

2002 was a year of exciting developments for UOB. It was marked by the successful integration of Overseas Union Bank, the merger of Industrial & Commercial Bank, and by new initiatives to realise our business synergies and to lay the foundations for the future growth of the Bank.

## Grow | our shareholder value



*Our priority, in seeking to serve our customers and deliver value for our shareholders, is to remain committed to our growth, both organically and through strategic alliances.*

### **United for Growth**

On 16 June, we completed the crucial integration of the operations and IT systems of Overseas Union Bank (OUB) into UOB. The consolidation of the two banks was achieved in just eight months instead of the originally estimated 12 to 18 months. The integration has added considerable distribution strength to our consumer market and brought together a greater diversity of products and services for our customers.

The year also saw the merger of our banking subsidiary, Industrial & Commercial Bank (ICB), into UOB. Another listed subsidiary, Overseas Union Trust, was privatised and delisted from the Singapore Exchange in December. These exercises are part of our on-going efforts to consolidate our subsidiaries for greater efficiency and competitiveness.

### **Individual Banking**

Our Individual Banking business covers personal financial services and private banking. Our personal financial services include personal deposits, loans, investments, credit and debit cards, and privilege banking.

Our substantial customer base expanded further and this business performed strongly in 2002. Net profit before tax grew by 8.6%, reflecting improved contributions from credit cards and higher net interest income from an enlarged loans portfolio.



*The celebratory light-up linking UOB Plaza and OUB Centre was a fitting symbol of the successful integration of the operations and systems of UOB and OUB.*



*The UOB Visa Business Card is an efficient financial tool designed to cater to the needs of local SMEs.*



### **Personal Financial Services**

The addition of OUB's consumer portfolio has strengthened our leadership in the area of personal financial services. In the cards business, we remain Singapore's largest provider of credit and Visa debit cards and continue to gain market share in this area. By end-2002, our base of 800,000 credit cards and 300,000 Visa debit cards issued represented a share of 26% and 54% of the market respectively.

Our initiatives in 2002 were directed not only at growing business volume and fee income but also at expanding our product array and improving the customer experience. These included the following:

- Launch of our 'Power Of 2' campaign to share the benefits of the UOB-OUB integration with our enlarged customer base.
- Launch of the UOB Visa Business Card, an effective payment tool designed to cater to the increasingly sophisticated needs of Singapore's small and medium-sized enterprises (SMEs), thus enabling them to achieve substantial operational efficiency and savings in their day-to-day business costs.
- Launch of the MTV Card, the first UOB Credit Card that complements the lifestyle aspirations of today's youth.
- Introduction of derivative products and alternative investments to our Privilege Banking clients.
- Investment in a bank-wide Customer Relationship Management (CRM) programme that will lead to higher

customer satisfaction levels, deeper customer relationships and greater customer retention. With a customer-centric infrastructure and the capability to deliver consolidated information about the customer to the point of service (single customer view), the new CRM programme will be an invaluable tool in supporting our focus to offer services and products that anticipate and satisfy each customer's special needs and requirements.

- An extensive renovation programme for our branch network in Singapore that focuses on establishing, growing and preserving the customer's wealth and, at the same time, builds a strong and consistent UOB identity.

### **Private Banking**

Private Banking ended 2002 with an expanded client base and a robust 80% growth in assets under its management. It also made progress in developing an open product architecture where proprietary products are supplemented by high quality products from third party providers. Consequently, the range of services for our Private Banking clients has widened to include alternative investments such as hedge funds and structured products.

### **Institutional Banking**

Institutional Banking encompasses three business portfolios, namely, commercial credit, corporate banking and capital markets. In 2002, these businesses together recorded a good growth of 35.0% in net earnings before tax, driven

## 2002 in Review

by higher interest income earned from loans and advances and increased contributions from capital market activities.

### **Commercial Credit**

Commercial credit, which embraces our SME business, is one of our traditional strengths.

We continue to maintain our market leadership in financing to this customer segment because of our vast regional reach, broad range of products, improved services, and local knowledge.

In 2002, the roll out of our new Business Internet Banking service saw the provision of a suite of online offerings for our commercial customers, including cash management, payment and trade transactions.

### **Corporate Banking**

Corporate banking provides a full spectrum of banking products and services to middle-market and large local corporate groups, including non-bank financial institutions. Our portfolio is characterised by a diversified base of customers. This has allowed us to segmentise our customer relationships by industry groupings, both for greater client focus and long-term banking relations.

In 2002, we took advantage of the relatively quiet market to reinforce long-standing relationships and to expand selectively into targeted industrial sectors, including proactively identifying lending opportunities presented by the regionalisation plans and overseas investments of our customers.

Noteworthy deals and initiatives in 2002 included:

- Participating as a lead-arranger and underwriter in a US\$600 million five-year term loan facility for UMCi Pte Ltd to finance Phase One of its proposed US\$3.6 billion wafer fabrication plant in Singapore.
- Participating as a lead-arranger in a US\$300 million four-year term loan and three-year revolving credit facilities for Systems on Silicon Manufacturing Company Pte Ltd to finance the company's capital expenditure for the expansion of wafer capacity.
- Participating as a lead-arranger in the issue and underwriting of a \$400 million bond by Tuas Power Pte Ltd to finance the Stage Two construction of its power plant.
- Putting into place a structured finance team to pursue opportunities in a variety of financial products and structures, such as credit default swaps and callable asset swaps, in the primary and secondary credit market.
- Expanding our e-commerce solutions to include a greater range of cash management and business internet banking



UMCi's 300-mm wafer fabrication plant in the Pasir Ris Wafer Fab Park is the world's most advanced semiconductor fab. Its construction was financed through a syndicated loan facility in which we were a lead-arranger and underwriter.



UOB Asia, our investment banking arm, continues to support the development of the Singapore bond market with its participation in Singapore's second Islamic bond issue for Majlis Ugama Islam Singapura.



Strategic partnerships with established global financial institutions, like Deutsche Bank, allow us to accelerate the growth of our Collateralised Debt Obligation business.

services so as to meet the increasingly sophisticated needs of our major corporate and financial clients.

### **Capital Markets**

Our capital market and corporate finance activities are conducted through our investment banking arm, UOB Asia.

The subsidiary had an active year in 2002 despite the challenging market conditions. In terms of the number of deals, it earned a joint second-place ranking in both the domestic Initial Public Offering (IPO) and domestic rights issue league tables with a 22% and 18% market share respectively.

Some of the year's key transactions were as follows:

- Appointed as the Co-ordinator of the public offer in Singapore for the MobileOne Ltd IPO, the largest IPO since 1999.
- Appointed as Manager of the IPOs for seven companies across multiple business sectors, including those for Europtonic Group Ltd, aspnetcentre Ltd, Cortina Holdings Limited and Raffles LaSalle Limited.
- Appointed as Manager for the rights issues for Hotel Negara Limited, Meiban Group Ltd and Vertex Venture Holdings Ltd.
- Appointed as Financial Advisor in relation to Panpac Media.com Limited's acquisition of Auston Technology Group Pte Ltd.
- Appointed as Independent Financial Advisor to the independent directors of CWT Distribution Limited in respect of the conditional cash offer by PSA Logistics Pte Ltd in the takeover of CWT Distribution Limited.
- Arranged and managed a \$451 million asset backed bond issue for Upperton Holdings Limited.
- Jointly lead-managed Singapore's second Islamic bond issue for Majlis Ugama Islam Singapura, a statutory body.

### **Global Treasury**

Global Treasury performed significantly better in 2002. Despite the global economic downturn and an increasingly

difficult operating environment, we continued to build on our strengths and to capitalise on our competitive advantage in strategic markets. Net profit before tax rose by 30.1% to a record \$347 million, reflecting a broad-based improvement in performance in our key lines of business and the effectiveness of cost-saving measures. We benefited substantially from the favourable global interest rate environment, high value-added securitisation activities like product structuring, and cross-marketing initiatives to customers.

Our other achievements during 2002 included:

- Successfully structuring two managed synthetic investment grade Collateralised Debt Obligations (CDOs) with a combined notional value of US\$3.03 billion. This is in line with our strategy to develop CDOs as one of our core businesses, by entering into strategic partnerships with established global financial institutions.
- Doubling the issuance of ARCHER asset backed commercial paper, and broadening its investor base.
- Designing and customising an expanded range of products to serve the specific financing, investment and risk management needs of our regional clients.
- Expanding our treasury franchise in the region.
- Enhancing our e-trading capabilities to provide a wider range of web-based transactions for our customers.

Going forward, growth for our global treasury operations will hinge on the realisation of two important strategic goals:

- Increasing the contributions from our Overseas Treasury Centres while continuing to substantially boost our earnings from the domestic market. We will do this by supporting the commercial and funding requirements in these centres, and identifying and developing profitable market niches in these locations.
- Achieving a more balanced income ratio for our trading and non-trading activities by honing our ability to structure products with regional and global potential and maximising value to the services that we offer our clients.

### Investment Banking

Investment Banking comprises our asset management, venture capital management, proprietary investment and insurance activities. Against a lacklustre global equities market, higher provisions were made for a diminution in the value of our investments in 2002. This impacted the profitability of our investment banking businesses as a whole. Consequently, net profit before tax was 55% lower than in 2001.

### Asset Management

Our assets under management and advice and committed capital grew to \$15.6 billion at end-2002 despite a difficult year. Assets under management amounted to \$15.2 billion while committed capital totalled \$360 million.

The growth was driven by several major initiatives and achievements from our investment management subsidiaries in Singapore, Malaysia, Taiwan, France and USA.

### UOB Asset Management

- Appointed as the Collateral Manager for two CDO transactions – United Global Investment Grade CDO I (US\$1.33 billion) and United Global Investment Grade CDO II (US\$1.7 billion) – that invest in a portfolio of global investment grade credit default swaps. With 12 CDOs now under its management and advice, UOB Asset Management (UOBAM) has become one of Asia's leading managers of CDOs and CBOs (Collateralised Bond Obligations).



*Our trained Personal Bankers provide financial solutions, with personal attention, to satisfy the wider and growing financial needs of our customers.*

## Grow | our customers

- Launched three new unit trusts and consolidated the 20 funds under the management of OUB Optimix Funds Management. This brings the total number of funds and sub-funds under its management to 55 by year-end, with assets under management totalling \$1.4 billion. The three new unit trusts comprised two guaranteed funds, and a



*Our subsidiary, UOB Asset Management, is Singapore's most awarded fund manager, having won more than 50 performance awards since 1996.*

*GrowthPath – a core investment product – offers customers a new way of investing, by providing them with a framework to build and grow their investment portfolios.*

core investment product called GrowthPath. GrowthPath is a single yet broadly diversified investment portfolio that dynamically adjusts its asset allocation with time. It is the first such product to be introduced to the Singapore market. Investing in a combination of global equities and global bonds, GrowthPath offers a choice of five portfolios that are tailored for investors with different time horizons and different risk tolerance levels.

- Won five out of 22 awards in the Standard & Poor's Investment Funds Award Singapore 2003 and an award in the Standard & Poor's Investment Funds Award 2003 in Taiwan.
- Won 10 out of 33 awards in the Singapore Investment Fund Awards 2002.
- Entered into an agreement with New York-based PlusFunds Group Inc. and Standard & Poor's to provide a unique index product for the growing hedge funds business in Singapore and other selected Asian markets. The agreement was negotiated and structured with the assistance of UOB Global Capital.

#### *UOB-OSK Asset Management*

- Won two mandates from a major local asset management firm in Malaysia to manage retail funds.

#### *UOB Venture Management*

- Managed five funds totalling \$360 million in committed capital.
- Established a RMB300 million investment company in Beijing with Oxford Cambridge Investment Group, Beijing and Shandong Hi-Tech Investment Company Limited to

invest in Chinese companies that have the potential to achieve high growth over the medium to long term. UOB Investment Consultancy (Beijing) Limited, a subsidiary of the Group, is the advisor to the investment company.

- Set up an offshore fund company, UOB Venture (Shenzhen) Limited, in the Republic of Mauritius to invest in promising high growth technology and technology-related projects in China, following an investment agreement with Shenzhen Venture Capital Co., Ltd (SZVC) [now known as Shenzhen Capital Group Co., Ltd]. The fund is managed by SZVC-UOB Venture Management Co., Ltd, a joint venture fund management company between UOB and SZVC in China.

#### *UOB Global Capital*

- Built on its relationship with the Kinetics Group and further developed its hedge fund products to capitalise on the growing investor trend towards absolute return products. Assets under management have grown substantially from a prestigious investor base.
- Achieved a final close for the UOB Hermes Asia Technology Fund, raising US\$68.5 million from major institutional investors in the USA, Europe and Asia. The Fund is being advised by UOB Venture Management.

#### **International Operations**

Our overseas network outside Singapore comprises more than 180 offices in 17 countries and territories, operating in the Asia-Pacific region, Western Europe and North America.

## 2002 in Review

Our vision is to be a premier bank in the Asia-Pacific and to achieve it, we remain focused on our strategy to grow our business in Greater China and ASEAN.

We improved both the performance and profitability of our overseas business in 2002 despite testing economic conditions. Net profit from our overseas operations, including ACU, contributed 36.3% to Group total profit, an increase of 7.1% points over 2001 and bringing us closer to our goal of 40% by 2010.

### Malaysia

Our operations in Malaysia, covering principally those of the United Overseas Bank (Malaysia) [UOBM] group and UOB Labuan Branch, recorded an increase in net profit after tax of 92.9% to RM311 million (\$142 million) in 2002. The growth was driven by an enhanced revenue stream from an enlarged customer base following the completion of our merger of Overseas Union Bank (Malaysia) [OUBM] into UOBM in February. The successful integration of OUBM has also resulted in an expanded branch network, cost savings through streamlined operations and positioned us to compete more effectively in a challenging marketplace.

With higher productivity and the more efficient use of capital, UOBM is now ranked among the top commercial banks in Malaysia in terms of ROE.

The year also marked an important step forward for our strategies to enhance our non-interest revenue base and our domestic capital market capabilities, as evident from the following:

- In November, we started a joint venture with the DRB-HICOM Group to develop life and general insurance businesses in Malaysia, particularly via the bancassurance channel.
- We completed two notable transactions during the year, namely, RM798 million and RM200 million in refinancing for Lingkaran Trans Kota Sdn Bhd and MHS Aviation Berhad respectively.

### Thailand

UOB Radanasin Bank (UOBR) closed 2002 with a customer loans portfolio of THB26.8 billion (\$1.1 billion), an increase of 25.3% over the previous year. This, together with improved fee income from our investment banking, treasury and personal financial services, helped to reduce UOBR's net loss for the year to THB194 million (\$7.8 million) from THB669 million (\$28 million) in 2001.



In Indonesia, our banking subsidiary – PT Bank UOB Indonesia (UOBI) – opened its eighth office in the country. UOBI Kelapa Gading is situated in a popular residential district in Jakarta.



In China, our presence was strengthened with the upgrading of our representative office in Beijing to a full-service branch.



In Hong Kong S.A.R., our UOB Credit Cards are well received despite the keen competition from a wide array of providers in the territory.

# Grow | our services

In line with the growth of exports and domestic demand in the country, our trade finance and personal financial services businesses performed notably well. In trade finance, we continued to register high growth in the areas of packing credit, trust receipts, import letters of credit and export bills negotiation. In personal financial services, housing and personal loans, credit cards and debit cards remained our key focus. Our total card base stood at 215,000 by end-2002, representing an impressive year-on-year increase of 106%.

We also made significant investments in enhancing our technology and operational infrastructure that will help us to deliver better customer service. A major initiative was the migration of our core banking system to a more scalable and flexible platform that is aligned to the system at Head Office, Singapore. This two-year project was successfully completed in December at an investment of THB200 million (\$8 million).

## **Indonesia**

Our Indonesian operations reported marginally better gains in 2002, with net profit after tax at IDR77.8 billion (\$15.1 million).

In September, we increased our shareholding in our banking subsidiary, PT Bank UOB Indonesia, from 80% to 99% through purchasing the stake held by our joint venture partner, PT Bank Bali Tbk. We also expanded our presence in Indonesia when PT Bank UOB Indonesia opened its eighth office in the country in December. These developments reflect our commitment to Indonesia and the importance that we place in delivering a comprehensive range of banking services to customers in this major regional market.



*We are focused on being more customer-driven, on product innovation, and on growing the range of services we provide to our customers.*

## 2002 in Review

### *Philippines*

A milestone for us in 2002 was the completion of our purchase of an increased stake in United Overseas Bank Philippines (UOBP) from 60% to 100%. The acquisition has made UOBP the foreign bank with the largest network of 67 branches in the country and reinforced our strategy to be a major player in the region. It is also expected to improve our ability to generate stable core deposits.

With the prevailing tough economic and business conditions in the Philippines, we remain cautious in our expansion plans. Net loss incurred in 2002 was largely unchanged from 2001, and resulted primarily from a small loans portfolio and greater investment to improve our infrastructure.

### *Greater China*

We made good progress in strengthening our presence and scope of business in Greater China, one of our key growth markets. Several milestones were achieved in 2002, including the following:

- Upgrading of UOB Beijing Representative Office to a full-service branch. This brings our total network in China to five branches and one representative office and makes it one of the most comprehensive among foreign banks in China.
- Approval for a full foreign currency licence for UOB Shanghai Branch to offer foreign currency banking services to local individuals and local companies in China.

- Approval for UOB Shenzhen Branch to offer Renminbi banking services to foreign individuals, foreign enterprises and foreign joint venture companies, making us the first bank in Singapore to do so in Shenzhen.
- Approval for UOB Shanghai Branch to act as an Authorised Approving Centre for Capital Account, making us the first South-East Asian bank that is authorised to approve and handle capital account transactions in Shanghai.
- Launch of the UOB Credit Card in Hong Kong S.A.R., which is in line with our long-term vision to develop our personal financial services business in Hong Kong S.A.R. and China.

### *Other International Businesses*

Our other international operations continued to register strong performance in 2002. The growth was led by better margins and higher fee income from our corporate lending activities. A notable highlight during the year was the conversion of our wholly-owned banking subsidiary, United Overseas Bank (Canada), to a full-service branch, UOB Vancouver Branch.

### *Technology*

Significant investment has been made, and will continue to be made, in technology to enhance our competitive advantage. In 2002, our technology spending amounted to \$199 million, or 18.6% of total Group expenses.

A major achievement in 2002 was the smooth completion of the integration of the UOB and OUB IT systems. The



*The completion of the integration of the IT systems and operations of UOB and OUB, well ahead of schedule, testifies to the hard work and dedication put in by staff and to their strong sense of teamwork.*



*We are the first Singapore bank to have our Operations Sector ISO 9001:2000 certified, following the implementation of a quality management system for our processes and a framework for continuous improvement.*



*We provide ample training opportunities for staff to grow individually and professionally, thereby building a quality team with the relevant skills to meet the needs of our customers and business.*

exercise, achieved well ahead of the original schedule, has successfully aligned the systems and processes between the two organisations. It also provided us with the opportunity to upgrade our technology infrastructure for improved robustness and performance.

Other key initiatives during the year were:

- Development of a bank-wide Customer Relationship Management (CRM) programme that involves the reengineering of business processes and changes in the organisation structure. The aim is to foster a customer-centric culture across the Bank and provide a high and consistent service level to our customers across all our touchpoints. Integral to the CRM initiative is the development of a Contact Management System for our sales and service force, and a Wealth Management System to meet customers' wealth acquisition and wealth preservation needs more comprehensively.
- Implementation of a value-based management system that provides a framework to sharpen management focus on the key drivers of customer and product profitability and, ultimately, on returns to shareholders.
- Installation of real-time recovery capabilities for our key systems which are essential to the business continuity plans of all our business and support units, both in Singapore and overseas.

### **Operations**

The Operations Sector was formed on 2 January to centralise all our banking processes. This is fundamental to achieving economies of scale and greater operational efficiency within the Bank.

# Grow | our staff

## 2002 in Review

To this end, Operations Sector consolidates the processing functions in the areas of cheques, branch backend activities, loan applications and disbursements, trade finance, remittances, treasury settlement, custody services, funds administration and unit trust registry services. In all these functions, we adopt the best-in-class solutions to achieve operational excellence.

Besides the integration of the processing functions of OUB into UOB and ICB into UOB in 2002, we also launched the 'Towards Operational Excellence' programme to put in place best practices for the delivery of quality services, build a platform for reengineering internal processes for efficiency and initiate the hubbing of our regional operations to Singapore. As part of this programme, we initiated the following:

- Implementation of a quality management system for our processes as well as a framework for continuous improvement. This led us to become the first Singapore bank to have our entire Operations Sector ISO 9001:2000 certified.
- Implementation of a business process reengineering exercise to streamline and redesign our processes. The objective was to lower our unit operating cost through increased straight-through processing and quality service delivery at the right costs – first time, on time and every time.
- Launch of a hubbing programme across the countries and territories that we span. Using technology and leveraging on the increased economies of scale achieved in Singapore, the processing activities of our overseas branches will be progressively transferred into Singapore so that standard quality processing at lower costs can be achieved on a regional level. Hubbing will also lead to greater business opportunities for our branches overseas as they will have the capabilities to bring more new products to the market, and to do so with greater speed and effectiveness.

We also implemented the first Continuous Linked Settlement (CLS) utility in the world together with two other Singapore banks. As a CLS Settlement Member, we are now able to settle cross-border multi-currency transactions within the day, on a payment-versus-payment basis. This eliminates the settlement risk caused by delays arising from time-zone differences and, consequently, reduces transaction costs.

### Accolades

Our strong financial performance, commitment to provide quality services and excellent investor relations, as well as efforts in building a strong brand led to the following prestigious awards in 2002:

- Bank Of The Year – Singapore (The Banker – Awards 2002)
- Best Domestic Commercial Bank – Singapore for the second successive year (The Asset – Triple A: Asset Asian Awards 2003)
- Best Local Bank – Singapore (FinanceAsia – Country Awards For Achievement 2002)
- 'Most Progress In Investor Relations' and 'Best Communications During A Takeover' (Investor Relations Magazine – Asia Awards 2002)
- Winner (International Enterprise Singapore – Singapore Brand Award 2002)
- Top Rated for custody services for the third successive year (Global Custodian – Agent Bank Survey 2002)
- 'Star' Ratings for the third year running for settlement efficiency, safekeeping and overall performance in custody services (GSCS Benchmarks – 2002 Review Of Subcustodian Services).

### Staff

We continue to place a high value on staff development, and we seek to build a quality team with the right skills and talent to meet our current and future business needs.

2002 was a year where we concentrated not only on integration and consolidation but also on ensuring that our human resource framework has efficient systems and

processes in place that will support our quest to be a premier bank in the Asia-Pacific region. Towards this end, key projects for the year included:

- Enhancing our performance management system so as to promote a strong bank-wide culture of performance excellence and the alignment of individual performance goals with the Bank's business goals and objectives.
- Implementing an advanced web-based HR management system that allows staff to perform a range of employee-related functions online.
- Continuing to equip staff with the tools and skills they need to achieve excellence in their areas of work expertise. In 2002, the number of training places rose by 144%, while training programmes covered courses on new products and systems to those on performance management and quality awareness.

## Community

We continue to serve the community through philanthropic and sponsorship activities. The arts remain one of our principal areas of support.

Through our annual UOB Painting Of The Year Competition and Exhibition, we have helped hundreds of promising artists in Singapore gain recognition for their works. We are also a Founding Corporate Patron of the Esplanade – Theatres on the Bay.

# Grow | our community



*We continue our sustained programme to support local arts through initiatives such as our annual UOB Painting Of The Year Competition and Exhibition, which entered its 21st year in 2002.*



*Winning the inaugural Singapore Brand Award 2002 affirms our commitment and efforts in making the UOB brand synonymous with quality service and innovative products.*