

## Group Financial Review

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*Certain figures in this section may not add up to the relevant totals due to rounding.*

*Certain comparative figures have been restated to conform with the current year's presentation.*

*Certain comparative figures for 2001 have been restated for impact of adopting the revised Singapore Statement of Accounting Standard (SAS) 12: Income Taxes and Interpretation of SAS (INT) 5: Consolidation – Special Purpose Entities.*

## Review of Financial Performance

## Highlights and Performance Indicators

	2002	2001*	Increase/ Decrease (%)	
Key Indicators				
Net interest income (NII) (\$ million)	2,169	1,429	+	51.8
Non-interest income (\$ million)	910	795	+	14.5
Total income (\$ million)	3,079	2,224	+	38.4
Total expenses (\$ million)	1,074	874	+	22.9
Operating profit before goodwill and provisions (\$ million)	2,005	1,350	+	48.5
Net profit after tax (NPAT) (\$ million)	1,064	925	+	15.1
NPAT (excluding goodwill) (\$ million)	1,260	972	+	29.6
Income mix:				
Net interest income/Total income (%)	70.4	64.3	+	6.1% points
Non-interest income/Total income (%)	29.6	35.7	-	6.1% points
	100.0	100.0		—
Profit (before tax and goodwill) contribution:				
Onshore (%)	63.7	70.8	-	7.1% points
Offshore (including ACU) (%)	36.3	29.2	+	7.1% points
	100.0	100.0		—
Return on average shareholders' funds (ROE) (%)	8.3	10.8	-	2.5% points
ROE (excluding goodwill) (%)	9.8	11.3	-	1.5% points
Earnings per share (EPS)				
Basic (cents)	67.7	77.3	-	12.4
Excluding goodwill (cents)	80.2	81.3	-	1.4
Return on average total assets (ROA) (%)	0.98	1.16	-	0.18% point
ROA (excluding goodwill) (%)	1.16	1.22	-	0.06% point
NII/Average interest bearing assets (%)	2.26	2.06	+	0.20% point
Expense/Income ratio (%)	34.9	39.3	-	4.4% points

\* Including three months' profit contribution from OUB Group.

## Group Financial Review

	2002	2001		Increase/ Decrease (%)
<b>Other Indicators</b>				
Customer loans (net) (\$ million)	<b>58,884</b>	60,892	-	3.3
Customer deposits (\$ million)	<b>67,919</b>	74,452	-	8.8
Loans/Deposits ratio <sup>+</sup> (%)	<b>86.7</b>	81.8	+	4.9% points
Non-performing loans (NPLs) (\$ million)	<b>5,679</b>	5,968	-	4.8
Cumulative provisions (\$ million)	<b>3,504</b>	3,334	+	5.1
NPLs <sup>#</sup> /Gross customer loans (%)	<b>9.0</b>	9.3	-	0.3% point
Cumulative provisions/NPLs (%)	<b>61.7</b>	55.9	+	5.8% points
Total assets (\$ million)	<b>107,469</b>	113,888	-	5.6
Shareholders' funds (\$ million)	<b>12,653</b>	12,717	-	0.5
Unrealised surplus from revaluation <sup>**</sup> (\$ million)	<b>1,186</b>	1,398	-	15.2
Net asset value (NAV) per share (\$)	<b>8.05</b>	8.09	-	0.5
Revalued NAV per share (\$)	<b>8.81</b>	8.98	-	1.9
Capital adequacy ratios (BIS) (%)				
Tier 1 capital	<b>12.2</b>	11.8	+	0.4% point
Total capital	<b>15.3</b>	18.5	-	3.2% points
Dividend rates (%)				
Interim	<b>15.0</b>	15.0		–
Interim dividend in specie	<b>18.8</b>	–	+	18.8% points
Final	<b>25.0</b>	25.0		–
Manpower (number)	<b>10,320</b>	12,142	-	1,822 number

<sup>+</sup> Loans refer to net customer loans while deposits refer to customer deposits.

<sup>#</sup> Excluding debt securities.

<sup>\*\*</sup> Not incorporated into the accounts and excludes the revaluation surplus/deficit from investment in associates.

### Merger of OUB into UOB

Overseas Union Bank (OUB) was acquired and became a subsidiary of the Group on 20 September 2001. It was subsequently merged into the Bank on 2 January 2002. Accordingly, the financial statements of the Group for 2002 reflect the full year impact of the enlarged operations while those of the Group for 2001 included only the last three months' results of the OUB Group. The financial data in this report should therefore be viewed within this context.

### Swift Integration of OUB into UOB

On 16 June 2002, the Group successfully completed the integration of the operations and IT systems of OUB into UOB. The consolidation of the two banks was achieved in just eight months instead of the originally estimated 12 to 18 months.

With integration swiftly completed, the Group is on track to achieve cost savings of approximately \$250 million from the consolidation of the two banks. On the revenue side, the Group will look to realise revenue synergies from an enlarged customer base.

## Group Profits

The Group achieved a profit growth of 15.1% for 2002, with net profit after tax reaching \$1,064 million. The increase was mainly the result of higher net interest income, higher fee and commission income, gains on the divestment of Haw Par Corporation, as well as higher profits from associates. These were partially offset by lower dealing income, higher operating expenses, higher goodwill amortisation charge and higher specific provision for loans.

At the operating level, the Group's operating profit before goodwill amortisation and provisions increased by 48.5% over 2001 to \$2,005 million in 2002. The increase reflects our robust income growth and realised cost savings from integration.

## Financial Ratios

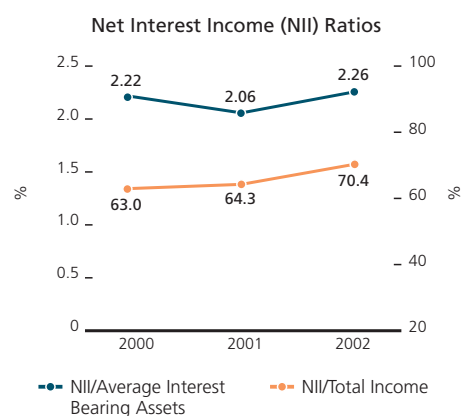
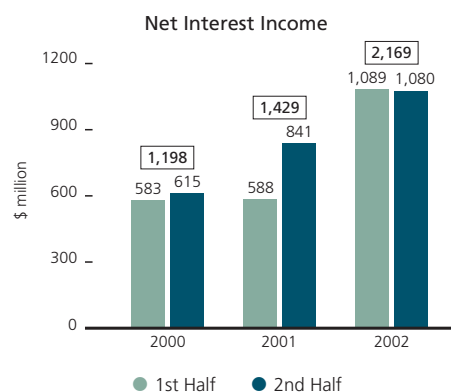
- Earnings per share (excluding goodwill) decreased by 1.4%, from 81.3 cents to 80.2 cents in 2002. The price over earnings per share (P/E) ratio, based on the Bank's last done share price of \$10.50 on 27 February 2003, was 13.1.
- Return on average shareholders' funds (excluding goodwill), at 9.8%, decreased by 1.5% points from 11.3% in 2001.
- Net asset value (NAV) per share decreased by \$0.04 or 0.5%, from \$8.09 in 2001 to \$8.05 in 2002.
- Total dividend, including the dividend in relation to the distribution in specie of shares of Haw Par Corporation, was 58.8% (2001: 40%), representing a dividend cover of 1.5 times (2001: 2.2 times). Excluding the dividend in specie, the dividend of 40% for 2002 was 2.2 times covered by net profit.

## Net Interest Income

Net interest income for the Group rose 51.8%, from \$1,429 million in 2001 to \$2,169 million in 2002. Net interest income continued to be the major contributor of total income, accounting for about 70.4% (2001: 64.3%) of total income.

The higher net interest income was largely attributable to a larger loan base resulting from the acquisition of OUB, and an improved average interest margin.

The average interest margin increased by 20 basis points, from 2.06% in 2001 to 2.26% in 2002, primarily due to the lower cost of funds.



## Group Financial Review

### Average Interest Rates and Margin

	2002			2001		
	Average Balance* \$ million	Interest \$ million	Average Interest Rate %	Average Balance* \$ million	Interest \$ million	Average Interest Rate %
<b>Assets</b>						
Interest bearing						
Customer loans	60,221	2,811	4.67	38,378	2,184	5.69
Inter-bank balances and balances with central banks	22,589	546	2.42	22,831	952	4.17
Government securities	10,155	240	2.36	6,711	195	2.90
Dealing and investment securities	3,215	156	4.85	1,551	83	5.34
Total interest bearing assets	96,180	3,752	3.90	69,471	3,413	4.91
Non-interest bearing						
Cash and balances with central banks	2,273			2,268		
Investments in associates	1,631			1,717		
Fixed assets	1,688			1,301		
Goodwill	3,756			791		
Other assets	3,617			2,415		
Total non-interest bearing assets	12,965			8,492		
Total assets	109,145			77,963		
<b>Liabilities</b>						
Interest bearing						
Customer deposits	68,646	1,066	1.55	49,315	1,319	2.67
Inter-bank balances	20,255	396	1.96	16,120	612	3.80
Debts issued	3,221	121	3.76	1,223	53	4.36
Total interest bearing liabilities	92,122	1,583	1.72	66,658	1,984	2.98
Total non-interest bearing liabilities	3,725			2,772		
Total liabilities	95,847			69,430		
Net interest income		2,169			1,429	
Average interest margin*			2.26			2.06

\* Computed based on monthly average.

+ Average interest margin represents net interest income as a percentage of total interest bearing assets.

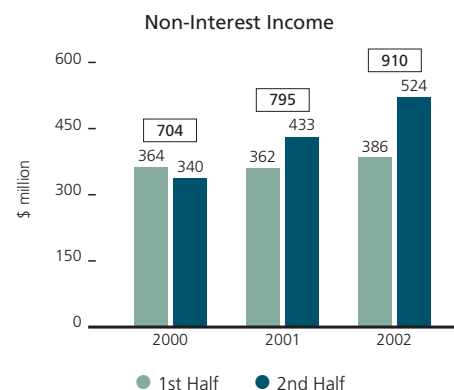
### Analysis of Changes in Net Interest Income

	2002			2001		
	Volume Change \$ million	Rate Change \$ million	Net Change \$ million	Volume Change \$ million	Rate Change \$ million	Net Change \$ million
<b>Interest bearing assets</b>						
Customer loans	1,243	(616)	627	622	(295)	327
Inter-bank balances and balances with central banks	(10)	(396)	(406)	226	(270)	(44)
Government securities	100	(55)	45	30	(2)	28
Dealing and investment securities	89	(16)	73	22	27	49
Total interest bearing assets	1,422	(1,083)	339	900	(540)	360
<b>Interest bearing liabilities</b>						
Customer deposits	516	(769)	(253)	352	(290)	62
Inter-bank balances	157	(373)	(216)	206	(192)	14
Debts issued	87	(19)	68	53	–	53
Total interest bearing liabilities	760	(1,161)	(401)	611	(482)	129

### Non-Interest Income

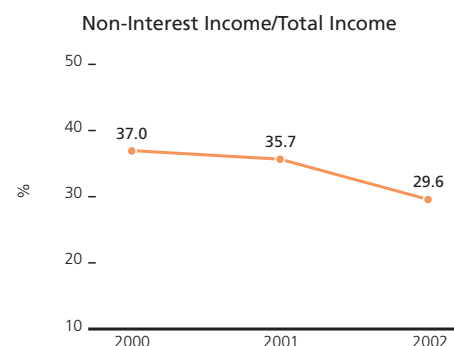
The Group's non-interest income for 2002 accounted for 29.6% of total income. Total non-interest income rose by \$115 million or 14.5% to \$910 million in 2002.

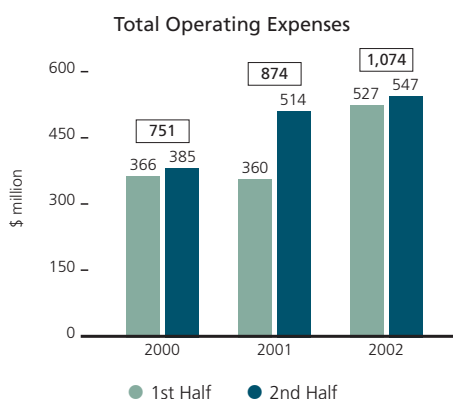
The increase in total non-interest income was primarily attributable to higher fee and commission income, as well as higher profits on the sale of investment securities and associates. Included in the profits on the sale of associates was a gain on the divestment of Haw Par Corporation of \$65 million. The higher non-interest income was, however, partially offset by lower dealing income from securities, derivatives and foreign exchange, as well as lower profits on the sale of properties.



### Composition of Non-Interest Income

	2002 \$ million	2001 \$ million	Increase/ (Decrease) %
<b>Fee and commission income</b>			
Credit card	96	64	50.6
Fund management	74	53	40.8
Futures broking and stockbroking	49	33	48.6
Investment-related	29	14	109.6
Loan-related	86	61	41.4
Service charges	44	35	25.4
Trade-related	101	80	25.7
Others	21	15	35.7
	501	355	40.9
Dividend and rental income	110	110	0.6
Other operating income	299	330	(9.3)
<b>Total non-interest income</b>	<b>910</b>	<b>795</b>	<b>14.5</b>





## Other Operating Income

	2002 \$ million	2001 \$ million	Increase/ (Decrease) %
Gains/(Losses) from:			
Dealing in securities, government treasury bills and securities and derivatives	58	80	(28.0)
Dealing in foreign exchange	82	137	(40.0)
<b>Dealing income</b>	<b>140</b>	<b>217</b>	<b>(35.6)</b>
Sale of investment securities and associates	78	16	386.7
Sale of subsidiaries	*	(7)	100.0
Sale of properties and other fixed assets	12	40	(71.2)
Others	70	63	9.6
<b>Others</b>	<b>159</b>	<b>113</b>	<b>41.1</b>
<b>Total other operating income</b>	<b>299</b>	<b>330</b>	<b>(9.3)</b>

\* Less than \$500,000.

## Operating Expenses

Total operating expenses for 2002 increased by \$200 million or 22.9% over 2001. Both staff expenses and other operating expenses rose in 2002 largely due to the expanded operations resulting from the acquisition and consolidation of OUB into the Group.

Expense to income ratio improved from 39.3% in 2001 to 34.9% in 2002. The improvement reflected the cost savings achieved from the swift integration of OUB into the Group as well as the continued careful management of expenses by the Group.

	2002 \$ million	2001 \$ million	Increase/ (Decrease) %
Staff expenses	536	443	21.2
Other operating expenses	538	431	24.7
<b>Total operating expenses</b>	<b>1,074</b>	<b>874</b>	<b>22.9</b>

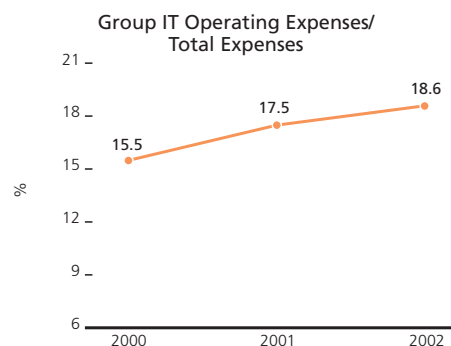
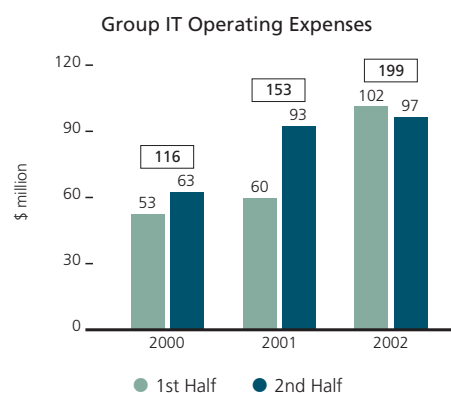
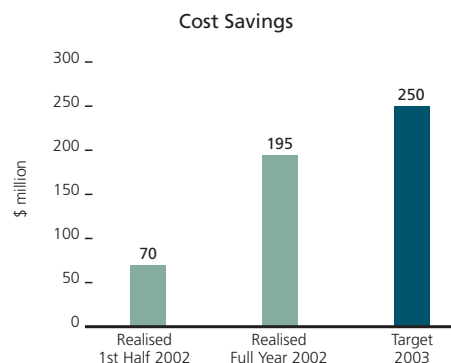
### Cost Savings from Integration

The Group realised cost savings of approximately \$195 million in 2002. With integration swiftly completed, the Group is on track to achieve an annual pre-tax cost savings of approximately \$250 million.

### Other Operating Expenses

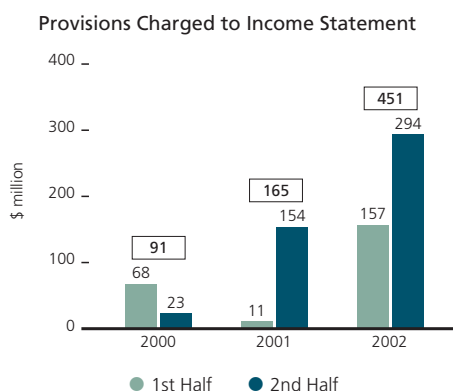
Other operating expenses were up by \$107 million to \$538 million in 2002, mainly driven by higher depreciation expenses on land and buildings and other fixed assets, higher rental and maintenance costs, higher advertising and promotional expenses, as well as higher commission and brokerage expenses.

IT operating expenses for 2002 increased by \$46 million from 2001 to reach \$199 million, and accounted for 18.6% of total Group expenses.





## Group Financial Review



### Provisions Charged to Income Statement

The total provision charge at \$451 million in 2002 was \$286 million higher than in 2001. The increase was dominated by higher specific provisions made on loans that were necessitated by lower collateral value in a lacklustre property market and uncertain economic conditions.

	First Half 2002 \$ million	Second Half 2002 \$ million	Full Year 2002 \$ million	First Half 2001 \$ million	Second Half 2001 \$ million	Full Year 2001 \$ million
<b>The Group</b>						
Specific provision for loans	191	231	<b>422</b>	22	143	165
General provision for loans	–	–	–	(16)	(54)	(70)
Specific provision for diminution in value of other assets	(34)	64	<b>30</b>	5	65	70
Total provisions	157	294	<b>451</b>	11	154	165
<b>Provisions charged by major region:</b>						
<b>Specific provision for loans</b>						
Five Regional Countries*	25	8	<b>33</b>	12	(29)	(17)
Greater China*	(35)	(4)	<b>(39)</b>	(14)	(6)	(20)
Singapore and other countries	201	227	<b>428</b>	24	178	202
	191	231	<b>422</b>	22	143	165
<b>General provision for loans</b>						
Five Regional Countries*	(11)	9	<b>(2)</b>	(22)	(52)	(74)
Greater China*	2	(4)	<b>(2)</b>	5	–	5
Singapore and other countries	9	(5)	<b>4</b>	1	(2)	(1)
	–	–	–	(16)	(54)	(70)
<b>Specific provisions for diminution in value of other assets</b>						
	(34)	64	<b>30</b>	5	65	70
Total provisions	157	294	<b>451</b>	11	154	165

\* The Five Regional Countries comprise Malaysia, Indonesia, the Philippines, Thailand and South Korea.

\* Greater China comprises China, Hong Kong S.A.R. and Taiwan.

## Overview of Balance Sheet

### Total Assets

The Group's total assets as at 31 December 2002 were \$107,469 million, a decrease of \$6,419 million or 5.6% since 31 December 2001. The fall was largely due to lower inter-bank balances and muted loan demand.

### Assets Mix

	2002		2001	
	\$ million	%	\$ million	%
Cash and balances with central banks	<b>4,213</b>	<b>3.9</b>	3,330	2.9
Securities*	<b>14,159</b>	<b>13.2</b>	14,641	12.9
Inter-bank balances	<b>19,426</b>	<b>18.1</b>	24,746	21.7
Customer loans	<b>58,884</b>	<b>54.8</b>	60,892	53.5
Other assets	<b>7,120</b>	<b>6.6</b>	6,503	5.7
Goodwill	<b>3,666</b>	<b>3.4</b>	3,777	3.3
<b>Total assets</b>	<b>107,469</b>	<b>100.0</b>	113,888	100.0

\* Comprising Singapore and other government treasury bills and securities, dealing and investment securities.

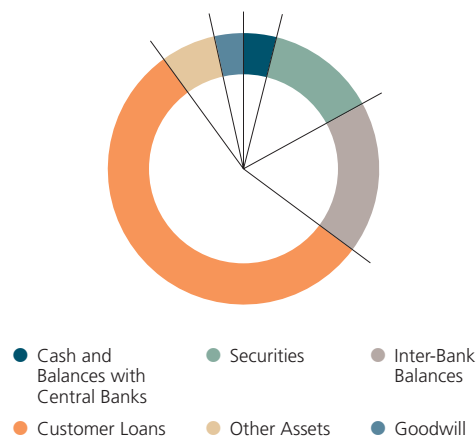
### Securities

Total Group securities fell by \$482 million or 3.3% to \$14,159 million as at 31 December 2002, compared with \$14,641 million as at 31 December 2001. The decrease arose primarily from reduced holdings in government treasury bills and securities.

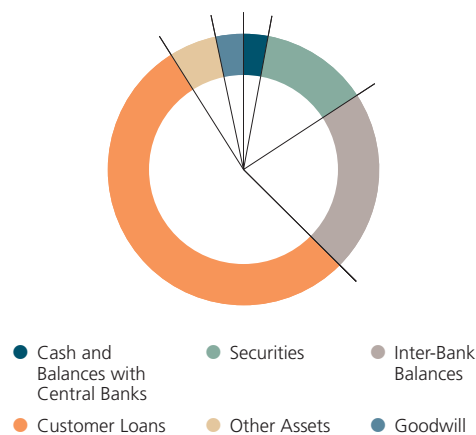
### Total Securities

	2002 \$ million	2001 \$ million
Cost		
Dealing	<b>828</b>	1,129
Non-dealing	<b>13,473</b>	13,687
	<b>14,301</b>	14,816
Less: Provision for diminution in value	<b>(142)</b>	(175)
<b>Net book value</b>	<b>14,159</b>	14,641

Assets Mix – 2002



Assets Mix – 2001



## Securities Analysed by Issuer Type

	2002		2001	
	\$ million	%	\$ million	%
Government	9,594	67.1	10,561	71.2
Public sector	8	0.1	52	0.4
Bank	652	4.6	915	6.2
Corporate	3,564	24.9	3,162	21.3
Others	483	3.3	126	0.9
Total	14,301	100.0	14,816	100.0

## Securities Analysed by Industry

	2002		2001	
	\$ million	%	\$ million	%
Transport, storage and communication	559	4.2	508	3.7
Building and construction	321	2.4	348	2.6
Manufacturing	606	4.5	224	1.6
Financial institutions	1,537	11.4	1,357	9.9
General commerce	72	0.5	90	0.7
Government	9,416	69.9	10,173	74.3
Others	962	7.1	987	7.2
Non-dealing	13,473	100.0	13,687	100.0
Dealing	828		1,129	
Total securities	14,301		14,816	

## Customer Loans

The Group's net loans and advances to customers as at 31 December 2002 were \$2,008 million or 3.3% lower than as at 31 December 2001. This resulted mainly from a decrease in the term loans and overdraft portfolios which was partially offset by an increase in the housing loans portfolio.

## Customer Loans by Type

	2002		2001	
	\$ million	%	\$ million	%
Housing loans	13,841	22.2	13,298	20.7
Term loans	35,253	56.5	36,940	57.5
Trade financing	2,915	4.7	2,825	4.4
Overdrafts	10,330	16.6	11,148	17.4
Total gross customer loans	62,339	100.0	64,211	100.0
Less: General provision	(1,425)		(1,435)	
Specific provision and interest-in-suspense	(2,030)		(1,884)	
Net customer loans	58,884		60,892	

### Gross Customer Loans Analysed by Currency and Fixed/Variable Rates

	2002			2001		
	Fixed Rate \$ million	Variable Rate \$ million	Total \$ million	Fixed Rate \$ million	Variable Rate \$ million	Total \$ million
Singapore Dollars	13,724	27,645	41,369	12,584	29,149	41,733
US Dollars	747	7,391	8,138	1,538	7,902	9,440
Malaysian Ringgit	166	5,762	5,928	79	6,167	6,246
Hong Kong Dollars	40	1,426	1,466	20	1,726	1,746
Thai Baht	534	501	1,035	573	294	867
Others	1,059	3,344	4,403	582	3,597	4,179
Group Total	16,270	46,069	62,339	15,376	48,835	64,211

For a breakdown of Group loans and advances by remaining maturity and industry, please refer to Notes 28(b) and 28(c) to the Financial Statements respectively.

### Credit Facilities to Related Parties

The Group has granted credit facilities to the following related parties in the ordinary course of business on normal terms and conditions. The outstanding amounts of these credit facilities as at 31 December 2002 were as follows:

	2002		2001	
	Loans and Advances \$ million	Off-Balance Sheet Credit Facilities* \$ million	Loans and Advances \$ million	Off-Balance Sheet Credit Facilities* \$ million
Associates of the Group				
Financial activities	52	15	33	4
Non-financial activities	567	90	925	55
Directors of the Bank and director-related parties <sup>+</sup>	792	155	594	173
Corporations where the directors of the Bank are also directors <sup>#</sup>	2,493	141	1,988	147

\* Off-balance sheet credit facilities comprise direct credit substitutes, transaction-related contingencies and trade-related contingencies.

<sup>+</sup> Director-related parties include the immediate family members of the directors of the Bank, entities in which a director of the Bank or his family members have a substantial shareholding, and credit facilities guaranteed by the directors of the Bank.

<sup>#</sup> This excludes credit facilities already included in the first two categories. However, it includes credit facilities granted to the subsidiaries of the corporations in this category.

## Deposits

Total Group deposits fell by 5.8%, from \$92,545 million as at 31 December 2001 to \$87,221 million as at 31 December 2002, due mainly to lower customer fixed deposits. Customer deposits accounted for 77.9% of total Group deposits.

## Deposits by Type

	2002		2001	
	\$ million	%	\$ million	%
Bankers' deposits	<b>19,302</b>	<b>22.1</b>	18,093	19.6
Customer deposits				
Fixed deposits	<b>47,287</b>	<b>54.2</b>	54,419	58.8
Savings and others	<b>20,632</b>	<b>23.7</b>	20,033	21.6
	<b>67,919</b>	<b>77.9</b>	74,452	80.4
Total deposits	<b>87,221</b>	<b>100.0</b>	92,545	100.0

For a breakdown of deposits by remaining maturity, please refer to Note 21(a) to the Financial Statements.

## Loans/Deposits Ratio

With the 8.8% decrease in customer deposits outpacing the 3.3% decrease in net customer loans, the customer loans-to-deposits ratio increased by 4.9% points from 81.8% as at 31 December 2001 to 86.7% as at 31 December 2002.

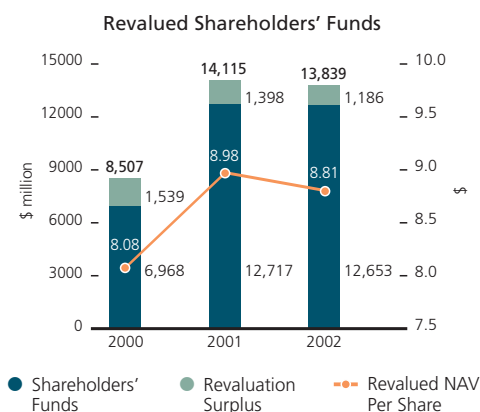
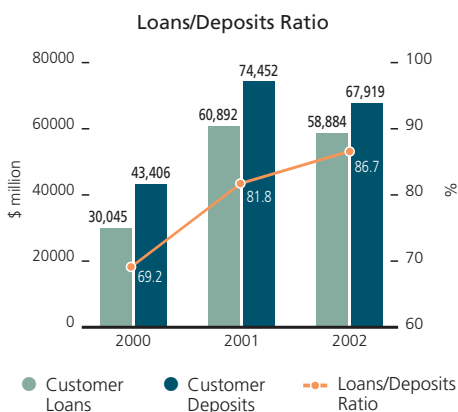
## Shareholders' Funds

Group shareholders' funds stood at \$12,653 million as at 31 December 2002 as compared to \$12,717 million as at 31 December 2001.

Unrealised revaluation surpluses in properties and long-term investments\*, amounting to \$1,186 million as at 31 December 2002, were not incorporated into the Group's accounts.

	2002 \$ million	2001 \$ million
Shareholders' funds per book	<b>12,653</b>	12,717
Add: Surplus on revaluation (not incorporated in the accounts)	<b>1,186</b>	1,398
Shareholders' funds including revaluation surplus	<b>13,839</b>	14,115
Net asset value (NAV) per share (in \$)		
NAV per book	<b>8.05</b>	8.09
Revaluation surplus	<b>0.76</b>	0.89
Total revalued NAV	<b>8.81</b>	8.98

\* Excluding the revaluation surplus/deficit from investment in associates.



## Capital Adequacy Ratios

The Capital Adequacy Ratios (CAR) of the Group were computed in accordance with the guidelines issued by the Basle Committee on Banking Supervision. The Group's capital management policy is to maintain a strong capital position to support the growth of the Group, both organically and through acquisitions. As at 31 December 2002, the Group maintained a strong total capital ratio of 15.3%, which is almost twice the minimum of 8% set by the Bank for International Settlements (BIS), and above the minimum of 12% required by the Monetary Authority of Singapore.

The total capital ratio fell from 18.5% to 15.3%, mainly as a result of the redemption of US\$ subordinated floating rate notes during the year.

	2002 \$ million	2001 \$ million
<b>Capital</b>		
Tier 1 – Core capital		
Share capital	1,572	1,571
Disclosed reserves	10,956	10,765
Minority interests	150	399
Less: Goodwill	(3,684)	(3,777)
	8,994	8,958
Tier 2 – Supplementary capital		
Revaluation reserves on investments and properties*	349	671
General loan loss provision†	920	949
Subordinated notes	1,294	3,638
	2,563	5,258
Less: Deductions against Capital‡	(337)	(161)
Total capital	11,220	14,055
<b>Risk-Weighted Assets</b>		
Total risk-weighted assets including market risk	73,574	75,897
<b>Capital Adequacy Ratios</b>		
Tier 1	12.2%	11.8%
Total capital	15.3%	18.5%

\* After discount of 55% in accordance with BIS guidelines.

† Excluding specific and earmarked provisions.

‡ Including capital deductions for certain investments.