Overview

The Group has a strong, centralised and independent risk management governance structure that oversees the key types of risks, namely:

- credit and country risk;
- balance sheet risk;
- liquidity risk;
- market risk; and
- operational risk.

The Board of Directors, who has the overall responsibility for the type and level of business risks that the Group undertakes, has delegated to various Committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. Details of these Committees are found under the section 'Corporate Governance' on pages 18 to 21.

With the integration of OUB into UOB, our management and oversight of risks have been expanded to cover OUB's business activities. The risk exposures of OUB's operations are aggregated, monitored and managed in accordance with Group-wide policies and standards.

Credit And Country Risk Management

Credit Risk

Counterparty and credit risk is defined as the potential loss arising from any failure by customers to fulfil their obligations, as and when they fall due. All credit exposures, whether on-balance sheet or off-balance sheet, are assessed. These obligations may arise from lending, trade finance, investment, receivables under derivative and foreign exchange contracts and other credit-related activities undertaken by the Group.

The Credit Committee, under delegated authority from the Board of Directors, approves credit policies, guidelines and procedures to control and monitor such risks. It has day-to-day responsibility for identifying and managing portfolio and risk concentration issues, including country exposure and industry sector exposure. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Group maintains a well diversified and high quality credit portfolio. The decisions of the Credit Committee and its monthly risk management reports are reviewed by the Executive Committee of the Board.

Credit discretionary limits are delegated to officers of individual business units, depending on their levels of experience. Approval of all credits is granted in accordance with credit policies and guidelines. Defined credit risk parameters include single borrower, obligor, security concentrations, identified high-risk areas, maximum tenor and acceptable structures, and collateral types.

Credit Risk Management

- **Assessment Of Capital Requirement**
- **Facilitation Of Business Strategies**
- **Limits Setting (Country)**
- **Industry/Security Concentration**
- **Stress Testing of Portfolio**

Credit Policies/Procedures
- Formulation Of Credit Risk Parameters
  - Acceptable Collateral/ Concentrations
  - Maximum Advance Margin For Collateral
  - Maximum Individual Borrower Exposure
  - Maximum Tenor Of Facility
- Procedures On Classification Of Accounts
  - Auto-Classification Based On Ageing Of Past Dues
  - Provisioning Of Non-Performing Loans

Credit Rating System
- Calibration Of Borrower Risk
- Credit Alert

Credit Risk Mitigation
- Credit Review
  - Compliance
  - Credit Quality Review/Audit
- Special Loans (Recovery/ Consultation)

Discretionary Limits
- Delegation Of Discretionary Limits Tiered By:
  (i) Corporate Grade
  (ii) Portfolio
  (iii) Track Record

Communication Of Policies/Procedures
- Education Of Policies And Procedures Through Online Distribution
- Upgrading Of Skills Through Continual Training

Country Of Risk
- Setting Of Country Limits
- Analysis Of Country Risks

Additional policies are in place to govern the approval of 'Related Parties' credit facilities. 'Related Parties' means individuals or companies with whom the authorised credit approving authority and/or his/her immediate family members have a relationship, whether as director, partner, shareholder or any other relationship which would give rise to a potential conflict of interest.

Credit relationships with 'Related Parties' must be established on a strictly arm's length commercial basis. An approving authority shall abstain and absent himself/herself from the deliberation and approval of credit cases where the borrower is a 'Related Party' except that an approving authority may participate in the credit deliberation if the 'Related Party' is a:
- company in the UOB Group;
- publicly listed company or company related to a publicly listed company;
- company formed by professional bodies, trade or clan associations, or societies.

The Board of Directors must be informed immediately in the event that any 'Related Party' borrower is in default of payment and/or in breach of any material term of the credit facility and such default or breach is not rectified within seven days of notice from the Group.

A rigorous process is established for the regular review and reporting of asset concentrations and portfolio quality so that risks are accurately assessed and properly monitored and approved. These cover large credit exposures by obligor, aggregate exposure levels to an individual group/sector, collateral type, industry exposures, level of non-performing loans, adequacy of provisioning requirements and country risk concentrations. In particular, the trends and composition of exposures to property-related loans are closely monitored and analysed. In addition, exposure concentrations and non-performing loans by industry type are reported to the Credit Committee and the Executive Committee on a monthly basis and to the Board of Directors on a quarterly basis, with the objective of avoiding over-expansion in any particular industry.

Credit reviews and audits are performed to proactively identify delinquencies, minimise undesirable concentrations and maximise recoveries. In addition, we are refining our internal rating methodology to better quantify the credit risk of corporate and large commercial credits. Such a rating process would result in a more accurate estimate of the probability of future default by borrowers and help to provide an analysis of changes in the underlying credit quality of the loan portfolio over the economic cycle.

Customer Loans

The Group's loans and advances to customers are well diversified by industry and business line. Its top 20 obligor group borrowers and top 100 group borrowers made up 19.3% and 32.8% of total loans and advances respectively.

Obligor groups are defined in accordance with MAS Notice 623 to comply with Section 29 (1)(a) of the Banking Act. Where the parent company is a borrower, exposures to the parent company and companies that it has 20% or more shareholding or power to control are aggregated into a single obligor group.

As at 31 December 2001, about a third of the Group's exposure to customers resided in its personal financial services portfolio, comprising mainly housing loans, other mortgage loans, credit cards and vehicle financing. The composition of loans and advances to customers by industry type and the corresponding non-performing portions were as follows:

	Loans & Advances		Non-Performing Loans	
By Industry Type (%)	2001	2000	2001	2000
Transport, storage and communication	**3.6**	2.2	**1.7**	2.7
Building and construction	**15.1**	11.3	**19.5**	9.8
Manufacturing	**8.3**	9.3	**15.1**	12.5
Non-bank financial institutions	**16.8**	15.7	**17.2**	18.0
General commerce	**9.8**	12.2	**13.9**	22.9
Professionals and private individuals	**14.8**	13.3	**15.3**	15.6
Housing loans	**20.7**	23.8	**9.3**	11.0
Others	**10.9**	12.2	**8.0**	7.5
Total (%)	**100.0**	100.0	**100.0**	100.0
Total gross loans ($ million)	**64,211**	32,502	**5,944**	2,482

Management Of Performing Loans, Non-Performing Loans And Cumulative Provisions

The Group classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with MAS Notice 612. The Group also practises split classification of 'Substandard' into 'Substandard – Doubtful' and 'Substandard – Loss'. Interest income on all Non-Performing Loans is suspended and ceases to accrue. Such loans will remain classified until servicing of the account is satisfactory. Where appropriate, classified loans are transferred to in-house recovery specialists to maximise recovery prospects.

Loan Classification	Description
Pass	All payments are current and full repayment of interest and principal from normal sources is not in doubt.
Special Mention	There is some potential weakness in the borrower's creditworthiness, but the extent of any credit deterioration does not warrant its classification as a Non-Performing Loan.
Non-Performing: Substandard	There is weakness in the borrower's creditworthiness that jeopardises normal repayment. Default has occurred or is likely to occur. A credit is greater than 90 days past due, or the repayment schedule has been restructured.
Non-Performing: Substandard – Doubtful	A Substandard Loan that is partially secured by tangible collateral and the recovery rate on the unsecured portion is expected to be more than 50%.
Non-Performing: Substandard – Loss	A Substandard Loan that is partially secured by tangible collateral and the recovery rate on the unsecured portion is expected to be less than 50%.
Non-Performing: Doubtful	There is severe weakness in the borrower's creditworthiness, full repayment is highly questionable and no collateral is available.
Non-Performing: Loss	The chance of recovery from the loan is insignificant and no collateral is available.

The Group's provisions for credit losses are intended to cover probable credit losses as at 31 December 2001 through charges against profit. The provisions consist of an element that is specific to the individual loan and also a general element that has not been specifically applied. The Group constantly reviews the quality of its loan portfolio based on its knowledge of the borrowers and, where applicable, of the relevant industry and country of operation.

A specific provision is made when the Group believes that the creditworthiness of a borrower has deteriorated to such an extent that the recovery of the whole outstanding loan is in doubt. The amount of specific provision to be made is based on the difference between the discounted cash flows (or collateral value) of an impaired loan and the carrying value of that loan.

A general provision is made to cover possible losses and could be used to cushion any unforeseen losses in the loan portfolio. In relation to the loan portfolios of its overseas operations, the Group's policy is to make provisions based on local regulatory requirements for local reporting purposes, and then, where necessary, to make additional provisions to comply with the Group's provisioning policy and the Monetary Authority of Singapore (MAS) regulations.

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

Loan Classification	Recovery Expectation	Provision
Substandard	> 90% to 100%	10% to 25% of any unsecured loan outstanding
Doubtful	50% to 90%	50% to 75% of any unsecured loan outstanding
Loss	< 50%	100% of any unsecured loan outstanding

A classified account is written off where there is no realisable tangible collateral securing the account and all feasible avenues of recovery have been exhausted. Approval from MAS must be obtained before accounts that fall within the list of MAS Notice 606, such as director-related loans, can be written off.

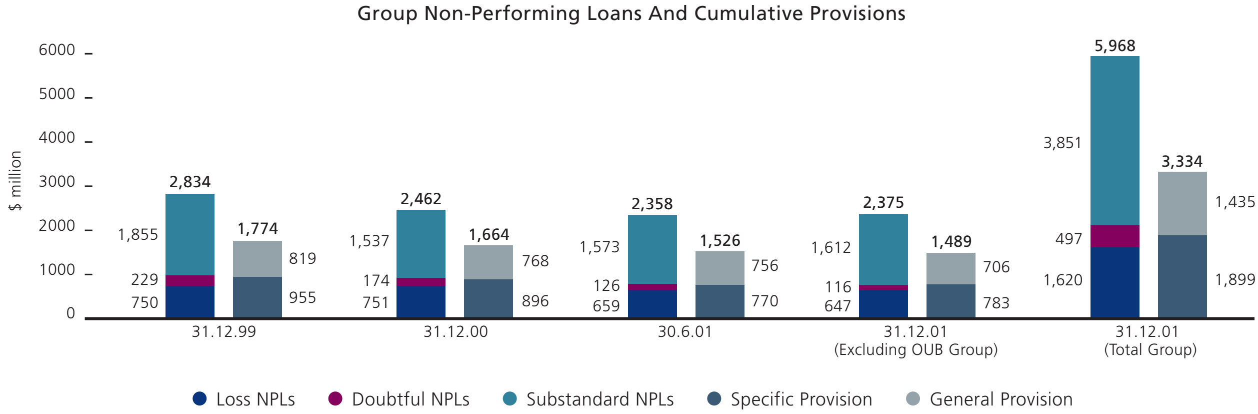
Group Non-Performing Loans (NPLs) And Cumulative Provisions

With the acquisition of OUB Group, the Group's net loans and advances doubled to $60.9 billion as at 31 December 2001 from $30.0 billion as at 31 December 2000. Correspondingly, Group NPLs rose by 142.4% from $2,462 million as at 31 December 2000 to $5,968 million as at 31 December 2001. Group NPLs as a percentage of gross customer loans increased to 9.3% from 7.8% as at 31 December 2000. Of the total Group NPLs of $5,968 million, $3,528 million or 59.1% were secured by collateral and $3,851 million or 64.5% were in the Substandard category.

Total cumulative specific and general provisions for the Group increased by $1,670 million, from $1,664 million in 2000 to $3,334 million in 2001. General provision was $1,435 million or 43.0% of total cumulative provisions. The total cumulative provisions provided 55.9% cover against Group NPLs. For NPLs classified as Doubtful and Loss, the provision coverage stood at 157.5%.

The following chart depicts the Group’s comparative NPLs by loan classification and cumulative specific and general provisions as at 31 December 1999, 31 December 2000, 30 June 2001 and 31 December 2001:

Group Non-Performing Loans And Cumulative Provisions



Ratios (%)	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00	31.12.99
NPLs*/Gross customer loans	**9.3**	7.3	7.2	7.8	9.8
Cumulative provisions/NPLs	**55.9**	62.7	64.7	67.6	62.6
Cumulative provisions/ Doubtful & Loss NPLs	**157.5**	195.2	194.4	179.9	181.2
Cumulative provisions/ Unsecured NPLs	**136.6**	159.6	167.5	136.6	145.2
Cumulative provisions*/ Gross customer loans	**5.2**	4.6	4.7	5.2	6.1
Specific provision*/ Gross customer loans	**3.0**	2.4	2.4	2.8	3.3
General provision*/ Gross customer loans	**2.2**	2.2	2.3	2.4	2.8
NPLs/Total assets	**5.3**	3.3	3.4	3.7	5.0

* *Excluding debt securities.*

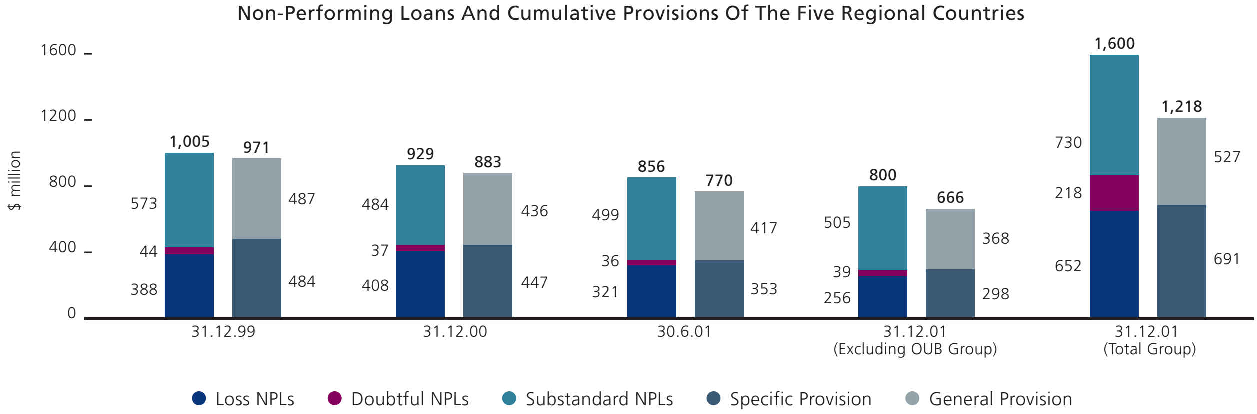
Group NPLs And Cumulative Provisions Of The Five Regional Countries

NPLs of the Five Regional Countries as at 31 December 2001 amounted to $1,600 million. Excluding OUB Group, NPLs of the Five Regional Countries would have fallen 13.9%, from $929 million as at end-2000 to $800 million as at end-2001. NPLs (excluding debt securities) against gross customer loans to the region totalled 19.2%.

Cumulative specific and general provisions for the Five Regional Countries amounted to $1,218 million as at 31 December 2001 against $770 million as at 30 June 2001 and $883 million as at 31 December 2000. These cumulative provisions represented 76.1% of the total NPLs of the Five Regional Countries and 140.0% of the NPLs of the Five Regional Countries that were classified as Doubtful and Loss.

General provision was $527 million (2000: $436 million) against specific provision of $691 million (2000: $447 million).

Non-Performing Loans And Cumulative Provisions Of The Five Regional Countries



Ratios (%)	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00	31.12.99
NPLs*/Gross customer loans	**19.2**	15.7	19.8	22.2	28.9
Cumulative provisions/NPLs	**76.1**	83.3	90.0	95.0	96.6
Cumulative provisions/ Doubtful & Loss NPLs	**140.0**	225.8	215.7	198.4	224.8
Cumulative provisions*/ Gross customer loans	**14.7**	13.1	17.8	21.1	28.0
Specific provision*/ Gross customer loans	**8.3**	5.9	8.2	10.7	13.9
General provision*/ Gross customer loans	**6.4**	7.2	9.6	10.4	14.1
NPLs/Gross exposure to the Five Regional Countries	**8.9**	6.1	8.4	9.1	10.0

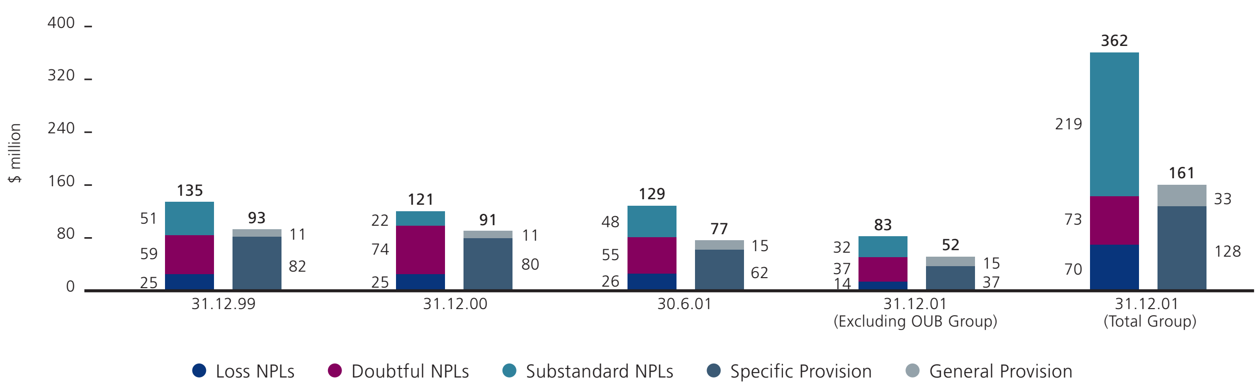
* *Excluding debt securities.*

Group NPLs And Cumulative Provisions Of Greater China

Group NPLs of Greater China amounted to $362 million as at end-2001. Excluding OUB Group, Group NPLs would have fallen 31.4%, from $121 million as at end-2000 to $83 million as at end-2001. NPLs as a percentage of gross exposure to Greater China increased to 5.7% as compared to 4.5% as at 31 December 2000.

Group cumulative specific and general provisions for Greater China as at 31 December 2001 amounted to $161 million. The NPLs of Greater China were 44.5% covered by cumulative provisions and NPLs classified as Doubtful and Loss were 112.6% covered by cumulative provisions.

Non-Performing Loans And Cumulative Provisions Of Greater China



Ratios (%)	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00	31.12.99
NPLs*/Gross customer loans	**12.4**	7.4	10.7	11.5	15.2
Cumulative provisions/NPLs	**44.5**	62.7	59.7	75.2	68.9
Cumulative provisions/ Doubtful & Loss NPLs	**112.6**	102.0	95.1	91.9	110.7
Cumulative provisions*/ Gross customer loans	**5.5**	4.7	6.4	8.6	10.5
Specific provision*/ Gross customer loans	**4.4**	3.3	5.2	7.6	9.3
General provision*/ Gross customer loans	**1.1**	1.4	1.2	1.0	1.2
NPLs/Gross exposure to Greater China	**5.7**	2.5	4.1	4.5	6.8

* *Excluding debt securities.*

Group NPLs By Region

NPLs of the Group's operations in Singapore and in the Five Regional Countries accounted for 64.0% and 26.8% of Group NPLs respectively.

$ million	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00
Singapore	**3,819**	1,486	1,368	1,354
Malaysia	**1,028**	415	428	528
Indonesia	**169**	75	90	119
Philippines	**242**	242	234	181
Thailand	**151**	68	104	101
South Korea	**10**	–	–	–
Five Regional Countries	**1,600**	800	856	929
Greater China	**362**	83	129	121
Others	**187**	6	5	58
Group Total	**5,968**	2,375	2,358	2,462

Group NPLs By Industry

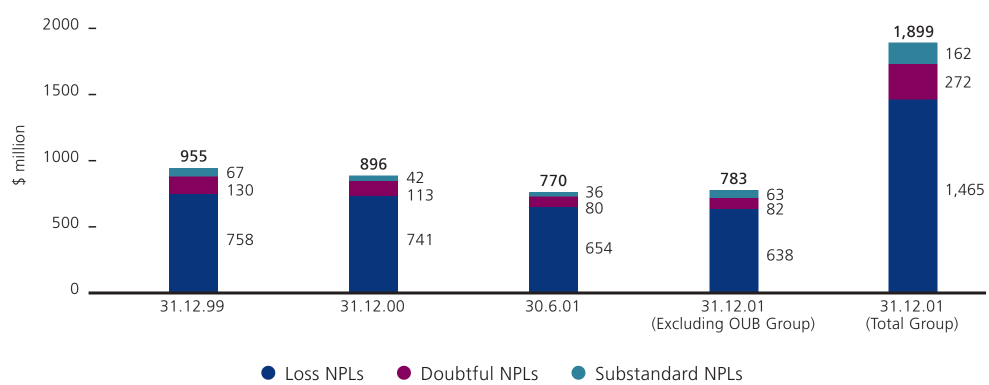
Group NPLs by industry were as follows:

	31.12.01 (Total Group)		31.12.01 (Excluding OUB Group)		30.6.01		31.12.00	
	Amount ($ million)	As % Of Gross Customer Loans	Amount ($ million)	As % Of Gross Customer Loans	Amount ($ million)	As % Of Gross Customer Loans	Amount ($ million)	As % Of Gross Customer Loans
Transport, storage and communication	**99**	**4.3**	55	5.0	76	12.3	66	9.3
Building and construction	**1,163**	**12.0**	282	7.9	215	5.5	243	6.8
Manufacturing	**895**	**16.8**	339	14.3	276	10.0	312	10.5
Non-bank financial institutions	**1,022**	**9.5**	281	6.0	367	7.5	447	9.0
General commerce	**825**	**13.1**	465	11.9	532	12.5	569	14.8
Professionals and private individuals	**910**	**9.6**	440	9.0	409	8.7	387	9.2
Housing loans	**556**	**4.2**	330	3.9	335	4.3	272	3.6
Others	**474**	**6.8**	183	5.4	148	3.7	166	4.3
Sub-Total	**5,944**	**9.3**	2,375	7.3	2,358	7.2	2,462	7.8
Debt securities	**24**		–		–		–	
Total	**5,968**	**9.3**	2,375	7.3	2,358	7.2	2,462	7.8

Group Specific Provision By Loan Classification

About 77% of specific provision made for expected loan losses was for 'Loss' accounts. The specific provision for each classified loan grade is shown in the following chart:

Specific Provision By Loan Classification



Group Specific Provision By Region

The Group's specific provision was $1,899 million (excluding OUB Group: $783 million) as at 31 December 2001. Singapore and the Five Regional Countries contributed 54.6% and 36.4% of Group total specific provision respectively.

$ million	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00
Singapore	**1,037**	447	353	353
Malaysia	**439**	145	156	242
Indonesia	**88**	51	69	87
Philippines	**72**	72	70	55
Thailand	**88**	30	58	63
South Korea	**4**	–	–	–
Five Regional Countries	**691**	298	353	447
Greater China	**128**	37	62	80
Others	**43**	1	2	16
Specific Provision for the Group	**1,899**	783	770	896
General Provision for the Group	**1,435**	706	756	768
Total	**3,334**	1,489	1,526	1,664

Group Specific Provision By Industry

$ million	31.12.01 (Total Group)	31.12.01 (Excluding OUB Group)	30.6.01	31.12.00
Transport, storage and communication	**28**	16	31	29
Building and construction	**336**	84	62	104
Manufacturing	**370**	125	122	160
Non-bank financial institutions	**308**	72	120	145
General commerce	**305**	210	212	245
Professionals and private individuals	**275**	148	120	133
Housing loans	**80**	58	43	23
Others	**182**	70	60	57
Sub-Total	**1,884**	783	770	896
Debt securities	**15**	–	–	–
Total	**1,899**	783	770	896

Rescheduled And Restructured Accounts

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

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

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

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

Loans that were restructured by classification during the year were as follows:

	31.12.01 (Total Group)		31.12.01 (Excluding OUB Group)		30.6.01		31.12.00	
	Amount ($ million)	Specific Provisions	Amount ($ million)	Specific Provisions	Amount ($ million)	Specific Provisions	Amount ($ million)	Specific Provisions
Substandard	**176**	**8**	28	1	12	1	17	1
Doubtful	**115**	**42**	3	2	22	17	–	–
Loss	**65**	**57**	9	8	–	–	4	4
Total	**356**	**107**	40	11	34	18	21	5

Ageing Of NPLs

The full outstanding balance of an account is deemed non-current and aged when there are arrears in interest servicing or principal repayment. As at 31 December 2001, the ageing of NPLs was as follows:

	31.12.01 (Total Group)		31.12.01 (Excluding OUB Group)		30.6.01		31.12.00	
Ageing (Days)	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs
Current	**925**	**15.5**	124	5.2	123	5.2	177	7.2
≤ 90	**874**	**14.6**	456	19.2	298	12.6	280	11.4
91 to 180	**547**	**9.2**	159	6.7	242	10.3	220	8.9
≥ 181	**3,622**	**60.7**	1,636	68.9	1,695	71.9	1,785	72.5
Total	**5,968**	**100.0**	2,375	100.0	2,358	100.0	2,462	100.0

Accounts that have payment records that are current or ≤90 days past due and/or in excess may be classified as 'Non-Performing' if the borrower is deemed to be financially weak. Accounts classified due to financial weakness were as follows:

$ million	Total Outstanding	Estimated Value Of Collateral	Provision Made	Interest-In-Suspense
Singapore	298	190	43	2
Overseas	215	95	50	3
Total	**513**	**285**	**93**	**5**

Collateral Types

The majority of classified loans is secured by properties. Properties are valued at forced sale value and such valuations are updated semi-annually. Other types of collateral include marketable securities that are usually listed stocks and shares, cash and deposits, and bankers' standby letters of credit (SBLCs).

As at 31 December 2001, 59.1% (excluding OUB Group: 60.7%) of total Group NPLs was secured by collateral as compared to 50.5% as at 31 December 2000.

The secured NPLs of the Group by collateral type based on country of risk were as follows:

$ million	Properties	Marketable Securities	Cash And Deposits	Others	Total
31.12.01 (Total Group)					
Singapore	**2,282**	**136**	**14**	**64**	**2,496**
Five Regional Countries	**643**	**97**	**3**	**45**	**788**
Greater China	**109**	**11**	**–**	**11**	**131**
Others	**111**	**–**	**2**	**–**	**113**
Total	**3,145**	**244**	**19**	**120**	**3,528**
31.12.01 (Excluding OUB Group)					
Singapore	883	42	10	23	958
Five Regional Countries	344	64	2	39	449
Greater China	22	8	–	1	31
Others	3	–	1	–	4
Total	1,252	114	13	63	1,442
30.6.01					
Singapore	906	43	8	31	988
Five Regional Countries	330	52	1	34	417
Greater China	22	15	–	1	38
Others	4	–	–	–	4
Total	1,262	110	9	66	1,447
31.12.00					
Singapore	770	37	9	34	850
Five Regional Countries	324	19	1	17	361
Greater China	9	10	–	–	19
Others	13	1	–	–	14
Total	1,116	67	10	51	1,244

Secured/Unsecured NPLs

	31.12.01 (Total Group)		31.12.01 (Excluding OUB Group)		30.6.01		31.12.00	
	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs	Amount ($ million)	% Of Total NPLs
Group NPLs								
Secured	**3,528**	**59.1**	1,442	60.7	1,447	61.4	1,244	50.5
Unsecured	**2,440**	**40.9**	933	39.3	911	38.6	1,218	49.5
Total	**5,968**	**100.0**	2,375	100.0	2,358	100.0	2,462	100.0

Country Risk

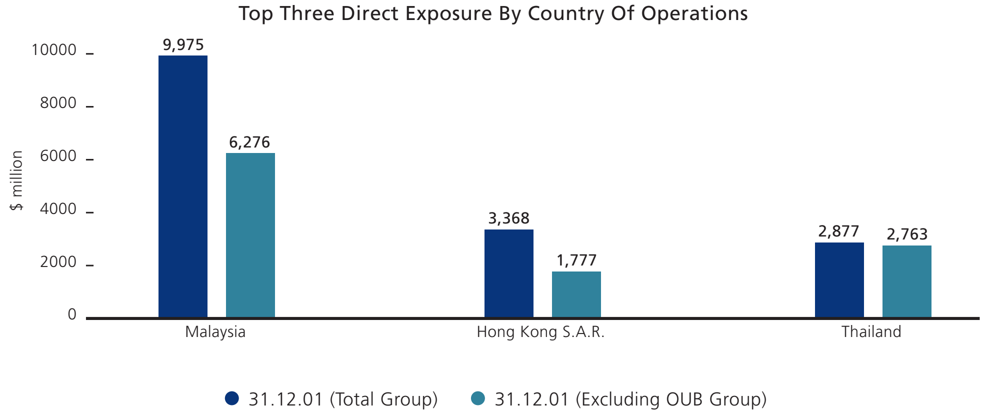
International lending involves additional risks compared to domestic lending in that there may be impediments arising from events in a foreign country that prevent repayment of the foreign borrowers' obligations to the Group. Such events may affect all borrowers of the same country. As such, it is important to set limits to safeguard various facets of the Group's exposures to any single country.

Country and cross-border obligations are monitored and managed through a system of country limits, based on ratings by external rating agencies and internal country credit grading, to avoid concentration of transfer, economic or political risks. These limits are regularly reviewed and country exposures are reported to the Credit Committee at least four times a year. At shorter time intervals, based on updates by country managers (at locations where the Group has a presence) and other external sources, and current events and developments, limits may be reviewed and business strategies in certain countries may be revised, as and when deemed necessary.

Group Exposure By Country Of Operations

The Group's total direct exposure to the countries (outside Singapore) in which it has a presence amounted to $29.9 billion as at 31 December 2001, or 26.4% of Group total assets. Exposure (excluding contingent) reported is segregated by loans and advances to customers, balances due from banks incorporated in the country, investments and balances due from the government. At the country level, the largest exposure was to Malaysia where the Group has a long-standing presence ($10.0 billion or 8.8% of Group total assets). The second largest exposure was to Hong Kong S.A.R. ($3.4 billion or 3.0% of Group total assets).

Top Three Direct Exposure By Country Of Operations



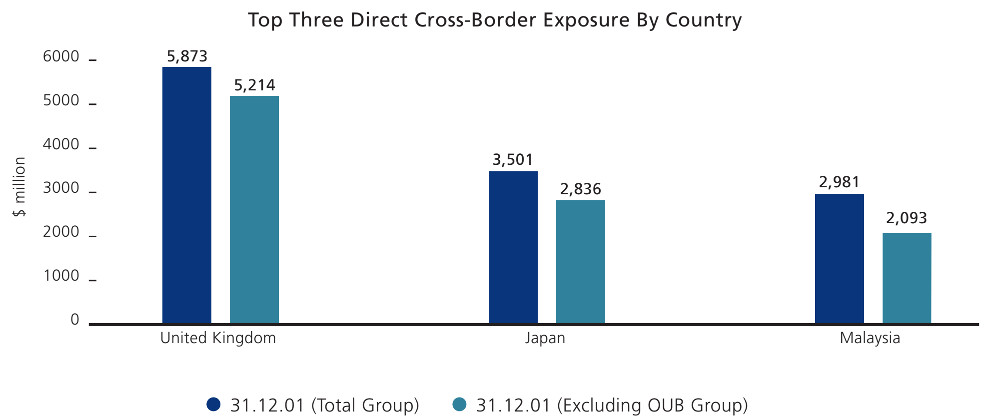
Exposure To The Five Regional Countries, Greater China And Others

$ million	Loans And Debt Securities			Investments	Total	*Less:* Loans/ Investments In Subsidiaries & Branches	Net Exposure	
	Non-Bank	Government	Bank				Total	% Of Group Total Assets
Malaysia								
31.12.01	**6,493**	**2,188**	**2,571**	**740**	**11,992**	**2,017**	**9,975**	**8.8**
31.12.01*	3,575	1,493	2,056	400	7,524	1,248	6,276	8.8
30.6.01	3,053	816	777	423	5,069	411	4,658	6.8
31.12.00	3,165	993	1,118	470	5,746	579	5,167	7.8
Indonesia								
31.12.01	**331**	**118**	**155**	**55**	**659**	**75**	**584**	**0.5**
31.12.01*	254	118	111	33	516	75	441	0.6
30.6.01	265	108	75	35	483	32	451	0.7
31.12.00	301	45	79	35	460	34	426	0.6
Philippines								
31.12.01	**300**	**277**	**46**	**33**	**656**	**65**	**591**	**0.5**
31.12.01*	299	260	45	33	637	63	574	0.8
30.6.01	315	248	61	40	664	85	579	0.8
31.12.00	274	210	102	66	652	150	502	0.8
Thailand								
31.12.01	**1,026**	**1,617**	**567**	**261**	**3,471**	**594**	**2,877**	**2.6**
31.12.01*	944	1,617	491	259	3,311	548	2,763	3.8
30.6.01	665	1,657	387	163	2,872	465	2,407	3.5
31.12.00	419	1,648	66	190	2,323	165	2,158	3.3
South Korea								
31.12.01	**57**	**82**	**888**	**174**	**1,201**	**140**	**1,061**	**0.9**
31.12.01*	27	82	860	138	1,107	119	988	1.4
30.6.01	30	55	920	136	1,141	72	1,069	1.6
31.12.00	18	51	832	107	1,008	5	1,003	1.5
Total Regional Countries								
31.12.01	**8,207**	**4,282**	**4,227**	**1,263**	**17,979**	**2,891**	**15,088**	**13.3**
31.12.01*	5,099	3,570	3,563	863	13,095	2,053	11,042	15.4
30.6.01	4,328	2,884	2,220	797	10,229	1,065	9,164	13.4
31.12.00	4,177	2,947	2,197	868	10,189	933	9,256	14.0
Greater China								
31.12.01	**2,912**	**135**	**2,740**	**590**	**6,377**	**1,904**	**4,473**	**4.0**
31.12.01*	1,115	78	1,576	536	3,305	1,015	2,290	3.2
30.6.01	1,201	112	1,358	464	3,135	703	2,432	3.6
31.12.00	1,052	101	1,328	213	2,694	637	2,057	3.1
Other OECD								
31.12.01	**4,652**	**49**	**6,102**	**604**	**11,407**	**1,307**	**10,100**	**8.9**
31.12.01*	1,821	34	4,711	418	6,984	707	6,277	8.7
30.6.01	2,268	30	4,535	377	7,210	412	6,798	9.9
31.12.00	2,207	32	6,358	138	8,735	262	8,473	12.8
Others								
31.12.01	**187**	**12**	**44**	**1**	**244**	**4**	**240**	**0.2**
31.12.01*	10	3	44	1	58	3	55	0.1
30.6.01	9	4	13	–	26	3	23	–
31.12.00	7	4	19	–	30	9	21	–
Grand Total								
31.12.01	**15,958**	**4,478**	**13,113**	**2,458**	**36,007**	**6,106**	**29,901**	**26.4**
31.12.01*	8,045	3,685	9,894	1,818	23,442	3,778	19,664	27.4
30.6.01	7,806	3,030	8,126	1,638	20,600	2,183	18,417	26.9
31.12.00	7,443	3,084	9,902	1,219	21,648	1,841	19,807	29.9

* *Excluding OUB Group.*

Group Cross-Border Exposure

As at 31 December 2001, total direct cross-border exposure to the countries where the Group has a presence amounted to $22.9 billion. The top three direct cross-border exposure were United Kingdom, Japan and Malaysia. The exposure comprised substantially placements with banks due within one year.



Cross-Border Exposure To The Five Regional Countries, Greater China And Others

	Loans And Debt Securities						
$ million	Non-Bank	Government	Bank	Investments	Intra-Group	Total	% Of Group Total Assets
Malaysia							
31.12.01	**125**	**121**	**442**	**614**	**1,679**	**2,981**	**2.6**
31.12.01*	56	39	441	316	1,241	2,093	2.9
30.6.01	42	38	114	334	321	849	1.2
31.12.00	39	–	390	351	626	1,406	2.1
Indonesia							
31.12.01	**133**	**–**	**108**	**56**	**41**	**338**	**0.3**
31.12.01*	56	–	63	33	41	193	0.3
30.6.01	81	–	73	35	33	222	0.3
31.12.00	99	–	78	34	34	245	0.4
Philippines							
31.12.01	**18**	**17**	**10**	**33**	**36**	**114**	**0.1**
31.12.01*	18	–	10	33	33	94	0.1
30.6.01	17	–	10	40	48	115	0.2
31.12.00	17	1	16	66	86	186	0.3
Thailand							
31.12.01	**136**	**–**	**45**	**231**	**508**	**920**	**0.8**
31.12.01*	74	–	15	231	464	784	1.1
30.6.01	73	–	10	135	373	591	0.9
31.12.00	79	–	36	156	44	315	0.5
South Korea							
31.12.01	**49**	**–**	**595**	**165**	**170**	**979**	**0.9**
31.12.01*	21	–	595	129	142	887	1.2
30.6.01	17	–	547	128	93	785	1.2
31.12.00	17	–	643	107	7	774	1.2
Total Regional Countries							
31.12.01	**461**	**138**	**1,200**	**1,099**	**2,434**	**5,332**	**4.7**
31.12.01*	225	39	1,124	742	1,921	4,051	5.6
30.6.01	230	38	754	672	868	2,562	3.7
31.12.00	251	1	1,163	714	797	2,926	4.4
Greater China							
31.12.01	**753**	**–**	**1,102**	**170**	**2,232**	**4,257**	**3.8**
31.12.01*	468	–	1,062	150	1,076	2,756	3.9
30.6.01	436	–	819	177	753	2,185	3.2
31.12.00	325	–	1,175	219	669	2,388	3.6
Other OECD							
31.12.01	**274**	**7**	**11,021**	**364**	**1,448**	**13,114**	**11.6**
31.12.01*	240	6	9,849	181	732	11,008	15.3
30.6.01	341	6	8,059	221	445	9,072	13.3
31.12.00	394	6	9,743	112	310	10,565	15.9
Others							
31.12.01	**23**	**–**	**24**	**1**	**100**	**148**	**0.1**
31.12.01*	4	–	24	1	47	76	0.1
30.6.01	2	–	1	–	44	47	0.1
31.12.00	2	–	6	–	47	55	0.1
Grand Total							
31.12.01	**1,511**	**145**	**13,347**	**1,634**	**6,214**	**22,851**	**20.2**
31.12.01*	937	45	12,059	1,074	3,776	17,891	24.9
30.6.01	1,009	44	9,633	1,070	2,110	13,866	20.3
31.12.00	972	7	12,087	1,045	1,823	15,934	24.0

* *Excluding OUB Group.*

Balance Sheet Risk Management

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

The balance sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest repricing and maturity dates of these assets and liabilities. The Group assesses the impact of changes in interest rates and yield curves over time on the banking book by projecting the corresponding changes in Net Interest Income (NII) and Economic Value of Equity (EVE) of the Group. The primary objective of balance sheet risk management, therefore, is to monitor and avert significant volatility in NII and EVE. For instance, when there are significant changes in interest rates, the Group will adjust its lending and deposit rates to the extent necessary to stabilise its NII.

The Asset Liability Committee (ALCO), under delegated authority from the Board of Directors, approves the policies and limits for balance sheet risk. This risk is monitored and managed within a framework of approved policies and limits, and is reported regularly to ALCO. The decisions of ALCO and its monthly risk management reports are reviewed by the Executive Committee of the Board.

The balance sheet interest rate risk exposure is calculated using a combination of dynamic simulation modelling techniques and static analysis tools, such as maturity/repricing schedules. The schedules provide an indication of the potential impact on interest earnings through gap analysis of the mismatches of interest rate sensitive assets, liabilities and off-balance sheet items by time bands, according to their maturity (for fixed rate items) or the remaining period to their next repricing (for floating rate items).

The table in Note 43(c) to the Financial Statements represents the Group's interest rate risk sensitivity based on repricing mismatches as at 31 December 2001. Interest rate risk will arise when more assets/liabilities than liabilities/assets are repriced in a given time band. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities reprice during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. As at 31 December 2001, the Group had an overall positive interest rate sensitivity gap of $8,659 million, excluding non-interest sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent to which repayments are made earlier or later than the contracted dates.

In the dynamic simulation modelling process, the Group applies both the earnings and the economic value of equity approaches to measuring interest rate risk. The potential effects of changes in interest rates on earnings are estimated by simulating the future course of interest rates, expected changes in the Group's business activities over time, as well as the effect of embedded options in the form of loans subject to prepayment and of deposits subject to preupliftment. The changes in interest rates include the simulation of changes in the shape of the yield curve.

In EVE sensitivity simulation modelling, the present values for all the Group's cash flows are computed, with the focus on changes in EVE under various interest rate environments. This economic perspective measures interest rate risk across the entire time spectrum of the balance sheet.

Stress and scenario tests depicting shifts and tilts in yield curves are also performed regularly on the banking book. Such tests are performed to provide early warning of potential worst-case losses so as to facilitate proactive management of these risks in the rapidly changing financial markets.

The risks arising from the trading book in interest rates, foreign exchange rates and equity prices are managed and controlled under the market risk framework that is discussed under the section 'Market Risk Management' on pages 41 to 43.

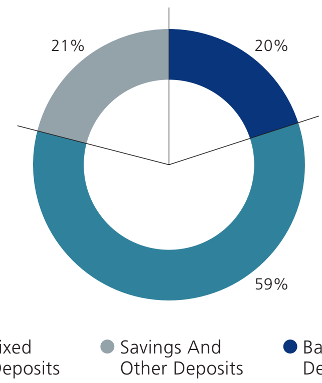
Liquidity Risk Management

Liquidity risk is defined as the potential loss arising from the Group's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Group's activities and in the management of its assets. The Group maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of liquidity policies, controls and limits approved by ALCO. These policies, controls and limits ensure that the Group maintains well-diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The distribution of sources and maturities of deposits is managed actively in order to ensure cost effective and continued access to funds and to avoid a concentration of funding needs from any one source. Important factors in assuring liquidity are competitive interest rates and the maintenance of customers' confidence. Such confidence is founded on the Group's good reputation, the strength of its earnings, and its strong financial position and credit rating.

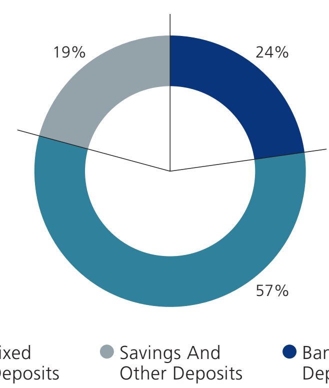
The management of liquidity risk is carried out throughout the year by a combination of cash flow management, maintenance of high quality marketable securities and other short-term investments that can be readily converted to cash, diversification of the funding base, and proactive management of the Group's 'core deposits'. 'Core deposits' are a major source of liquidity for the Group. These 'core deposits' are generally stable non-bank deposits, like current accounts, savings accounts and fixed deposits. The Group monitors the stability of its 'core deposits' by analysing their volatility over time. In addition to the 'business as usual' scenario, this analysis also includes various stress scenarios. The Group has also identified certain early warning indicators and established the trigger points for possible contingency situations. These early warning indicators are monitored closely so that immediate action can be taken when necessary.

Sources Of Deposits – 2001



Sources Of Deposits	2001	
	$ million	%
Customer deposits		
Fixed deposits	**54,419**	**59**
Savings and other deposits	**20,033**	**21**
	74,452	**80**
Bankers' deposits	**18,093**	**20**
Total deposits	**92,545**	**100**

Sources Of Deposits – 2000



Sources Of Deposits	2000	
	$ million	%
Customer deposits		
Fixed deposits	32,421	57
Savings and other deposits	10,985	19
	43,406	76
Bankers' deposits	13,431	24
Total deposits	56,837	100

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior management and representatives from all relevant units will direct the business units to take certain specified actions to create liquidity and continuous funding for the Group's operations.

Overseas banking subsidiaries and branches have self-sufficient funding capabilities wherever possible. However, the Group's Head Office in Singapore will provide funding to them on an exceptional basis, for instance, when they are unable to borrow sufficient funds for their operational needs or when it is cheaper to fund through Head Office.

The table in Note 43(d) to the Financial Statements shows the maturity mismatch analysis of the Group's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Up To 7 Days' time band comprises mainly customers' current accounts and savings accounts that are repayable on demand. However, when these customer deposits are adjusted for behavioural characteristics, the projected net cash outflow in the 'Up To 7 Days' time band is very much reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

Sources Of Deposits

Non-bank customers' fixed deposits, savings and other deposits continued to form a significant part of the Group's overall funding base in the year under review. With the merger of OUB into UOB, these customer deposits amounted to $74,452 million in 2001 and accounted for 80% of total Group deposits. Bankers' deposits, on the other hand, amounted to $18,093 million and formed the remaining 20% of total Group deposits. In terms of deposit mix, fixed deposits comprised the majority of the funding base at 59%, followed by savings and other deposits at 21%. Bankers' deposits are used by the Group to capitalise on money market opportunities and to maintain a presence in the inter-bank money market.

Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from changes in market prices, namely, foreign exchange rates, interest rates, equity prices and option volatility rates.

The Group is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of market risk management policies and risk control procedures, as well as risk and loss limits. Risk and loss limits are proposed by every trading desk/division (including the Group's overseas operations), reviewed by the Market Risk Management Division and approved by ALCO annually. ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The powers of ALCO are delegated by the Executive Committee of the Board whose powers are, in turn, delegated by the Board of Directors. The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Risk Control Unit.

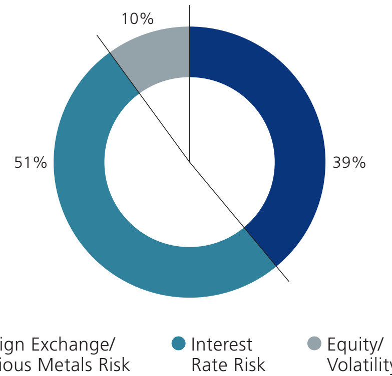
There is no single risk statistic that can reflect all aspects of market risk. The most common approaches are Value-at-Risk (VaR) and stress testing. These risk measures, taken together, provide a more comprehensive view of market risk exposure than any one of them individually. VaR is a measure of the dollar amount of potential loss from adverse market movements under a normal market environment. Statistical models of risk measurement, such as VaR, provide an objective and independent assessment of how much risk is being taken. They also allow consistent and comparable measurement of risk across financial products and portfolios.

Market risk is computed using VaR methodologies, namely, variance-covariance and historical simulation models based on the past 260 days of market data within a 95% confidence level and assuming a one-day trading horizon.

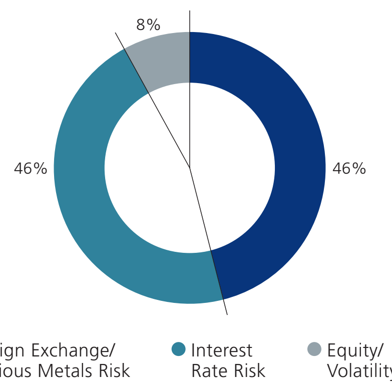
The variance-covariance methodology is a parametric approach that assumes that returns are normally distributed. Under this methodology, a matrix of historical volatilities and correlations is computed from the past 260 days' market data. VaR is then computed by applying these volatilities and correlations to the current portfolio valued at current price levels.

The historical simulation methodology is a non-parametric approach that does not make any underlying assumption about the distribution of returns. The method assumes that actual observed historical changes in market rates, such as foreign exchange and interest rates, reflect future possible changes. It uses historical price changes for the past 260 days to compute the returns of the portfolio and a VaR figure is then obtained from the actual distribution of these returns of the portfolio based on a 95 percentile.

Group Daily VaR (Including OUB Group)
As At 31.12.01



Group Daily VaR (Excluding OUB Group)
As At 31.12.01



The VaR calculations are performed for all material trading and investment portfolios.

However, there are certain limitations to the VaR methodologies. They do not reflect the extent of potential losses that may occur beyond the 95% confidence level or that may occur for positions that could not be liquidated within the one-day trading horizon. In addition, historical data may not accurately reflect price changes that are likely to occur in the future and all VaR methodologies are dependent on the quality of available market data. Hence, to evaluate the reasonableness of the VaR model, daily 'backtesting' of VaR estimates are conducted against hypothetical and/or actual financial results. During the year under review, the Group had implemented the daily 'backtesting' of VaR against hypothetical financial results.

To overcome the limitations of VaR as well as to complement VaR, stress and scenario tests are performed on the trading and investment portfolios. This will serve to provide early warning of potential worst-case losses so as to facilitate proactive management of these risks in the rapidly changing financial markets. While VaR estimates the Group's exposure to unlikely events in normal markets, stress testing discloses the risk under plausible events in abnormal markets. Portfolio stress testing is integral to the market risk management process and, together with VaR, are important components in the package of risk measurement and control tools.

The Group's corporate stress tests are built around changes in market rates and prices that result from pre-specified economic scenarios, such as historical market events.

Some examples of stress tests that are performed include daily VaR based on 99% confidence intervals, as well as worst-case VaR based on the worst price change experienced within the past 260 days and on historical events, for instance, the 1997 Asian crisis.

As with VaR, stress test calculations are performed for all material trading and investment portfolios.

The risks taken by the Group are measured against corresponding rewards to ensure that returns are commensurate with the risks taken. A risk-reward measure of Earnings-at-Risk (EaR) is used as a standard measurement of the risks against corresponding rewards across different products and business types. EaR is used as a benchmark in the setting of risk limits against prospective earnings.

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 is used in the computation of VaR.

The Group's daily VaR (including OUB Group), as at 31 December 2001, was $10.6 million and comprised mainly foreign exchange/precious metals risk (39%), interest rate risk (51%) and equity/volatility risk (10%).

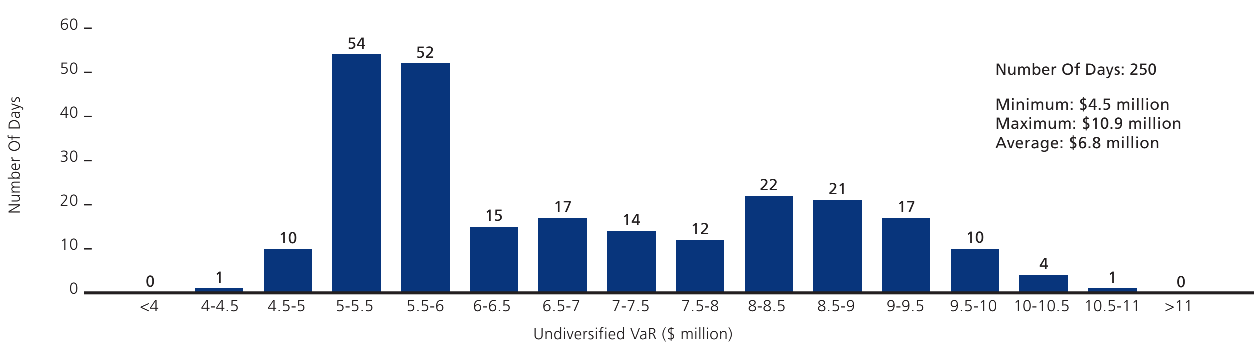
The Group's daily VaR (excluding OUB Group), as at 31 December 2001, was $5.6 million and comprised mainly foreign exchange/precious metals risk (46%), interest rate risk (46%) and equity/volatility risk (8%).

Due to the complexity of the modelling and procedural differences at OUB, combined daily VaRs are not available for periods prior to the merger date. Accordingly, the combined average, high and low daily VaRs and the daily VaR distribution are not available.

The Group's daily VaR (excluding OUB Group) for 2001, averaging $6.8 million, ranged between a low of $4.5 million and a high of $10.9 million:

% Of Total VaR	31.12.01	High	Low	Average
Foreign exchange/precious metals	46	33	46	27
Interest rate	46	30	48	46
Equity/volatility	8	37	6	27
Total VaR (%)	100	100	100	100
Total VaR ($ million)	5.6	10.9	4.5	6.8

Group Daily VaR Distribution*



* *Excluding OUB Group.*

Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Group's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Group's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from both natural and man-made disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Group's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures as approved by the Management Committee under its delegated authority from the Board of Directors. The decisions of the Management Commitee and its monthly risk management reports are reviewed by the Executive Committee of the Board.

This framework of techniques and procedures encompasses the building of Operational Risk Profiles (ORPs), the conduct of Operational Risk Self Assessment (ORSA) based on the ORPs, the development of an Operational Risk Action Plan (ORAP), the monitoring of Key Operational Risk Indicators (KORIs), and the process for monitoring and reporting operational risk issues.

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

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

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

Complementing the framework are KORIs that are utilised and monitored on an on-going basis. Through regular monitoring and analysis of this data, areas of potential operational control weakness can be identified at an early stage.

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

For the implementation of all online products and services, extra care and precautionary measures are taken to address and protect customers' confidentiality and interests. Clear instructions are also posted on the Group's website to advise and educate customers on the proper use and safekeeping of their access identification and passwords.

As part of the Group's comprehensive operational risk framework, an enhanced Group-wide Business Contingency Plan is being developed. In addition, in line with the increasing need to outsource internal operations in order to achieve cost efficiency, a Group policy has been established to regulate the outsourcing of services to third parties.

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

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

The Group's Compliance Unit and Internal Audit play a key role in monitoring adherence by business and support units to the operational risk management policies. All Compliance functions report directly to the Group's Compliance Unit, which provides them with the necessary independence to monitor and carry out compliance reviews of the business operations. Compliance Unit also spearheads the Group's efforts on anti-money laundering activities.