50,883
Amount due to subsidiaries	**-**	-	**620**	545
Precious metal accounts (Note (a))	**47,878**	49,024	**47,878**	49,024
Foreclosed properties held for sale (Note (b))	**4,049**	4,049	**4,049**	4,049
	286,048	419,897	**286,616**	420,403

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

The net balance due from customers of the Bank are stated at the gross amounts loaned amounting to RM117,345,000 (2007: RM133,284,000) net of cash collateral received from the customers of RM69,467,000 (2007: RM84,260,000). The amount due to ultimate holding company is classified as other accruals and provisions in other liabilities (Note 19).

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

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

9. 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.

10. Investment in subsidiaries

	Bank	
	2008 RM'000	2007 RM'000
Unquoted shares in Malaysia, at cost	**51**	51

Notes to the financial statements

for the year ended 31 December 2008

10. Investment in subsidiaries (Continued)

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 2008 %	Group's effective interest 2007 %	Principal activities
UOB Smart Solutions Sdn Bhd	10,000	100	100	Outsourcing services
United Overseas Finance (Malaysia) Bhd	2	100	100	Dormant
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 (2006) Bhd	7	100	100	Dormant
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.

Disposal of subsidiary

In the previous financial year, the Group disposed of its 100% equity interest in UOB Trustee (Malaysia) Berhad on 1 November 2007 for a total consideration of RM800,000.

The disposal had the following effects on the financial position of the Group as at end of the prior year:

	2008 RM'000	2007 RM'000
Trade and other receivables	-	83
Cash and bank balances	-	535
Trade and other payables	-	(66)
Current tax payable	-	(2)
Net assets disposed	-	550
Total disposal proceeds	-	(800)
Gain on disposal to the Group	-	(250)
Disposal proceeds settled by cash	-	800
Cash inflow arising on disposal:		
Cash consideration	-	800
Cash and cash equivalents of subsidiary disposed	-	(535)
Net cash inflow of the Group	-	265

The disposal of subsidiary had the following effect on the financial results of the Bank:

	2008 RM'000	2007 RM'000
Total disposal proceeds	-	400
Less: Cost of investment in subsidiary	-	(100)
Gain on disposal of subsidiary	-	300

Notes to the financial statements

for the year ended 31 December 2008

11. Investment in associates

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Unquoted shares, at cost	**122,733**	122,733	**122,733**	122,733
Share of post-acquisition reserves	**41,899**	38,639	**-**	-
	164,632	161,372	**122,733**	122,733

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

	Group's effective interest		Principal activities
	2008 %	2007 %	
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:

	2008 RM'000	2007 RM'000
Assets and liabilities		
Current assets	**465,672**	390,768
Non-current assets	**1,329,022**	1,350,350
Total assets	**1,794,694**	1,741,118
Current liabilities	**530,348**	488,701
Non-current liabilities	**880,476**	878,304
Total liabilities	**1,410,824**	1,367,005
Results		
Revenue	**825,822**	428,394
Profit before taxation	**14,218**	55,358
Profit for the year	**10,447**	39,916

The details of goodwill included within the Group's carrying amount of investment in associates are as follows:

Cost		
At 1 January and 31 December	**19,755**	19,755
Accumulated amortisation		
At 1 January and 31 December	**-**	-
Net carrying amount		
At 1 January and 31 December	**19,755**	19,755

12. Investment properties

	Group and Bank	
	2008 RM'000	2007 RM'000
At 1 January	**9,000**	10,000
Impairment loss recognised in equity	**-**	(637)
Depreciation charge	**(180)**	(363)
At 31 December	**8,820**	9,000

Notes to the financial statements

for the year ended 31 December 2008

13. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2008							
Cost or valuation							
At 1 January 2008							
At cost	**-**	**-**	**119,396**	**189,513**	**6,208**	**5,216**	**320,333**
At valuation	**32,632**	**95,258**	**-**	**-**	**-**	**-**	**127,890**
	32,632	**95,258**	**119,396**	**189,513**	**6,208**	**5,216**	**448,223**
Additions	**-**	**-**	**15,349**	**22,277**	**262**	**-**	**37,888**
Disposals	**-**	**-**	**(2,666)**	**(3,682)**	**(317)**	**(2,989)**	**(9,654)**
Reclassification to prepaid land lease payments	**(1,379)**	**668**	**-**	**-**	**-**	**-**	**(711)**
At 31 December 2008	**31,253**	**95,926**	**132,079**	**208,108**	**6,153**	**2,227**	**475,746**
Representing:							
At cost	**-**	**-**	**132,079**	**208,108**	**6,153**	**2,227**	**348,567**
At valuation	**31,253**	**95,926**	**-**	**-**	**-**	**-**	**127,179**
At 31 December 2008	**31,253**	**95,926**	**132,079**	**208,108**	**6,153**	**2,227**	**475,746**
Accumulated Depreciation and Impairment							
At 1 January 2008	**823**	**1,723**	**75,200**	**124,721**	**3,256**	**-**	**205,723**
Depreciation charge	**-**	**4,695**	**8,944**	**23,491**	**1,178**	**-**	**38,308**
Disposals	**-**	**-**	**(2,629)**	**(3,566)**	**(278)**	**-**	**(6,473)**
Reclassification to prepaid land lease payments	**-**	**152**	**-**	**-**	**-**	**-**	**152**
At 31 December 2008	**823**	**6,570**	**81,515**	**144,646**	**4,156**	**-**	**237,710**
Net carrying amount							
At cost	**-**	**-**	**50,564**	**63,462**	**1,997**	**2,227**	**118,250**
At valuation	**30,430**	**89,356**	**-**	**-**	**-**	**-**	**119,786**
At 31 December 2008	**30,430**	**89,356**	**50,564**	**63,462**	**1,997**	**2,227**	**238,036**
At 31 December 2007							
Cost or valuation							
At 1 January 2007							
At cost	-	2,552	122,212	165,883	5,905	4,275	300,827
At valuation	23,319	108,634	-	-	-	-	131,953
	23,319	111,186	122,212	165,883	5,905	4,275	432,780
Additions	-	2,033	9,433	38,581	984	941	51,972
Disposals	(1,880)	(1,348)	(12,249)	(14,951)	(681)	-	(31,109)
Revaluation surplus	11,193	4,158	-	-	-	-	15,351
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	32,632	95,258	119,396	189,513	6,208	5,216	448,223
Representing:							
At cost	-	-	119,396	189,513	6,208	5,216	320,333
At valuation	32,632	95,258	-	-	-	-	127,890
At 31 December 2007	32,632	95,258	119,396	189,513	6,208	5,216	448,223
Accumulated Depreciation and Impairment							
At 1 January 2007	723	18,564	79,419	117,729	2,737	-	219,172
Depreciation charge	-	4,368	7,930	20,840	1,155	-	34,293
Disposals	-	(438)	(12,149)	(13,848)	(636)	-	(27,071)
Impairment loss	100	-	-	-	-	-	100
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	823	1,723	75,200	124,721	3,256	-	205,723
Net carrying amount							
At cost	-	-	44,196	64,792	2,952	5,216	117,156
At valuation	31,809	93,535	-	-	-	-	125,344
At 31 December 2007	31,809	93,535	44,196	64,792	2,952	5,216	242,500

Notes to the financial statements
for the year ended 31 December 2008

13. Property, plant and equipment

Bank	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
At 31 December 2008							
Cost or valuation							
At 1 January 2008							
At cost	-	-	118,678	189,757	6,208	5,216	319,859
At valuation	32,632	95,258	-	-	-	-	127,890
	32,632	95,258	118,678	189,757	6,208	5,216	447,749
Additions	-	-	15,298	22,277	262	-	37,837
Disposals	-	-	(2,666)	(3,682)	(317)	(2,989)	(9,654)
Reclassification to prepaid land lease payments	(1,379)	668	-	-	-	-	(711)
At 31 December 2008	31,253	95,926	131,310	208,352	6,153	2,227	475,221
Representing:							
At cost	-	-	131,310	208,352	6,153	2,227	348,042
At valuation	31,253	95,926	-	-	-	-	127,179
At 31 December 2008	31,253	95,926	131,310	208,352	6,153	2,227	475,221
Accumulated Depreciation and Impairment							
At 1 January 2008	823	1,723	74,983	124,845	3,256	-	205,630
Depreciation charge	-	4,695	8,902	23,469	1,178	-	38,244
Disposals	-	-	(2,629)	(3,566)	(278)	-	(6,473)
Reclassification to prepaid land lease payments	-	152	-	-	-	-	152
At 31 December 2008	823	6,570	81,256	144,748	4,156	-	237,553
Net carrying amount							
At cost	-	-	50,054	63,604	1,997	2,227	117,882
At valuation	30,430	89,356	-	-	-	-	119,786
At 31 December 2008	30,430	89,356	50,054	63,604	1,997	2,227	237,668
At 31 December 2007							
Cost or valuation							
At 1 January 2007							
At cost	-	2,552	121,493	165,088	5,905	4,275	299,313
At valuation	23,319	108,634	-	-	-	-	131,953
	23,319	111,186	121,493	165,088	5,905	4,275	431,266
Additions	-	2,033	9,327	38,424	984	941	51,709
Disposals	(1,880)	(1,348)	(12,142)	(13,755)	(681)	-	(29,806)
Revaluation surplus	11,193	4,158	-	-	-	-	15,351
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	32,632	95,258	118,678	189,757	6,208	5,216	447,749
Representing:							
At cost	-	-	118,678	189,757	6,208	5,216	319,859
At valuation	32,632	95,258	-	-	-	-	127,890
At 31 December 2007	32,632	95,258	118,678	189,757	6,208	5,216	447,749
Accumulated Depreciation and Impairment							
At 1 January 2007	723	18,564	79,210	117,571	2,737	-	218,805
Depreciation charge	-	4,368	7,884	20,659	1,155	-	34,066
Disposals	-	(438)	(12,111)	(13,385)	(636)	-	(26,570)
Impairment loss	100	-	-	-	-	-	100
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	823	1,723	74,983	124,845	3,256	-	205,630
Net carrying amount							
At cost	-	-	43,695	64,912	2,952	5,216	116,775
At valuation	31,809	93,535	-	-	-	-	125,344
At 31 December 2007	31,809	93,535	43,695	64,912	2,952	5,216	242,119

Notes to the financial statements
for the year ended 31 December 2008

13. Property, plant and equipment (continued)

Land and buildings were revalued on 31 December 2007 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 and Bank	
	2008 RM'000	**2007 RM'000**
Freehold land	**12,131**	12,131
Freehold building	**11,448**	11,854
Long leasehold building	**26,795**	27,706
	50,374	51,691

14. Prepaid land lease payments

	Group and Bank	
	2008 RM'000	**2007 RM'000**
Long term leasehold land		
At 1 January	**41,387**	28,872
Reclassification from property, plant and equipment	**863**	-
Revaluation surplus	**-**	12,966
Amortisation for the year	**(660)**	(451)
At 31 December	**41,590**	41,387

15. Deferred tax assets

	Group		Bank	
	2008 RM'000	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**
At 1 January	**69,728**	54,076	**69,728**	54,076
Recognised in the income statement (Note 29)	**(6,424)**	17,151	**(6,406)**	17,151
Recognised in equity	**(7,358)**	(1,499)	**(7,358)**	(1,499)
At 31 December	**55,946**	69,728	**55,964**	69,728
An analysis of the Group's and the Bank's deferred tax position is as follows:				
Deferred tax assets	**95,514**	98,241	**95,512**	98,241
Deferred tax liabilities	**(39,568)**	(28,513)	**(39,548)**	(28,513)
	55,946	69,728	**55,964**	69,728

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

Deferred tax assets - Group and Bank

Group	**General allowance for losses on loans, advances and financing RM'000**	**Others RM'000**	**Total RM'000**
At 1 January 2007	79,552	408	79,960
Charged to income statement	16,633	1,648	18,281
At 31 December 2007	96,185	2,056	98,241
Charged to income statement	10,612	(13,339)	(2,727)
At 31 December 2008	106,797	(11,283)	95,514

Notes to the financial statements

for the year ended 31 December 2008

15. Deferred tax assets (continued)

Bank	General allowance for losses on loans, advances and financing RM'000	Others RM'000	Total RM'000
At 1 January 2007	79,552	408	79,960
Charged to income statement	16,633	1,648	18,281
At 31 December 2007	96,185	2,056	98,241
Charged to income statement	10,612	(13,341)	(2,729)
At 31 December 2008	106,797	(11,285)	95,512

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 2007	5,279	(13)	20,618	25,884
Charged to income statement	1,596	-	(466)	1,130
Recognised in equity	-	(1,070)	2,569	1,499
At 31 December 2007	6,875	(1,083)	22,721	28,513
Charged to income statement	3,697	-	-	3,697
Recognised in equity	-	8,331	(973)	7,358
At 31 December 2008	10,572	7,248	21,748	39,568
Deferred tax liabilities - Bank				
At 1 January 2007	5,279	(13)	20,618	25,884
Charged to income statement	1,596	-	(466)	1,130
Recognised in equity	-	(1,070)	2,569	1,499
At 31 December 2007	6,875	(1,083)	22,721	28,513
Charged to income statement	3,677	-	-	3,677
Recognised in equity	-	8,331	(973)	7,358
At 31 December 2008	10,552	7,248	21,748	39,548

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

	Group	
	2008 RM'000	2007 RM'000
Unutilised tax losses	**63,171**	63,171
Unabsorbed capital allowances	**11,082**	11,172
	74,253	74,343

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 2008

16. Deposits from customers

	Group and Bank 2008 RM'000	Group and Bank 2007 RM'000
Demand deposits	**4,139,839**	3,351,581
Savings deposits	**1,819,370**	1,580,662
Fixed deposits	**16,678,220**	14,539,809
Negotiable instruments of deposits	**508,364**	520,048
Money market deposits	**6,193,773**	3,877,471
Others	**672,316**	563,824
	30,011,882	24,433,395

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

	2008 RM'000	2007 RM'000
Due within six months	**13,287,453**	11,339,233
Six months to one year	**3,482,328**	3,256,522
One year to three years	**311,433**	329,676
Three years to five years	**105,370**	89,725
Over five years	**-**	44,701
	17,186,584	15,059,857

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

	2008 RM'000	2007 RM'000
Business enterprises	**13,244,422**	10,117,691
Individuals	**15,183,014**	13,158,735
Others	**1,584,446**	1,156,969
	30,011,882	24,433,395

17. Deposits and placements of banks and other financial institutions

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Licensed banks	**641,692**	1,542,212	**642,106**	1,542,621
Licensed investment banks	**-**	389,100	**-**	389,100
Bank Negara Malaysia	**684,401**	1,646,506	**684,401**	1,646,506
Other financial institutions	**2,960,984**	1,139,140	**2,960,984**	1,139,140
	4,287,077	4,716,958	**4,287,491**	4,717,367

18. Amount due to Cagamas

	Group and Bank 2008 RM'000	Group and Bank 2007 RM'000
At 1 January	**316,115**	560,030
Repayments	**(179,003)**	(243,915)
At 31 December	**137,112**	316,115

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 balance sheet.

Notes to the financial statements

for the year ended 31 December 2008

19. Other liabilities

	Group		Bank	
	2008	**2007**	**2008**	**2007**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Provision for commitments and contingencies (Note (i))	**1,825**	1,236	**1,825**	1,236
Derivative liabilities	**150,112**	120,953	**150,112**	120,953
Accrued interest payable	**213,220**	181,126	**213,220**	181,126
Accruals and provisions for operational expenses	**78,312**	75,778	**78,305**	75,704
Other accruals and provisions (Note (ii))	**255,155**	336,307	**255,155**	336,307
	698,624	715,400	**698,617**	715,326
(i) Movements in provision for commitments and contingencies are as follows:				
At 1 January	**1,236**	1,308	**1,236**	1,308
Provision made during the year	**589**	52	**589**	52
Amount written back in respect of recoveries	**-**	(124)	**-**	(124)
At 31 December	**1,825**	1,236	**1,825**	1,236

(ii) Included in other accruals and provisions is an amount due to the ultimate holding company of RM117,345,000 (2007: RM133,284,000) in relation to precious metals on loan to customers of the Bank as disclosed in Note 8.

20. Share capital

	Group and Bank	
	2008	**2007**
	RM'000	**RM'000**
Authorised:		
2,000,000,000 ordinary shares of RM1 each	**2,000,000**	2,000,000
Issued and fully paid-up:		
470,000,000 ordinary shares of RM1 each	**470,000**	470,000

21. Reserves

		Group		Bank	
	Note	**2008**	**2007**	**2008**	**2007**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Non-distributable					
Share premium		**322,555**	322,555	**322,555**	322,555
Statutory reserve	(a)	**470,000**	470,000	**470,000**	470,000
Revaluation reserves		**60,804**	59,831	**75,696**	74,723
Net unrealised reserves/(deficit) on AFS securities		**21,745**	(3,247)	**21,745**	(3,247)
		875,104	849,139	**889,996**	864,031
Distributable					
Retained profits	(b)	**1,639,962**	1,425,031	**1,583,030**	1,371,341
Total Reserves		**2,515,066**	2,274,170	**2,473,026**	2,235,372

(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.

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for the year ended 31 December 2008

21. Reserves (continued)

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

The Bank did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2008 and 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2008 and 2007, the Bank has sufficient credit in the Section 108 balance to pay franked dividends out of its entire retained earnings.

22. Operating revenue

Operating revenue of the Group and the Bank comprise gross interest income after net interest suspended/recovered, fee and commission income, investment income, income from trading of dealing securities, income derived from investment securities, gross dividends, trustee and nominee services and other income derived from banking operations.

23. Interest income

	Group		Bank	
	2008 RM'000	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**
Loans and advances				
- Interest income other than recoveries from NPLs	**1,454,483**	1,253,673	**1,454,483**	1,253,673
- Recoveries from NPLs	**76,405**	119,711	**76,405**	119,711
Money at call and deposit placements with financial institutions	**284,122**	274,568	**284,122**	274,560
Held-for-trading securities	**9,601**	26,179	**9,601**	26,179
Available-for-sale securities	**158,870**	159,209	**158,870**	159,209
Others	**1,071**	2,602	**1,071**	2,602
	1,984,552	1,835,942	**1,984,552**	1,835,934
Amortisation of premium less accretion of discount	**(8,022)**	(6,839)	**(8,022)**	(6,839)
Net interest suspended	**(15,741)**	(4,265)	**(15,741)**	(4,265)
	1,960,789	1,824,838	**1,960,789**	1,824,830

24. Interest expense

	Group and Bank	
	2008 RM'000	**2007 RM'000**
Deposits and placements of banks and other financial institutions	**214,048**	192,224
Deposits from other customers	**769,311**	656,333
Loans sold to Cagamas	**8,657**	16,282
Others	**5,590**	91,213
	997,606	956,052

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for the year ended 31 December 2008

25. Other operating income

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fee income				
Commission	**94,271**	116,741	**94,271**	116,160
Guarantee fees	**25,705**	27,625	**25,705**	27,625
Service charges and fees	**124,100**	103,541	**124,100**	103,541
Commitment fee	**20,143**	22,092	**20,143**	22,092
Arrangement and participation fees	**6,795**	17,146	**6,795**	17,146
	271,014	287,145	**271,014**	286,564
Investment income				
(Loss)/gain from sale of held-for-trading securities and derivatives	**(8,590)**	58,728	**(8,590)**	58,728
Gain from sale of available-for-sale securities	**20,431**	6,274	**20,431**	6,274
Unrealised loss on held-for-trading securities and derivatives	**(107,466)**	(24,062)	**(107,466)**	(24,062)
Gain on disposal of subsidiary	**-**	250	**-**	300
Gross dividends from:				
available-for-sale securities quoted in Malaysia	**1,353**	808	**1,353**	808
associate	**-**	-	**-**	23,893
	(94,272)	41,998	**(94,272)**	65,941
Other income				
Foreign exchange gain				
realised	**31,232**	56,769	**31,232**	56,769
unrealised	**60,823**	9,729	**60,823**	9,729
Rental income from operating leases, other than those from investment properties	**215**	276	**215**	276
Rental income from investment properties	**600**	600	**600**	600
Gain/(loss) on disposal of property, plant and equipment	**64**	(365)	**64**	266
Impairment of property, plant and equipment	**-**	(100)	**-**	(100)
Other operating income	**3,580**	2,854	**3,580**	2,854
Others	**11,834**	11,258	**11,834**	11,258
	108,348	81,021	**108,348**	81,652
	285,090	410,164	**285,090**	434,157

26. Other operating expenses

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Personnel expenses	**273,536**	242,437	**272,266**	240,463
Establishment related expenses	**106,075**	92,342	**105,845**	91,842
Promotion and marketing related expenses	**43,417**	36,799	**45,180**	38,340
General administrative expenses	**83,079**	78,721	**82,808**	82,098
	506,107	450,299	**506,099**	452,743
Personnel expenses				
Wages, salaries and bonus	**213,968**	192,696	**212,884**	191,049
Defined contribution retirement plan	**33,430**	30,556	**33,289**	30,323
Other employee benefits	**26,138**	19,185	**26,093**	19,091
	273,536	242,437	**272,266**	240,463

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26. Other operating expenses (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Establishment related expenses				
Depreciation of property, plant and equipment	**38,308**	34,293	**38,244**	34,066
Depreciation of investment property	**180**	363	**180**	363
Amortisation of prepaid land lease payments	**660**	451	**660**	451
Hire of equipment	**66**	64	**66**	58
Information technology costs	**13,062**	9,902	**13,062**	9,894
Repair and maintenance	**17,474**	14,405	**17,410**	14,337
Rental of premises	**7,569**	6,443	**7,495**	6,300
Others	**28,756**	26,421	**28,728**	26,373
	106,075	92,342	**105,845**	91,842
Promotion and marketing related expenses				
Advertising and publicity	**20,703**	21,668	**20,671**	21,652
Others	**22,714**	15,131	**24,509**	16,688
	43,417	36,799	**45,180**	38,340
General administrative expenses				
Fees and commissions paid	**34,827**	33,274	**34,729**	33,187
Auditors' remuneration	**485**	449	**477**	439
Amount due from subsidiary written off	**-**	-	**-**	3,677
Others	**47,767**	44,998	**47,602**	44,795
	83,079	78,721	**82,808**	82,098
The above expenditure includes the following:				
Directors' remuneration (Note 27)	**1,714**	1,538	**1,714**	1,538

27. CEO and directors' remuneration

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

	Group and Bank	
	2008 RM'000	2007 RM'000
CEO		
Salary and other remuneration	**758**	686
Bonus	**477**	400
Fees	**40**	40
Benefits-in-kind	**4**	7
Non-executive Directors		
Fees	**435**	405
Total	**1,714**	1,538

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

	No of Directors	
	2008	2007
Executive director:		
RM1,000,000 to RM1,500,000	**1**	1
Non-executive directors:		
RM1 to RM50,000	**2**	7
RM50,001 to RM100,000	**6**	1

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28. Allowance for losses on loans, advances and financing

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Allowance for losses on loans, advances and financing:				
(a) Specific allowance				
made in the financial year	**323,730**	251,780	**323,730**	251,780
written back in the financial year	**(68,885)**	(58,844)	**(68,885)**	(58,844)
(b) General allowance				
made in the financial year	**42,450**	78,770	**42,450**	78,770
Bad debts on loans, advances and financing:				
written off	**1,044**	634	**1,044**	634
recovered	**(71,971)**	(86,553)	**(71,963)**	(86,551)
	226,368	185,787	**226,376**	185,789

29. Income tax expense

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income tax:				
Malaysian income tax in respect of current financial year	**135,713**	192,759	**135,713**	197,225
(Over)/under provision in prior years	**(12,499)**	1,611	**(12,499)**	1,611
	123,214	194,370	**123,214**	198,836
Deferred tax (Note 15):				
Relating to origination and reversal of temporary differences	**1,422**	(19,530)	**1,414**	(19,530)
Deferred tax recognised at different tax rates	**2,459**	3,690	**2,462**	3,690
Under/(over) provision in prior years	**2,543**	(1,311)	**2,530**	(1,311)
	6,424	(17,151)	**6,406**	(17,151)
	129,638	177,219	**129,620**	181,685

Domestic income tax is calculated at the Malaysian statutory tax rate of 26% (2007: 27%) of the estimated assessable profit for the year. The domestic statutory rate will be reduced to 25% effective year of assessment 2009. The computation of deferred tax as at 31 December 2008 has reflected these changes.

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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before taxation	**518,469**	660,433	**515,209**	664,475
Taxation at Malaysian statutory tax rate of 26% (2007: 27%)	**134,802**	178,317	**133,954**	179,408
Effect of changes in tax rates on opening balance of deferred tax	**2,390**	3,033	**2,390**	3,033
Deferred tax recognised at different tax rates	**69**	657	**72**	657
Income not subject to tax	**(339)**	(6,839)	**(339)**	(6,839)
Expenses not deductible for tax purposes	**3,910**	5,128	**3,512**	5,126
Effects of share of associates' post-tax profits included in Group's profit before taxation	**(1,238)**	(3,377)	**-**	-
(Over)/underprovision of tax expense in prior years	**(12,499)**	1,611	**(12,499)**	1,611
Under/(over)provision of deferred tax in prior years	**2,543**	(1,311)	**2,530**	(1,311)
Tax expense for the year	**129,638**	177,219	**129,620**	181,685

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30. Earnings per share

The earnings per ordinary share of the Group has been calculated based on the net profit after taxation of RM388,831,000 (2007: RM483,214,000) and on the number of ordinary shares of RM1 each in issue during the year of 470,000,000 (2007: 470,000,000).

31. Dividends

	Group and Bank			
	2008		2007	
	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	**5.9**	**27,848**	37.0	173,900

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2008, of 7.9% less 25% taxation on 470,000,000 ordinary shares of RM1 each, amounting to dividend payable of RM27,847,500 (5.9 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 2009.

32 Significant related party transactions and balances

(a) Related parties and relationships

The related parties of and their relationship (other than those disclosed in Notes 10 and 11 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
2008					
Income					
Interest on placements, loans and advances	**53,784**	**-**	**-**	**134**	**-**
Rental income	**40**	**-**	**-**	**-**	**126**
	53,824	**-**	**-**	**134**	**126**
Expenditure					
Interest on deposits	**118,549**	**-**	**639**	**686**	**244**
Rental expense	**-**	**-**	**-**	**-**	**404**
	118,549	**-**	**639**	**686**	**648**

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for the year ended 31 December 2008

32 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
2008 (continued)					
Amount due from					
Cash and short-term funds	**234,406**	**-**	**-**	**-**	**1,084**
Deposits and placements with financial institution	**644,431**	**-**	**-**	**-**	**-**
Loans, advances and financing	**-**	**-**	**-**	**4,783**	**-**
Other assets	**10,841**	**620**	**-**	**-**	**-**
	889,678	**620**	**-**	**4,783**	**1,084**
Amount due to					
Deposits from customers	**-**	**415**	**2,767**	**27,088**	**105**
Deposits and placements of banks and other financial institutions	**2,882,327**	**-**	**22,561**	**-**	**8,708**
Other liabilities	**149,345**	**-**	**-**	**-**	**-**
	3,031,672	**415**	**25,328**	**27,088**	**8,813**
2007					
Income					
Interest on placements, loans and advances	62,621	-	-	220	-
Rental income	34	56	-	-	113
Dividend income	-	-	23,893	-	-
	62,655	56	23,893	220	113
Expenditure					
Interest on deposits	87,574	9	708	687	247
Rental expense	-	-	-	-	131
Other expense	27	-	-	-	-
	87,601	9	708	687	378
Amount due from					
Cash and short-term funds	202,848	-	-	-	169
Deposits and placements with financial institution	693,197	-	-	-	-
Loans, advances and financing	-	-	-	6,973	-
Other assets	10,823	546	-	-	-
	906,868	546	-	6,973	169
Amount due to					
Deposits from customers	-	411	1,873	24,631	17
Deposits and placements of banks and other financial institutions	1,043,551	-	7,059	-	8,941
Other liabilities	149,370	-	-	-	-
	1,192,921	411	8,932	24,631	8,958

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

	Group and Bank	
	2008 RM'000	2007 RM'000
Short-term employee benefits	**10,183**	9,691
Post employment benefits: Defined contribution retirement plan	**1,630**	1,533
Share based payment*	**1,646**	430
	13,459	11,654

Notes to the financial statements

for the year ended 31 December 2008

32 Significant related party transactions and balances (continued)

* In the previous financial year, key management personnel of the Bank were granted options to subscribe in shares of the holding company under the Restricted Share Plan and Share Appreciation Rights Plan. As at 31 December 2008 the number of options held by key management personnel under these 2 plans were 59,800 (2007: 58,513) and 251,400 (2007: 248,334), respectively.

33. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Group and Bank		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
2008			
Direct credit substitutes	**2,030,489**	**2,030,489**	**1,979,023**
Transaction-related contingent items	**1,175,132**	**587,566**	**421,497**
Short-term self-liquidating trade-related contingencies	**314,687**	**62,937**	**58,805**
Irrevocable commitments to extend credit			
maturity more than one year	**2,044,316**	**1,022,158**	**838,627**
maturity less than one year	**12,263,089**	**-**	**-**
Foreign exchange related contracts			
less than one year	**2,991,346**	**110,378**	**30,977**
more than one year to less than five years	**1,231,206**	**87,163**	**17,433**
Interest rate related contracts			
less than one year	**2,817,510**	**21,955**	**4,391**
more than one year to less than five years	**17,347,608**	**736,183**	**146,784**
five years and above	**2,180,162**	**276,896**	**55,379**
Others	**1,139,142**	**-**	**-**
Total	**45,534,687**	**4,935,725**	**3,552,916**
2007			
Direct credit substitutes	1,856,018	1,856,018	1,803,956
Transaction-related contingent items	1,108,620	554,310	443,894
Short-term self-liquidating trade-related contingencies	544,727	108,945	101,385
Irrevocable commitments to extend credit			
maturity more than one year	1,948,814	974,407	834,844
maturity less than one year	16,593,290	-	-
Foreign exchange related contracts			
less than one year	9,122,314	223,948	48,504
more than one year to less than five years	1,177,902	96,220	19,244
Interest rate related contracts			
less than one year	3,183,324	7,663	1,533
more than one year to less than five years	15,370,242	432,381	87,967
five years and above	911,940	103,228	20,646
Others	426,101	-	-
Total	52,243,292	4,357,120	3,361,973

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.

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33. Commitments and contingencies (continued)

Analysis of foreign exchange contracts and interest rate contracts is as follows:

	2008 Principal amount RM'000	2007 Principal amount RM'000
The Group and Bank		
Foreign exchange contract		
forward and futures contracts	**1,873,180**	1,669,644
cross currency interest rate swaps	**2,349,372**	8,630,572
Interest rate contracts		
forward and futures contracts	**143,000**	1,275,000
swaps	**22,202,280**	18,190,506

Market risk
Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at end of 31 December 2008 the amounts of contracts which were not hedged and hence, exposed to market risk was RM548,169 (2007: RM1,007,000).

Credit risk
Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2008, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM82,037,763 (2007: RM106,232,695). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

34. Capital commitments

	Group and Bank	
	2008 RM'000	2007 RM'000
Capital expenditure for property, plant and equipment:		
authorised and contracted for	**12,704**	15,805
authorised but not contracted for	**19,413**	15,096
	32,117	30,901

35. Lease commitments

(a) The Group as Lessee

The Group and the Bank has 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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Future minimum rentals payments:				
Not later than one year	**6,070**	4,577	**5,992**	4,462
Later than one year and not later than five years	**5,796**	2,653	**5,737**	2,521
	11,866	7,230	**11,729**	6,983

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36. Capital adequacy

	2008 RM'000	2007 RM'000
Bank		
Tier I capital		
paid-up share capital	**470,000**	470,000
share premium	**322,555**	322,555
Retained profits	**1,583,030**	1,371,341
Statutory reserve	**470,000**	470,000
Less:		
Deferred tax assets	**(55,964)**	(69,728)
	2,789,621	2,564,168
Tier II capital		
property revaluation reserve	**37,848**	37,362
general allowance for losses on loans, advances and financing	**427,189**	384,739
	465,037	422,101
Total capital	**3,254,658**	2,986,269
Less: Investment in subsidiaries	**(51)**	(51)
Capital base	**3,254,607**	2,986,218

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

	2008	2007
Core capital ratio	**10.24%**	9.96%
Risk-weighted capital ratio	**11.95%**	11.60%
Core capital ratio (net of proposed dividends)	**10.14%**	9.29%
Risk-weighted capital ratio (net of proposed dividends)	**11.85%**	10.92%

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

	2008		2007	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	**11,338,942**	**-**	6,479,786	-
20%	**4,220,411**	**844,082**	5,020,498	1,004,100
50%	**9,968,551**	**4,984,276**	8,315,607	4,157,804
100%	**20,878,361**	**20,878,361**	20,090,385	20,090,385
	46,406,265	**26,706,719**	39,906,276	25,252,289
Market Risk	**26,866,860**	**532,975**	30,223,328	486,929
	73,273,125	**27,239,694**	70,129,604	25,739,218

37. Credit exposure arising from credit transactions with connected parties

	2008
Outstanding credit exposures with connected parties (RM'000)	29,360
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	0.160%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	0.001%

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

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38. 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.

Managing financial risks is an integral part of the Bank's business. It is carried out centrally by the various specialist committees of the Bank under delegated authority of the Board of Directors. These various specialist committees formulate, review and approve policies and limits on monitoring and managing risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to review by the Executive Committee ("EXCO").

The Risk Management Division assumes the independent oversight of risk undertaken by the Bank, and takes the lead in the formulation and approval of risk policy, controls and processes. The Middle Office 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 Internal Audit.

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

(a) 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 open positions are mark-to-market and monitored against pre-determined position limits. The mark-to-market valuations are then monitored against pre-determined cut-loss limits and regularly reported to Management.

Foreign exchange risk is managed through market risk processes, risk limits and policies as approved by the Group Asset Liability Committee ("ALCO"). 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 Middle Office.

(b) Credit risk

Credit risk is the potential loss arising from any failure by the Bank's customers or counter parties to fulfill their obligations as and when these obligations fall due. These obligations may arise from lending, trade finance, investments, receivables under derivative contracts and other credit-related activities undertaken by the Bank.

The EXCO is responsible for the management of credit risk of the Bank. Apart from direct credit management, such as approval of significant loans, it is also responsible for providing directions and timely guidance on lending to different geographical sectors, industries and products.

The In-Country Credit Committee, under delegated authority from the EXCO, deals with approval of credit applications and review of existing credit facilities.

The Credit Management Committee, under delegated authority from the EXCO, deals with all credit risk matters, including formulation and review of credit policies.

In general, the Bank monitors the levels of credit risk it undertakes through regular reviews by management, with independent oversight of its credit concentration and portfolio quality.

In respect of its lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, geographical and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

In respect of other credit risk activities such as money market transactions and derivative financial instruments, the Bank has counter-party risk policies that set out approved counter-parties with which the Bank may transact and their respective transaction limits.

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counter-parties that permit the Bank to offset receivables and payables with such counter-parties.

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38. Financial risk management (continued)

(b) Credit risk (continued)

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

Group 2008	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Held-for-trading securities RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Specific provision and general provision RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture, hunting, forestry and fishing	**-**	**-**	**-**	**104,734**	**(2,847)**	**-**	**101,887**	**47,176**
Mining and quarrying	**-**	**-**	**-**	**23,227**	**(354)**	**-**	**22,873**	**24,936**
Manufacturing	**-**	**-**	**171,951**	**5,299,541**	**(258,607)**	**7,794**	**5,220,679**	**4,357,579**
Electricity, gas and water	**-**	**1,074**	**-**	**7,669**	**(117)**	**-**	**8,626**	**202,696**
Construction	**-**	**-**	**37,555**	**1,758,885**	**(35,881)**	**100**	**1,760,659**	**2,979,894**
Wholesale & retail trade and restaurants & hotels	**-**	**-**	**-**	**4,452,525**	**(128,894)**	**-**	**4,323,631**	**3,841,669**
Transport, storage, and communication	**-**	**-**	**189,046**	**554,572**	**(10,130)**	**5,164**	**738,652**	**141,039**
Finance, insurance, and business services	**8,693,633**	**-**	**3,217,055**	**1,056,513**	**(84,640)**	**894,424**	**13,776,985**	**27,351,922**
Real estate								
Community, social and	**-**	**-**	**565**	**880,992**	**(18,162)**	**-**	**863,395**	**1,056,669**
personal services	**-**	**-**	**-**	**88,603**	**(10,709)**	**-**	**77,894**	**58,814**
Households	**-**	**-**	**-**	**14,209,916**	**(302,927)**	**-**	**13,906,989**	**5,375,654**
Others	**-**	**-**	**-**	**2,140**	**(33)**	**272,649**	**274,756**	**96,639**
	8,693,633	**1,074**	**3,616,172**	**28,439,317**	**(853,301)**	**1,180,131**	**41,077,026**	**45,534,687**
Other assets not subject to credit risk	**-**	**-**	**-**	**-**	**-**	**348,441**	**348,441**	**-**
	8,693,633	**1,074**	**3,616,172**	**28,439,317**	**(853,301)**	**1,528,572**	**41,425,467**	**45,534,687**

Group 2007								
Agriculture, hunting, forestry and fishing	-	23,660	-	117,329	(1,778)	-	139,211	93,561
Mining and quarrying	-	-	-	34,946	(530)	-	34,416	163,156
Manufacturing	-	16,446	334,670	5,127,661	(225,833)	335	5,253,279	6,402,702
Electricity, gas and water	-	138,441	-	28,815	(437)	669	167,488	377,743
Construction	-	38,056	497	1,512,810	(34,180)	95	1,517,278	3,954,270
Wholesale & retail trade and restaurants & hotels	-	-	-	3,811,760	(124,916)	-	3,686,844	4,000,521
Transport, storage, and communication	-	54,703	181,847	521,347	(10,675)	1,373	748,595	401,284
Finance, insurance,							-	
and business services	4,298,502	255,726	3,857,902	1,445,962	(29,619)	1,026,705	10,855,178	31,660,222
Real estate	-	50,465	102	1,032,166	(25,647)	118	1,057,204	341,416
Community, social and personal services	-	-	-	105,019	(13,038)	-	91,981	82,521
Households	-	-	-	11,943,691	(259,180)	-	11,684,511	4,645,471
Others	-	-	-	49,720	(753)	364,925	413,892	120,425
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,394,220	35,649,877	52,243,292
Other assets not subject to credit risk	-	-	-	-	-	366,664	366,664	-
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,760,884	36,016,541	52,243,292

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(b) Credit risk (continued)

Bank 2008	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Held-for-trading securities RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Specific provision and general provision RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture, hunting, forestry and fishing	-	-	-	104,734	(2,847)	-	101,887	47,176
Mining and quarrying	-	-	-	23,227	(354)	-	22,873	24,936
Manufacturing	-	-	171,951	5,299,541	(258,607)	7,794	5,220,679	4,357,579
Electricity, gas and water	-	1,074	-	7,669	(117)	-	8,626	202,696
Construction	-	-	37,555	1,758,885	(35,881)	100	1,760,659	2,979,894
Wholesale & retail trade and restaurants & hotels	-	-	-	4,452,525	(128,894)	-	4,323,631	3,841,669
Transport, storage, and communication	-	-	189,046	554,572	(10,130)	5,164	738,652	141,039
Finance, insurance, and business services	8,693,633	-	3,217,055	1,056,513	(84,640)	894,424	13,776,985	27,351,922
Real estate	-	-	565	880,992	(18,162)	-	863,395	1,056,669
Community, social and personal services	-	-	-	88,603	(10,709)	-	77,894	58,814
Households	-	-	-	14,209,916	(302,927)	-	13,906,989	5,375,654
Others	-	-	-	2,140	(33)	231,369	233,476	96,639
	8,693,633	1,074	3,616,172	28,439,317	(853,301)	1,138,851	41,035,746	45,534,687
Other assets not subject to credit risk	-	-	-	-	-	348,091	348,091	-
	8,693,633	1,074	3,616,172	28,439,317	(853,301)	1,486,942	41,383,837	45,534,687

Bank 2007	Short-term funds, securities purchased under resale agreements and placements with financial institutions RM'000	Held-for-trading securities RM'000	Available-for-sale securities RM'000	Loans, advances and financing RM'000	Specific provision and general provision RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture, hunting, forestry and fishing	-	23,660	-	117,329	(1,778)	-	139,211	93,561
Mining and quarrying	-	-		34,946	(530)	-	34,416	163,156
Manufacturing	-	16,446	334,670	5,127,661	(225,833)	335	5,253,279	6,402,702
Electricity, gas and water	-	138,441	-	28,815	(437)	669	167,488	377,743
Construction	-	38,056	497	1,512,810	(34,180)	95	1,517,278	3,954,270
Wholesale & retail trade and restaurants & hotels	-	-	-	3,811,760	(124,916)	-	3,686,844	4,000,521
Transport, storage, and communication	-	54,703	181,847	521,347	(10,675)	1,373	748,595	401,284
Finance, insurance, and business services	4,298,502	255,726	3,857,902	1,445,962	(29,619)	988,622	10,817,095	31,660,222
Real estate	-	50,465	102	1,032,166	(25,647)	118	1,057,204	341,416
Community, social and personal services	-	-	-	105,019	(13,038)	-	91,981	82,521
Households	-	-	-	11,943,691	(259,180)	-	11,684,511	4,645,471
Others	-	-	-	49,720	(753)	364,925	413,892	120,425
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,356,137	35,611,794	52,243,292
Other assets not subject to credit risk	-	-	-	-	-	366,284	366,284	-
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,722,421	35,978,078	52,243,292

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(c) Interest rate risk

Interest rate risk is the risk to earnings and economic value of the Bank caused by 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 ALCO.

The following table shows the interest rate sensitivity gap, by time bands based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual dates due to prepayments of loans and withdrawal of deposits.

Group 2008	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	<------------------------- Non-trading book					------------------------->			
Assets									
Cash and short-term funds	7,506,598	-	-	-	-	339,813	-	7,846,411	3.34
Securities purchased under resale agreements	98,921	-	-	-	-	-	-	98,921	2.95
Deposits and placements with financial institutions	-	704,157	44,144	-	-	-	-	748,301	5.39
Held-for-trading securities	-	-	-	-	-	-	1,074	1,074	3.89
Available-for-sale securities	662,033	767,765	783,189	459,858	910,183	33,144	-	3,616,172	3.74
Loans, advances and financing									
- performing	20,445,149	3,140,089	1,594,194	1,427,462	219,156	-	-	26,826,050	6.27
- non-performing	-	-	-	-	-	759,966	-	759,966	
Other assets	-	-	-	-	-	1,528,572	-	1,528,572	
	28,712,701	4,612,011	2,421,527	1,887,320	1,129,339	2,661,495	1,074	41,425,467	
Liabilities									
Deposits from customers	14,969,360	4,534,424	6,232,204	766,747	-	3,509,147	-	30,011,882	2.83
Deposits and placements of banks and other financial institutions	3,165,118	632,607	381,985	-	-	107,367	-	4,287,077	2.58
Bills and acceptances payable	19,914	6,015	-	-	-	3,242,602	-	3,268,531	5.36
Amount due to Cagamas	924	1,858	22,528	111,802	-	-	-	137,112	4.36
Other liabilities	-	-	-	-	-	735,799	-	735,799	
	18,155,316	5,174,904	6,636,717	878,549	-	7,594,915	-	38,440,401	
On-balance sheet interest sensitivity gap	10,557,385	(562,893)	(4,215,190)	1,008,771	1,129,339				
Off-balance sheet interest sensitivity gap	(2,089,234)	3,092,595	(570,120)	(423,078)	(10,163)				
Total interest sensitivity gap	8,468,151	2,529,702	(4,785,310)	585,693	1,119,176				

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(c) Interest rate risk (continued)

Group 2007	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	<------------------------- Non-trading book					------------------------->			
Assets									
Cash and short-term funds	544,000	-	-	-	-	597,316	-	1,141,316	4.16
Securities purchased under resale agreements	1,119,391	1,311,518	-	-	-	-	-	2,430,909	3.53
Deposits and placements with financial institutions	-	431,702	294,575	-	-	-	-	726,277	5.77
Held-for-trading securities	-	-	-	-	-	-	577,497	577,497	3.82
Available-for-sale securities	1,130,729	1,078,578	323,926	1,306,671	514,350	20,764	-	4,375,018	3.60
Loans, advances and financing									
- performing	16,651,909	1,687,566	1,687,267	1,149,058	346,741	2,797,026	-	24,319,567	6.68
- non-performing	-	-	-	-	-	685,073	-	685,073	
Other assets	-	-	-	-	-	1,760,884	-	1,760,884	
	19,446,029	4,509,364	2,305,768	2,455,729	861,091	5,861,063	577,497	36,016,541	
Liabilities									
Deposits from customers	11,886,934	3,409,643	5,319,054	898,314	44,701	2,874,749	-	24,433,395	2.99
Deposits and placements of banks and other financial institutions	2,542,958	1,436,529	507,037	-	-	230,434	-	4,716,958	3.82
Bills and acceptances payable	13,315	13,504	6,354	-	-	2,994,508	-	3,027,681	2.87
Amount due to Cagamas	53,188	3,475	119,328	140,124	-	-	-	316,115	3.81
Other liabilities	-	-	-	-	-	778,222	-	778,222	
	14,496,395	4,863,151	5,951,773	1,038,438	44,701	6,877,913	-	33,272,371	
On-balance sheet interest sensitivity gap	4,949,634	(353,787)	(3,646,005)	1,417,291	816,390				
Off-balance sheet interest sensitivity gap	(854,131)	2,696,240	140,994	(1,901,163)	(81,940)				
Total interest sensitivity gap	4,095,503	2,342,453	(3,505,011)	(483,872)	734,450				

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(c) Interest rate risk (continued)

Bank 2008	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	<------------------------- Non-trading book					------------------------->			
Assets									
Cash and short-term funds	7,506,598	-	-	-	-	339,813	-	7,846,411	3.34
Securities purchased under resale agreements	98,921	-	-	-	-	-	-	98,921	2.95
Deposits and placements with financial institutions	-	704,157	44,144	-	-	-	-	748,301	5.39
Held-for-trading securities	-	-	-	-	-	-	1,074	1,074	3.89
Available-for-sale securities	662,033	767,765	783,189	459,858	910,183	33,144	-	3,616,172	3.74
Loans, advances and financing									
- performing	20,445,149	3,140,089	1,594,194	1,427,462	219,156	-	-	26,826,050	6.27
- non-performing	-	-	-	-	-	759,966	-	759,966	
Other assets	-	-	-	-	-	1,486,942	-	1,486,942	
	28,712,701	4,612,011	2,421,527	1,887,320	1,129,339	2,619,865	1,074	41,383,837	
Liabilities									
Deposits from customers	14,969,360	4,534,424	6,232,204	766,747	-	3,509,147	-	30,011,882	2.83
Deposits and placements of banks and other financial institutions	3,165,532	632,607	381,985	-	-	107,367	-	4,287,491	2.58
Bills and acceptances payable	19,914	6,015	-	-	-	3,242,602	-	3,268,531	5.36
Amount due to Cagamas	924	1,858	22,528	111,802	-	-	-	137,112	4.36
Other liabilities	-	-	-	-	-	735,795	-	735,795	
	18,155,730	5,174,904	6,636,717	878,549	-	7,594,911	-	38,440,811	
On-balance sheet interest sensitivity gap	10,556,971	(562,893)	(4,215,190)	1,008,771	1,129,339				
Off-balance sheet interest sensitivity gap	(2,089,234)	3,092,595	(570,120)	(423,078)	(10,163)				
Total interest sensitivity gap	8,467,737	2,529,702	(4,785,310)	585,693	1,119,176				

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(c) Interest rate risk (continued)

Bank 2007	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	<---- Non-trading book ---->								
Assets									
Cash and short-term funds	544,000	-	-	-	-	597,316	-	1,141,316	4.16
Securities purchased under resale agreements	1,119,391	1,311,518	-	-	-	-	-	2,430,909	3.53
Deposits and placements with financial institutions	-	431,702	294,575	-	-	-	-	726,277	5.77
Held-for-trading securities	-	-	-	-	-	-	577,497	577,497	3.82
Available-for-sale securities	1,130,729	1,078,578	323,926	1,306,671	514,350	20,764	-	4,375,018	3.60
Loans, advances and financing									
performing	16,651,909	1,687,566	1,687,267	1,149,058	346,741	2,797,026	-	24,319,567	6.68
non-performing	-	-	-	-	-	685,073	-	685,073	
Other assets	-	-	-	-	-	1,722,421	-	1,722,421	
	19,446,029	4,509,364	2,305,768	2,455,729	861,091	5,822,600	577,497	35,978,078	
Liabilities									
Deposits from customers	11,886,934	3,409,643	5,319,054	898,314	44,701	2,874,749	-	24,433,395	2.99
Deposits and placements of banks and other financial institutions	2,543,367	1,436,529	507,037	-	-	230,434	-	4,717,367	3.82
Bills and acceptances payable	13,315	13,504	6,354	-	-	2,994,508	-	3,027,681	2.87
Amount due to Cagamas	53,188	3,475	119,328	140,124	-	-	-	316,115	3.81
Other liabilities	-	-	-	-	-	778,148	-	778,148	
	14,496,804	4,863,151	5,951,773	1,038,438	44,701	6,877,839	-	33,272,706	
On-balance sheet interest sensitivity gap	4,949,225	(353,787)	(3,646,005)	1,417,291	816,390				
Off-balance sheet interest sensitivity gap	(854,131)	2,696,240	140,994	(1,901,163)	(81,940)				
Total interest sensitivity gap	4,095,094	2,342,453	(3,505,011)	(483,872)	734,450				

Actual repricing dates may differ from contractual dates because prepayments and contractual terms do not reflect the actual behavioural patterns of assets and liabilities. Therefore, the Bank manages its interest rate risk by applying dynamic simulation modelling techniques on the above information, which is based on contractual terms.

(d) 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 the maturity of deposits and draw-down of loans.

The Bank manages liquidity risk in accordance with the liquidity framework, comprising liquidity policies, controls and limits approved by the ALCO. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements under the guidelines issued by Bank Negara Malaysia, and avoiding raising funds at market premiums or through forced sale of assets.

These controls and policies include the 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.

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for the year ended 31 December 2008

38. Financial risk management (continued)

(d) Liquidity risk (continued)

The following table shows the maturity analysis of the Bank's assets and liabilities based on contractual terms.

Group 2008	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	**7,601,101**	**-**	**-**	**-**	**-**	**245,310**	**7,846,411**
Securities purchased under resale agreement	**98,921**	**-**	**-**	**-**	**-**	**-**	**98,921**
Deposits and placements with financial institutions	**704,157**	**44,144**	**-**	**-**	**-**	**-**	**748,301**
Held-for-trading securities	**-**	**-**	**-**	**-**	**1,074**	**-**	**1,074**
Available-for-sale securities	**1,429,799**	**637,969**	**145,220**	**459,858**	**910,183**	**33,143**	**3,616,172**
Loans, advances and financing	**9,147,436**	**1,614,073**	**936,258**	**4,317,377**	**11,570,872**	**-**	**27,586,016**
Other assets	**20,513**	**30,602**	**-**	**-**	**-**	**1,477,457**	**1,528,572**
	19,001,927	**2,326,788**	**1,081,478**	**4,777,235**	**12,482,129**	**1,755,910**	**41,425,467**
Liabilities							
Deposits from customers	**22,997,287**	**2,652,654**	**3,579,551**	**766,747**	**-**	**15,643**	**30,011,882**
Deposits and placements of banks and other financial institutions	**3,220,692**	**376,444**	**5,540**	**-**	**-**	**684,401**	**4,287,077**
Bills and acceptances payables	**2,576,831**	**544,684**	**1,577**	**-**	**-**	**145,439**	**3,268,531**
Amount due to Cagamas	**2,782**	**2,813**	**19,715**	**111,802**	**-**	**-**	**137,112**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**735,799**	**735,799**
	28,797,592	**3,576,595**	**3,606,383**	**878,549**	**-**	**1,581,282**	**38,440,401**
Net maturity mismatches	**(9,795,665)**	**(1,249,807)**	**(2,524,905)**	**3,898,686**	**12,482,129**		

Group 2007	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	998,632	-	-	-	-	142,684	1,141,316
Securities purchased under resale agreement	2,430,909	-	-	-	-	-	2,430,909
Deposits and placements with financial institutions	431,702	195,335	99,240	-	-	-	726,277
Held-for-trading securities	81,538	-	19,994	246,848	229,117	-	577,497
Available-for-sale securities	2,209,307	268,209	55,716	1,306,671	514,350	20,765	4,375,018
Loans, advances and financing	8,829,872	1,905,725	689,279	4,075,872	9,503,892	-	25,004,640
Other assets	14,405	530	91,101	163,074	-	1,491,774	1,760,884
	14,996,365	2,369,799	955,330	5,792,465	10,247,359	1,655,223	36,016,541
Liabilities							
Deposits from customers	18,157,348	2,027,636	3,291,419	898,314	44,701	13,977	24,433,395
Deposits and placements of banks and other financial institutions	3,788,279	339,603	167,434	-	-	421,642	4,716,958
Bills and acceptances payables	2,518,997	365,391	-	-	-	143,293	3,027,681
Amount due to Cagamas	56,663	5,255	114,074	140,123	-	-	316,115
Other liabilities	-	-	-	1,201	-	777,021	778,222
	24,521,287	2,737,885	3,572,927	1,039,638	44,701	1,355,933	33,272,371
Net maturity mismatches	(9,524,922)	(368,086)	(2,617,597)	4,752,827	10,202,658		

Notes to the financial statements

for the year ended 31 December 2008

38. Financial risk management (continued)

(d) Liquidity risk (continued)

Bank 2008	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	7,601,101	-	-	-	-	245,310	7,846,411
Securities purchased under resale agreement	98,921	-	-	-	-	-	98,921
Deposits and placements with financial institutions	704,157	44,144	-	-	-	-	748,301
Held-for-trading securities	-	-			1,074	-	1,074
Available-for-sale securities	1,429,799	637,969	145,220	459,858	910,183	33,143	3,616,172
Loans, advances and financing	9,147,436	1,614,073	936,258	4,317,377	11,570,872	-	27,586,016
Other assets	20,513	30,602	-	-	-	1,435,827	1,486,942
	19,001,927	2,326,788	1,081,478	4,777,235	12,482,129	1,714,280	41,383,837
Liabilities							
Deposits from customers	22,997,287	2,652,654	3,579,551	766,747	-	15,643	30,011,882
Deposits and placements of banks and other financial institutions	3,221,106	376,444	5,540	-	-	684,401	4,287,491
Bills and acceptances payables	2,576,831	544,684	1,577	-	-	145,439	3,268,531
Amount due to Cagamas	2,782	2,813	19,715	111,802	-	-	137,112
Other liabilities	-	-	-	-	-	735,795	735,795
	28,798,006	3,576,595	3,606,383	878,549	-	1,581,278	38,440,811
Net maturity mismatches	(9,796,079)	(1,249,807)	(2,524,905)	3,898,686	12,482,129		

Bank 2007	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	998,632	-	-	-	-	142,684	1,141,316
Securities purchased under resale agreement	2,430,909	-	-	-	-	-	2,430,909
Deposits and placements with financial institutions	431,702	195,335	99,240	-	-	-	726,277
Held-for-trading securities	81,539	-	19,994	246,848	229,116	-	577,497
Available-for-sale securities	2,209,308	268,209	55,716	1,306,671	514,349	20,765	4,375,018
Loans, advances and financing	8,829,872	1,905,725	689,279	4,075,872	9,503,892	-	25,004,640
Other assets	14,405	530	91,101	163,074	-	1,453,311	1,722,421
	14,996,367	2,369,799	955,330	5,792,465	10,247,357	1,616,760	35,978,078
Liabilities							
Deposits from customers	18,157,348	2,027,636	3,291,419	898,314	44,701	13,977	24,433,395
Deposits and placements of banks and other financial institutions	3,788,688	339,603	167,434	-	-	421,642	4,717,367
Bills and acceptances payables	2,518,997	365,391	-	-	-	143,293	3,027,681
Amount due to Cagamas	56,663	5,255	114,074	140,123	-	-	316,115
Other liabilities	-	-	-	1,201	-	776,947	778,148
	24,521,696	2,737,885	3,572,927	1,039,638	44,701	1,355,859	33,272,706
Net maturity mismatches	(9,525,329)	(368,086)	(2,617,597)	4,752,827	10,202,656		

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.

In addition to the above, the Bank is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments. The total outstanding contractual amounts 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.

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38. Financial risk management (continued)

(e) Compliance & Operational Risk Management

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

Operational risk is managed through a framework of policies, techniques and procedures as approved by the ultimate holding company. There are periodic risk management reports reviewed by Senior Management and Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- building of Operational Risk Profiles ("ORPs");
- conduct of Operational Risk Self Assessment ("ORSA") based on the ORPs;
- development of an Operational Risk Action Plan ("ORAP");
- monitoring of Key Operational Risk Indicators ("KORIs");
- collection and analysis of risk events/loss data; and
- process for monitoring and reporting operational risk issues.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, a business contingency plan has been developed. In addition, in line with the increasing need to outsource internal operations in order to achieve cost efficiency, policy has been established to regulate the outsourcing of services to third parties.

Risk transfer mechanisms, such as insurance, to mitigate the risk of high loss events also form part of this framework. Identified operational risks with relatively high residual risk assessment ratings and new risks that are beyond the control of the Bank will be scrutinised for insurability.

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts forms part of operational risk. This is managed through consultation with the Bank's legal counsel and external counsel to ensure that legal advice is appropriately taken where necessary.

The Bank has put in place Compliance Officers to monitor and enforce compliance with the relevant laws, regulations, policies and procedures in their respective areas.

39. Fair value of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

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

The on-balance sheet financial assets and liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with FRS 132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associates, fixed assets and provision for current and deferred taxation. The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

Group	2008 Carrying amount RM'000	2008 Estimated fair value RM'000	2007 Carrying amount RM'000	2007 Estimated fair value RM'000
Financial assets				
Loan, advances and financing*	**28,013,205**	**28,013,205**	25,389,379	25,389,379
Financial liabilities				
Deposits from customers	**30,011,882**	**30,047,656**	24,433,395	24,454,477
Deposits and placements of banks and other financial institutions	**4,287,077**	**4,286,558**	4,716,958	4,691,114
Recourse obligation on loans sold to Cagamas	**137,112**	**135,871**	316,115	316,449
Bank				
Financial assets				
Loan, advances and financing*	**28,013,205**	**28,013,205**	25,389,379	25,389,379
Financial liabilities				
Deposits from customers	**30,011,882**	**30,047,656**	24,433,395	24,454,477
Deposits and placements of banks and other financial institutions	**4,287,491**	**4,286,972**	4,717,367	4,691,523
Recourse obligation on loans sold to Cagamas	**137,112**	**135,871**	316,115	316,449

* The general provisions for the Group and the Bank amounting to RM427,189,000 (2007: RM384,739,000) have been added back to arrive at the carrying value of the loans, advances and financing.

Off-balance sheet 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
2008			
Foreign exchange contracts			
- forwards	**1,873,180**	**9,503**	**1,417**
- swaps	**2,349,372**	**1,171,765**	**45,944**
Interest rate related contracts			
- forwards	**143,000**	**299**	**218**
- swaps	**22,202,280**	**409,627**	**1,631,534**
2007			
Foreign exchange contracts			
- forwards	1,669,644	2,868	8,068
- swaps	8,630,572	1,158,994	112,987
Interest rate related contracts			
- forwards	1,275,000	180	244
- swaps	18,190,506	89,317	1,239,308

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

The table above analyses the notional principal amounts and the positive and negative fair values of the Group's and Bank's off-balance sheet derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet 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 balance sheet date.

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. 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:

(a) The fair values of cash and balances with Bank Negara Malaysia and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are of negligible credit risk and either short term in nature or repriced frequently.

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

(c) The fair values of variable rate loans are estimated to approximate their carrying values. For fixed rate loans, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values which are net of interest/income-in-suspense and specific provision for bad and doubtful debts and financing.

(d) The Group and the Bank consider the carrying amount of its deposits, such as non bank customers' deposits and deposits and balances of banks, agents and related companies with maturities of less than one year to approximate their fair values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.

(e) The fair values of amount due to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at balance sheet date.

(f) For off-balance sheet 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.

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