



**United Overseas Bank Limited**

**GROUP FINANCIAL PERFORMANCE  
FOR YEAR 2003**

20 FEBRUARY 2004

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Note: Certain comparative figures have been restated to conform with the current year's presentation.  
Certain figures in this report may not add up to the relevant totals due to rounding.

***I) Highlights and Performance Indicators***

|   | 2003         | 2002  | Variance (%) | 4th Quarter 2003 | 3rd Quarter 2003 | Variance (%) |
|---|--------------|-------|--------------|------------------|------------------|--------------|
| <b>• Key Indicators</b>   |              |       |              |                  |                  |              |
| Net interest income (NII) (\$'m)                                    | <b>2,071</b> | 2,128 | - 2.7        | <b>540</b>       | 503              | + 7.4        |
| Non-interest income (Non NII) (\$'m)                                | <b>1,089</b> | 906   | + 20.2       | <b>291</b>       | 251              | + 16.1       |
| Total income (\$'m)   | <b>3,160</b> | 3,034 | + 4.1        | <b>831</b>       | 754              | + 10.3       |
| Total expenses (\$'m)   | <b>1,095</b> | 1,074 | + 2.0        | <b>290</b>       | 269              | + 7.6        |
| Operating profit before goodwill amortisation and provisions (\$'m) | <b>2,064</b> | 1,960 | + 5.3        | <b>542</b>       | 485              | + 11.7       |
| ❖ Net profit after tax  |              |       |              |                  |                  |              |
| - Including goodwill amortisation (\$'m)                            | <b>1,202</b> | 1,006 | + 19.5       | <b>366</b>       | 335              | + 9.2        |
| - Excluding goodwill amortisation (\$'m)                            | <b>1,404</b> | 1,201 | + 16.8       | <b>415</b>       | 385              | + 7.8        |
| ❖ Income mix:   |              |       |              |                  |                  |              |
| - NII / Total income (%)  | <b>65.5</b>  | 70.1  | - 4.6 % pt   | <b>64.9</b>      | 66.7             | - 1.8 % pt   |
| - Non NII / Total income (%)  | <b>34.5</b>  | 29.9  | + 4.6 % pt   | <b>35.1</b>      | 33.3             | + 1.8 % pt   |
|   | <b>100.0</b> | 100.0 | -            | <b>100.0</b>     | 100.0            | -            |
| ❖ Profit (before tax and goodwill amortisation) contribution:       |              |       |              |                  |                  |              |
| - Onshore (including ACU) (%)                                       | <b>75.6</b>  | 78.0  | - 2.4 % pt   | <b>71.7</b>      | 79.8             | - 8.1 % pt   |
| - Offshore (%)  | <b>24.4</b>  | 22.0  | + 2.4 % pt   | <b>28.3</b>      | 20.2             | + 8.1 % pt   |
|   | <b>100.0</b> | 100.0 | -            | <b>100.0</b>     | 100.0            | -            |
| ❖ Return on average shareholders' funds #                           |              |       |              |                  |                  |              |
| - Including goodwill amortisation (%)                               | <b>9.3</b>   | 7.9   | + 1.4 % pt   | <b>11.2</b>      | 10.4             | + 0.8 % pt   |
| - Excluding goodwill amortisation (%)                               | <b>10.9</b>  | 9.5   | + 1.4 % pt   | <b>12.7</b>      | 12.0             | + 0.7 % pt   |
| ❖ Basic earnings per share #  |              |       |              |                  |                  |              |
| - Including goodwill amortisation (¢)                               | <b>76.5</b>  | 64.0  | + 19.5       | <b>93.1</b>      | 85.3             | + 9.1        |
| - Excluding goodwill amortisation (¢)                               | <b>89.3</b>  | 76.5  | + 16.7       | <b>105.7</b>     | 98.0             | + 7.9        |
| ❖ Return on average assets #  |              |       |              |                  |                  |              |
| - Including goodwill amortisation (%)                               | <b>1.10</b>  | 0.91  | + 0.19 % pt  | <b>1.32</b>      | 1.24             | + 0.08 % pt  |
| - Excluding goodwill amortisation (%)                               | <b>1.29</b>  | 1.09  | + 0.20 % pt  | <b>1.50</b>      | 1.43             | + 0.07 % pt  |
| ❖ NII # / Average interest bearing assets (%)                       | <b>2.25</b>  | 2.22  | + 0.03 % pt  | <b>2.29</b>      | 2.20             | + 0.09 % pt  |
| ❖ Expense / Income ratio (%)  | <b>34.7</b>  | 35.4  | - 0.7 % pt   | <b>34.8</b>      | 35.7             | - 0.9 % pt   |
| ❖ Dividend rates (%)  |              |       |              |                  |                  |              |
| - Interim   | <b>20.0</b>  | 15.0  | + 5.0 % pt   | -                | -                | -            |
| - Special dividend in specie  | -            | 18.8  | - 18.8 % pt  | -                | -                | -            |
| - Final   | <b>40.0</b>  | 25.0  | + 15.0 % pt  | <b>40.0</b>      | -                | NM           |

# Computed on an annualised basis for quarters.

NM denotes "Not Meaningful".

**I) Highlights and Performance Indicators**

|  | <b>31-Dec-03</b> | 31-Dec-02 | Variance (%) | 30-Sep-03 |
|--|------------------|-----------|--------------|-----------|
| • <b><u>Other Indicators</u></b>               |                  |           |              |           |
| ❖ Customer loans (net) (\$'m)                  | <b>59,297</b>    | 58,884    | + 0.7        | 59,248    |
| ❖ Customer deposits (\$'m)                     | <b>69,863</b>    | 67,919    | + 2.9        | 66,092    |
| ❖ Loans / Deposits ratio <sup>@</sup> (%)      | <b>84.9</b>      | 86.7      | - 1.8 % pt   | 89.6      |
| ❖ Non-performing loans (NPLs) (\$'m)           | <b>5,160</b>     | 5,679     | - 9.1        | 5,343     |
| ❖ Cumulative provisions (\$'m)                 | <b>3,332</b>     | 3,504     | - 4.9        | 3,438     |
| ❖ NPLs <sup>^</sup> / Gross customer loans (%) | <b>8.1</b>       | 9.0       | - 0.9 % pt   | 8.4       |
| ❖ Cumulative provisions / NPLs (%)             | <b>64.6</b>      | 61.7      | + 2.9 % pt   | 64.3      |
| ❖ Total assets (\$'m)                          | <b>113,446</b>   | 107,430   | + 5.6        | 108,017   |
| ❖ Shareholders' funds (\$'m)                   | <b>13,282</b>    | 12,613    | + 5.3        | 12,924    |
| ❖ Unrealised revaluation surplus * (\$'m)      | <b>1,464</b>     | 1,186     | + 23.4       | 1,368     |
| ❖ Net asset value (NAV) per share (\$)         | <b>8.45</b>      | 8.03      | + 5.2        | 8.22      |
| ❖ Revalued NAV per share (\$)                  | <b>9.38</b>      | 8.78      | + 6.8        | 9.09      |
| ❖ Net tangible asset backing per share (\$)    | <b>6.23</b>      | 5.68      | + 9.7        | 5.98      |
| ❖ Capital adequacy ratios (CAR) (BIS) (%)      |                  |           |              |           |
| - Tier 1 capital                               | <b>12.8</b>      | 12.2      | + 0.6 % pt   | 12.5      |
| - Total capital                                | <b>18.2</b>      | 15.3      | + 2.9 % pt   | 17.9      |
| ❖ Manpower (number)                            | <b>10,547</b>    | 10,320    | + 227 no.    | 10,575    |

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

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

\* Refers to revaluation surplus on properties and investment securities which was not incorporated into the accounts.

## **II) Review of Financial Performance**

The financial statements are prepared in accordance with Singapore Financial Reporting Standards and are expressed in Singapore dollars.

Following the Monetary Authority of Singapore's revision of Notice to Banks MAS 605 on Revaluation of Assets which allows banks to mark to market their trading portfolios, the Group has changed its accounting policy as follows:

- All securities held for trading are stated at market value (formerly: lower of cost and market value on an aggregate basis);
- Government bonds, other than those held for trading, are stated at cost (adjusted for amortisation of premium / discount) less provision for diminution in value that is other than temporary, on an individual basis (formerly: lower of cost and market value on an aggregate basis).

The change in accounting policy has been applied retrospectively and the 2002 figures have been restated accordingly. As a result of the change, the Group's net profit after tax ("NPAT") for the year ended 31 December 2003 increased by \$33 million while the Group's NPAT for the year ended 31 December 2002 decreased by \$58 million. The restated Consolidated Income Statement and Consolidated Balance Sheet are shown in Appendices 1 and 2.

### **Review of Group Performance**

#### **Results**

##### **2003 versus 2002**

The Group recorded a NPAT of \$1,202 million for 2003, an increase of 19.5% over the \$1,006 million registered for 2002. The increase in NPAT was mainly due to higher non-interest income and lower provision charges which were partly offset by lower net interest income.

The Group's operating profit before goodwill amortisation and provisions increased 5.3% to \$2,064 million for 2003 compared to \$1,960 million for 2002. The increase was mainly due to a growth of 4.1% in total income to \$3,160 million from \$3,034 million for 2002. The growth was primarily driven by higher fee and commission income derived largely from investment-related, loan-related and trade-related activities, higher net profit from dealing securities, government securities and derivatives, as well as higher foreign exchange profits. These were partially offset by lower net interest income which was mainly due to lower contributions from inter-bank money market activities as a result of the low and flat interest rate yield curve.

The Group's total operating expenses, comprising staff and other operating expenses, increased 2.0% to \$1,095 million for 2003 compared to \$1,074 million for 2002. Staff expenses decreased 0.9% to \$532 million, while other operating expenses increased 4.8% to \$564 million. The increase in other operating expenses was mainly due to higher advertising and marketing costs, as well as higher commissions paid. As a result of the higher growth in total income compared to the growth in total operating expenses, the expense-to-income ratio of the Group improved to 34.7% for 2003 from 35.4% for 2002.

The Group's provision charges decreased 22.2% to \$362 million for 2003 compared to \$465 million for 2002. The decrease was largely attributable to lower specific provisions for loans which were in tandem with the decline in non-performing loans ("NPLs"), as well as lower specific provisions for diminution in the value of investment securities.

Share of profit of associates (before tax) declined 13.1% to \$107 million for 2003, mainly due to a one-time exceptional gain recorded by United Overseas Land Limited that arose from the sale of the Tiong Bahru Plaza retail mall in the first quarter of 2002. In addition, there was no share of profit from Haw Par Corporation Limited which ceased to be an associate of the Group following its divestment in December 2002. These were partially offset by higher contributions from other associates.

## **II) Review of Financial Performance**

### **Results** *(continued)*

#### **4Q03 versus 3Q03**

The Group's NPAT of \$366 million in the fourth quarter of 2003 ("4Q03") was 9.2% higher than the \$335 million recorded in the third quarter of 2003 ("3Q03"). The increase was primarily driven by higher total income and higher share of profit of associates, partially offset by higher operating expenses and tax.

The Group's total income increased 10.3% to \$831 million in 4Q03 from \$754 million in 3Q03, mainly due to higher net interest income, higher fee and commission income, higher foreign exchange profits, and higher profit on disposal of properties.

The Group's total operating expenses increased 7.6% to \$290 million in 4Q03 from \$269 million in 3Q03, mainly from higher staff expenses, advertising and marketing costs. Expense-to-income ratio improved to 34.8% in 4Q03 from 35.7% in 3Q03.

The Group's provision charges rose \$1 million or 2.7% to \$41 million in 4Q03.

### **Balance Sheet**

The Group's net loans and advances to customers as at 31 December 2003 were \$59,297 million, representing an increase of 0.7% over \$58,884 million as at 31 December 2002. Despite the weak economic conditions, the Group's NPLs declined 9.1% to \$5,160 million as at 31 December 2003 from \$5,679 million as at 31 December 2002. Consequently, Group NPLs (excluding debt securities) as a percentage of gross customer loans decreased to 8.1% as at 31 December 2003 from 9.0% as at 31 December 2002. Of the total Group NPLs as at 31 December 2003, \$2,804 million or 54.3% were secured by collateral, and \$3,306 million or 64.1% were in the Substandard category.

Total cumulative specific and general provisions of the Group were \$3,332 million as at 31 December 2003 compared to \$3,504 million as at 31 December 2002. General provisions as at 31 December 2003 were \$1,422 million or 42.7% of total cumulative provisions. The total cumulative provisions as at 31 December 2003 provided coverage of 64.6% against Group NPLs and 141.4% against Group unsecured NPLs, compared to 61.7% and 138.3% respectively as at 31 December 2002.

Total assets of the Group increased 5.6% to \$113,446 million as at 31 December 2003 compared to \$107,430 million as at 31 December 2002. Shareholders' funds of the Group rose 5.3% to \$13,282 million as at 31 December 2003, resulting in an increase in the net asset value per share to \$8.45 from \$8.03 as at 31 December 2002.

As at 31 December 2003, the Group's Capital Adequacy Ratio ("CAR") of 18.2%, as computed under the Bank for International Settlements ("BIS") guidelines, was more than twice the minimum requirement of 8% set by BIS. The increase by 2.9% points from the CAR of 15.3% as at 31 December 2002 was mainly attributable to the issue of US\$1 billion 4.50% Subordinated Notes in June 2003.

***II) Review of Financial Performance***
**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003**

|   | <u>2003</u>  | <u>2002</u> | <u>Variance</u> |
|---|--------------|-------------|-----------------|
|   | \$ million   | \$ million  | %               |
| Interest income   | <b>3,294</b> | 3,711       | (11.2)          |
| Less: Interest expense  | <b>1,224</b> | 1,583       | (22.7)          |
| Net interest income   | <b>2,071</b> | 2,128       | (2.7)           |
| Dividend income   | <b>42</b>    | 32          | 31.8            |
| Fee and commission income                                       | <b>588</b>   | 501         | 17.4            |
| Rental income   | <b>73</b>    | 78          | (7.4)           |
| Other operating income  | <b>387</b>   | 296         | 30.8            |
| Total non-interest income                                       | <b>1,089</b> | 906         | 20.2            |
| Income before operating expenses                                | <b>3,160</b> | 3,034       | 4.1             |
| Less: Staff costs   | <b>532</b>   | 536         | (0.9)           |
| Other operating expenses  | <b>564</b>   | 538         | 4.8             |
| Total operating expenses  | <b>1,095</b> | 1,074       | 2.0             |
| Operating profit before goodwill<br>amortisation and provisions | <b>2,064</b> | 1,960       | 5.3             |
| Less: Goodwill amortisation                                     | <b>202</b>   | 196         | 3.1             |
| Less: Provisions  | <b>362</b>   | 465         | (22.2)          |
| Operating profit after goodwill<br>amortisation and provisions  | <b>1,501</b> | 1,300       | 15.4            |
| Exceptional item #  | -            | (48)        | (100.0)         |
| Share of profit of associates                                   | <b>107</b>   | 123         | (13.1)          |
| Profit from ordinary activities before tax                      | <b>1,608</b> | 1,376       | 16.9            |
| Less: Tax   | <b>393</b>   | 340         | 15.4            |
| Profit after tax  | <b>1,216</b> | 1,035       | 17.4            |
| Less: Minority interests  | <b>13</b>    | 29          | (54.1)          |
| Net profit attributable to members                              | <b>1,202</b> | 1,006       | 19.5            |
| Expense / Income ratio (%)                                      | <b>34.7</b>  | 35.4        | (0.7) % pt      |
| Earnings per share (¢)  |              |             |                 |
| - Basic   | <b>76.5</b>  | 64.0        | 19.5            |
| - Fully diluted   | <b>76.5</b>  | 64.0        | 19.5            |

# Comprising restructuring and integration costs as a result of the acquisition and merger of Overseas Union Bank Limited.

***II) Review of Financial Performance***
**INCOME STATEMENT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2003**

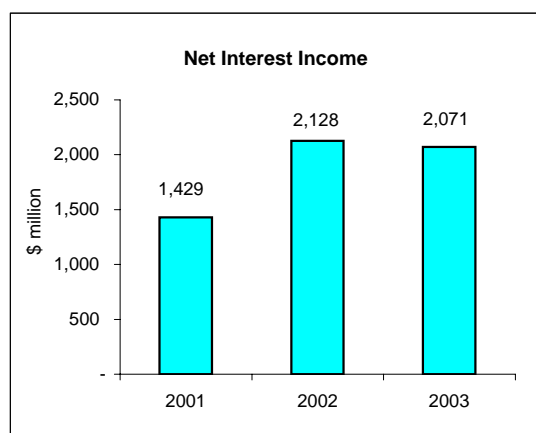
|   | 4th<br>Quarter<br>2003<br>\$ million | 3rd<br>Quarter<br>2003<br>\$ million | Variance<br>% |
|---|--------------------------------------|--------------------------------------|---------------|
| Interest income   | 836                                  | 796                                  | 5.1           |
| Less: Interest expense  | 297                                  | 293                                  | 1.2           |
| Net interest income   | <b>540</b>                           | 503                                  | 7.4           |
| Dividend income   | 12                                   | 11                                   | 5.1           |
| Fee and commission income                                       | 171                                  | 148                                  | 15.5          |
| Rental income   | 17                                   | 17                                   | (2.4)         |
| Other operating income  | 91                                   | 74                                   | 23.1          |
| Total non-interest income                                       | <b>291</b>                           | 251                                  | 16.1          |
| Income before operating expenses                                | <b>831</b>                           | 754                                  | 10.3          |
| Less: Staff costs   | 142                                  | 128                                  | 10.8          |
| Other operating expenses  | 148                                  | 141                                  | 4.7           |
| Total operating expenses  | <b>290</b>                           | 269                                  | 7.6           |
| Operating profit before goodwill<br>amortisation and provisions | <b>542</b>                           | 485                                  | 11.7          |
| Less: Goodwill amortisation                                     | 50                                   | 50                                   | (1.3)         |
| Less: Provisions  | 41                                   | 40                                   | 2.7           |
| Operating profit after goodwill<br>amortisation and provisions  | <b>451</b>                           | 394                                  | 14.3          |
| Share of profit of associates                                   | 45                                   | 32                                   | 39.5          |
| Profit from ordinary activities before tax                      | <b>496</b>                           | 427                                  | 16.2          |
| Less: Tax   | 126                                  | 88                                   | 43.2          |
| Profit after tax  | <b>370</b>                           | 339                                  | 9.2           |
| Less: Minority interests  | 4                                    | 4                                    | 11.7          |
| Net profit attributable to members                              | <b>366</b>                           | 335                                  | 9.2           |
| Expense / Income ratio (%)                                      | <b>34.8</b>                          | 35.7                                 | (0.9)% pt     |
| Annualised earnings per share (¢)                               |                                      |                                      |               |
| - Basic   | <b>93.1</b>                          | 85.3                                 | 9.1           |
| - Fully diluted   | <b>93.1</b>                          | 85.2                                 | 9.3           |





**II) Review of Financial Performance**

**Net Interest Income**



Net interest income of the Group declined 2.7% to \$2,071 million for 2003 compared to \$2,128 million for 2002. The decrease was largely due to lower contributions from inter-bank money market activities as a result of the low and flat interest rate yield curve. Net interest income continued to be the major contributor of total income, accounting for 65.5% (2002: 70.1%) of total income.

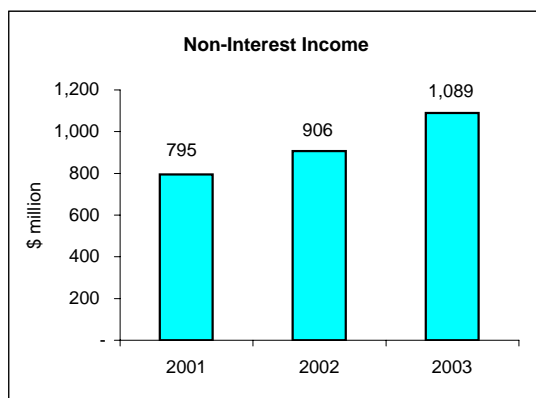
The average interest margin was 2.25% for 2003, which was 3 basis points higher than the 2.22% for 2002. The increase was mainly due to the lower cost of funds.

**Average Interest Margin**

|  | <u>2003</u><br>\$ million | <u>2002</u><br>\$ million | <u>Variance</u><br>% |
|--|---------------------------|---------------------------|----------------------|
| Interest income                            | 3,294                     | 3,711                     | (11.2)               |
| Less: Interest expense                     | <u>1,224</u>              | <u>1,583</u>              | <u>(22.7)</u>        |
| Net interest income                        | <u>2,071</u>              | <u>2,128</u>              | <u>(2.7)</u>         |
| <br>                                       |                           |                           |                      |
| Average balance of interest bearing assets | <b>92,039</b>             | 95,790                    | (3.9)                |
| <br>                                       |                           |                           |                      |
| Average interest margin * (%)              | <u><b>2.25</b></u>        | <u>2.22</u>               | <u>0.03% pt</u>      |

\* Average interest margin represents net interest income as a percentage of average interest bearing assets.

**Non-Interest Income**



Total non-interest income of the Group grew 20.2% to \$1,089 million for 2003 compared to \$906 million for 2002. The growth was primarily driven by higher fee and commission income derived largely from investment-related, loan-related and trade-related activities, higher net profit from dealing securities, government securities and derivatives, as well as higher foreign exchange profits. The Group's non-interest income for 2003 accounted for 34.5% (2002: 29.9%) of total income.

## **II) Review of Financial Performance**

### **Non-Interest Income (cont'd)**

#### **Composition of Non-Interest Income**

|   | <b>2003</b>       | <b>2002</b>       | <b>Variance</b> |
|---|-------------------|-------------------|-----------------|
|   | <b>\$ million</b> | <b>\$ million</b> | <b>%</b>        |
| Fee and commission income   |                   |                   |                 |
| Credit card   | 94                | 96                | (2.3)           |
| Fund management   | 78                | 74                | 4.6             |
| Futures broking and stockbroking  | 35                | 49                | (27.5)          |
| Investment-related  | 98                | 29                | 235.9           |
| Loan-related  | 97                | 86                | 12.0            |
| Service charges   | 49                | 44                | 12.0            |
| Trade-related   | 111               | 101               | 10.3            |
| Other   | 26                | 21                | 23.8            |
|   | <b>588</b>        | 501               | 17.4            |
| Dividend and rental income  | 115               | 110               | 3.9             |
| Other operating income  |                   |                   |                 |
| Net profit from:  |                   |                   |                 |
| - Dealing securities, government treasury bills and securities, and derivatives | 142               | 54                | 165.0           |
| - Foreign exchange dealings   | 111               | 82                | 35.2            |
| - Disposal of investment securities and associates                              | 54                | 78                | (31.2)          |
| - Disposal and liquidation of subsidiaries                                      | 0*                | 0*                | NM              |
| - Disposal of fixed assets  | 19                | 12                | 61.3            |
| - Other   | 60                | 70                | (13.8)          |
|   | <b>387</b>        | 296               | 30.8            |
| Total non-interest income   | <b>1,089</b>      | 906               | 20.2            |

\* Less than \$500,000.

NM denotes "Not Meaningful".

### **Operating Expenses**

Total operating expenses amounted to \$1,095 million for 2003, representing an increase of 2.0% over that in 2002. The increase was from higher other operating expenses which were partially offset by lower staff costs. As a result of the higher growth in total income compared to the growth in total operating expenses, the expense-to-income ratio of the Group improved to 34.7% for 2003 from 35.4% for 2002.

|   | <b>2003</b>       | <b>2002</b>       | <b>Variance</b> |
|---|-------------------|-------------------|-----------------|
|   | <b>\$ million</b> | <b>\$ million</b> | <b>%</b>        |
| Wages and salaries  | 450               | 450               | -               |
| Employer's contribution to defined contribution plans, including Central Provident Fund | 49                | 52                | (5.3)           |
| Other staff-related costs   | 33                | 34                | (5.0)           |
| Staff costs   | 532               | 536               | (0.9)           |
| Other operating expenses  | 564               | 538               | 4.8             |
| Total operating expenses <sup>@</sup>   | <b>1,095</b>      | 1,074             | 2.0             |

<sup>@</sup> Total operating expenses included:

|  |       |       |           |
|--|-------|-------|-----------|
| IT-related expenses                                  | 199   | 199   | -         |
| IT-related expenses as % of total operating expenses | 18.2% | 18.6% | (0.4)% pt |

## **II) Review of Financial Performance**

### **Other Operating Expenses**

|  | <b>2003</b>       | 2002       | Variance |
|--|-------------------|------------|----------|
|  | <b>\$ million</b> | \$ million | %        |
| Depreciation   |                   |            |          |
| - Land and buildings   | <b>27</b>         | 25         | 6.5      |
| - Office equipment, computers, fixtures and other fixed assets | <b>81</b>         | 89         | (9.4)    |
|  | <b>108</b>        | 115        | (5.9)    |
| Rental of premises and equipment                               | <b>39</b>         | 50         | (21.3)   |
| Maintenance of premises and other assets                       | <b>51</b>         | 46         | 10.0     |
| Auditors' remuneration   | <b>3</b>          | 3          | 21.9     |
| Directors' fees  | <b>2</b>          | 2          | (13.1)   |
| Other expenses   | <b>361</b>        | 322        | 11.9     |
| Total other operating expenses                                 | <b>564</b>        | 538        | 4.8      |

Other operating expenses of \$564 million were 4.8% higher compared to \$538 million for 2002. The increase was mainly due to higher advertising and marketing costs, as well as higher commissions paid. These were partially offset by lower rental expenses and lower depreciation charges on fixed assets.

### **Provisions Charged to Income Statement**

Total provision charges of \$362 million for 2003 were 22.2% lower than the \$465 million for 2002. The decrease was largely attributable to lower specific provisions for loans which were in tandem with the decline in NPLs, as well as lower specific provisions for diminution in the value of investment securities.

|  | <b>2003</b>       | 2002       | Variance |
|--|-------------------|------------|----------|
|  | <b>\$ million</b> | \$ million | %        |
| Specific provisions / (write-back of provisions) for loans   |                   |            |          |
| - Five Regional Countries *  | <b>(38)</b>       | 33         | (216.9)  |
| - Greater China **   | <b>(3)</b>        | (39)       | 92.3     |
| - Singapore and other countries  | <b>387</b>        | 428        | (9.7)    |
|  | <b>345</b>        | 422        | (18.1)   |
| General provisions / (write-back of provisions)  |                   |            |          |
| - Five Regional Countries *  | <b>1</b>          | (2)        | NM       |
| - Greater China **   | <b>1</b>          | (2)        | NM       |
| - Singapore and other countries  | <b>(2)</b>        | 4          | (147.5)  |
|  | <b>-</b>          | -          | -        |
| Specific provisions for diminution in value / impairment of investments, fixed assets and other assets | <b>16</b>         | 43         | (62.4)   |
| Total provisions   | <b>362</b>        | 465        | (22.2)   |

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

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

NM denotes "Not Meaningful".

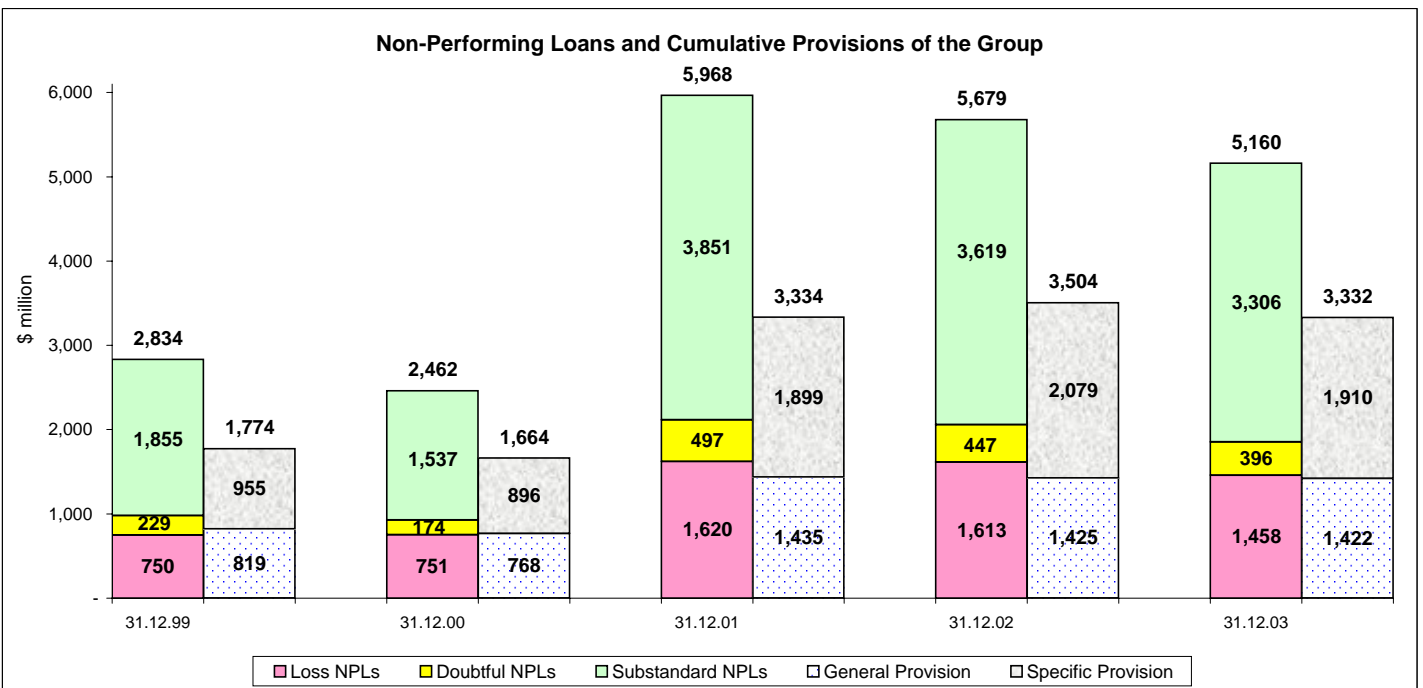


**III) Non-Performing Loans (NPLs) and Cumulative Provisions**

**NPLs and Cumulative Provisions of the Group**

NPLs declined by \$519 million to \$5,160 million as at 31 December 2003 from \$5,679 million as at 31 December 2002, despite an eventful year of high unemployment level in Singapore, the outbreak of SARS and terrorist attacks. Consequently, the ratio of NPLs (excluding debt securities) to total gross customer loans improved by 0.9% point to 8.1%. Improvement is expected to continue in the light of the improving economic outlook for Singapore and the regional countries. Of the total NPLs, \$3,306 million or 64.1% were in the Substandard category, and \$2,804 million or 54.3% were secured by collateral.

Total cumulative provisions amounted to \$3,332 million as at 31 December 2003, a decrease of \$172 million compared to \$3,504 million as at 31 December 2002. The decrease was mainly due to the drop in specific provisions which was in line with the lower NPLs. Total cumulative provisions provided a coverage of 64.6% against total NPLs and 141.4% against unsecured NPLs, an increase of 2.9% points and 3.1% points respectively when compared to the coverage as at 31 December 2002.



**31-Dec-03 31-Dec-02 31-Dec-01 31-Dec-00 31-Dec-99**

| NPLs              | \$ million   |              |              |              |              |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Substandard       | 3,306        | 3,619        | 3,851        | 1,537        | 1,855        |
| Doubtful          | 396          | 447          | 497          | 174          | 229          |
| Loss              | 1,458        | 1,613        | 1,620        | 751          | 750          |
| <b>Total NPLs</b> | <b>5,160</b> | <b>5,679</b> | <b>5,968</b> | <b>2,462</b> | <b>2,834</b> |

| Cumulative Provisions              | \$ million   |              |              |              |              |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Specific provisions                | 1,910        | 2,079        | 1,899        | 896          | 955          |
| General provisions                 | 1,422        | 1,425        | 1,435        | 768          | 819          |
| <b>Total cumulative provisions</b> | <b>3,332</b> | <b>3,504</b> | <b>3,334</b> | <b>1,664</b> | <b>1,774</b> |

| Ratios  | %     |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| NPLs*/Gross customer loans  | 8.1   | 9.0   | 9.3   | 7.8   | 9.8   |
| NPLs/Total assets   | 4.5   | 5.3   | 5.2   | 3.7   | 5.0   |
| Cumulative provisions/NPLs  | 64.6  | 61.7  | 55.9  | 67.6  | 62.6  |
| Cumulative provisions/Doubtful & Loss NPLs                            | 179.7 | 170.1 | 157.5 | 179.9 | 181.2 |
| Cumulative provisions/Unsecured NPLs                                  | 141.4 | 138.3 | 136.6 | 136.6 | 145.2 |
| Cumulative provisions*/Gross customer loans                           | 5.2   | 5.5   | 5.2   | 5.2   | 6.1   |
| General provisions/Gross customer loans (net of specific provisions*) | 2.3   | 2.4   | 2.3   | 2.5   | 2.9   |

\* Excluding debt securities.

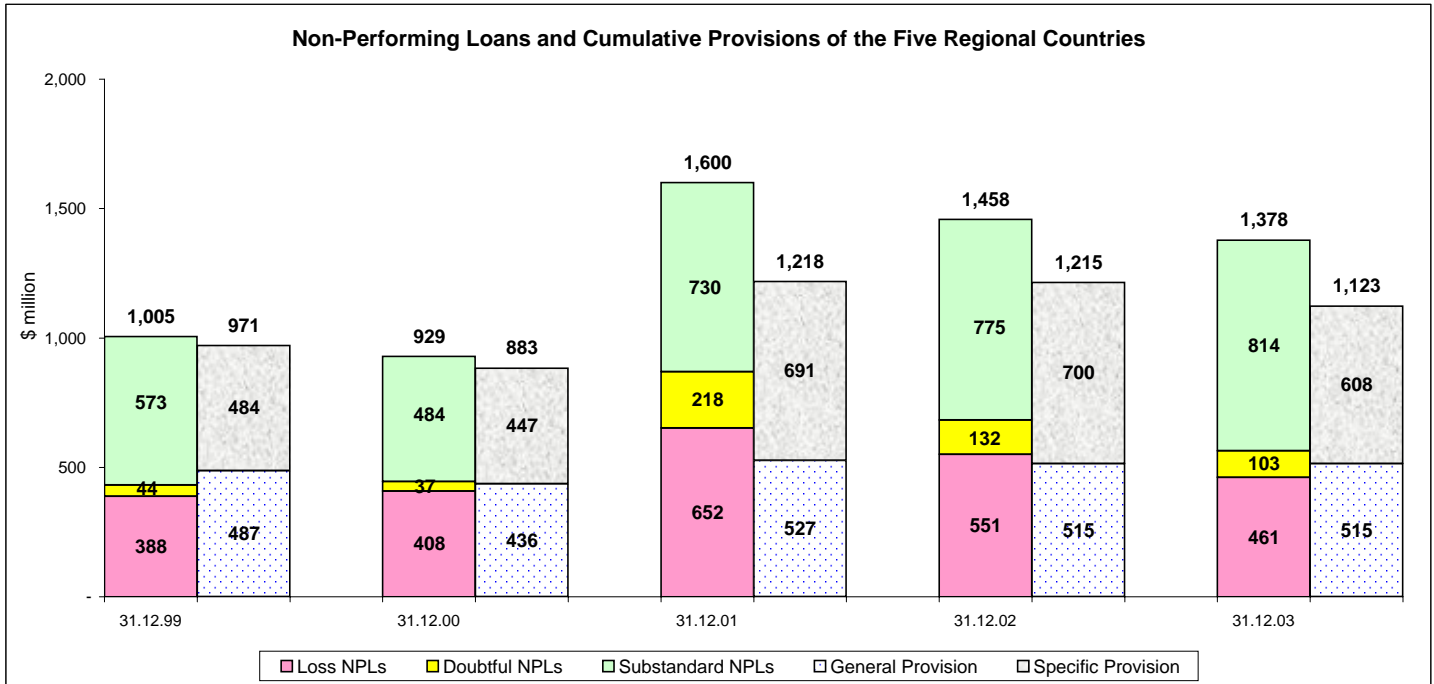


**III) Non-Performing Loans (NPLs) and Cumulative Provisions**

**NPLs and Cumulative Provisions of the Five Regional Countries**

NPLs of the Five Regional Countries decreased further to \$1,378 million as at 31 December 2003 from \$1,458 million as at 31 December 2002. Correspondingly, NPLs (excluding debt securities) as a percentage of gross customer loans to the region dropped to 14.1% compared to 17.0% as at 31 December 2002.

Cumulative specific and general provisions for the Five Regional Countries, at \$1,123 million as at 31 December 2003, were \$92 million or 7.6% lower compared to \$1,215 million as at 31 December 2002. The cumulative provisions represented 81.5% of total NPLs and 199.1% of Doubtful and Loss NPLs in the Five Regional Countries.



|   | 31-Dec-03    | 31-Dec-02    | 31-Dec-01    | 31-Dec-00  | 31-Dec-99    |
|---|--------------|--------------|--------------|------------|--------------|
| <b>NPLs</b>   |              |              |              |            |              |
|   | \$ million   |              |              |            |              |
| Substandard   | 814          | 775          | 730          | 484        | 573          |
| Doubtful  | 103          | 132          | 218          | 37         | 44           |
| Loss  | 461          | 551          | 652          | 408        | 388          |
| <b>Total NPLs</b>   | <b>1,378</b> | <b>1,458</b> | <b>1,600</b> | <b>929</b> | <b>1,005</b> |
| <b>Cumulative Provisions</b>  |              |              |              |            |              |
|   | \$ million   |              |              |            |              |
| Specific provisions   | 608          | 700          | 691          | 447        | 484          |
| General provisions  | 515          | 515          | 527          | 436        | 487          |
| <b>Total cumulative provisions</b>                                    | <b>1,123</b> | <b>1,215</b> | <b>1,218</b> | <b>883</b> | <b>971</b>   |
| <b>Ratios</b>   |              |              |              |            |              |
|   | %            |              |              |            |              |
| NPLs*/Gross customer loans  | 14.1         | 17.0         | 19.2         | 22.2       | 28.9         |
| Cumulative provisions/NPLs  | 81.5         | 83.3         | 76.1         | 95.0       | 96.6         |
| Cumulative provisions/Doubtful & Loss NPLs                            | 199.1        | 177.9        | 140.0        | 198.4      | 224.8        |
| Cumulative provisions*/Gross customer loans                           | 11.5         | 14.1         | 14.7         | 21.1       | 28.0         |
| General provisions/Gross customer loans (net of specific provisions*) | 5.7          | 6.6          | 7.0          | 11.7       | 16.3         |
| NPLs/Gross exposure to the Five Regional Countries                    | 6.7          | 8.9          | 8.9          | 9.1        | 10.0         |

\* Excluding debt securities.

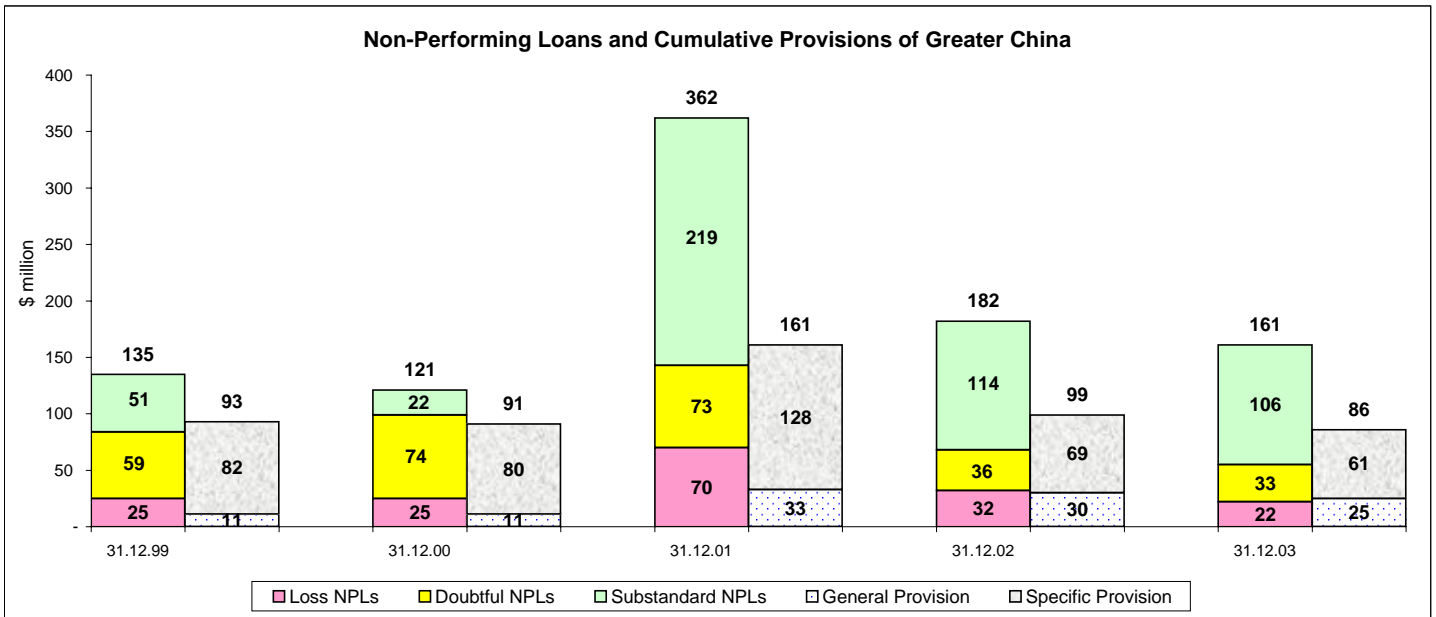


**III) Non-Performing Loans (NPLs) and Cumulative Provisions**

**NPLs and Cumulative Provisions of Greater China**

NPLs of Greater China edged down to \$161 million as at 31 December 2003 from \$182 million as at 31 December 2002. Correspondingly, NPLs (excluding debt securities) as a percentage of a smaller gross customer loan size for Greater China increased 0.9% point to 8.2% compared to 7.3% as at 31 December 2002.

Cumulative specific and general provisions for Greater China, at \$86 million as at 31 December 2003, were \$13 million or 13.1% lower compared to \$99 million as at 31 December 2002. The cumulative provisions represented 53.4% of the total NPLs of Greater China and 156.4% of the NPLs of Greater China that were classified as Doubtful and Loss.



**31-Dec-03** 31-Dec-02 31-Dec-01 31-Dec-00 31-Dec-99

|                   | \$ million |            |            |            |            |
|-------------------|------------|------------|------------|------------|------------|
| <b>NPLs</b>       |            |            |            |            |            |
| Substandard       | 106        | 114        | 219        | 22         | 51         |
| Doubtful          | 33         | 36         | 73         | 74         | 59         |
| Loss              | 22         | 32         | 70         | 25         | 25         |
| <b>Total NPLs</b> | <b>161</b> | <b>182</b> | <b>362</b> | <b>121</b> | <b>135</b> |

|                                    | \$ million |           |            |           |           |
|------------------------------------|------------|-----------|------------|-----------|-----------|
| <b>Cumulative Provisions</b>       |            |           |            |           |           |
| Specific provisions                | 61         | 69        | 128        | 80        | 82        |
| General provisions                 | 25         | 30        | 33         | 11        | 11        |
| <b>Total cumulative provisions</b> | <b>86</b>  | <b>99</b> | <b>161</b> | <b>91</b> | <b>93</b> |

|   | %     |       |       |      |       |
|---|-------|-------|-------|------|-------|
| <b>Ratios</b>   |       |       |       |      |       |
| NPLs*/Gross customer loans  | 8.2   | 7.3   | 12.4  | 11.5 | 15.2  |
| Cumulative provisions/NPLs  | 53.4  | 54.4  | 44.5  | 75.2 | 68.9  |
| Cumulative provisions/Doubtful & Loss NPLs                            | 156.4 | 145.6 | 112.6 | 91.9 | 110.7 |
| Cumulative provisions*/Gross customer loans                           | 4.4   | 4.0   | 5.5   | 8.6  | 10.5  |
| General provisions/Gross customer loans (net of specific provisions*) | 1.3   | 1.2   | 1.2   | 1.1  | 1.4   |
| NPLs/Gross exposure to Greater China                                  | 1.7   | 2.4   | 5.7   | 4.5  | 6.8   |

\* Excluding debt securities.

**III) Non-Performing Loans (NPLs) and Cumulative Provisions****NPLs by Region**

By geographical region, Singapore accounted for \$3,530 million or 68.4% of the total NPLs as at 31 December 2003. NPLs of Singapore decreased \$405 million or 10.3% compared to \$3,935 million as at 31 December 2002.

NPLs of the Five Regional Countries fell by \$80 million or 5.5% to \$1,378 million as at 31 December 2003 from \$1,458 million as at 31 December 2002. The decrease was seen across all the five countries and was led by Indonesia (\$37 million) followed by the Philippines (\$24 million).

NPLs of Greater China as at 31 December 2003 were \$161 million, representing a decline of 11.5% over \$182 million as at 31 December 2002.

|                         | 31-Dec-03  |       | 31-Dec-02  |       | 31-Dec-01  |       |
|-------------------------|------------|-------|------------|-------|------------|-------|
|                         | \$ million | %     | \$ million | %     | \$ million | %     |
| Singapore               | 3,530      | 68.4  | 3,935      | 69.3  | 3,819      | 64.0  |
| Five Regional Countries |            |       |            |       |            |       |
| Malaysia                | 930        | 18.0  | 943        | 16.6  | 1,028      | 17.2  |
| Indonesia               | 119        | 2.3   | 156        | 2.8   | 169        | 2.8   |
| Philippines             | 184        | 3.6   | 208        | 3.7   | 242        | 4.1   |
| Thailand                | 140        | 2.7   | 144        | 2.5   | 151        | 2.5   |
| South Korea             | 5          | 0.1   | 7          | 0.1   | 10         | 0.2   |
|                         | 1,378      | 26.7  | 1,458      | 25.7  | 1,600      | 26.8  |
| Greater China           | 161        | 3.1   | 182        | 3.2   | 362        | 6.1   |
| Other                   | 91         | 1.8   | 104        | 1.8   | 187        | 3.1   |
| Total NPLs              | 5,160      | 100.0 | 5,679      | 100.0 | 5,968      | 100.0 |

**NPLs by Industry**

NPLs across all sectors were managed down from their respective levels as at 31 December 2002. The highest NPLs as at 31 December 2003 came from the non-bank financial institutions and professionals and private individuals sectors.

|                                       | 31-Dec-03            |                                       | 31-Dec-02            |                                       | 31-Dec-01            |                                       |
|---------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
|                                       | Amount<br>\$ million | As % of<br>Gross<br>Customer<br>Loans | Amount<br>\$ million | As % of<br>Gross<br>Customer<br>Loans | Amount<br>\$ million | As % of<br>Gross<br>Customer<br>Loans |
| Transport, storage and communication  | 105                  | 5.0                                   | 124                  | 6.0                                   | 99                   | 4.3                                   |
| Building and construction             | 756                  | 10.3                                  | 843                  | 9.2                                   | 1,163                | 12.0                                  |
| Manufacturing                         | 745                  | 12.7                                  | 874                  | 16.2                                  | 895                  | 16.8                                  |
| Non-bank financial institutions       | 984                  | 9.5                                   | 1,029                | 9.5                                   | 1,022                | 9.5                                   |
| General commerce                      | 702                  | 11.4                                  | 769                  | 12.4                                  | 825                  | 13.1                                  |
| Professionals and private individuals | 926                  | 9.6                                   | 1,014                | 10.9                                  | 939                  | 9.9                                   |
| Housing loans                         | 632                  | 4.3                                   | 668                  | 4.8                                   | 556                  | 4.2                                   |
| Other                                 | 231                  | 3.7                                   | 294                  | 5.3                                   | 445                  | 6.4                                   |
| Sub-total                             | 5,081                | 8.1                                   | 5,615                | 9.0                                   | 5,944                | 9.3                                   |
| Debt securities                       | 79                   |                                       | 64                   |                                       | 24                   |                                       |
| Total NPLs                            | 5,160                |                                       | 5,679                |                                       | 5,968                |                                       |

**Specific Provisions by Loan Classification**

Of the total specific provisions of \$1,910 million as at 31 December 2003, 76.3% was for "Loss" accounts.

|                           | 31-Dec-03  |       | 31-Dec-02  |       | 31-Dec-01  |       |
|---------------------------|------------|-------|------------|-------|------------|-------|
|                           | \$ million | %     | \$ million | %     | \$ million | %     |
| Substandard               | 189        | 9.9   | 172        | 8.3   | 162        | 8.5   |
| Doubtful                  | 263        | 13.8  | 294        | 14.1  | 272        | 14.3  |
| Loss                      | 1,458      | 76.3  | 1,613      | 77.6  | 1,465      | 77.2  |
| Total specific provisions | 1,910      | 100.0 | 2,079      | 100.0 | 1,899      | 100.0 |



**III) Non-Performing Loans (NPLs) and Cumulative Provisions**

**Specific Provisions by Region**

Singapore and the Five Regional Countries accounted for 62.8% and 31.8% respectively of the Group's total specific provisions of \$1,910 million as at 31 December 2003.

|                           | 31-Dec-03  |       | 31-Dec-02  |       | 31-Dec-01  |       |
|---------------------------|------------|-------|------------|-------|------------|-------|
|                           | \$ million | %     | \$ million | %     | \$ million | %     |
| Singapore                 | 1,200      | 62.8  | 1,271      | 61.1  | 1,037      | 54.6  |
| Five Regional Countries   |            |       |            |       |            |       |
| Malaysia                  | 383        | 20.0  | 428        | 20.6  | 439        | 23.1  |
| Indonesia                 | 78         | 4.1   | 111        | 5.3   | 88         | 4.6   |
| Philippines               | 76         | 4.0   | 72         | 3.5   | 72         | 3.8   |
| Thailand                  | 69         | 3.6   | 87         | 4.2   | 88         | 4.6   |
| South Korea               | 2          | 0.1   | 2          | 0.1   | 4          | 0.3   |
|                           | 608        | 31.8  | 700        | 33.7  | 691        | 36.4  |
| Greater China             | 61         | 3.2   | 69         | 3.3   | 128        | 6.7   |
| Other                     | 41         | 2.2   | 39         | 1.9   | 43         | 2.3   |
| Total specific provisions | 1,910      | 100.0 | 2,079      | 100.0 | 1,899      | 100.0 |

**Specific Provisions by Industry**

The highest specific provisions by industry were from the professionals and private individuals and manufacturing sectors. Specific provisions for professionals and private individuals accounted for 19.3% of the total specific provisions for loans, reflecting an increase of 3.1% points over 16.2% as at 31 December 2002. Specific provisions for manufacturing declined to 18.9% of total specific provisions for loans from 19.6% as at 31 December 2002.

|                                       | 31-Dec-03  |       | 31-Dec-02  |       | 31-Dec-01  |       |
|---------------------------------------|------------|-------|------------|-------|------------|-------|
|                                       | \$ million | %     | \$ million | %     | \$ million | %     |
| Transport, storage and communication  | 44         | 2.4   | 35         | 1.7   | 28         | 1.5   |
| Building and construction             | 275        | 14.8  | 369        | 18.2  | 336        | 17.8  |
| Manufacturing                         | 352        | 18.9  | 398        | 19.6  | 370        | 19.6  |
| Non-bank financial institutions       | 319        | 17.1  | 309        | 15.2  | 308        | 16.4  |
| General commerce                      | 300        | 16.1  | 309        | 15.2  | 305        | 16.2  |
| Professionals and private individuals | 360        | 19.3  | 329        | 16.2  | 296        | 15.7  |
| Housing loans                         | 98         | 5.3   | 143        | 7.1   | 80         | 4.3   |
| Other                                 | 114        | 6.1   | 138        | 6.8   | 161        | 8.5   |
| Sub-total                             | 1,862      | 100.0 | 2,030      | 100.0 | 1,884      | 100.0 |
| Debt securities                       | 48         |       | 49         |       | 15         |       |
| Total specific provisions             | 1,910      |       | 2,079      |       | 1,899      |       |

**Restructured Loans**

Loans that were restructured and classified during the year were as follows:

|                          | 2003               |                                      | 2002               |                                      | 2001               |                                      |
|--------------------------|--------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|--------------------------------------|
|                          | NPLs<br>\$ million | Specific<br>Provisions<br>\$ million | NPLs<br>\$ million | Specific<br>Provisions<br>\$ million | NPLs<br>\$ million | Specific<br>Provisions<br>\$ million |
| Substandard              | 196                | 31                                   | 292                | 9                                    | 176                | 8                                    |
| Doubtful                 | -                  | -                                    | 29                 | 13                                   | 115                | 42                                   |
| Loss                     | 35                 | 35                                   | 37                 | 36                                   | 65                 | 57                                   |
| Total restructured loans | 231                | 66                                   | 358                | 58                                   | 356                | 107                                  |





**III) Non-Performing Loans (NPLs) and Cumulative Provisions**

**Ageing of NPLs**

The entire outstanding balance of an account is deemed non-current and aged accordingly when there are arrears in interest servicing or principal repayment. The ageing of NPLs was as follows:

| Ageing (Days)     | 31-Dec-03    |              | 31-Dec-02    |              | 31-Dec-01    |              |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                   | \$ million   | %            | \$ million   | %            | \$ million   | %            |
| Current           | 670          | 13.0         | 774          | 13.6         | 925          | 15.5         |
| ≤ 90              | 378          | 7.3          | 473          | 8.3          | 874          | 14.6         |
| 91 to 180         | 464          | 9.0          | 789          | 13.9         | 547          | 9.2          |
| ≥ 181             | 3,648        | 70.7         | 3,643        | 64.2         | 3,622        | 60.7         |
| <b>Total NPLs</b> | <b>5,160</b> | <b>100.0</b> | <b>5,679</b> | <b>100.0</b> | <b>5,968</b> | <b>100.0</b> |

**Secured / Unsecured NPLs**

As at 31 December 2003, 54.3% of the Group's total NPLs was secured by collateral compared to 55.4% as at 31 December 2002. The lower level of secured NPLs reflected the declining collateral value in a weak property market in 2003.

|                   | 31-Dec-03    |              | 31-Dec-02    |              | 31-Dec-01    |              |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                   | \$ million   | %            | \$ million   | %            | \$ million   | %            |
| Secured           | 2,804        | 54.3         | 3,146        | 55.4         | 3,528        | 59.1         |
| Unsecured         | 2,356        | 45.7         | 2,533        | 44.6         | 2,440        | 40.9         |
| <b>Total NPLs</b> | <b>5,160</b> | <b>100.0</b> | <b>5,679</b> | <b>100.0</b> | <b>5,968</b> | <b>100.0</b> |

**Collateral**

The Group's NPLs are predominantly secured by properties. Properties are valued at forced sale values which are updated semi-annually. Other types of collateral include marketable securities such as listed stocks and shares, cash and deposits, and bankers' standby letters of credit.

The secured NPLs of the Group, as analysed by country of risk and collateral type, were as follows:

| 31-Dec-03                 | \$ million   |                       |                   |            |              |
|---------------------------|--------------|-----------------------|-------------------|------------|--------------|
|                           | Properties   | Marketable Securities | Cash and Deposits | Other      | Total        |
| Singapore                 | 1,883        | 51                    | 16                | 78         | 2,028        |
| Five Regional Countries   | 579          | 69                    | 9                 | 41         | 698          |
| Greater China             | 44           | 1                     | 2                 | -          | 47           |
| Other                     | 30           | -                     | -                 | 1          | 31           |
| <b>Total secured NPLs</b> | <b>2,536</b> | <b>121</b>            | <b>27</b>         | <b>120</b> | <b>2,804</b> |

| 31-Dec-02                 | \$ million   |                       |                   |            |              |
|---------------------------|--------------|-----------------------|-------------------|------------|--------------|
|                           | Properties   | Marketable Securities | Cash and Deposits | Other      | Total        |
| Singapore                 | 2,067        | 86                    | 36                | 135        | 2,324        |
| Five Regional Countries   | 569          | 102                   | 2                 | 43         | 716          |
| Greater China             | 61           | 2                     | -                 | -          | 63           |
| Other                     | 43           | -                     | -                 | -          | 43           |
| <b>Total secured NPLs</b> | <b>2,740</b> | <b>190</b>            | <b>38</b>         | <b>178</b> | <b>3,146</b> |

| 31-Dec-01                 | \$ million   |                       |                   |            |              |
|---------------------------|--------------|-----------------------|-------------------|------------|--------------|
|                           | Properties   | Marketable Securities | Cash and Deposits | Other      | Total        |
| Singapore                 | 2,282        | 136                   | 14                | 64         | 2,496        |
| Five Regional Countries   | 643          | 97                    | 3                 | 45         | 788          |
| Greater China             | 109          | 11                    | -                 | 11         | 131          |
| Other                     | 111          | -                     | 2                 | -          | 113          |
| <b>Total secured NPLs</b> | <b>3,145</b> | <b>244</b>            | <b>19</b>         | <b>120</b> | <b>3,528</b> |



## **IV) Segmental Analysis**

### **Business Segments**

The Group's businesses are organised into five segments, based on the types of products and services that it provides worldwide. These segments are Individual Financial Services, Institutional Financial Services, Global Treasury, Asset Management, and Other that include mainly property-related activities.

#### **Individual Financial Services**

The Individual Financial Services segment covers Personal Financial Services and High Networth Banking. Personal Financial Services serves individual customers, including the mass affluent. The principal products and services for personal customers include deposits, loans, investments, and credit and debit cards. Personal Financial Services also sells and distributes a range of life assurance products. High Networth Banking provides an extensive range of financial services, including trust and wealth management services, to the wealthy and more affluent customers.

Profit before tax of the segment increased 10.8% to \$421 million in 2003, largely due to strong revenue growth from consumer loans and credit cards of the Group's overseas operations.

#### **Institutional Financial Services**

The Institutional Financial Services segment encompasses Commercial Credit, Corporate Banking, Corporate Finance and Capital Markets. Commercial Credit serves the small and medium-sized enterprises. Corporate Banking serves the middle market and large local corporate groups, including non-bank financial institutions. Both Commercial Credit and Corporate Banking provide customers with a broad range of products and services that include current accounts, deposits, lending, asset finance, trade finance, structured finance, cash management and cross-border payments. Corporate Finance serves corporations with services that include initial public offerings (IPOs), rights issues, and corporate advisory services. Capital Markets specialises in providing solution-based structures to meet clients' financing requirements, as well as in the issue of debt and quasi-debt securities and loan syndications.

In 2003, the segment recorded a commendable growth of 12.0% in profit before tax to \$682 million compared to 2002. The improved performance was mainly due to stronger fee income in the second half of 2003 as well as lower loan provisions, from the Group's corporate banking, capital market and regional banking activities.

#### **Global Treasury**

Global Treasury segment provides a comprehensive range of treasury products and services, including foreign exchange, money market, fixed income, derivatives, margin trading, futures broking, a full range of gold products, as well as an array of structured products. It is a dominant player in Singapore dollar treasury instruments as well as a provider of bank note services in the region.

Despite the challenging operating environment in 2003, marked by volatility in foreign exchange trading as well as the decline in Singapore Government securities prices following the upward trend of the yield curve, Global Treasury continued to capitalise on its strengths and competitive advantage in strategic markets. Against this backdrop, profit before tax of this segment rose 1.7% to \$305 million, reflecting the strength of its core treasury businesses.

#### **Asset Management**

Asset Management segment comprises asset management, venture capital management and proprietary investment activities. The segment achieved significant growth in profit before tax, registering \$149 million for 2003. The increase was boosted by strong trading and investment gains and higher fee income.

#### **Other**

Other segment include property-related activities, insurance businesses and the management of shareholders' funds. The segment's profit before tax of \$210 million in 2003 was 16.3% lower than 2002. The decrease was mainly due to the one-time gain on the divestment of Haw Par Corporation Limited in 2002.

**IV) Segmental Analysis****Business Segments**

|  |  |   |                            |                             |              | \$ million   |
|--|--|---|----------------------------|-----------------------------|--------------|--------------|
| <b>31-Dec-03</b>   | <b>Individual<br/>Financial<br/>Services</b> | <b>Institutional<br/>Financial<br/>Services</b> | <b>Global<br/>Treasury</b> | <b>Asset<br/>Management</b> | <b>Other</b> | <b>Total</b> |
| Income before operating expenses                               | 1,013  | 1,230   | 445                        | 203                         | 269          | 3,160        |
| Less: Segment operating expenses                               | 437  | 347   | 140                        | 56                          | 51           | 1,031        |
| Less: Provisions   | 155  | 201   | (0) <sup>^</sup>           | (2)                         | 8            | 362          |
| Segment profit before tax                                      | 421  | 682   | 305                        | 149                         | 210          | 1,767        |
| Unallocated corporate expenses                                 |  |   |                            |                             |              | (64)         |
|  |  |   |                            |                             |              | 1,703        |
| Goodwill amortisation  |  |   |                            |                             |              | (202)        |
| Operating profit after goodwill<br>amortisation and provisions |  |   |                            |                             |              | 1,501        |
| Share of profit of associates                                  |  |   |                            |                             |              | 107          |
| Profit before tax  |  |   |                            |                             |              | 1,608        |
| Tax and minority interests                                     |  |   |                            |                             |              | (406)        |
| Net profit attributable to members                             |  |   |                            |                             |              | 1,202        |
| Other information:   |  |   |                            |                             |              |              |
| Segment assets   | 23,633                                       | 38,075  | 43,021                     | 1,337                       | 2,416        | 108,482      |
| Investments in associates                                      |  |   |                            |                             |              | 1,397        |
| Goodwill   |  |   |                            |                             |              | 3,466        |
| Unallocated assets   |  |   |                            |                             |              | 101          |
| Total assets   |  |   |                            |                             |              | 113,446      |
| Gross customer loans   | 24,443                                       | 38,138  | -                          | -                           | -            | 62,581       |
| NPLs *   | 1,557  | 3,524   | -                          | -                           | -            | 5,081        |
| Specific provisions for NPLs *                                 | 458  | 1,404   | -                          | -                           | -            | 1,862        |
| Non-trading securities (gross)                                 |  |   |                            |                             |              |              |
| Debt securities <sup>@</sup>                                   | -  | 1,319   | 9,320                      | 502                         | 99           | 11,240       |
| Equity securities  | -  | 25  | 24                         | 592                         | 832          | 1,473        |
| Segment liabilities  | 44,343                                       | 28,255  | 26,719                     | 44                          | 34           | 99,395       |
| Unallocated liabilities  |  |   |                            |                             |              | 614          |
| Total liabilities  |  |   |                            |                             |              | 100,009      |
| Capital expenditure  | 36   | 40  | 7                          | 1                           | 53           | 137          |
| Depreciation of fixed assets                                   | 22   | 23  | 6                          | 1                           | 56           | 108          |

<sup>^</sup> Less than (\$500,000).

\* Excluding debt securities.

<sup>@</sup> Including government treasury bills and securities.

**IV) Segmental Analysis****Business Segments**

|  | \$ million                          |  |                    |                     |       |         |
|--|-------------------------------------|--|--------------------|---------------------|-------|---------|
| 31-Dec-02  | Individual<br>Financial<br>Services | Institutional<br>Financial<br>Services | Global<br>Treasury | Asset<br>Management | Other | Total   |
| Income before operating expenses                               | 980                                 | 1,225                                  | 467                | 75                  | 287   | 3,034   |
| Less: Segment operating expenses                               | 449                                 | 325                                    | 154                | 56                  | 35    | 1,019   |
| Less: Provisions   | 151                                 | 291                                    | 13                 | 9                   | 1     | 465     |
| Segment profit before tax                                      | 380                                 | 609                                    | 300                | 10                  | 251   | 1,550   |
| Unallocated corporate expenses                                 |                                     |  |                    |                     |       | (54)    |
|  |                                     |  |                    |                     |       | 1,496   |
| Goodwill amortisation  |                                     |  |                    |                     |       | (196)   |
| Operating profit after goodwill<br>amortisation and provisions |                                     |  |                    |                     |       | 1,300   |
| Exceptional item   |                                     |  |                    |                     |       | (48)    |
| Share of profit of associates                                  |                                     |  |                    |                     |       | 123     |
| Profit before tax  |                                     |  |                    |                     |       | 1,376   |
| Tax and minority interests                                     |                                     |  |                    |                     |       | (369)   |
| Net profit attributable to members                             |                                     |  |                    |                     |       | 1,006   |
| Other information:   |                                     |  |                    |                     |       |         |
| Segment assets   | 22,634                              | 38,008                                 | 36,836             | 3,184               | 1,730 | 102,392 |
| Investments in associates                                      |                                     |  |                    |                     |       | 1,274   |
| Goodwill   |                                     |  |                    |                     |       | 3,666   |
| Unallocated assets   |                                     |  |                    |                     |       | 98      |
| Total assets   |                                     |  |                    |                     |       | 107,430 |
| Gross customer loans   | 23,177                              | 39,162                                 | -                  | -                   | -     | 62,339  |
| NPLs *   | 1,682                               | 3,933                                  | -                  | -                   | -     | 5,615   |
| Specific provisions for NPLs *                                 | 471                                 | 1,559                                  | -                  | -                   | -     | 2,030   |
| Non-trading securities (gross)                                 |                                     |  |                    |                     |       |         |
| Debt securities @  | -                                   | 1,291                                  | 9,881              | 959                 | 16    | 12,147  |
| Equity securities  | -                                   | 20                                     | 11                 | 413                 | 836   | 1,280   |
| Segment liabilities  | 40,175                              | 29,795                                 | 24,043             | 22                  | 87    | 94,122  |
| Unallocated liabilities  |                                     |  |                    |                     |       | 546     |
| Total liabilities  |                                     |  |                    |                     |       | 94,668  |
| Capital expenditure  | 26                                  | 30                                     | 9                  | 1                   | 208   | 274     |
| Depreciation of fixed assets                                   | 19                                  | 20                                     | 5                  | 1                   | 70    | 115     |

\* Excluding debt securities.

@ Including government treasury bills and securities.

Note:  
The 2002 segment figures as disclosed above have been restated to reflect changes in the cost allocation methodologies and organisation structure introduced in 2003.

#### **IV) Segmental Analysis**

##### **Geographical Segments**

The following geographical segment information is based on the location where the transactions and assets are booked. It provides an approximation to geographical segment information that is based on the location of customers and assets. The figures are stated after elimination of inter-segment transactions.

|  | <b>2003</b>       |              | <b>2002</b>       |              |
|--|-------------------|--------------|-------------------|--------------|
|  | <b>\$ million</b> | <b>%</b>     | <b>\$ million</b> | <b>%</b>     |
| <b><u>Income before Operating Expenses</u></b> |                   |              |                   |              |
| Singapore (including Asian Currency Units)     | <b>2,353</b>      | <b>74.5</b>  | 2,302             | 75.9         |
| Other ASEAN countries                          | <b>507</b>        | <b>16.1</b>  | 464               | 15.3         |
| Other Asia-Pacific countries                   | <b>194</b>        | <b>6.1</b>   | 189               | 6.2          |
| Rest of the world                              | <b>106</b>        | <b>3.3</b>   | 79                | 2.6          |
| <b>Total</b>                                   | <b>3,160</b>      | <b>100.0</b> | <b>3,034</b>      | <b>100.0</b> |

|  | <b>2003</b>       |              | <b>2002</b>       |          |
|--|-------------------|--------------|-------------------|----------|
|  | <b>\$ million</b> | <b>%</b>     | <b>\$ million</b> | <b>%</b> |
| <b><u>Profit before Tax</u></b>            |                   |              |                   |          |
| Singapore (including Asian Currency Units) | <b>1,367</b>      | <b>75.6</b>  | 1,225             | 78.0     |
| Other ASEAN countries                      | <b>263</b>        | <b>14.5</b>  | 187               | 11.9     |
| Other Asia-Pacific countries               | <b>104</b>        | <b>5.7</b>   | 112               | 7.1      |
| Rest of the world                          | <b>76</b>         | <b>4.2</b>   | 47                | 3.0      |
|  | <b>1,810</b>      | <b>100.0</b> | 1,571             | 100.0    |
| Goodwill amortisation                      | <b>(202)</b>      |              | (196)             |          |
| <b>Total</b>                               | <b>1,608</b>      |              | <b>1,376</b>      |          |

|  | <b>31-Dec-03</b>  |              | <b>31-Dec-02</b>  |          |
|--|-------------------|--------------|-------------------|----------|
|  | <b>\$ million</b> | <b>%</b>     | <b>\$ million</b> | <b>%</b> |
| <b><u>Total Assets</u></b>                 |                   |              |                   |          |
| Singapore (including Asian Currency Units) | <b>75,087</b>     | <b>68.3</b>  | 77,246            | 74.4     |
| Other ASEAN countries                      | <b>15,212</b>     | <b>13.8</b>  | 12,477            | 12.0     |
| Other Asia-Pacific countries               | <b>13,466</b>     | <b>12.2</b>  | 8,365             | 8.1      |
| Rest of the world                          | <b>6,215</b>      | <b>5.7</b>   | 5,676             | 5.5      |
|  | <b>109,980</b>    | <b>100.0</b> | 103,764           | 100.0    |
| Goodwill                                   | <b>3,466</b>      |              | 3,666             |          |
| <b>Total</b>                               | <b>113,446</b>    |              | <b>107,430</b>    |          |

**V) Overview of Balance Sheet****Total Assets**

The Group's total assets as at 31 December 2003 grew to \$113,446 million, representing an increase of 5.6% over the \$107,430 million recorded as at 31 December 2002. The increase was mainly contributed by higher cash and balances with central banks as well as higher inter-bank placements and balances.

| <u>Assets Mix</u>                    | <u>31-Dec-03</u>  |              | <u>31-Dec-02</u>  |              |
|--------------------------------------|-------------------|--------------|-------------------|--------------|
|                                      | <u>\$ million</u> | <u>%</u>     | <u>\$ million</u> | <u>%</u>     |
| Cash and balances with central banks | 8,035             | 7.1          | 4,213             | 3.9          |
| Securities *                         | 13,609            | 12.0         | 14,120            | 13.2         |
| Inter-bank placements and balances   | 21,122            | 18.6         | 19,426            | 18.1         |
| Customer loans                       | 59,297            | 52.3         | 58,884            | 54.8         |
| Goodwill                             | 3,466             | 3.0          | 3,666             | 3.4          |
| Other                                | 7,917             | 7.0          | 7,120             | 6.6          |
| <b>Total assets</b>                  | <b>113,446</b>    | <b>100.0</b> | <b>107,430</b>    | <b>100.0</b> |

**Securities \***

Total securities as at 31 December 2003 amounted to \$13,609 million, representing a decrease of 3.6% over \$14,120 million registered as at 31 December 2002. The decrease was mainly from reduced holdings in government treasury bills and securities which were partially offset by increased holdings in investment securities issued by financial institutions.

| <u>Total Securities</u>                   | <u>31-Dec-03</u>  | <u>31-Dec-02</u>  |
|---|-------------------|-------------------|
|   | <u>\$ million</u> | <u>\$ million</u> |
| Trading, at fair value                    | 1,028             | 804               |
| Non-trading                               |                   |                   |
| At cost adjusted for premium and discount | 12,713            | 13,427            |
| Provision for diminution in value         | (131)             | (111)             |
|   | <b>12,582</b>     | <b>13,316</b>     |
| <b>Total securities</b>                   | <b>13,609</b>     | <b>14,120</b>     |

| <u>Securities Analysed by Issuer Type</u> | <u>31-Dec-03</u>                    |   | <u>31-Dec-02</u>                    |   |
|---|-------------------------------------|---|-------------------------------------|---|
|   | <u>Trading</u><br><u>\$ million</u> | <u>Non-Trading</u><br><u>\$ million</u> | <u>Trading</u><br><u>\$ million</u> | <u>Non-Trading</u><br><u>\$ million</u> |
| Government                                | 503                                 | 7,159                                   | 181                                 | 9,370                                   |
| Public sector                             | 11                                  | 4                                       | 2                                   | 6                                       |
| Bank                                      | 64                                  | 1,498                                   | 21                                  | 631                                     |
| Corporate                                 | 426                                 | 3,702                                   | 564                                 | 2,973                                   |
| Other                                     | 24                                  | 350                                     | 36                                  | 447                                     |
| <b>Total securities</b>                   | <b>1,028</b>                        | <b>12,713</b>                           | <b>804</b>                          | <b>13,427</b>                           |

| <u>Securities Analysed by Industry</u> | <u>31-Dec-03</u>  |              | <u>31-Dec-02</u>  |              |
|--|-------------------|--------------|-------------------|--------------|
|  | <u>\$ million</u> | <u>%</u>     | <u>\$ million</u> | <u>%</u>     |
| Transport, storage and communication   | 401               | 3.1          | 559               | 4.2          |
| Building and construction              | 236               | 1.9          | 321               | 2.4          |
| Manufacturing                          | 561               | 4.4          | 606               | 4.5          |
| Financial institutions                 | 2,613             | 20.6         | 1,321             | 9.8          |
| General commerce                       | 150               | 1.2          | 72                | 0.5          |
| Government                             | 7,159             | 56.3         | 9,370             | 69.8         |
| Other                                  | 1,593             | 12.5         | 1,178             | 8.8          |
| <b>Non-trading securities</b>          | <b>12,713</b>     | <b>100.0</b> | <b>13,427</b>     | <b>100.0</b> |

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

**V) Overview of Balance Sheet****Customer Loans**

Net loans and advances to customers as at 31 December 2003 totalled \$59,297 million. This represented an increase of 0.7% compared to \$58,884 million as at 31 December 2002. The increase was primarily due to growth in the housing loans and trade financing portfolios which were partially offset by lower overdrafts.

| <u>Customer Loans Analysed by Product Group</u> | 31-Dec-03  |       | 31-Dec-02  |       |
|---|------------|-------|------------|-------|
|   | \$ million | %     | \$ million | %     |
| Housing loans                                   | 14,789     | 23.6  | 13,841     | 22.2  |
| Term loans                                      | 35,033     | 56.0  | 35,253     | 56.5  |
| Trade financing                                 | 3,397      | 5.4   | 2,915      | 4.7   |
| Overdrafts                                      | 9,362      | 15.0  | 10,330     | 16.6  |
| Total gross customer loans                      | 62,581     | 100.0 | 62,339     | 100.0 |
| General provisions                              | (1,422)    |       | (1,425)    |       |
| Specific provisions                             | (1,862)    |       | (2,030)    |       |
| Total net customer loans                        | 59,297     |       | 58,884     |       |

| <u>Gross Customer Loans Analysed by Industry</u> | 31-Dec-03  |       | 31-Dec-02  |       |
|--|------------|-------|------------|-------|
|  | \$ million | %     | \$ million | %     |
| Transport, storage and communication             | 2,104      | 3.4   | 2,058      | 3.3   |
| Building and construction                        | 7,320      | 11.7  | 9,148      | 14.7  |
| Manufacturing                                    | 5,846      | 9.4   | 5,392      | 8.6   |
| Non-bank financial institutions                  | 10,408     | 16.6  | 10,809     | 17.3  |
| General commerce                                 | 6,143      | 9.8   | 6,200      | 10.0  |
| Professionals and private individuals            | 9,653      | 15.4  | 9,335      | 15.0  |
| Housing loans                                    | 14,789     | 23.6  | 13,841     | 22.2  |
| Other  | 6,318      | 10.1  | 5,556      | 8.9   |
| Total gross customer loans                       | 62,581     | 100.0 | 62,339     | 100.0 |

| <u>Gross Customer Loans Analysed by Currency and Fixed / Variable Rates</u> | 31-Dec-03  |      | 31-Dec-02  |      |
|---|------------|------|------------|------|
|   | \$ million | %    | \$ million | %    |
| <u>Fixed Rate</u>   |            |      |            |      |
| Singapore dollar  | 8,987      | 14.4 | 9,570      | 15.4 |
| US dollar   | 960        | 1.5  | 712        | 1.1  |
| Malaysian ringgit   | 204        | 0.3  | 166        | 0.3  |
| Hong Kong dollar  | 35         | 0.1  | 40         | 0.1  |
| Thai baht   | 948        | 1.5  | 534        | 0.8  |
| Other   | 1,066      | 1.7  | 1,059      | 1.7  |
| Total fixed rate gross customer loans                                       | 12,200     | 19.5 | 12,081     | 19.4 |

|  |        |       |        |       |
|--|--------|-------|--------|-------|
| <u>Variable Rate</u>                     |        |       |        |       |
| Singapore dollar                         | 31,777 | 50.8  | 31,799 | 51.0  |
| US dollar                                | 6,948  | 11.1  | 7,426  | 11.9  |
| Malaysian ringgit                        | 6,110  | 9.8   | 5,762  | 9.2   |
| Hong Kong dollar                         | 966    | 1.5   | 1,426  | 2.3   |
| Thai baht                                | 599    | 0.9   | 501    | 0.8   |
| Other                                    | 3,981  | 6.4   | 3,344  | 5.4   |
| Total variable rate gross customer loans | 50,381 | 80.5  | 50,258 | 80.6  |
| Total gross customer loans               | 62,581 | 100.0 | 62,339 | 100.0 |



**V) Overview of Balance Sheet**

**Customer Loans (cont'd)**

Gross Customer Loans Analysed by Remaining Maturity

|                                   | 31-Dec-03     |              | 31-Dec-02     |              |
|-----------------------------------|---------------|--------------|---------------|--------------|
|                                   | \$ million    | %            | \$ million    | %            |
| Within 1 year                     | 30,256        | 48.3         | 29,394        | 47.2         |
| Over 1 year but within 3 years    | 9,668         | 15.5         | 10,045        | 16.1         |
| Over 3 years but within 5 years   | 5,386         | 8.6          | 6,627         | 10.6         |
| Over 5 years                      | 17,271        | 27.6         | 16,273        | 26.1         |
| <b>Total gross customer loans</b> | <b>62,581</b> | <b>100.0</b> | <b>62,339</b> | <b>100.0</b> |

**Deposits**

Total deposits of \$88,702 million as at 31 December 2003 rose 1.7% from \$87,221 million as at 31 December 2002. The increase was due to higher savings and other deposits which were partially offset by lower bankers' deposits and lower customer fixed deposits.

As at 31 December 2003, customer deposits accounted for 78.8% of total deposits.

Deposits Analysed by Product Group

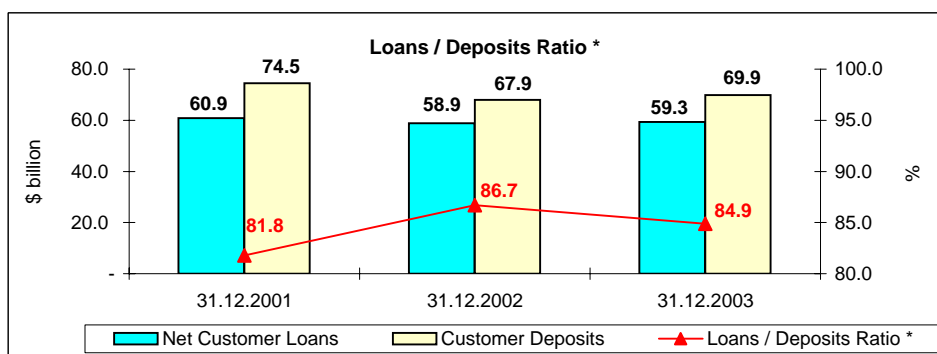
|                            | 31-Dec-03     |              | 31-Dec-02     |              |
|----------------------------|---------------|--------------|---------------|--------------|
|                            | \$ million    | %            | \$ million    | %            |
| Bankers' deposits          | 18,839        | 21.2         | 19,302        | 22.1         |
| Customer deposits          |               |              |               |              |
| Fixed deposits             | 45,801        | 51.7         | 47,287        | 54.2         |
| Savings and other deposits | 24,062        | 27.1         | 20,632        | 23.7         |
|                            | 69,863        | 78.8         | 67,919        | 77.9         |
| <b>Total deposits</b>      | <b>88,702</b> | <b>100.0</b> | <b>87,221</b> | <b>100.0</b> |

Deposits Analysed by Remaining Maturity

|                                 | 31-Dec-03     |              | 31-Dec-02     |              |
|---------------------------------|---------------|--------------|---------------|--------------|
|                                 | \$ million    | %            | \$ million    | %            |
| Within 1 year                   | 87,450        | 98.6         | 86,324        | 99.0         |
| Over 1 year but within 3 years  | 703           | 0.8          | 743           | 0.8          |
| Over 3 years but within 5 years | 434           | 0.5          | 80            | 0.1          |
| Over 5 years                    | 115           | 0.1          | 74            | 0.1          |
| <b>Total deposits</b>           | <b>88,702</b> | <b>100.0</b> | <b>87,221</b> | <b>100.0</b> |

**Loans / Deposits Ratio \***

With the 2.9% increase in customer deposits outpacing the 0.7% increase in net customer loans, the loans-to-deposits ratio decreased 1.8% points to 84.9% as at 31 December 2003.



\* Loans refer to net customer loans while Deposits refer to customer deposits.



**V) Overview of Balance Sheet****Goodwill**

|                          | <u>31-Dec-03</u><br>\$ million | <u>31-Dec-02</u><br>\$ million |
|--------------------------|--------------------------------|--------------------------------|
| Goodwill, at cost        | 3,910                          | 3,909                          |
| Accumulated amortisation | (444)                          | (243)                          |
|                          | <u>3,466</u>                   | <u>3,666</u>                   |

**Debts Issued**

|  | <u>31-Dec-03</u><br>\$ million | <u>31-Dec-02</u><br>\$ million |
|--|--------------------------------|--------------------------------|
| (a) <u>Subordinated Notes</u>  |                                |                                |
| S\$1.3 billion 4.95% Subordinated Notes due 2016<br>callable with step-up in 2011 ("S\$ Notes"), at cost | 1,300                          | 1,300                          |
| US\$1 billion 4.50% Subordinated Notes due 2013<br>("US\$ Notes"), at cost adjusted for discount         | 1,700                          | -                              |
|  | <u>3,000</u>                   | <u>1,300</u>                   |
| Unamortised expenses incurred in connection with<br>the issue of the subordinated notes                  | (9)                            | (6)                            |
|  | <u>2,991</u>                   | <u>1,294</u>                   |
| (b) <u>Asset Backed Commercial Paper ("ABCP"), at cost adjusted for discount</u>                         |                                |                                |
| S\$ ABCP   | 679                            | 642                            |
| US\$ ABCP  | 174                            | 211                            |
|  | <u>852</u>                     | <u>852</u>                     |
| (c) <u>Other</u>   |                                |                                |
| Credit linked notes, at cost   | 34                             | -                              |
| Interest rate linked notes, at cost  | 66                             | -                              |
| Equity linked notes, at cost adjusted for discount   | 253                            | -                              |
|  | <u>353</u>                     | <u>-</u>                       |
| Total debts issued   | <u>4,196</u>                   | <u>2,147</u>                   |

**V) Overview of Balance Sheet****Debts Issued (cont'd)**

- (a) The S\$ Notes were issued by the Bank at par on 30 September 2001 and mature on 30 September 2016. The S\$ Notes may be redeemed at par at the option of the Bank, in whole but not in part, on 30 September 2011 or at any interest payment date in the event of certain changes in the tax laws of Singapore, subject to the prior approval of the Monetary Authority of Singapore and certain other conditions. Interest is payable semi-annually at 4.95% per annum up to and including 29 September 2011. From and including 30 September 2011, interest is payable semi-annually at a fixed rate equal to the five-year Singapore Dollar Interest Rate Swap (Offer Rate) as at 30 September 2011 plus 2.25% per annum.

The US\$ Notes were issued by the Bank at 99.96% on 30 June 2003 and mature on 2 July 2013. These US\$ Notes may be redeemed at par at the option of the Bank, in whole, on notice, in the event of certain changes in the tax laws of Singapore, subject to the approval of the Monetary Authority of Singapore and certain other conditions. Interest is payable semi-annually at 4.50% per annum beginning 2 January 2004.

The Bank has entered into interest rate swaps to manage the interest rate risk arising from the S\$ Notes and US\$ Notes.

The S\$ Notes and US\$ Notes are unsecured subordinated obligations of the Bank and have been approved by the Monetary Authority of Singapore as qualifying for Upper Tier II capital. They rank equally with all present and future Upper Tier II unsecured subordinated indebtedness of the Bank and rank senior to all ordinary and preference shares of the Bank. At the balance sheet date, all outstanding liabilities of the Bank rank senior to these Notes.

- (b) The ABCP were issued in relation to a \$1 billion ABCP programme carried out by Archer 1 Limited, a special purpose entity ("SPE"). The ABCP have maturity of less than one year, and are secured by a first floating charge in favour of the trustee, Bermuda Trust (Singapore) Limited, on all assets of the SPE.

Interest rates of the S\$ ABCP and US\$ ABCP as at 31 December 2003 range from 1.1% to 1.25% (31 December 2002: 1.5% to 1.9%) per annum and 1.2% to 1.25% (31 December 2002: 2.1% to 2.45%) per annum respectively.

The holders of the ABCP are entitled to receive payment comprising both the principal and interest as contracted in the ABCP but only to the extent that there are available resources in the SPE to meet those payments. The holders of the ABCP have no recourse to the Group.

The SPE intends to issue new ABCP upon the maturity of outstanding ABCP for as long as the SPE intends to carry on its principal activity of investment holding.

- (c) The credit linked notes, with embedded credit default swaps, were issued at par between 5 February 2003 and 18 February 2003 and mature between 8 June 2005 and 15 February 2008. The notes will be redeemed at face value on their respective maturity dates provided there is no occurrence of a credit event. If there is an occurrence of a credit event, the underlying assets or the market values of the underlying assets in cash term, depending on the terms and conditions of the contracts, would be delivered to the holders of the notes.

The interest rate linked notes, with embedded interest rate derivatives, were issued at par between 19 September 2003 and 6 November 2003 and mature between 19 September 2013 and 6 November 2015. The periodic payouts and redemptions are linked to the interest rate indices.

The equity linked notes, with embedded equity derivatives, were issued at discount between 14 March 2003 and 12 November 2003 and mature between 12 November 2008 and 19 May 2011. The periodic payments and payouts at maturity are linked to the closing value of certain underlying equities listed on various stock exchanges or the closing value of certain underlying stock exchange indices or equity indices.

**V) Overview of Balance Sheet****Shareholders' Funds**

Shareholders' funds as at 31 December 2003 were \$13,282 million, representing an increase of 5.3% compared to \$12,613 million as at 31 December 2002. The increase was largely contributed by retained profits.

Unrealised revaluation surplus on properties and investment securities amounted to \$1,464 million as at 31 December 2003. The revaluation surplus was not incorporated into the Group's accounts.

|   | <u>31-Dec-03</u><br>\$ million | 31-Dec-02<br>\$ million |
|---|--------------------------------|-------------------------|
| Shareholders' funds per book                      | 13,282                         | 12,613                  |
| Add: Revaluation surplus *                        | 1,464                          | 1,186                   |
| Shareholders' funds including revaluation surplus | <u>14,746</u>                  | <u>13,799</u>           |
| <b>Per share (in \$)</b>                          |                                |                         |
| NAV per book                                      | 8.45                           | 8.03                    |
| Revaluation surplus                               | 0.93                           | 0.75                    |
| Revalued NAV                                      | <u>9.38</u>                    | <u>8.78</u>             |

\* Refers to revaluation surplus on properties and investment securities which was not incorporated into the accounts.

**Contingent Liabilities**

In the normal course of business, the Group conducts businesses involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities is reimbursable by corresponding obligations of customers.

Contingent liabilities of \$8,729 million as at 31 December 2003 were 2.1% lower than the \$8,919 million reported as at 31 December 2002. The decrease was primarily from direct credit substitutes.

|                                   | <u>31-Dec-03</u><br>\$ million | 31-Dec-02<br>\$ million |
|-----------------------------------|--------------------------------|-------------------------|
| Direct credit substitutes         | 2,779                          | 3,244                   |
| Transaction-related contingencies | 3,965                          | 3,632                   |
| Trade-related contingencies       | 1,800                          | 1,806                   |
| Other contingent liabilities      | 184                            | 237                     |
| Total contingent liabilities      | <u>8,729</u>                   | <u>8,919</u>            |

**V) Overview of Balance Sheet****Derivative Financial Instruments**

Derivative financial instruments are instruments whose values change in response to the change in prices / rates, such as foreign exchange rate, interest rate, security price and credit price, of the "underlying". They include forwards, swaps, futures and options.

The tables below analyse the contract or underlying principal amounts (notional amounts) and the fair values of the Group's derivative financial instruments at the balance sheet date. A positive valuation represents a financial asset and a negative valuation represents a financial liability. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date. They do not necessarily indicate the amounts of future cash flows or the fair value of the derivatives and, therefore, do not represent total amounts at risk.

The total aggregate contract or underlying principal amount of derivative financial instruments was \$183,840 million as at 31 December 2003, representing an increase of 40.0% compared to \$131,279 million as at 31 December 2002. The increase was largely from interest rate contracts.

|   | Trading Derivatives  |                      |                           | Non-Trading Derivatives  |                      |                           |
|---|--|----------------------|---------------------------|--|----------------------|---------------------------|
|   | Contract or<br>Underlying<br>Principal<br>Amount<br>\$ million | Fair Values          |                           | Contract or<br>Underlying<br>Principal<br>Amount<br>\$ million | Fair Values          |                           |
|   |  | Assets<br>\$ million | Liabilities<br>\$ million |  | Assets<br>\$ million | Liabilities<br>\$ million |
| <b>31-Dec-03</b>                              |  |                      |                           |  |                      |                           |
| Foreign exchange contracts                    |  |                      |                           |  |                      |                           |
| Forwards                                      | 9,968  | 254                  | 118                       | 58   | 0*                   | 0*                        |
| Swaps   | 80,471   | 1,784                | 1,818                     | 3,764  | 36                   | 83                        |
| Options purchased                             | 5,965  | 73                   | -                         | 246  | 2                    | -                         |
| Options written                               | 5,021  | -                    | 73                        | 11   | -                    | 0*                        |
| Interest rate contracts                       |  |                      |                           |  |                      |                           |
| Forwards                                      | 11,583   | 4                    | 6                         | -  | -                    | -                         |
| Swaps   | 57,902   | 453                  | 539                       | 3,703  | 69                   | 201                       |
| Futures                                       | 2,103  | 1                    | 2                         | -  | -                    | -                         |
| Options purchased                             | 122  | 1                    | -                         | 205  | 4                    | -                         |
| Options written                               | 42   | -                    | 0*                        | 205  | -                    | 4                         |
| Equity-related contracts                      |  |                      |                           |  |                      |                           |
| Swaps   | -  | -                    | -                         | 46   | 2                    | 2                         |
| Futures                                       | 80   | -                    | 4                         | -  | -                    | -                         |
| Options purchased                             | 611  | 11                   | -                         | 316  | 33                   | -                         |
| Options written                               | 739  | -                    | 40                        | 315  | -                    | 33                        |
| Credit-related contracts                      |  |                      |                           |  |                      |                           |
| Swaps   | -  | -                    | -                         | 364  | 4                    | 3                         |
| <b>Total derivative financial instruments</b> | <b>174,607</b>   | <b>2,581</b>         | <b>2,600</b>              | <b>9,233</b>   | <b>151</b>           | <b>326</b>                |

\* Less than \$500,000.

**V) Overview of Balance Sheet****Derivative Financial Instruments (cont'd)**

|   | Trading Derivatives  |                      |                           | Non-Trading Derivatives  |                      |                           |
|---|--|----------------------|---------------------------|--|----------------------|---------------------------|
|   | Contract or<br>Underlying<br>Principal<br>Amount<br>\$ million | Fair Values          |                           | Contract or<br>Underlying<br>Principal<br>Amount<br>\$ million | Fair Values          |                           |
|   |  | Assets<br>\$ million | Liabilities<br>\$ million |  | Assets<br>\$ million | Liabilities<br>\$ million |
| <b>31-Dec-02</b>                              |  |                      |                           |  |                      |                           |
| Foreign exchange contracts                    |  |                      |                           |  |                      |                           |
| Forwards                                      | 6,464  | 105                  | 53                        | 52   | 0*                   | 0*                        |
| Swaps   | 71,607   | 963                  | 993                       | 5,646  | 24                   | 60                        |
| Options purchased                             | 6,754  | 65                   | -                         | 121  | 0*                   | -                         |
| Options written                               | 8,075  | -                    | 67                        | 3  | -                    | 0*                        |
| Interest rate contracts                       |  |                      |                           |  |                      |                           |
| Forwards                                      | 2,715  | 1                    | 2                         | 44   | 0*                   | 0*                        |
| Swaps   | 25,136   | 537                  | 648                       | 1,749  | 53                   | 59                        |
| Futures                                       | 1,801  | 1                    | 3                         | -  | -                    | -                         |
| Options purchased                             | 79   | 2                    | -                         | 188  | 0*                   | -                         |
| Options written                               | -  | -                    | -                         | 187  | -                    | 0*                        |
| Equity-related contracts                      |  |                      |                           |  |                      |                           |
| Swaps   | -  | -                    | -                         | 49   | 2                    | 2                         |
| Futures                                       | 11   | 0*                   | 0*                        | -  | -                    | -                         |
| Options purchased                             | 95   | 1                    | -                         | -  | -                    | -                         |
| Options written                               | 158  | -                    | 7                         | -  | -                    | -                         |
| Credit-related contracts                      |  |                      |                           |  |                      |                           |
| Swaps   | 17   | 0*                   | -                         | 329  | 1                    | 8                         |
| <b>Total derivative financial instruments</b> | <b>122,912</b>   | <b>1,676</b>         | <b>1,774</b>              | <b>8,367</b>   | <b>81</b>            | <b>129</b>                |

\* Less than \$500,000.

**Commitments**

As at 31 December 2003, total commitments of \$37,660 million were 3.1% higher compared to \$36,526 million as at 31 December 2002. The increase was largely due to higher undisbursed commitments in debt securities and precious metals, as well as higher undrawn credit facilities.

|  | <b>31-Dec-03</b><br>\$ million | 31-Dec-02<br>\$ million |
|--|--------------------------------|-------------------------|
| Capital commitments contracted but not provided for<br>on purchase of fixed assets | <b>26</b>                      | 15                      |
| Undrawn credit facilities  | <b>36,218</b>                  | 35,948                  |
| Operating lease commitments  | <b>62</b>                      | 64                      |
| Other  | <b>1,353</b>                   | 499                     |
| <b>Total commitments</b>   | <b>37,660</b>                  | 36,526                  |

**VI) Capital Adequacy Ratio - BIS Basis**

The Group's capital management policy is to maintain a strong capital position to support its growth, both organically and through acquisitions.

As at 31 December 2003, the Group's Capital Adequacy Ratio ("CAR") of 18.2%, as computed under the Bank for International Settlements ("BIS") guidelines, was more than twice the minimum requirement of 8% set by BIS. The increase by 2.9% points from the CAR of 15.3% as at 31 December 2002 was mainly attributable to the issue of US\$1 billion 4.50% Subordinated Notes in June 2003.

|   | <u>31-Dec-03</u><br>\$ million | <u>31-Dec-02</u><br>\$ million |
|---|--------------------------------|--------------------------------|
| <b>Capital</b>  |                                |                                |
| Tier 1 - Core capital   |                                |                                |
| Share capital   | 1,572                          | 1,572                          |
| Disclosed reserves  | 11,542                         | 10,956                         |
| Minority interests  | 155                            | 150                            |
| Less: Goodwill  | <u>(3,483)</u>                 | <u>(3,684)</u>                 |
|   | <u>9,786</u>                   | <u>8,994</u>                   |
| Tier 2 - Supplementary capital                                    |                                |                                |
| Revaluation reserves on investments and properties <sup>(1)</sup> | 380                            | 349                            |
| General loan loss provisions <sup>(2)</sup>                       | 952                            | 920                            |
| Subordinated notes  | <u>2,991</u>                   | <u>1,294</u>                   |
|   | <u>4,323</u>                   | <u>2,563</u>                   |
| Less: Deductions against capital <sup>(3)</sup>                   | (211)                          | (337)                          |
| <b>Total capital</b>  | <u>13,898</u>                  | <u>11,220</u>                  |
| <b>Risk-weighted assets</b> (including market risk)               | <u>76,163</u>                  | <u>73,574</u>                  |
| <b>Capital adequacy ratios</b>                                    |                                |                                |
| Tier 1  | 12.8%                          | 12.2%                          |
| Total capital   | 18.2%                          | 15.3%                          |

<sup>(1)</sup> After discount of 55% in accordance with BIS guidelines.

<sup>(2)</sup> Excluding specific and earmarked provisions.

<sup>(3)</sup> Including capital deductions for certain investments.



**VII) Exposure by Country of Operations**

The Group's total direct net exposure to the countries outside Singapore where it has a presence amounted to \$37.1 billion or 32.7% of Group total assets as at 31 December 2003. Exposure (excluding contingent items) reported is categorised into loans and advances to customers, balances due from governments, balances due from banks incorporated in the respective countries, and investments.

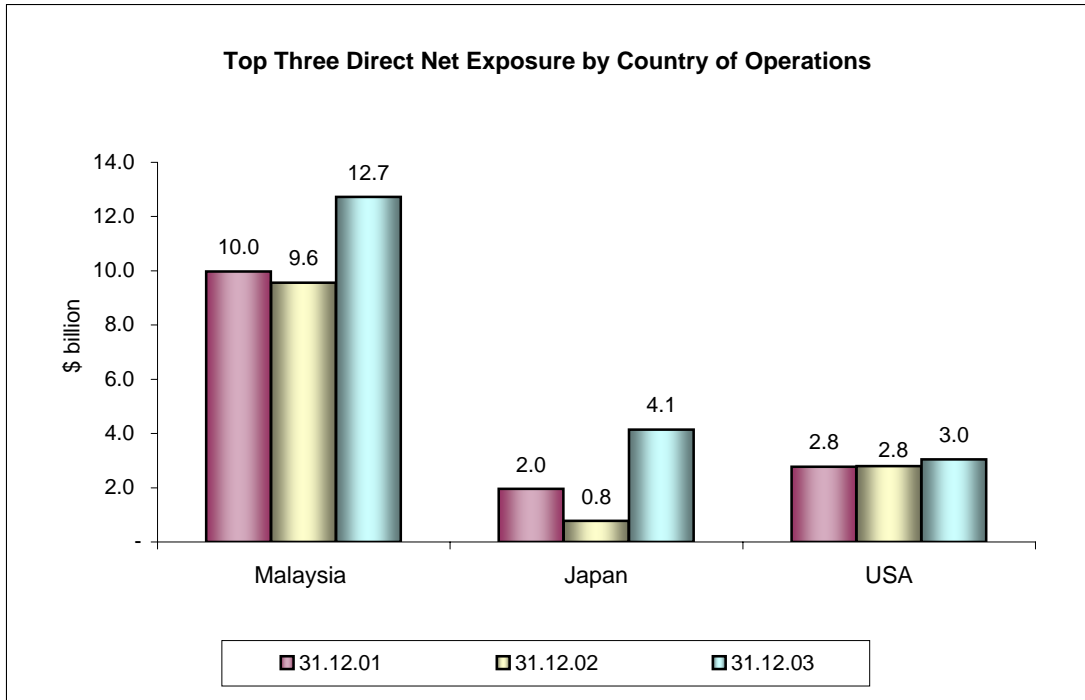
**Exposure to the Five Regional Countries, Greater China and Other Countries outside Singapore**

\$ million

|                                     | Loans and Debt Securities |              |               | Investments  | Total         | Less: Loans/<br>Investments<br>in<br>Subsidiaries<br>& Branches | Net Exposure  |                            | Contingent<br>Liabilities |
|-------------------------------------|---------------------------|--------------|---------------|--------------|---------------|---|---------------|----------------------------|---------------------------|
|                                     | Non-Bank                  | Government   | Bank          |              |               |   | Total         | % of Group<br>Total Assets |                           |
| <b>Malaysia</b>                     |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>6,624</b>              | <b>3,353</b> | <b>4,307</b>  | <b>742</b>   | <b>15,026</b> | <b>2,296</b>  | <b>12,730</b> | <b>11.2</b>                | <b>1,067</b>              |
| 31-Dec-02                           | 6,164                     | 1,990        | 2,381         | 531          | 11,066        | 1,499   | 9,567         | 8.9                        | 1,032                     |
| 31-Dec-01                           | 6,493                     | 2,188        | 2,571         | 740          | 11,992        | 2,017   | 9,975         | 8.8                        | 864                       |
| <b>Indonesia</b>                    |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>491</b>                | <b>165</b>   | <b>48</b>     | <b>79</b>    | <b>783</b>    | <b>50</b>   | <b>733</b>    | <b>0.7</b>                 | <b>132</b>                |
| 31-Dec-02                           | 444                       | 127          | 106           | 67           | 744           | 50  | 694           | 0.6                        | 67                        |
| 31-Dec-01                           | 331                       | 118          | 155           | 55           | 659           | 75  | 584           | 0.5                        | 27                        |
| <b>Philippines</b>                  |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>241</b>                | <b>221</b>   | <b>53</b>     | <b>12</b>    | <b>527</b>    | <b>41</b>   | <b>486</b>    | <b>0.4</b>                 | <b>60</b>                 |
| 31-Dec-02                           | 254                       | 225          | 44            | 9            | 532           | 31  | 501           | 0.5                        | 56                        |
| 31-Dec-01                           | 300                       | 277          | 46            | 33           | 656           | 65  | 591           | 0.5                        | 6                         |
| <b>Thailand</b>                     |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>1,642</b>              | <b>523</b>   | <b>112</b>    | <b>244</b>   | <b>2,521</b>  | <b>156</b>  | <b>2,365</b>  | <b>2.1</b>                 | <b>332</b>                |
| 31-Dec-02                           | 1,178                     | 814          | 112           | 203          | 2,307         | 185   | 2,122         | 2.0                        | 285                       |
| 31-Dec-01                           | 1,026                     | 1,617        | 567           | 261          | 3,471         | 594   | 2,877         | 2.5                        | 180                       |
| <b>South Korea</b>                  |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>41</b>                 | <b>596</b>   | <b>825</b>    | <b>209</b>   | <b>1,671</b>  | <b>-</b>  | <b>1,671</b>  | <b>1.5</b>                 | <b>173</b>                |
| 31-Dec-02                           | 45                        | 298          | 1,354         | 98           | 1,795         | 12  | 1,783         | 1.7                        | 253                       |
| 31-Dec-01                           | 57                        | 82           | 888           | 174          | 1,201         | 140   | 1,061         | 0.9                        | 229                       |
| <b>Total Regional<br/>Countries</b> |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>9,039</b>              | <b>4,858</b> | <b>5,345</b>  | <b>1,286</b> | <b>20,528</b> | <b>2,543</b>  | <b>17,985</b> | <b>15.9</b>                | <b>1,764</b>              |
| 31-Dec-02                           | 8,085                     | 3,454        | 3,997         | 908          | 16,444        | 1,777   | 14,667        | 13.7                       | 1,693                     |
| 31-Dec-01                           | 8,207                     | 4,282        | 4,227         | 1,263        | 17,979        | 2,891   | 15,088        | 13.2                       | 1,306                     |
| <b>Greater China</b>                |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>1,968</b>              | <b>1,038</b> | <b>5,943</b>  | <b>352</b>   | <b>9,301</b>  | <b>3,340</b>  | <b>5,961</b>  | <b>5.2</b>                 | <b>639</b>                |
| 31-Dec-02                           | 2,482                     | 233          | 4,311         | 648          | 7,674         | 2,536   | 5,138         | 4.8                        | 504                       |
| 31-Dec-01                           | 2,912                     | 135          | 2,740         | 590          | 6,377         | 1,904   | 4,473         | 3.9                        | 446                       |
| <b>Other OECD</b>                   |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>5,494</b>              | <b>3,059</b> | <b>5,355</b>  | <b>1,129</b> | <b>15,037</b> | <b>2,076</b>  | <b>12,961</b> | <b>11.4</b>                | <b>911</b>                |
| 31-Dec-02                           | 4,847                     | 105          | 4,647         | 716          | 10,315        | 1,860   | 8,455         | 7.8                        | 878                       |
| 31-Dec-01                           | 4,652                     | 49           | 6,102         | 604          | 11,407        | 1,307   | 10,100        | 8.9                        | 734                       |
| <b>Other</b>                        |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>166</b>                | <b>17</b>    | <b>53</b>     | <b>1</b>     | <b>237</b>    | <b>12</b>   | <b>225</b>    | <b>0.2</b>                 | <b>65</b>                 |
| 31-Dec-02                           | 154                       | 11           | 35            | 4            | 204           | 4   | 200           | 0.2                        | 47                        |
| 31-Dec-01                           | 187                       | 12           | 44            | 1            | 244           | 4   | 240           | 0.2                        | 27                        |
| <b>Grand Total</b>                  |                           |              |               |              |               |   |               |                            |                           |
| <b>31-Dec-03</b>                    | <b>16,667</b>             | <b>8,972</b> | <b>16,696</b> | <b>2,768</b> | <b>45,103</b> | <b>7,971</b>  | <b>37,132</b> | <b>32.7</b>                | <b>3,379</b>              |
| 31-Dec-02                           | 15,568                    | 3,803        | 12,990        | 2,276        | 34,637        | 6,177   | 28,460        | 26.5                       | 3,122                     |
| 31-Dec-01                           | 15,958                    | 4,478        | 13,113        | 2,458        | 36,007        | 6,106   | 29,901        | 26.2                       | 2,513                     |

**VII) Exposure by Country of Operations**

At the country level, direct net exposure to Malaysia where the Group has a long-standing presence, remained the largest at \$12.7 billion or 11.2% of Group total assets, followed by Japan at \$4.1 billion and USA at \$3.0 billion.





**CONSOLIDATED INCOME STATEMENT**

|   | <b>4th<br/>Quarter<br/>2003</b> | <b>3rd<br/>Quarter<br/>2003</b> | <b>2nd<br/>Quarter<br/>2003</b> | <b>1st<br/>Quarter<br/>2003</b> | <b>Full<br/>Year<br/>2003</b> | <b>Full<br/>Year<br/>2002</b> |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|
|   | <b>\$ million</b>               | <b>\$ million</b>               | <b>\$ million</b>               | <b>\$ million</b>               | <b>\$ million</b>             | <b>\$ million</b>             |
| Interest income   | <b>836</b>                      | 796                             | 825                             | 837                             | <b>3,294</b>                  | 3,711                         |
| Less: Interest expense  | <b>297</b>                      | 293                             | 314                             | 320                             | <b>1,224</b>                  | 1,583                         |
| Net interest income   | <b>540</b>                      | 503                             | 510                             | 518                             | <b>2,071</b>                  | 2,128                         |
| Dividend income   | <b>12</b>                       | 11                              | 17                              | 2                               | <b>42</b>                     | 32                            |
| Fee and commission income                                       | <b>171</b>                      | 148                             | 138                             | 131                             | <b>588</b>                    | 501                           |
| Rental income   | <b>17</b>                       | 17                              | 18                              | 20                              | <b>73</b>                     | 78                            |
| Other operating income  | <b>91</b>                       | 74                              | 105                             | 116                             | <b>387</b>                    | 296                           |
| Total non-interest income                                       | <b>291</b>                      | 251                             | 278                             | 268                             | <b>1,089</b>                  | 906                           |
| Income before operating expenses                                | <b>831</b>                      | 754                             | 789                             | 786                             | <b>3,160</b>                  | 3,034                         |
| Less: Staff costs   | <b>142</b>                      | 128                             | 130                             | 132                             | <b>532</b>                    | 536                           |
| Other operating expenses  | <b>148</b>                      | 141                             | 141                             | 134                             | <b>564</b>                    | 538                           |
| Total operating expenses  | <b>290</b>                      | 269                             | 271                             | 266                             | <b>1,095</b>                  | 1,074                         |
| Operating profit before goodwill<br>amortisation and provisions | <b>542</b>                      | 485                             | 517                             | 520                             | <b>2,064</b>                  | 1,960                         |
| Less: Goodwill amortisation                                     | <b>50</b>                       | 50                              | 51                              | 51                              | <b>202</b>                    | 196                           |
| Less: Provisions  | <b>41</b>                       | 40                              | 171                             | 109                             | <b>362</b>                    | 465                           |
| Operating profit after goodwill<br>amortisation and provisions  | <b>451</b>                      | 394                             | 296                             | 360                             | <b>1,501</b>                  | 1,300                         |
| Exceptional item <sup>#</sup>                                   | -                               | -                               | -                               | -                               | -                             | (48)                          |
| Share of profit of associates                                   | <b>45</b>                       | 32                              | 27                              | 3                               | <b>107</b>                    | 123                           |
| Profit from ordinary activities before tax                      | <b>496</b>                      | 427                             | 323                             | 363                             | <b>1,608</b>                  | 1,376                         |
| Less: Tax   | <b>126</b>                      | 88                              | 79                              | 99                              | <b>393</b>                    | 340                           |
| Profit after tax  | <b>370</b>                      | 339                             | 243                             | 264                             | <b>1,216</b>                  | 1,035                         |
| Less: Minority interests  | <b>4</b>                        | 4                               | 5                               | 1                               | <b>13</b>                     | 29                            |
| Net profit attributable to members                              | <b>366</b>                      | 335                             | 239                             | 263                             | <b>1,202</b>                  | 1,006                         |

<sup>#</sup> Comprising restructuring and integration costs as a result of the acquisition and merger of Overseas Union Bank Limited.



### CONSOLIDATED BALANCE SHEET

|  | 31-Dec-03<br>\$ million | 30-Sep-03<br>\$ million | 30-Jun-03<br>\$ million | 31-Mar-03<br>\$ million | 31-Dec-02<br>\$ million |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b><u>Share Capital and Reserves</u></b>                       |                         |                         |                         |                         |                         |
| Share capital  | 1,572                   | 1,572                   | 1,572                   | 1,572                   | 1,572                   |
| Capital reserves   | 4,242                   | 4,265                   | 4,281                   | 4,277                   | 4,257                   |
| Statutory reserves   | 2,860                   | 2,801                   | 2,801                   | 2,758                   | 2,758                   |
| Revenue reserves   | 4,465                   | 4,149                   | 4,059                   | 4,157                   | 3,893                   |
| Share of reserves of associates                                | 143                     | 136                     | 137                     | 131                     | 134                     |
| <b>Total shareholders' funds</b>                               | <b>13,282</b>           | <b>12,924</b>           | <b>12,850</b>           | <b>12,894</b>           | <b>12,613</b>           |
| <b>Minority interests</b>                                      | <b>155</b>              | <b>151</b>              | <b>147</b>              | <b>145</b>              | <b>150</b>              |
| <b><u>Liabilities</u></b>                                      |                         |                         |                         |                         |                         |
| Deposits of non-bank customers                                 | 69,863                  | 66,092                  | 66,828                  | 65,830                  | 67,919                  |
| Deposits and balances of banks and agents                      | 18,839                  | 18,097                  | 18,741                  | 21,567                  | 19,302                  |
| Total deposits   | 88,702                  | 84,189                  | 85,569                  | 87,398                  | 87,221                  |
| Bills and drafts payable                                       | 164                     | 187                     | 180                     | 152                     | 164                     |
| Other liabilities  | 6,947                   | 6,336                   | 4,812                   | 4,391                   | 5,137                   |
| Debts issued   | 4,196                   | 4,231                   | 4,281                   | 2,384                   | 2,147                   |
| <b>Total liabilities</b>                                       | <b>100,009</b>          | <b>94,943</b>           | <b>94,841</b>           | <b>94,324</b>           | <b>94,668</b>           |
| <b>Total shareholders' funds and liabilities</b>               | <b>113,446</b>          | <b>108,017</b>          | <b>107,839</b>          | <b>107,363</b>          | <b>107,430</b>          |
| <b><u>Assets</u></b>   |                         |                         |                         |                         |                         |
| Cash and balances with central banks                           | 8,035                   | 6,566                   | 4,210                   | 3,887                   | 4,213                   |
| Singapore Government treasury bills and securities             | 6,311                   | 5,954                   | 8,476                   | 8,513                   | 8,218                   |
| Other government treasury bills and securities                 | 1,352                   | 1,800                   | 1,884                   | 1,640                   | 1,333                   |
| Dealing securities   | 525                     | 473                     | 415                     | 451                     | 623                     |
| Placements and balances with banks and agents                  | 21,122                  | 17,972                  | 18,976                  | 19,604                  | 19,426                  |
| Loans and advances including trade bills to non-bank customers | 59,297                  | 59,248                  | 59,760                  | 59,193                  | 58,884                  |
| Other assets   | 4,752                   | 4,186                   | 3,153                   | 2,979                   | 4,052                   |
| Investment securities  | 5,423                   | 5,264                   | 4,364                   | 4,442                   | 3,945                   |
| Investments in associates                                      | 1,397                   | 1,270                   | 1,251                   | 1,271                   | 1,274                   |
| Fixed assets   | 1,768                   | 1,769                   | 1,785                   | 1,767                   | 1,794                   |
| Goodwill   | 3,466                   | 3,516                   | 3,566                   | 3,616                   | 3,666                   |
| <b>Total assets</b>  | <b>113,446</b>          | <b>108,017</b>          | <b>107,839</b>          | <b>107,363</b>          | <b>107,430</b>          |
| <b><u>Off-Balance Sheet Items</u></b>                          |                         |                         |                         |                         |                         |
| Contingent liabilities   | 8,729                   | 8,416                   | 9,115                   | 8,746                   | 8,919                   |
| Derivative financial instruments                               | 183,840                 | 208,426                 | 165,273                 | 153,046                 | 131,279                 |
| Commitments  | 37,660                  | 37,671                  | 36,973                  | 38,609                  | 36,526                  |



**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

|   | Share<br>Capital<br>\$ million | Capital<br>Reserves<br>\$ million | Statutory<br>Reserves<br>\$ million | Revenue<br>Reserves<br>\$ million | Share of<br>Reserves of<br>Associates<br>\$ million | Total<br>\$ million |
|---|--------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|---|---------------------|
| <b>Balance at 1 January 2003</b>  |                                |                                   |                                     |                                   |   |                     |
| As previously reported  | 1,572                          | 4,257                             | 2,758                               | 3,933                             | 134   | 12,653              |
| Prior year adjustments resulting from change in accounting policy   | -                              | -                                 | -                                   | (40)                              | -   | (40)                |
| As restated   | 1,572                          | 4,257                             | 2,758                               | 3,893                             | 134   | 12,613              |
| <b>Net profit attributable to members</b>   | -                              | -                                 | -                                   | 1,202                             | -   | 1,202               |
| <b>Differences arising from currency translation of financial statements of foreign branches, subsidiaries and associates</b> | -                              | 10                                | -                                   | -                                 | -   | 10                  |
| <b>Group's share of reserves of associates</b>  | -                              | -                                 | -                                   | -                                 | 10  | 10                  |
| <b>Other adjustments</b>  | -                              | (2)                               | 1                                   | (1)                               | -   | (2)                 |
| <b>Total recognised gains for the financial year</b>  | -                              | 9                                 | 1                                   | 1,201                             | 10  | 1,220               |
| <b>Net transfer from revenue reserves</b>   | -                              | (24)                              | 102                                 | (78)                              | -   | -                   |
| <b>Dividends</b>  | -                              | -                                 | -                                   | (552)                             | -   | (552)               |
| <b>Issue of shares to option holders who exercised their rights</b>   | 0*                             | 1                                 | -                                   | -                                 | -   | 1                   |
| <b>Balance at 31 December 2003</b>  | 1,572                          | 4,242                             | 2,860                               | 4,465                             | 143   | 13,282              |
| <b>Balance at 1 January 2002</b>  |                                |                                   |                                     |                                   |   |                     |
| As previously reported  | 1,571                          | 5,259                             | 2,150                               | 3,199                             | 537   | 12,717              |
| Prior year adjustments resulting from change in accounting policy   | -                              | -                                 | -                                   | 18                                | -   | 18                  |
| As restated   | 1,571                          | 5,259                             | 2,150                               | 3,218                             | 537   | 12,735              |
| <b>Net profit attributable to members</b>   | -                              | -                                 | -                                   | 1,006                             | -   | 1,006               |
| <b>Differences arising from currency translation of financial statements of foreign branches, subsidiaries and associates</b> | -                              | (15)                              | -                                   | -                                 | -   | (15)                |
| <b>Group's share of reserves of associates</b>  | -                              | -                                 | -                                   | -                                 | (394)   | (394)               |
| <b>Other adjustments</b>  | -                              | -                                 | (3)                                 | (2)                               | -   | (5)                 |
| <b>Total recognised gains / (losses) for the financial year</b>   | -                              | (15)                              | (3)                                 | 1,004                             | (394)   | 592                 |
| <b>Net transfer to revenue reserves</b>   | -                              | (995)                             | 610                                 | 385                               | -   | -                   |
| <b>Transfer from share of reserves of associates</b>  | -                              | 3                                 | -                                   | 7                                 | (10)  | -                   |
| <b>Dividends</b>  | -                              | -                                 | -                                   | (720)                             | -   | (720)               |
| <b>Issue of shares to option holders who exercised their rights</b>   | 0*                             | 5                                 | -                                   | -                                 | -   | 6                   |
| <b>Balance at 31 December 2002</b>  | 1,572                          | 4,257                             | 2,758                               | 3,893                             | 134   | 12,613              |

\* Less than \$500,000.


**UNITED OVERSEAS BANK GROUP**
**CONSOLIDATED CASH FLOW STATEMENT**

|   | <u>2003</u><br>\$ million | <u>2002</u><br>\$ million |
|---|---------------------------|---------------------------|
| <b>Cash flows from operating activities</b>   |                           |                           |
| Profit before tax   | 1,608                     | 1,376                     |
| Adjustments for:  |                           |                           |
| Depreciation of fixed assets  | 108                       | 115                       |
| Goodwill amortisation   | 202                       | 196                       |
| Share of profit of associates   | (107)                     | (123)                     |
| Operating profit before changes in operating assets and liabilities   | <u>1,810</u>              | <u>1,562</u>              |
| Changes in operating assets and liabilities:  |                           |                           |
| Deposits  | 1,482                     | (5,325)                   |
| Bills and drafts payable  | (0) <sup>^</sup>          | 39                        |
| Other liabilities   | 1,779                     | 1,217                     |
| Dealing securities  | 99                        | 58                        |
| Placements and balances with banks and agents   | (1,696)                   | 5,319                     |
| Loans and advances including trade bills to non-bank customers  | (413)                     | 2,008                     |
| Other government treasury bills and securities not qualifying as cash and cash equivalents                          | 338                       | 407                       |
| Other assets  | (704)                     | (1,044)                   |
| Cash generated from operations  | <u>2,695</u>              | <u>4,242</u>              |
| Income taxes paid   | <u>(335)</u>              | <u>(371)</u>              |
| <b>Net cash provided by operating activities</b>  | <u>2,360</u>              | <u>3,871</u>              |
| <b>Cash flows from investing activities</b>   |                           |                           |
| Increase in investment securities and investments in associates   | (1,541)                   | (340)                     |
| Net dividends received from associates  | 32                        | 52                        |
| Net increase in fixed assets  | (82)                      | (184)                     |
| Change in / acquisition of minority interests of subsidiaries   | (4)                       | (353)                     |
| Net cash flow on acquisition of subsidiaries  | -                         | (1)                       |
| Net cash flow from disposal of subsidiaries   | -                         | 0*                        |
| <b>Net cash used in investing activities</b>  | <u>(1,595)</u>            | <u>(826)</u>              |
| <b>Cash flows from financing activities</b>   |                           |                           |
| Proceeds from issue of shares   | 1                         | 6                         |
| Net increase / (decrease) in debts issued   | 2,049                     | (2,010)                   |
| Dividends paid by the Bank  | (552)                     | (720)                     |
| Dividends paid by subsidiaries to minority shareholders   | (4)                       | (10)                      |
| <b>Net cash provided by / (used in) financing activities</b>  | <u>1,494</u>              | <u>(2,736)</u>            |
| Currency translation adjustment   | 10                        | (15)                      |
| <b>Net increase in cash and cash equivalents</b>  | <u>2,270</u>              | <u>295</u>                |
| Cash and cash equivalents at beginning of the financial year  | <u>13,041</u>             | <u>12,747</u>             |
| <b>Cash and cash equivalents at end of the financial year (Note A)</b>  | <u><u>15,312</u></u>      | <u><u>13,041</u></u>      |
| <b>Note A:</b>  |                           |                           |
| Cash and balances with central banks  | 8,035                     | 4,213                     |
| Singapore Government treasury bills and securities  | 6,311                     | 8,218                     |
| Other government treasury bills and securities,<br>less non-cash equivalents of \$385 million (2002: \$723 million) | 966                       | 610                       |
| <b>Cash and cash equivalents at end of the financial year</b>   | <u><u>15,312</u></u>      | <u><u>13,041</u></u>      |

<sup>^</sup> Less than (\$500,000).

\* Less than \$500,000.



## **Financial Risk Management**

The Group's activities are principally related to transacting in and the use of financial instruments, including derivatives. These activities expose the Group 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 Group's business. It is carried out centrally by the various specialist committees of the UOB Group under policies approved by the Board of Directors of the Bank. These policies not only include the parameters for the risks that the Group may undertake for the various financial instruments, but also directions on the types of business that the Group may engage in, guidelines for accepting customers for all types of financial instruments and the terms under which customer business is conducted.

The various specialist committees of the UOB Group have established processes to identify, measure, monitor and ultimately, mitigate these financial risks. Additionally, the Board of Directors of the Bank and the UOB Group's Risk Management & Compliance Sector provide an independent oversight to ensure that those risk management policies are complied with through a variety of established controls and reporting processes.

The main financial risks that the Group is exposed to and how it manages these risks are set out below.

### **Credit Risk**

Credit risk is the potential loss arising from any failure by the Group'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 Group.

The Credit Committee is responsible for the management of credit risk of the Group. 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.

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

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 Group has counter-party risk policies that set out approved counter-parties with whom the Group 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 Group to offset receivables and payables with such counter-parties.



## **Financial Risk Management**

### **Foreign Exchange Risk**

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuations in foreign exchange rates.

The Group's foreign exchange exposures arise from its proprietary business and customer facilitation businesses. It also has a certain amount of structural foreign currency exposures as represented by the net asset values of its overseas branches, investments in overseas subsidiaries, and long-term investments in overseas properties. The Group utilises mainly foreign currency forwards and swaps to hedge its foreign exchange exposures.

Foreign exchange risk is managed through risk limits and policies as approved by the Asset Liability Committee. These limits and policies, such as on the level of exposure by currency and in total for both overnight and intra-day positions, are independently monitored on a daily basis by Business Area Control Unit.

### **Interest Rate Risk**

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest rates.

Sensitivity to interest rates 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 Group's policies.

### **Liquidity Risk**

Liquidity risk is the risk that the Group is unable to meet its cash flow obligations as and when they fall due, such as upon the maturity of deposits and loan draw-downs.

It is not unusual for a bank to have mismatches in the contractual maturity profile of its assets and liabilities. The Group manages liquidity risk in accordance with a framework of liquidity policies, controls and limits that is approved by the Asset Liability Committee, with the main objectives of honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets.

These controls and policies include the setting of limits on the minimum proportion of maturing funds available to meet withdrawals of funds and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

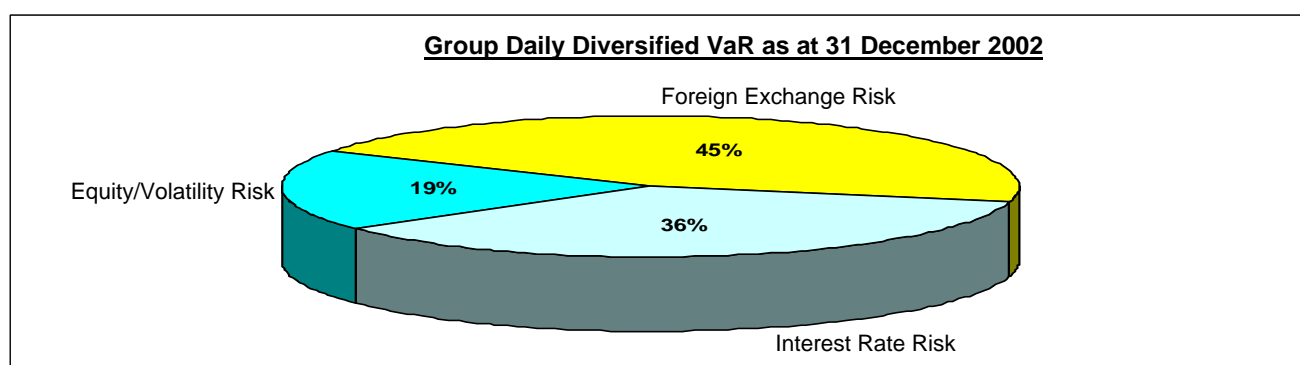
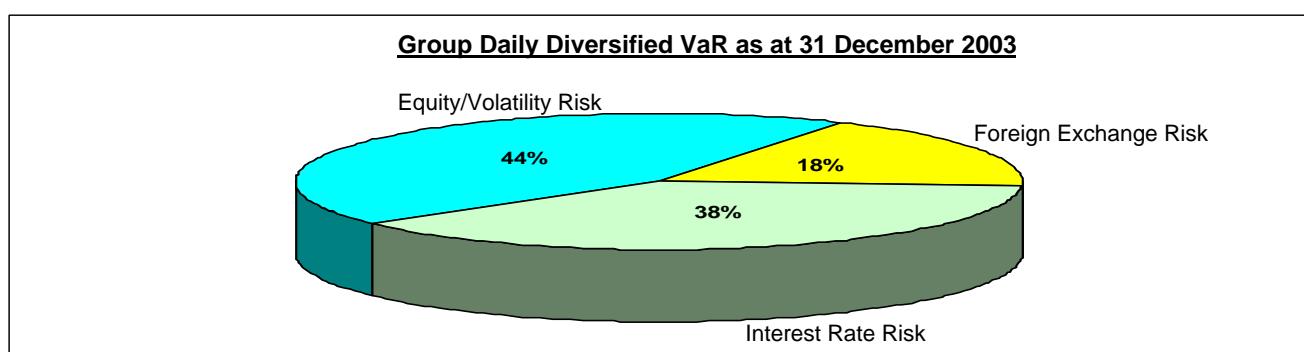
Additionally, the Group is required by law in the various locations that it operates from, including Singapore, to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements.



### Value-at-Risk (VaR)

The risk taken by the Group, as reflected by the level of VaR, is dependent on the level of exposure taken by the Group and the level of market prices for the relevant period that are used in the computation of VaR.

The Group's Daily Diversified VaR, as at 31 December 2003, was \$4.0 million and comprised mainly equity/volatility risk (44%), interest rate risk (including credit spreads risk) (38%) and foreign exchange risk (18%).



The Group's Daily Diversified VaR for 2003, averaging \$3.1 million, ranged between a low of \$2.0 million and a high of \$6.8 million:

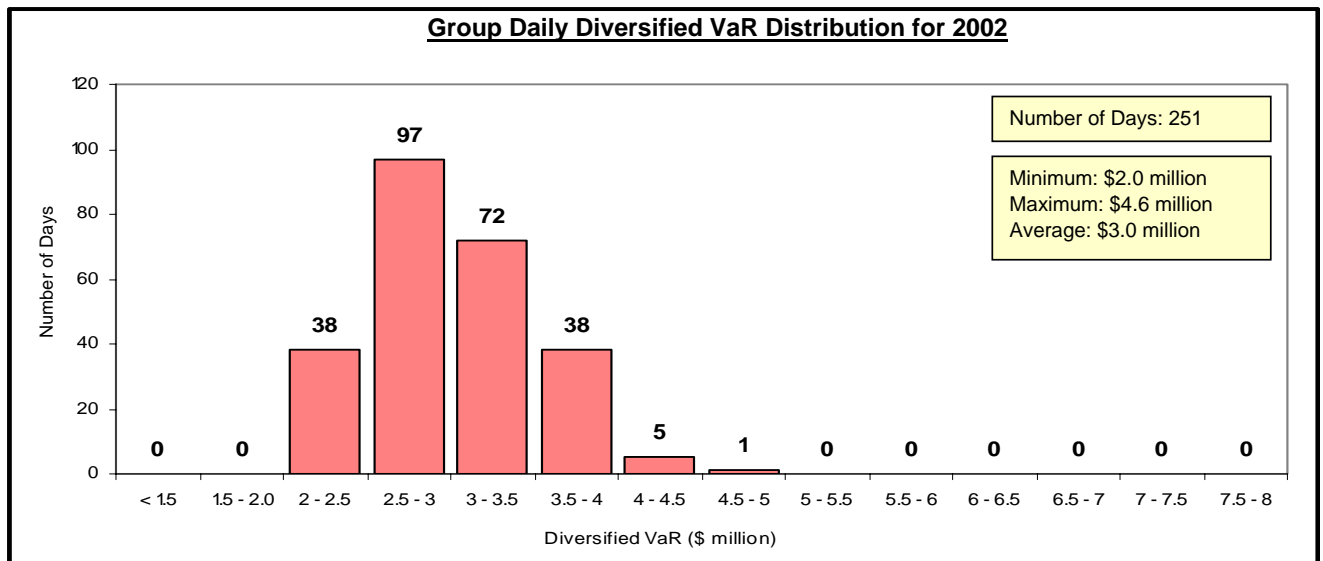
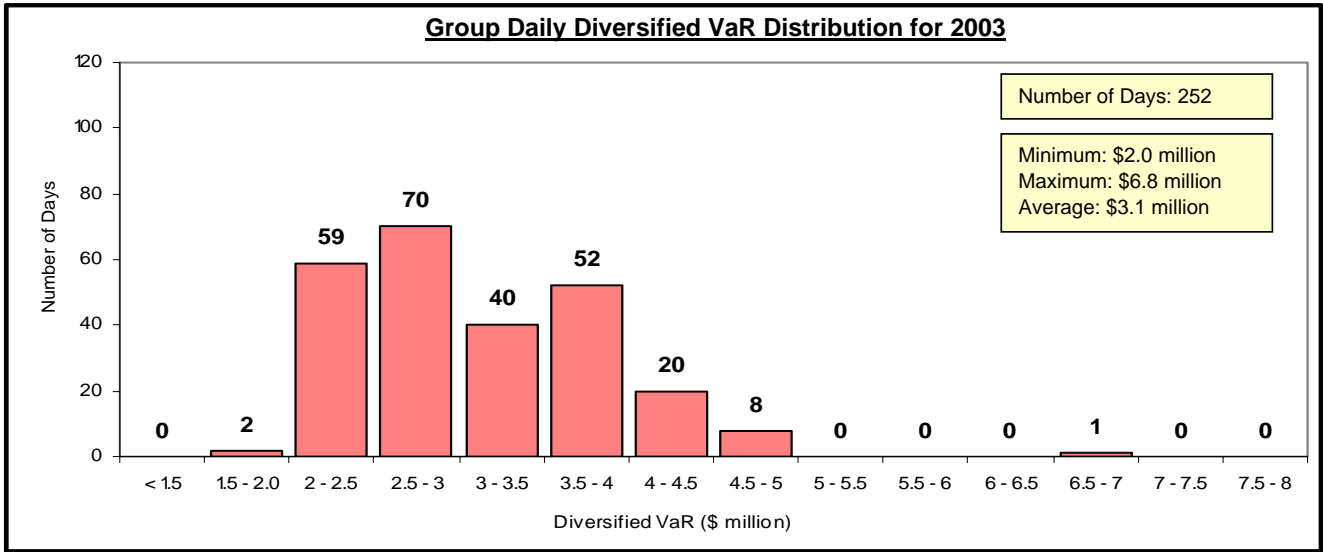
| Group Daily Diversified VaR (\$ million) | 31-Dec-03  | High       | Low        | Average    |
|--|------------|------------|------------|------------|
| Interest rate                            | 2.3        | 2.8        | 1.2        | 1.8        |
| Foreign exchange                         | 1.1        | 5.8        | 0.6        | 1.4        |
| Equity / volatility                      | 2.6        | 3.8        | 0.6        | 1.7        |
| Diversification benefits                 | (1.9)      | NM         | NM         | (1.9)      |
| <b>Total VaR</b>                         | <b>4.0</b> | <b>6.8</b> | <b>2.0</b> | <b>3.1</b> |

| Group Daily Diversified VaR (\$ million) | 31-Dec-02  | High       | Low        | Average    |
|--|------------|------------|------------|------------|
| Interest rate                            | 1.6        | 3.1        | 0.7        | 1.8        |
| Foreign exchange                         | 2.0        | 3.2        | 0.9        | 2.0        |
| Equity / volatility                      | 0.8        | 1.9        | 0.4        | 0.9        |
| Diversification benefits                 | (1.5)      | NM         | NM         | (1.7)      |
| <b>Total VaR</b>                         | <b>2.9</b> | <b>4.6</b> | <b>2.0</b> | <b>3.0</b> |

NM denotes not meaningful to compute diversification effect because the high and low may occur on different days for different risk types.



### Value-at-Risk (VaR)

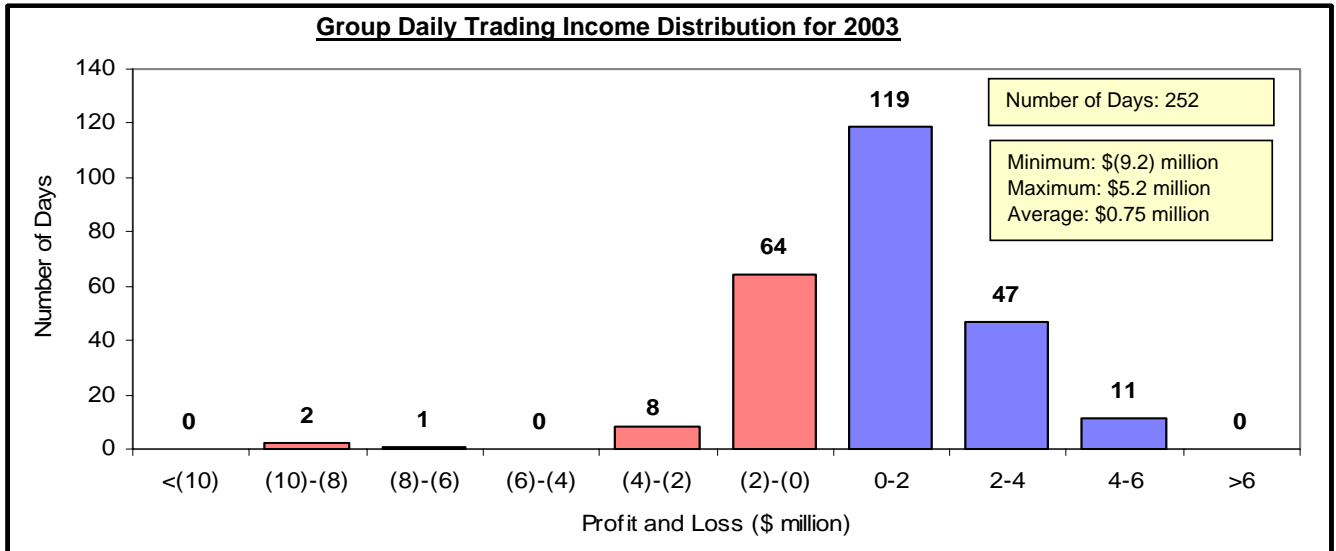






### Value-at-Risk (VaR)

The Group's daily trading income for 2003, averaging \$0.75 million, ranged between a low of \$9.2 million loss and a high of \$5.2 million gain:



The Group's daily trading income for 2002, averaging \$0.88 million, ranged between a low of \$4.6 million loss and a high of \$5.5 million gain:

