

United Overseas Bank (Malaysia) Bhd

Company No: 271809 K
(Incorporated in Malaysia)

Reports and financial statements for the year ended 31 December 2003

United Overseas Bank (Malaysia) Bhd
(Incorporated in Malaysia)

**Reports and financial statements
for the year ended 31 December 2003**

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United Overseas Bank (Malaysia) Bhd

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Directors' report for the year ended 31 December 2003

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2003.

Principal activities

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in notes 9 and 10 to the financial statements respectively. There have been no significant changes in the nature of these activities during the financial year.

Financial results

	The Group RM'000	The Bank RM'000
Profit before taxation	485,770	466,964
Taxation	(128,168)	(121,304)
Profit after taxation	<u>357,602</u>	<u>345,660</u>

Dividends

Dividends paid since the end of the Bank's previous financial year are as follows:

	RM'000
In respect of the year ended 31 December 2002, as proposed in the Directors' report for that year, a final dividend of 51.5% less 28% income tax paid on 6 June 2003	174,276
In respect of the year ended 31 December 2003, an interim dividend of 40.0% less 28% income tax paid on 31 October 2003	135,360
	<u>309,636</u>

The Directors now recommend a final dividend of 10% less income tax of 28% amounting to RM33,840,000 in respect of the current financial year on the fully issued and paid-up ordinary shares of the Bank at the end of the year.

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Directors' report (continued)

Reserves and provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

Bad and doubtful debts

Before the financial statements of the Group and Bank were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate provisions made for bad and doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the financial statements of the Group and Bank inadequate to any substantial extent.

Current assets

Before the financial statements of the Group and Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, their value as shown in the accounting records of the Group and Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and Bank misleading.

Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Bank's financial statements misleading or inappropriate.

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Directors' report (continued)

Contingent and other liabilities

At the date of this report there does not exist:

- (a) any charge on the assets of the Group and Bank which has arisen since the end of the year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group and Bank that has arisen since the end of the year other than in the ordinary course of banking business.

No contingent or other liability of the Group or the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the Directors, will or may affect the ability of the Group or the Bank to meet its obligations as and when they fall due.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and Bank, that would render any amount stated in the financial statements misleading.

Items of an unusual nature

The results of the operations of the Group and Bank for the year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect substantially the results of the operations of the Group and Bank for the current year in which this report is made.

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Directors' report (continued)

Directors and their interests in shares

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

Wee Cho Yaw

Wee Ee Cheong

Poon Hon Thang, Samuel

YABhg Tun Dato' Seri Dr Lim Chong Eu

Ng Kee Wei

YM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin

Lim Kean Chye

Lee Chin Yong, Francis

Ong Sea Eng, Terence

In accordance with Article 95 of the Bank's Articles of Association, Lee Chin Yong, Francis retires from the Board at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

Pursuant to Section 129(2) of the Companies Act, 1965, Wee Cho Yaw, Ng Kee Wei, YABhg Tun Dato' Seri Dr Lim Chong Eu and Lim Kean Chye who are above the age of seventy (70) years retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment as Directors under Section 129(6) of the Companies Act, 1965.

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Directors' report (continued)

Directors and their interests in shares (continued)

According to the Register of Directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the Directors' beneficial interests in the shares, except as otherwise stated, of the Bank and its related corporations, during the year are as follows:

		1.1. 2003	Granted	Acquired	Disposed/ Exercised	31.12.2003
Ultimate holding corporation:						
United Overseas Bank Limited						
Ordinary Shares of S\$1 each:						
Wee Cho Yaw	- Direct	16,390,248	-	-	-	16,390,248
	- Indirect	146,375,326	-	64,232,816	-	210,608,142
Wee Ee Cheong	- Direct	2,794,899	-	-	-	2,794,899
	- Indirect	143,985,251	-	1,000,000	-	144,985,251
Ng Kee Wei	- Direct	447,582	-	-	-	447,582
	- Indirect	1,725,189	-	-	-	1,725,189
Lim Kean Chye	- Direct	117	-	-	-	117
Poon Hon Thang, Samuel	- Direct	-	-	10,000	(10,000)	-
Lee Chin Yong, Francis	- Direct	-	-	-	-	-
Ong Sea Eng, Terence	- Direct	1,760	-	-	(1,760)	-
	- Indirect	580	-	-	(580)	-
Executive Share Options of S\$1 each						
Poon Hon Thang, Samuel	- Direct	90,000	45,000	-	(10,000)	125,000
Lee Chin Yong, Francis	- Direct	65,000	35,000	-	-	100,000
Ong Sea Eng, Terence	- Direct	75,000	40,000	-	-	115,000

The share options which were granted pursuant to the United Overseas Bank Executives' Share Option Scheme which carry the right to subscribe for new ordinary shares of United Overseas Bank Limited at prices ranging from S\$11.67 to S\$14.70 per share. The share options' expiry dates ranges from 27 December 2004 to 6 June 2008.

By virtue of his substantial interest in the shares of United Overseas Bank Limited, Wee Cho Yaw is also deemed to have substantial interest in the shares of the subsidiary companies to the extent the company has an interest.

None of the other Directors at the end of the year had any interests in the shares, except as otherwise stated, of the Bank and its related corporations during the year.

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Directors' report (continued)

Directors' benefits

Since the end of the previous year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or the fixed salary as a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for the share options granted to certain Directors pursuant to the UOB Executive Share Option Scheme.

Holding companies

The Directors regard Chung Khiaw Bank (Malaysia) Bhd, a company incorporated in Malaysia, as the immediate holding company.

The Directors regard United Overseas Bank Limited, a bank incorporated in Singapore, as the ultimate holding corporation.

Statement of Corporate Governance

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

United Overseas Bank (Malaysia) Bhd

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Directors' report (continued)

Statement of Corporate Governance (continued)

Board of Directors

The Board of UOBM comprises 9 distinguished members of whom five (5) members are Non-Independent Non-Executive Directors and four (4) members are Independent Non-Executive Directors. The Directors have distinguished careers in the banking, finance, law, public, business and management sectors.

The Board has oversight responsibility for the business and affairs of UOBM. The Board sets the overall business direction and provides guidance on UOBM's strategic plans. It delegates the formulation of business policies and day-to-day management to various committees and the Chief Executive Officer. The Board meets regularly to review UOBM's business plans and the operating results achieved.

The Board meets at least six times a year. The attendance of every Board member at the meetings of the Board and the various Board Committees is given on page 11. The Board has delegated specific responsibilities to five board committees.

Board Committees

Executive Committee

The Executive Committee (Exco) was established by the Board principally to assist the Board in making decisions expeditiously and to exercise certain authorities and functions delegated to it by the Board. The Exco consist of five members comprising Wee Cho Yaw, Wee Ee Cheong, Poon Hon Thang, Lee Chin Yong and Ong Sea Eng who are non-independent non-executive directors. The Exco schedules meetings on a weekly basis, and has been given delegated authority to exercise certain of the Board's powers.

The Chief Executive Officer is responsible for the day-to-day operations of UOBM. The Board has conferred upon the Exco and the Chief Executive Officer certain discretionary limits and authority for credit and loan approvals, treasury and investment activities, capital expenditure, budgeting and human resource management.

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Directors' report (continued)

Statement of Corporate Governance (continued)

Audit Committee

The role of the Audit Committee is to assist the Board in examining financial reports and overseeing audit matters. The Audit Committee comprises of four members, all of whom, except for Poon Hon Thang are independent and non-executive directors. The chairman of the Audit Committee is YABhg Tun Dato' Seri Dr Lim Chong Eu. The other members of the Audit Committee is YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin, Ng Kee Wei and Poon Hon Thang. The Audit Committee meets at least four times a year. Additional meetings could be called by the Chairman of the Audit Committee to discuss specific audit issues when necessary.

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

The minutes of the Audit Committee meetings are formally tabled to the Board for noting and for action when necessary.

In addition to the duties and responsibilities approved by the Board, the Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems. The Audit Committee also conducts a review of the internal audit function to ensure the adequacy of the scope, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work impartially.

Risk Management Committee

The Risk Management Committee (RMC) was established on 23 July 2003 by the Board to assist the Board in overseeing senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. The RMC consist of three members all of whom are non-executive Directors. The Chairman of the RMC is Ng Kee Wei. The other members of the RMC are Poon Hon Thang and Lee Chin Yong. During the year, the RMC met once.

The RMC may meet with other Directors, chief executive officer and other senior management staff at its meetings in order to obtain their assistance in discharging their responsibilities.

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

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Directors' report (continued)

Statement of Corporate Governance (continued)

Remuneration Committee

The Remuneration Committee (RC) was established on 23 July 2003 by the Board to provide a formal and transparent procedure for developing remuneration policy for Directors, chief executive officer and key senior management officers and to ensure that compensation is competitive and consistent with the licensed institution's culture, objectives and strategy. The RC consist of three (3) members, all of whom are non executive directors. The Chairman of the RC is Lim Kean Chye. The other members of the RC are Wee Cho Yaw and Lee Chin Yong. During the year the RC met once.

The RC may meet with other directors, chief executive officer and other senior management staff at its meetings in order to obtain their assistance in discharging their responsibilities.

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

Nominating Committee

The Nominating Committee (NC) was established on 23 July 2003 by the Board to provide a formal and transparent procedure for the appointment of directors and chief executive officer as well as assessment of effectiveness of individual Directors, board as a whole and performance of chief executive officer and key senior management officers. The NC consist of five (5) members, all of whom are non-executive Directors. The Chairman of the NC is YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin. The other members of the NC are Wee Cho Yaw, Lim Kean Chye, Poon Hon Thang and Lee Chin Yong. During the year the NC met once.

The NC may meet with other directors, Chief Executive Officer and other senior management staff at its meetings in order to obtain their assistance in discharging their responsibilities.

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

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Directors' report (continued)

Statement of Corporate Governance (continued)

Management Reports

The Bank has a comprehensive planning, budgeting and monitoring system based on key performance indicators for each business area and cost centre. Business plans incorporating detailed one-year operating plans are prepared annually by each business unit and cost centre and presented and discussed by senior management before they are presented to the EXCO and the Board of Directors for approval. The Board receives quarterly and half yearly management reports which highlights key performance indicators and compare actual performance with that of prior periods and with budget. The Executive Committee receives monthly management reports on a monthly basis.

The Board is assisted by the Audit Committee to oversee the Bank's financial reporting by scrutinizing the information to be disclosed, to ensure accuracy, adequacy and completeness.

Internal Controls

The Bank has a well-established internal audit function. There are formal procedures for both internal and external auditors to report their audit findings to Management and to the Audit Committee.

The Bank's Internal Audit, reporting to the Audit Committee, assists the Board of Directors in monitoring and managing business risks and internal controls. The Audit Committee approves the Bank's internal audit plan during one of its Audit Committee meetings each year. The results of each audit are submitted to the Audit Committee for its attention and significant findings are deliberated upon in the Audit Committee meetings which are also attended by external auditors. The minutes of the Audit Committee meetings are formally tabled to the Board of Directors for noting, and for action by the Board where necessary.

Internal Audit operates within the framework of its Audit Charter. Being a wholly-owned subsidiary, Internal Audit is guided by the standards, practices, policies of Group Internal Audit of United Overseas Bank Limited, Singapore.

The scope of Internal Audit covers the audit of all the Bank's units and operations.

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Directors' report (continued)**Statement of Corporate Governance (continued)****Internal Controls (continued)**

The audits carried out on the Bank's units and operations were prioritised based on audit risk assessments. Annual audit plans are drawn up to ensure all risk-rated auditable areas are given proper attention with appropriate coverage and audit frequency. Internal Audit's responsibilities include the audits of operations, credit management, financial control, management directives, regulatory compliance, information technologies and the risk management processes of the Bank. A monthly audit progress report is submitted to the Audit Committee for its review and monitoring. Internal Audit also works closely with external auditors to co-ordinate their audit work plans.

Internal Audit participates actively in major systems development activities and project committees to advise on risk management and internal control measures. In addition, Internal Audit reviews the various application systems in production, data centres and network security.

Directors' Attendance

	Number of meetings attended in 2003					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	5	38	-	-	1	1
Wee Ee Cheong	6	37	-	-	-	-
Poon Hon Thang, Samuel	6	39	4	1	-	1
Ong Sea Eng, Terence	6	9	-	-	-	-
Lee Chin Yong, Francis	6	41	-	1	1	1
YABhg Tun Dato' Seri Dr Lim Chong Eu	5	-	4	-	-	-
YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin	4	-	2	-	-	-
Ng Kee Wei	5	-	1 *	1	-	-
Lim Kean Chye	6	-	-	-	1	1
Number of meetings held in 2003	6	44	4	1	1	1

* Mr Ng Kee Wei was appointed to the Audit Committee on 24 September 2003.

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Directors' report (continued)

Risk Management

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the Bank's corporate objectives are consistent with the appropriate risk return trade-off. The Bank's risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework and that return must commensurate with the risks taken.

The Board of Directors has the overall responsibility of determining the type and level of business risks that the Bank undertakes in achieving its corporate objectives. The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these Committees are subject to review by the EXCO of the Board. The Board has appointed the Risk Management Committee to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

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

The **Credit Committee** deals with all credit risk matters, including approval of credit applications, formulation of credit policies and the review of existing credit facilities.

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

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

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Directors' report (continued)

Risk Management (continued)

Credit Risk Management

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 Bank.

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

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.

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

The Bank classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with BNM GP3 except the Bank has lowered the default period to 3 months instead of 6 months. Interest income on all Non-Performing Loans is suspended. 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.

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Directors' report (continued)

Risk Management (continued)

Management of Performing Loans, Non-Performing Loans And Cumulative Provisions (continued)

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

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

Loan classification	Period of default	Provision
Substandard	3 months but < 9 months	20% of any unsecured loan outstanding less interest-in-suspense
Doubtful	9 months but < 12 months	50% of any unsecured loan outstanding less interest-in-suspense
Loss outstanding	12 months and above	100% of any unsecured loan less interest-in-suspense

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

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Directors' report (continued)

Risk Management (continued)

Bank Non-Performing Loans (NPLs) And Cumulative Provisions

The following table depicts the Bank's comparative NPLs and cumulative specific and general provisions as at 31 December 2002 and 31 December 2003:

	The Bank	
	December 2003	December 2002
	RM'000	RM'000
Total non-performing loans	1,787,192	1,634,942
General provision	251,888	251,888
Total specific provision	518,128	527,329
Cumulative provisions	770,016	779,217
Ratios (%)		
NPLs/Gross total loans	11.4%	11.6%
Net NPLs/Net total loans	6.6%	6.4%
Cumulative provision/NPLs	43.1%	47.7%

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. The Bank is required to obtain prior approval from BNM for performing loans that have been rescheduled more than once in two years.

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.

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Directors' report (continued)

Risk Management (continued)

Rescheduled And Restructured Accounts (continued)

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.

Balance Sheet Risk Management

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

The 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 monthly to ALCO. The decisions of ALCO and its monthly risk management reports are reviewed by the UOB Bank Group ALCO and the Bank's Risk Management Committee.

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

The table in note 35 to the financial statements represents the Bank's interest rate risk sensitivity based on repricing mismatches as at 31 December 2003. 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 2003, the Bank had an overall positive interest rate sensitivity gap of RM2,571 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.

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Directors' report (continued)

Risk Management (continued)

Balance Sheet Risk Management (continued)

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'.

Liquidity Risk Management

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

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 Bank's operations. Although, the Bank have self-sufficient funding capabilities, funding will also be provided by the UOB Bank Group's Head Office in Singapore to the Bank should the need arise.

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Directors' report (continued)

Risk Management (continued)

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 and equity prices.

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

Market risk is 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, reviewed by the Market Risk Management Department and approved by Group ALCO annually. Group ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Market Risk Management Department.

Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank'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 Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures. This framework of techniques and procedures encompasses the building of Operational Risk Profiles ('ORPs') and the conduct of Operational Risk Self Assessment ('ORSA') based on the ORPs which are being implemented in phases.

Primary responsibility for managing operational risks rests with the business/support units. 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 on an on-going basis. ORSA is a methodology that not only identifies risk but it also raises awareness and reinforces responsibility within the business and support units.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Directors' report (continued)

Risk Management (continued)

Operational Risk Management (continued)

Operational risk management is also concerned with how the business/support units of the organisation deliver effectively the corporate and business level strategies in terms of resources, processes and people. Operational Risk Management Department worked together with the business and support units to re-engineer and shorten the workflow processes without compromise on risks and controls. The processes are benchmarked, the roles and responsibilities are clearly defined and communicated.

Being the subsidiary of the UOB Group in Singapore, the Bank emulates its parent Bank's comprehensive risk framework. 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.

Overall business plan and strategies for the financial year ended 31 December 2003

During the year, the Bank continued its branch relocation plan. The sales office at Taman Molek in Johor Bahru has been upgraded to a fully operational branch in January 2003. In December 2003, the operation at Lebu Pantai branch has been merged with Lebu Bishop branch and the Jalan Kelawei branch in Penang will be opened in early January 2004. With the opening of these two branches, the Bank has successfully relocated seven of its existing branches to other more strategic locations since the corporate merger with Overseas Union Bank (Malaysia) Berhad in 2002, leaving one more branch to be opened in the near future. These strategic moves allow the Bank to provide its existing customers greater accessibility while position itself to acquire new customer base in those vibrant commercial centers.

Besides investing in its brick and mortar delivery channel, the Bank also further invested in its internet banking facilities. The corporate internet banking has been successfully launched for our corporate clients in March 2003 and more banking services have been added to our internet banking channel for our consumer customers which make banking transactions more convenient to both our corporate and individual customers.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Directors' report (continued)

Overall business plan and strategies for the financial year ended 31 December 2003 (continued)

During the year, comprehensive and flexible financial package products have been designed and introduced to meet corporate financing as well as personal needs. These products have been well received as evidenced by the significant increase in the Bank's loan base from year 2002. Our corporate loans and consumer housing loans have grown by 8% and 27%, respectively, whilst credit card receivables increased by 39%. For wealth management, the Bank has achieved RM630 million of unit trust sales for the year, representing a 183% growth over 2002 unit trust sales of RM223 million. The Bank also started to reap the benefit of its bancassurance strategy with RM184 million premium achieved in 2003.

The Bank continued to provide innovative and value-added investment banking services to its clients. During the year, the Bank has successfully completed several major fund raising exercises, notably RM235 million refinancing packages for Iris Corporation Group of companies. The Bank also successfully raised and co-arranged RM5.57 billion and RM1.22 billion financing packages for SKS Power Sdn Bhd and Panglima Powers Sdn Bhd, respectively.

Outlook for the Financial Year Ending 31 December 2004

Prospects for the global economy in 2004 is promising with a strong rebound in the US economy amidst signs of rising job creation and investments. This positive external environment if continues at its current trend, will reinforce a stronger domestic economy growth. The Bank is confident that the Malaysian economy will grow at a higher pace of 6.0% in 2004.

In tandem with Malaysia's economic upturn, the Bank is poised to expand its corporate and personal banking business given its widest branch network among foreign banks in the country. Leveraging on its strong financial footing, productive workforce and sound risk management culture, the Bank is well placed to compete effectively and gain market share in the coming year.

United Overseas Bank (Malaysia) Bhd

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Directors' report (continued)

Rating by external rating agencies

Rating Agency Malaysia ('RAM') had reaffirmed the Bank's long term rating at AA1 and its short term rating at P1.

An 'AA' rating is defined by RAM as being able to offer high safety for timely repayment of financial obligations. The subscript 1 in this category indicates the higher end in the 'AA' category. A P1 rating is defined by RAM as obligations which are supported by a superior capacity for timely repayment.

Auditors

In response to the requirement on rotation of auditors at ultimate holding company, Ernst & Young has been nominated to be the auditors for the ensuing year.

The appointment is subject to shareholders' approval at the Annual General Meeting on 14 April 2004.

Wee Cho Yaw

Director

Lee Chin Yong, Francis

Director

Kuala Lumpur

11 February 2004

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Balance sheets
as at 31 December 2003**

	Note	The Group		The Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Assets					
Cash and short term funds	2	5,184,022	3,261,908	5,184,022	3,261,908
Securities purchased under resale agreements		436,686	356,532	436,686	356,532
Deposits and placements with financial institutions	3	2,876	718,139	2,876	718,139
Dealing securities	4	3,452,631	1,213,755	3,452,631	1,213,755
Investment securities	5	336,735	211,767	336,735	211,767
Loans and advances	6	14,564,676	12,997,920	14,564,676	12,997,920
Other assets	7	392,846	240,309	393,258	240,511
Statutory deposits with Bank Negara Malaysia	8	388,000	350,000	388,000	350,000
Investment in subsidiaries	9	-	-	51	51
Investment in associates	10	132,580	123,229	122,733	122,686
Fixed assets	11	269,047	262,144	269,047	262,144
Deferred tax asset	12	62,310	59,897	62,310	59,897
Total assets		25,222,409	19,795,600	25,213,025	19,795,310
Liabilities and Shareholders' Equity					
Deposits from customers	13	13,519,686	11,982,882	13,519,934	11,983,163
Deposits and placements of banks and other financial institutions	14	4,257,349	2,238,926	4,257,349	2,238,926
Obligation on securities sold under repurchase agreements		2,111,890	952,021	2,111,890	952,021
Bills and acceptances payable		1,557,762	1,671,881	1,557,762	1,671,881
Amount due to Cagamas	15	1,491,785	901,794	1,491,785	901,794
Other liabilities	16	558,014	350,732	558,207	350,717
Taxation		57,430	74,074	57,430	74,066
Deferred tax liabilities	17	21,808	21,937	21,808	21,937
Total liabilities		23,575,724	18,194,247	23,576,165	18,194,505
Share capital	18	470,000	470,000	470,000	470,000
Reserves	19	1,176,685	1,131,353	1,166,860	1,130,805
Shareholders' Equity		1,646,685	1,601,353	1,636,860	1,600,805
Total Liabilities and Shareholders' Equity		25,222,409	19,795,600	25,213,025	19,795,310
Commitments and Contingencies	31	23,175,241	20,980,800	23,175,241	20,980,800

The accounting policies on pages 29 to 36 and the notes to the financial statements on pages 37 to 84 form an integral part of these financial statements.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Income statements
for the year ended 31 December 2003**

	Note	The Group		The Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Interest income	20	1,070,483	940,095	1,070,477	940,062
Interest expense	21	(542,000)	(464,168)	(542,000)	(464,168)
Net interest income		528,483	475,927	528,477	475,894
Loan loss and provision	22	(77,086)	(39,457)	(77,046)	(39,517)
		451,397	436,470	451,431	436,377
Non-interest income	23	265,510	240,741	265,510	240,741
Provision written-back for commitments and contingencies		69	195	69	195
Net income		716,976	677,406	717,010	677,313
Overhead expenses	24	(250,046)	(272,320)	(250,046)	(272,291)
		466,930	405,086	466,964	405,022
Amortisation of goodwill		(1,621)	(1,175)	-	-
Exceptional items	26	-	20,555	-	48,932
		465,309	424,466	466,964	453,954
Share of profit of associates		20,461	1,201	-	-
Profit before taxation		485,770	425,667	466,964	453,954
Taxation					
- Bank and subsidiaries	27	(121,304)	(133,315)	(121,304)	(133,307)
- associates		(6,864)	(358)	-	-
Profit after taxation		357,602	291,994	345,660	320,647
Basic earnings per share (sen)	28	76.1	63.0	73.5	68.0
Dividends per share (sen)	29	50.0	75.0	50.0	75.0

The accounting policies on pages 29 to 36 and the notes to the financial statements on pages 37 to 84 form an integral part of these financial statements.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Statement of changes in equity
for the financial year ended 31 December 2003**

	Note	Non-distributable				Distributable	Total	
		Share capital	Share premium	Statutory Reserves	Reserve on consolidation	Revaluation reserves		Retained profits
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
The Group								
2003								
Balance as at 1 January 2003		470,000	322,555	467,107	50,946	37,976	252,769	1,601,353
Net profit for the year		-	-	-	-	-	357,602	357,602
Transfer to statutory reserve		-	-	2,893	-	-	(2,893)	-
Reserve on consolidation arising on acquisition of Overseas Union Bank (Malaysia) Berhad		-	-	-	(2,672)	-	7	(2,665)
Realisation of revaluation surplus of land and buildings		-	-	-	-	(2,596)	2,498	(98)
Transfer to deferred tax	17	-	-	-	-	129	-	129
Amortisation of negative goodwill		-	-	-	-	-	-	-
Dividends paid:								
- final dividend for the year ended 31 December 2002	29	-	-	-	-	-	(174,276)	(174,276)
- interim dividend for the year ended 31 December 2003	29	-	-	-	-	-	(135,360)	(135,360)
Balance as at 31 December 2003		<u>470,000</u>	<u>322,555</u>	<u>470,000</u>	<u>48,274</u>	<u>35,509</u>	<u>300,347</u>	<u>1,646,685</u>

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Statement of changes in equity
for the financial year ended 31 December 2003 (continued)**

	Note	Non-distributable				Distribu-	Total	
		Share capital	Share premium	Statutory Reserves	Reserve on consolidation	Revaluation reserves		table
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
The Group								
2002								
Balance as at 1 January 2002		470,000	322,555	386,907	-	26,478	181,510	1,387,450
Balances vested over from Overseas Union Bank (Malaysia) Berhad		-	-	-	182	-	(235)	(53)
Net profit for the year		-	-	-	-	-	291,994	291,994
Transfer to statutory reserve		-	-	80,200	-	-	(80,200)	-
Reserve on consolidation arising on acquisition of Overseas Union Bank (Malaysia) Berhad		-	-	-	53,445	(15,052)	(10,016)	28,377
Revaluation surplus of land and buildings		-	-	-	-	31,540	-	31,540
Deferred tax on land and buildings	17	-	-	-	-	(4,990)	-	(4,990)
Amortisation of negative goodwill		-	-	-	(2,681)	-	-	(2,681)
Dividends paid:								
- final dividend for the year ended 31 December 2001	29	-	-	-	-	-	(50,760)	(50,760)
- interim dividend for the year ended 31 December 2002	29	-	-	-	-	-	(79,524)	(79,524)
Balance as at 31 December 2002		<u>470,000</u>	<u>322,555</u>	<u>467,107</u>	<u>50,946</u>	<u>37,976</u>	<u>252,769</u>	<u>1,601,353</u>

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Statement of changes in equity
for the financial year ended 31 December 2003 (continued)**

	Note	Non-distributable			Distributable	Total	
		Share capital	Share premium	Statutory reserves	Revaluation reserves		Retained profits
		RM'000	RM'000	RM'000	RM'000	RM'000	
The Bank							
2003							
Balance as at 1 January 2003		470,000	322,555	467,107	53,028	288,115	1,600,805
Net profit for the year		-	-	-	-	345,660	345,660
Transfer to statutory reserve		-	-	2,893	-	(2,893)	-
Realisation of revaluation surplus of land and buildings		-	-	-	(2,596)	2,498	(98)
Transfer to deferred tax	17	-	-	-	129	-	129
Dividends paid:							
- final dividend for the year ended 31 December 2002	29	-	-	-	-	(174,276)	(174,276)
- interim dividend for the year ended 31 December 2003	29	-	-	-	-	(135,360)	(135,360)
Balance as at 31 December 2003		<u>470,000</u>	<u>322,555</u>	<u>470,000</u>	<u>50,561</u>	<u>323,744</u>	<u>1,636,860</u>
2002							
Balance as at 1 January 2002		470,000	322,555	386,907	26,478	177,952	1,383,892
Net profit for the year		-	-	-	-	320,647	320,647
Transfer to statutory reserve		-	-	80,200	-	(80,200)	-
Revaluation surplus of land and buildings		-	-	-	31,540	-	31,540
Deferred tax on revaluation of land and Buildings	17	-	-	-	(4,990)	-	(4,990)
Dividends paid:							
- final dividend for the year ended 31 December 2001	29	-	-	-	-	(50,760)	(50,760)
- interim dividend for the year ended 31 December 2002	29	-	-	-	-	(79,524)	(79,524)
Balance as at 31 December 2002		<u>470,000</u>	<u>322,555</u>	<u>467,107</u>	<u>53,028</u>	<u>288,115</u>	<u>1,600,805</u>

The accounting policies on pages 29 to 36 and the notes to the financial statements on pages 37 to 84 form an integral part of these financial statements.

United Overseas Bank (Malaysia) Bhd

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Cash flow statements for the year ended 31 December 2003

Note	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Operating activities				
Net profit for the year	357,602	291,994	345,660	320,647
Adjustments for items not involving the movement of cash and cash equivalents:				
Share of profits of associates	(20,461)	(1,201)	-	-
Loss/(Gain) on disposal of fixed assets	1,380	(7,573)	1,380	(7,573)
Depreciation of fixed assets	23,652	17,934	23,652	17,934
Deficit on revaluation of fixed assets	98	3,686	98	3,686
Provision for bad and doubtful debts	77,056	51,298	77,046	51,354
Provision for interest-in-suspense	61,380	80,481	61,384	80,486
Provision for diminution in value	1,386	266	1,386	266
Provision for commitments and contingencies	(69)	(195)	(69)	(195)
Dividend income	(4,950)	(1,694)	(4,950)	(1,694)
Interest income from investment securities	(6,743)	(5,727)	(6,743)	(5,727)
Gain from sale of investment securities	(12,377)	(3,816)	(12,377)	(3,816)
Net gain from sale of dealing securities	(17,350)	(22,623)	(17,350)	(22,623)
Amortisation of premium less accretion of discount	4,125	(19,049)	4,125	(19,049)
Exceptional items	(946)	(20,555)	(946)	(48,932)
Amortisation of goodwill	1,621	1,175	-	-
Taxation	128,168	133,673	121,304	133,307
Operating profit before changes in operating assets and liabilities	593,572	498,074	593,600	498,071
(Increase)/decrease in operating assets:				
Loans and advances	(1,705,191)	(409,621)	(1,705,186)	(409,678)
Dealing securities	(2,221,526)	(629,797)	(2,221,526)	(629,797)
Securities purchased under resale agreements	(80,154)	(33,472)	(80,154)	(33,472)
Statutory deposits with Bank Negara Malaysia	(38,000)	(17,600)	(38,000)	(17,600)
Other assets	(144,344)	(5,710)	(154,042)	(762,050)
	(4,189,215)	(1,096,200)	(4,198,908)	(1,852,597)
Increase/(decrease) in operating liabilities:				
Deposits from customers	1,536,804	3,372	1,536,771	3,612
Deposits and placements of banks and other financial institutions	2,018,423	(88,005)	2,018,423	(88,005)
Obligation on securities sold under repurchase agreements	1,159,869	853,245	1,159,869	853,245
Bills and acceptances payable	(114,119)	161,233	(114,119)	161,233
Amount due to Cagamas	589,991	76,873	589,991	76,873
Other liabilities	(28,312)	76,951	(18,614)	68,935
	5,162,656	1,083,669	5,172,321	1,075,893
Cash from operations	1,567,013	485,543	1,567,013	(278,633)
Taxation paid	(116,629)	(86,445)	(116,629)	(86,445)
Net cash flow from operating activities	1,450,384	399,098	1,450,384	(365,078)

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Cash flow statements
for the year ended 31 December 2003 (continued)**

	Note	The Group		The Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Investing activities					
Proceeds from disposal of fixed assets		198,300	14,127	198,300	14,127
Purchase of fixed assets		(32,033)	(20,017)	(32,033)	(20,017)
Interest income from investment securities		12,988	5,727	12,988	5,727
Net redemption/(purchase) of investment securities		(118,102)	376,616	(118,102)	376,616
Dividend received		4,950	1,694	4,950	367,870
Capital reduction of subsidiaries		-	-	-	398,000
Net cash flow from acquisition of subsidiaries		-	82,903	-	82,903
Net cash flow from acquisition of associate		-	(119,681)	-	(119,681)
Net cash flow from investing activities		66,103	341,369	66,103	1,105,545
Financing activities					
Dividends paid		(309,636)	(130,284)	(309,636)	(130,284)
Net cash flow from financing activities		(309,636)	(130,284)	(309,636)	(130,284)
Net increase in cash and cash equivalents		1,206,851	610,183	1,206,851	610,183
Cash and cash equivalents as at 1 January		3,980,047	3,369,864	3,980,047	3,369,864
Cash and cash equivalents as at 31 December		5,186,898	3,980,047	5,186,898	3,980,047
Analysis of cash and cash equivalents					
Cash and short term funds	2	5,184,022	3,261,908	5,184,022	3,261,908
Deposits and placements with financial institutions	3	2,876	718,139	2,876	718,139
		5,186,898	3,980,047	5,186,898	3,980,047

The accounting policies on pages 29 to 36 and the notes to the financial statements on pages 37 to 84 form an integral part of these financial statements.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003

All significant accounting policies as set out below are consistent with those applied in the previous year.

A Basis of preparation of the financial statements

The financial statements of the Group and Bank are prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The financial statements of the Group and Bank have been prepared in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia directives, guidelines and circulars, and applicable approved accounting standards in Malaysia.

The new applicable approved accounting standard adopted in these financial statements is MASB Standard 29 "Employee Benefits". There are no significant effect on net profit for the period due to the adoption of the above standard. Hence, no prior year adjustments was made in these financial statements.

B Basis of consolidation

(a) Subsidiaries

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the cost of acquisition over the fair value of the Group's share of the subsidiaries' identifiable net assets at the date of acquisition is reflected as goodwill on consolidation.

Intra-group transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency of accounting policies with those of the Group.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

B Basis of consolidation (continued)

(b) Associates

Equity accounting involves recognising in the income statement the group's share of the results of the associates for the period. The Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associates.

(c) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries, associates over the fair value of the Group's share of their net identifiable net assets at the date of acquisition. Reserve on consolidation represents the excess of fair value of the Group's share of net identifiable net assets acquired over the cost of acquisition.

Goodwill and reserve on consolidation are amortised on a straight-line basis, through the consolidated income statement, over its useful economic life of up to a maximum of 20 years.

Where indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

C Recognition of interest income

Interest income is recognised in the income statement as it accrues except in the case of non-performing accounts.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months instead of six months as required by Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" for loans and overdrafts, trade bills, bankers' acceptances and trust receipts.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

D Recognition of fees and other income

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from dealing and investment securities are recognised when received and declared respectively.

E Provision for bad and doubtful debts

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

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

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

The Bank observes the minimum provision policy of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" except the Bank, has lowered the default period to 3 months instead of 6 months.

F Repurchase agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

G Dealing securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term and are stated lower of cost and market value. Cost is the cost of purchasing a security plus accrued interest adjusted for accretion of discount or amortisation of premium. Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

H Investment securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking And Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Cagamas bonds, other Government securities and Bank Guaranteed private debt securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other private debt securities are stated at the lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value. Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

I Investments in subsidiaries

Subsidiaries are those enterprise in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Investments in subsidiaries are stated at cost and written down when the Directors consider that there is a permanent diminution in the value of such investments. Such provision is made when there is a decline other than temporary in the value of the investments and is recognised as an expense in the period in which the decline occurred.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

J Investments in associates

Associates are enterprises in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Investment in associate is stated at cost less provision for diminution in value of investment of a permanent nature, if any.

K Fixed assets and depreciation

Fixed assets are initially stated at cost. Land and buildings are subsequently shown at fair value, based on external independent valuers every five years, less subsequent amortisation/depreciation/impairment. All other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus arising held in the revaluation for the same asset. In all other cases, a decrease in carrying amount is charged to income statement.

Freehold land and long term leasehold land (above 99 years) are not depreciated. Depreciation of other fixed assets is calculated to write off the cost or revalued amount of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are:

	%
Leasehold land	Amortised over the periods of leases
Buildings on freehold land	2
Buildings on leasehold land	2
Office equipment and furniture	10 - 20
Computer equipment and software	20
Motor vehicles	20

Where an indication of impairment exists, the carrying amount of the assets is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to retained profits.

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

L Leases

Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risk of ownership are classified as finance leases.

Property, plant and equipment acquired under finance leases is depreciated over shorter of the estimated useful life of the assets and the lease term.

Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on the straight line basis over the lease period.

M Off-balance sheet derivatives

Off-balance sheet derivatives are initially recognised in the balance sheets at amounts paid or received, as appropriate.

Those undertaken for trading purposes are subsequently re-measured to fair value and the resultant profits and losses are taken up in the income statements.

Those entered into for hedging purposes are subsequently accounted for in a manner consistent with the accounting treatment of the hedged items.

N Currency translations

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are converted into Ringgit Malaysia at rates of exchange which approximate to those ruling at the balance sheet date. Gains or losses on foreign exchange transactions are recognised as income or as expenses in the period in which they arise.

United Overseas Bank (Malaysia) Bhd

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Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

N Currency translations (continued)

The principal closing rates used in translation of foreign currency amounts are as follows:

	2003 RM	2002 RM
Foreign currencies:		
- 1 USD	3.80	3.80
- 1 SGD	2.23	2.19
- 100 JPY	3.55	3.21
- 1 EURO	4.77	3.98

O Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from the general provision of loans and advances, depreciation of fixed assets, and revaluations of certain fixed assets.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

P Employee benefits

Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

United Overseas Bank (Malaysia) Bhd

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Summary of significant group accounting policies for the year ended 31 December 2003 (continued)

P Employee benefits (continued)

Post-employment benefits - Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group contributes to a national defined contribution plan (the Employee Provident Fund) and the amounts contributed to the plan are charged to the income statement in the period of which they relate. Once the contributions have been paid, the Group has no further payment obligations.

Q Cash and cash equivalents

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

United Overseas Bank (Malaysia) Bhd

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Notes to the financial statements for the year ended 31 December 2003

1 General information

The Bank is principally engaged in all aspects of commercial banking and in the provision of related services. The principal activities of the subsidiaries and associates are set out in notes 9 and 10 to the financial statements respectively. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is Level 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The Directors regard Chung Khiaw Bank (Malaysia) Bhd, a company incorporated in Malaysia, as the immediate holding company.

The Directors regard United Overseas Bank Limited, a bank incorporated in Singapore, as the ultimate holding corporation.

2 Cash and short term funds

	2003 RM'000	2002 RM'000
The Group and Bank		
Cash and balances with banks and other financial institutions	111,638	141,353
Money at call and deposit placements maturing within one month	5,072,384	3,120,555
	<u>5,184,022</u>	<u>3,261,908</u>

3 Deposits and placements with financial institutions

	2003 RM'000	2002 RM'000
The Group and Bank		
Licensed banks	<u>2,876</u>	<u>718,139</u>

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Notes to the financial statements
for the year ended 31 December 2003 (continued)****4 Dealing securities**

	2003 RM'000	2002 RM'000
The Group and Bank		
Money market instruments:		
Malaysian government securities	175,526	-
Negotiable instruments of deposits	2,251,000	490,000
Cagamas bonds	332,736	-
Bankers' acceptances and Islamic accepted bills	485,570	460,391
Islamic private debt securities	143,045	205,537
Private debt securities	64,754	57,827
	<u>3,452,631</u>	<u>1,213,755</u>
Market value of money market instruments:		
Malaysian Government securities	175,940	-
Cagamas bonds	333,113	-
Private debt securities	64,754	57,827
	<u>64,754</u>	<u>57,827</u>

5 Investment securities

	2003 RM'000	2002 RM'000
The Group and Bank		
Money market instruments:		
Bank Negara Malaysia bills	-	49,519
Malaysian Government treasury bills	-	109,210
Malaysian Government securities	2,413	2,764
Negotiable instruments of deposits	95,000	-
Danamodal bonds	-	560
Cagamas notes and bonds	-	35,038
Other bonds	-	1,099
	<u>97,413</u>	<u>198,190</u>
Quoted securities:		
Shares of corporations in Malaysia	19,099	19,633
Corporate loan stocks	21,750	7,269
	<u>138,262</u>	<u>225,092</u>

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Notes to the financial statements
for the year ended 31 December 2003 (continued)****5 Investment securities (continued)**

	2003 RM'000	2002 RM'000
The Group and Bank		
Unquoted securities:		
Shares	17,572	18,472
Private debt securities	229,222	9,206
	<u>385,056</u>	<u>252,770</u>
Amortisation of premium less accretion of discounts	(991)	145
Provision for diminution in value of investment securities:		
- quoted securities	(34,441)	(26,024)
- unquoted securities	(12,889)	(15,124)
	<u>336,735</u>	<u>211,767</u>
 (i) Market value of quoted securities:		
Malaysian Government Securities	2,589	-
Shares of corporations in Malaysia	7,317	7,250
Corporate loan stocks	13,013	5,034
	<u>22,919</u>	<u>12,284</u>
* The carrying value is higher than the market value. The Directors are of the opinion that no permanent diminution in value exists.		
 (ii) The maturity structure of money market instruments held for investments are as follows:		
Maturing within one year	95,300	159,640
One year to three years	-	35,338
Three years to five years	113	113
Over five years	2,000	3,099
	<u>97,413</u>	<u>198,190</u>

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****6 Loans and advances**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Overdrafts	3,374,768	3,542,584	3,374,768	3,542,584
Term loans and revolving credits	5,461,038	5,143,617	5,461,038	5,143,617
Housing loans	3,532,349	2,784,660	3,532,349	2,784,660
Credit cards receivable	341,973	245,500	341,973	245,500
Bills receivable	103,700	87,261	103,700	87,260
Trust receipts	443,168	383,697	443,168	383,698
Claims on customers under acceptance credits	2,251,354	1,731,324	2,251,354	1,731,324
Hire purchase	16,139	23,130	16,139	23,130
Lease receivables	657	853	25	39
Staff loans				
- Executive director	606	1,177	606	1,177
- Others	95,231	90,890	95,231	90,890
Others	7,598	4,604	7,598	4,604
	15,628,581	14,039,297	15,627,949	14,038,483
Less : Unearned interest	(321)	(581)	(321)	(581)
Gross loans and advances	15,628,260	14,038,716	15,627,628	14,037,902
Provision for bad and doubtful debts				
- Specific	(518,670)	(528,049)	(518,128)	(527,329)
- General	(251,950)	(251,921)	(251,888)	(251,888)
Interest-in-suspense	(292,964)	(260,826)	(292,936)	(260,765)
Net loans and advances	14,564,676	12,997,920	14,564,676	12,997,920

(i) The maturity structure of loans and advances are as follows:

Maturing within one year	9,417,023	8,587,442	9,416,391	8,586,628
One year to three years	617,099	496,943	617,099	496,943
Three years to five years	801,478	877,253	801,478	877,253
Over five years	4,792,660	4,077,078	4,792,660	4,077,078
	15,628,260	14,038,716	15,627,628	14,037,902

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Notes to the financial statements
for the year ended 31 December 2003 (continued)****6 Loans and advances (continued)**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(ii) Loans and advances analysed according to economic sectors are as follows:				
Agriculture	112,406	107,160	112,406	107,160
Mining and quarrying	40,651	30,961	40,651	30,961
Manufacturing	3,183,139	2,927,389	3,182,532	2,926,584
Electricity, gas and water	121,130	13,228	121,130	13,228
Construction	856,869	749,066	856,869	749,066
Real estate	573,722	601,746	573,722	601,746
Purchase of landed property:				
- Residential	3,730,522	2,994,095	3,730,522	2,994,095
- Non-residential	576,966	614,867	576,966	614,867
General commerce	2,385,092	2,272,846	2,385,092	2,272,846
Transport, storage and communication	126,626	121,662	126,626	121,653
Finance, insurance and business services	548,637	604,196	548,637	604,196
Purchase of securities	617,870	904,303	617,870	904,303
Purchase of transport vehicles	12,558	14,968	12,558	14,968
Consumption credit	1,304,205	1,127,730	1,304,205	1,127,730
Others	1,437,867	954,499	1,437,842	954,499
	<u>15,628,260</u>	<u>14,038,716</u>	<u>15,627,628</u>	<u>14,037,902</u>
(iii) Movements in non-performing loans (including interest receivable) are as follows:				
Balance as at beginning of the year	1,635,755	623,640	1,634,942	623,640
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	1,030,964	-	1,030,096
Non-performing during the year	726,113	643,944	726,075	643,895
Recoveries	(290,403)	(306,093)	(290,402)	(305,989)
Reclassified to performing	(191,743)	(283,917)	(191,743)	(283,917)
Amount written off	(91,898)	(72,783)	(91,680)	(72,783)
Balance as at end of the year	<u>1,787,824</u>	<u>1,635,755</u>	<u>1,787,192</u>	<u>1,634,942</u>
Net non-performing loans	<u>976,190</u>	<u>846,880</u>	<u>976,128</u>	<u>846,848</u>
Ratio of net non-performing loans to total loans net of specific provision and interest-in-suspense	<u>6.59%</u>	<u>6.39%</u>	<u>6.59%</u>	<u>6.39%</u>

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****6 Loans and advances (continued)**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(iv) Movements in the provision for bad and doubtful debts and interest-in-suspense accounts are as follows:				
General provision				
Balance as at 1 January	251,921	150,738	251,888	150,738
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	101,255	-	101,150
Provision made during the year	29	-	-	-
Amount written back in respect of recoveries	-	(72)	-	-
Balance as at 31 December	251,950	251,921	251,888	251,888
% of total loans (excluding loan to Government) less specific provision and interest-in-suspense	1.86%	2.02%	1.86%	2.02%
Specific provision				
Balance as at 1 January	528,049	160,828	527,329	160,828
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	377,105	-	376,401
Provision made during the year	157,612	101,581	157,594	101,563
Transfer to provision for diminution in value of investment securities	(13,584)	(15,553)	(13,584)	(15,553)
Amount written back in respect of recoveries	(72,905)	(50,314)	(72,905)	(50,312)
Amount written off	(80,502)	(45,598)	(80,306)	(45,598)
Balance as at 31 December	518,670	528,049	518,128	527,329
Interest-in-suspense				
Balance as at 1 January	260,826	100,666	260,765	100,666
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	111,216	-	111,150
Interest suspended during the year	158,569	150,207	158,569	150,207
Transfer to provision for diminution in value of investment securities	(4,013)	(4,443)	(4,013)	(4,443)
Amount written back in respect of recoveries	(97,189)	(69,726)	(97,185)	(69,721)
Amount written off	(25,229)	(27,094)	(25,200)	(27,094)
Balance as at 31 December	292,964	260,826	292,936	260,765

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****7 Other assets**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Other debtors, deposits and prepayments	216,973	156,075	216,882	155,983
Accrued interest receivable	35,226	15,495	35,226	15,495
Amount due to subsidiaries	-	-	503	294
Precious metal accounts	136,841	62,659	136,841	62,659
Foreclosed properties	3,806	6,080	3,806	6,080
	392,846	240,309	393,258	240,511

8 Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Ordinance 1958, the amounts of which are determined as set percentage of total eligible liabilities.

9 Investment in subsidiaries

	2003 RM'000	2002 RM'000
The Bank		
Unquoted shares at cost in Malaysia	51	51

United Overseas Bank (Malaysia) Bhd

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Notes to the financial statements for the year ended 31 December 2003 (continued)

9 Investment in subsidiaries (continued)

The subsidiaries of the Bank, all of which are incorporated in Malaysia and held directly by the Bank, are as follows:

	Paid-up capital	Group's effective interest		Principal activities	Country of incorporation
		2003 %	2002 %		
	RM				
UOB InfoTech Sdn Bhd	10,000	100	100	Dormant	Malaysia
United Overseas Finance (Malaysia) Bhd	2	100	100	Dormant	Malaysia
UOBM Nominees (Tempatan) Sdn Bhd	10,000	100	100	Nominee services	Malaysia
UOBM Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services	Malaysia
United Overseas Nominees (Tempatan) Sdn Bhd	20	100	100	Nominee services	Malaysia
United Overseas Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services	Malaysia
Overseas Union Bank (Malaysia) Berhad	7	100	100	Dormant	Malaysia
OUB Credit Bhd	2	100	100	Leasing company	Malaysia
OUB Nominees (Tempatan) Sdn Bhd	10,000	100	100	Dormant	Malaysia
OUB Nominees (Asing) Sdn Bhd	10,000	100	100	Dormant	Malaysia

All trading transactions of United Overseas Nominees (Tempatan) Sdn Bhd, United Overseas Nominees (Asing) Sdn Bhd, UOBM Nominees (Asing) Sdn Bhd and UOBM Nominees (Tempatan) Sdn Bhd are entered into as agent for the Bank and the records accordingly are incorporated into the books and financial statements of the Bank.

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****10 Investments in associates**

	2003	2002
	RM'000	RM'000
The Bank		
Unquoted shares, at cost	<u>122,733</u>	<u>122,686</u>
The Group		
Share of net assets	102,165	88,521
Goodwill on acquisition	<u>30,415</u>	<u>34,708</u>
	<u>132,580</u>	<u>123,229</u>

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

	Group's effective interest		Principal activities	Country of incorporation
	2003	2002		
	%	%		
OSK-UOB Unit Trust Management Berhad	30	30	Management of unit trust funds	Malaysia
Uni.Asia Capital Sdn Bhd (previously known as Tower Ed Sdn Bhd)	49	49	Investment holding of general and life insurance businesses	Malaysia

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****11 Fixed assets**

	Freehold land RM'000	Long leasehold land RM'000	Short leasehold land RM'000	Freehold building RM'000	Long leasehold building RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
The Group and Bank										
Net book value										
Balance as at 1 January 2003	47,905	28,849	600	43,636	78,223	29,600	32,699	632	-	262,144
Revaluation split	-	2,665	-	-	(2,665)	-	-	-	-	-
Additions	-	-	-	1,852	-	13,468	18,512	257	4,285	38,374
Disposals	(4,530)	-	-	(1,015)	(1,286)	(699)	(190)	(1)	-	(7,721)
Depreciation charge	-	(296)	(13)	(2,954)	(1,860)	(5,360)	(12,969)	(200)	-	(23,652)
(Deficit)/ Revaluation surplus	(100)	-	-	2	-	-	-	-	-	(98)
Balance as at 31 December 2003	43,275	31,218	587	41,521	72,412	37,009	38,052	688	4,285	269,047
2003										
Cost	33,714	9,092	550	16,702	54,684	102,988	118,883	4,445	4,285	345,342
Valuation	12,849	25,306	90	34,767	36,290	-	-	-	-	109,301
Accumulated depreciation	-	(3,116)	(53)	(7,834)	(18,397)	(65,979)	(80,831)	(3,757)	-	(179,966)
Accumulated impairment loss	(3,288)	(64)	-	(2,114)	(165)	-	-	-	-	(5,631)
Net book value	43,275	31,218	587	41,521	72,412	37,009	38,052	688	4,285	269,047
2002										
Cost	-	-	-	-	-	95,017	110,562	4,879	-	210,458
Valuation	47,905	34,334	639	49,011	92,574	-	-	-	-	224,463
Accumulated depreciation	-	(5,485)	(39)	(5,375)	(14,351)	(65,417)	(77,863)	(4,247)	-	(172,777)
Net book value	47,905	28,849	600	43,636	78,223	29,600	32,699	632	-	262,144

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****11 Fixed assets (continued)**

Land and building were last revalued on 31 December 2002 by the following independent qualified valuers using the comparative and investment method to reflect the fair value:

- (a) Henry Butcher, Lim & Long Sdn Bhd
- (b) Knight Frank, Ooi & Zaharin Sdn Bhd
- (c) CH Williams Talhar & Wong Sdn Bhd

The book values of land and buildings were adjusted to reflect the revaluations and the resultant surpluses were credited to revaluation reserve.

The net book values of land and buildings, had these assets been carried out at cost less accumulated depreciation:

	2003 RM'000	2002 RM'000
The Group and Bank		
Freehold land	33,714	36,416
Long leasehold land	7,442	7,416
Short leasehold land	499	511
Freehold building	11,431	10,786
Long leasehold building	39,560	41,651
	<u>92,646</u>	<u>96,780</u>

12 Deferred tax assets

The deferred tax assets at the year end has been determined after offsetting deferred tax assets and liabilities set out below as there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes that relate to the same tax authority:

	2003 RM'000	2002 RM'000
The Group and Bank		
General provision for doubtful debts	70,529	70,529
Accelerated tax depreciation	(8,503)	(11,432)
Other temporary differences	284	800
	<u>62,310</u>	<u>59,897</u>

United Overseas Bank (Malaysia) Bhd

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Notes to the financial statements for the year ended 31 December 2003 (continued)

12 Deferred tax assets (continued)

The movements in deferred tax assets and liabilities during the year comprise the following:

	General Provision For Doubtful Debts RM'000	Accelerate d tax depre- ciation RM'000	Other temporary differences RM'000	Total RM'000
The Group and Bank				
Balance as at 1 January 2003	70,529	(11,432)	800	59,897
(Charged)/credited to income statement	-	2,929	(516)	2,413
Balance as at 31 December 2003	<u>70,529</u>	<u>(8,503)</u>	<u>284</u>	<u>62,310</u>
Balance as at 1 January 2002	42,207	(8,544)	416	34,079
Balance vested over from Overseas Union Bank (Malaysia) Berhad	28,322	(54)	109	28,377
(Charged)/credited to income statement	-	(2,834)	275	(2,559)
Balance as at 31 December 2002	<u>70,529</u>	<u>(11,432)</u>	<u>800</u>	<u>59,897</u>

13 Deposits from customers

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Demand deposits	1,866,738	1,407,718	1,866,986	1,407,999
Savings deposits	1,085,911	934,988	1,085,911	934,988
Fixed deposits	10,133,485	9,319,111	10,133,485	9,319,111
Negotiable instruments of deposits	424,070	310,255	424,070	310,255
Others	9,482	10,810	9,482	10,810
	<u>13,519,686</u>	<u>11,982,882</u>	<u>13,519,934</u>	<u>11,983,163</u>

(i) Maturity structure of fixed deposits and negotiable instruments of deposits are as follows:

Due within six months	7,971,048	7,323,424	7,971,048	7,323,424
Six months to one year	2,339,669	2,082,579	2,339,669	2,082,579
One year to three years	166,649	113,769	166,649	113,769
Three years to five years	80,189	109,594	80,189	109,594
	<u>10,557,555</u>	<u>9,629,366</u>	<u>10,557,555</u>	<u>9,629,366</u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****13 Deposits from customers (continued)**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(ii) The deposits are sourced from the following customers:				
Business enterprises	4,095,244	3,969,647	4,095,492	3,969,928
Individuals	8,740,691	7,711,966	8,740,691	7,711,966
Others	683,751	301,269	683,751	301,269
	<u>13,519,686</u>	<u>11,982,882</u>	<u>13,519,934</u>	<u>11,983,163</u>

14 Deposits and placements of banks and other financial institutions

	2003 RM'000	2002 RM'000
The Group and Bank		
Licensed banks	4,142,742	2,217,248
Other financial institutions	114,607	21,678
	<u>4,257,349</u>	<u>2,238,926</u>

15 Amount due to Cagamas

	2003 RM'000	2002 RM'000
The Group and Bank		
Balance as at 1 January	901,794	716,760
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	108,161
Amount sold during the year	874,298	165,123
Repayments	(284,306)	(88,250)
Balance as at 31 December	<u>1,491,786</u>	<u>901,794</u>

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****16 Other liabilities**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Provision for commitments and contingencies	1,413	1,482	1,413	1,482
Accrued interest payable	118,243	96,026	118,243	96,026
Accruals and provisions for operational expenses	41,903	38,516	41,903	38,516
Amount due to subsidiaries	(203)	-	-	-
Other accruals and provisions	396,658	214,708	396,648	214,693
	558,014	350,732	558,207	350,717
(i) Movements in provision for commitments and contingencies are as follows:				
Balance as at 1 January	1,482	13	1,482	13
Balances vested over from Overseas Union Bank (Malaysia) Berhad	-	1,664	-	1,664
Provision made during the year	62	170	62	170
Amount written back in respect of recoveries	(131)	(365)	(131)	(365)
Balance as at 31 December	1,413	1,482	1,413	1,482

17 Deferred tax liabilities

	2003 RM'000	2002 RM'000
The Group and Bank		
Revaluation of land	1,912	2,008
Revaluation of buildings	19,896	19,929
	21,808	21,937

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Notes to the financial statements for the year ended 31 December 2003 (continued)

17 Deferred tax liabilities (continued)

The movements in deferred tax liabilities during the year comprise the following:

	Revalua- tion of land RM'000	Revalua- tion of buildings RM'000	Total RM'000
The Group and Bank			
Balance as at 1 January 2003	2,008	19,929	21,937
Credited to income statement	-	-	-
Realised from revaluation reserves	(96)	(33)	(129)
Balance as at 31 December 2003	<u>1,912</u>	<u>19,896</u>	<u>21,808</u>
Balance as at 1 January 2002	1,303	15,740	17,043
Credited to income statement	(96)	-	(96)
Charged to revaluation reserves	801	4,189	4,990
	<u>2,008</u>	<u>19,929</u>	<u>21,937</u>

18 Share capital

	2003 RM'000	2002 RM'000
The Group and Bank		
Authorised		
2,000,000,000 ordinary shares of RM1 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid-up		
470,000,000 ordinary shares of RM1 each	<u>470,000</u>	<u>470,000</u>

19 Reserves

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and is not distributable as cash dividends.

Subject to the agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to frank the payment of net dividends out of its entire retained earnings as at 31 December 2003.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****20 Interest income**

	The Group		The Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Loans and advances	883,534	841,425	883,532	841,397
Money at call and deposit placements with financial institutions	145,948	107,162	145,948	107,162
Dealing securities	78,505	40,863	78,505	40,863
Investment securities	6,743	5,727	6,743	5,727
Others	21,258	6,350	21,258	6,350
	1,135,988	1,001,527	1,135,986	1,001,499
Amortisation of premium less accretion of discount	(4,125)	19,049	(4,125)	19,049
Net interest suspended	(61,380)	(80,481)	(61,384)	(80,486)
	1,070,483	940,095	1,070,477	940,062

21 Interest expense

	2003	2002
	RM'000	RM'000
The Group and Bank		
Deposits and placements of banks and other financial institutions	43,797	47,919
Deposits from other customers	367,001	347,037
Others	131,202	69,212
	542,000	464,168

22 Loan loss and provision

	The Group		The Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Provision for non-performing debts				
- specific provision (net)	84,511	51,267	84,690	51,251
- general provision	29	(72)	-	-
Bad debts				
- written off	3,237	103	3,047	103
- recovered	(10,691)	(11,841)	(10,691)	(11,837)
	77,086	39,457	77,046	39,517

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****23 Non-interest income**

	2003 RM'000	2002 RM'000
The Group and Bank		
Fee income		
- Commission	52,645	39,676
- Guarantee fees	15,212	13,092
- Service charges and fees	83,485	78,728
- Commitment fee	18,766	16,030
- Arrangement and participation fees	27,505	21,987
	<u>197,613</u>	<u>169,513</u>
Investment income		
- Net profit from dealing securities	17,350	22,623
- Gain from sale of investment securities	12,376	3,816
- Provision (made)/written back for diminution in value of investment securities	(1,386)	8,783
- Provision made for diminution in value of dealing securities	-	(266)
- Gross dividends from:		
- investment securities in Malaysia	4,050	794
- associate	900	900
	<u>33,290</u>	<u>36,650</u>
Other income		
- Foreign exchange gain/(loss)		
- realised	26,643	21,611
- unrealised	(1,058)	475
- Rental income	597	854
- Gain on disposal of fixed assets	(1,380)	7,573
- Other operating income	443	398
- Other non-operating income	9,362	3,667
	<u>34,607</u>	<u>34,578</u>
	<u>265,510</u>	<u>240,741</u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****24 Overhead expenses**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Personnel costs	120,779	153,833	120,779	153,833
Establishment costs	59,027	48,897	59,027	48,895
Marketing expenses	20,972	14,767	20,972	14,767
Administration and general expenses	49,268	54,823	49,268	54,796
	250,046	272,320	250,046	272,291

The above expenditure includes the following statutory disclosures:

Directors' remuneration (Note 25)	1,524	1,584	1,524	1,584
Rental of premises	3,144	3,548	3,144	3,548
Hire of equipment	433	596	433	596
Auditors' remuneration	346	285	346	261
Depreciation of fixed assets	23,652	17,934	23,652	17,934
Deficit on revaluation of fixed assets	24	3,686	24	3,686
	1,949	1,912	1,949	1,912

Breakdown of personnel costs are as follows:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Wages, salaries and bonus	95,170	86,831	95,170	86,831
Defined contribution retirement plan	15,738	13,901	15,738	13,901
Other employee benefits	9,871	53,101	9,871	53,101
	120,779	153,833	120,779	153,833

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****25 Directors' and CEO's remuneration**

Form of remuneration in aggregate for all Directors charged to the income statement for the year are as follows:

	2003 RM'000	2002 RM'000
The Group and Bank		
Executive Director		
- Salary and other remuneration	392	596
- Bonus	820	702
- Benefits-in-kind	2	6
Non-Executive Directors		
- Fees	310	280
	<u>1,524</u>	<u>1,584</u>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the year amounted to RM1,542,821 (2002: RM1,297,532).

26 Exceptional items

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Gain on investment of OUB Credit Bhd	-	9,519	-	9,519
Gain on investment of Overseas Union Bank (Malaysia) Berhad	-	11,036	-	39,413
	<u>-</u>	<u>20,555</u>	<u>-</u>	<u>48,932</u>

In 2002, the exceptional items arose because the pre acquisition dividends and capital reductions paid by the Bank's subsidiaries was in excess of the Bank's cost of investments.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****27 Taxation**

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Malaysian income tax in respect of current financial year	137,464	114,408	130,600	114,400
Deferred tax	(2,413)	2,463	(2,413)	2,463
	135,051	116,871	128,187	116,863
Malaysian income tax in respect of prior financial years	(6,883)	16,444	(6,883)	16,444
	128,168	133,315	121,304	133,307
The tax on the Group and Bank's profit before tax differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:				
Profit before tax	485,770	425,667	466,964	453,954
Tax calculated at a rate of 28% (2003: 28%)	136,016	119,187	130,750	127,107
Income not subject to tax	-	(2,882)	-	(2,882)
Expenses not deductible for tax purposes	(965)	566	(2,563)	(7,362)
Malaysian income tax in respect of prior financial years	(6,883)	16,444	(6,883)	16,444
Tax charge	128,168	133,315	121,304	133,307

28 Earnings per share

The earnings per ordinary share of the Group and Bank have been calculated based on the net profit after taxation and minority interests but before transfer to statutory reserve of RM357,602,000 (2002: RM291,994,000) and RM345,660,000 (2002: RM320,647,000) respectively and on the number of ordinary shares of RM1.00 each in issue during the year of 470,000,000 (2002: 470,000,000) shares.

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Notes to the financial statements for the year ended 31 December 2003 (continued)

29 Dividends

	2003		2002	
	Gross Dividend per share sen	Amount of dividend, net of tax RM'000	Gross dividend per share sen	Amount of dividend, net of tax RM'000
The Group and Bank				
Interim dividend paid	40.0	135,360	23.5	79,524
Proposed final dividend	10.0	33,840	51.5	174,276
	<u>50.0</u>	<u>169,200</u>	<u>75.0</u>	<u>253,800</u>

At the forthcoming Annual General Meeting, a final gross dividend in respect of the financial year ended 31 December 2003 of 10 sen per share (2002: 51.5 sen per share) amounting to RM33,840,000 (2002: RM174,276,000) will be proposed for shareholders' approval.

30 Significant related party transactions and balances

Related parties and relationships

The related parties of and their relationship (other than those disclosed in Note 9 and Note 10 to the financial statements) with the Bank are as follows:

<u>Related parties</u>	<u>Relationship</u>
United Overseas Bank Limited	Ultimate holding company
Chung Khiaw Bank (Malaysia) Bhd	Holding company
UOB London Ltd	Other related parties
UOB New York Ltd	Other related parties
UOB Tokyo Ltd	Other related parties
UOB Canada Ltd	Other related parties
UOB Labuan	Other related parties
Chung Khiaw Realty Limited	Other related parties

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****30 Significant related party transactions and balances (continued)**Significant related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These significant related party transactions were carried out on commercial terms and at market rates. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below is other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Other related companies RM'000
2003				
Income				
- Interest on deposits	785	-	-	-
- Rental income	-	-	-	23
- Dividend income	-	-	900	-
	<u>785</u>	<u>-</u>	<u>900</u>	<u>23</u>
Expenditure				
- Interest on deposits	32,197	-	2,421	98
- Rental expense	-	-	-	135
- Other expense – consultancy fee	-	-	-	1,740
	<u>32,197</u>	<u>-</u>	<u>2,421</u>	<u>1,973</u>
Amount due from				
- Cash and short-term funds	14,384	-	-	7,737
- Deposits and placements with financial institution	2,877	-	-	-
- Other assets	-	300	-	-
	<u>17,261</u>	<u>300</u>	<u>-</u>	<u>7,737</u>
Amount due to				
- Deposits from customers	-	258	30,943	576
- Deposits and placements	3,681,998	-	54,379	15,644
	<u>3,681,998</u>	<u>258</u>	<u>85,322</u>	<u>16,220</u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****30 Significant related party transactions and balances (continued)**

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Other related companies RM'000
2002				
Income				
- Interest on deposits	2,164	-	-	1
- Rental income	-	-	-	20
- Dividend income	-	-	900	-
	<u>2,164</u>	<u>-</u>	<u>900</u>	<u>21</u>
Expenditure				
- Interest on deposits	29,300	-	71	3,772
- Rental expense	-	-	-	243
- Other expense – consultancy fee	-	-	-	5,454
	<u>29,300</u>	<u>-</u>	<u>71</u>	<u>9,469</u>
Amount due from				
- Cash and short-term funds	140,269	-	-	14,326
- Deposits and placements with financial institution	3,226	-	-	-
- Other assets	-	294	-	-
	<u>143,495</u>	<u>294</u>	<u>-</u>	<u>14,326</u>
Amount due to				
- Deposits from customers	-	286	-	667
- Deposits and placements	1,642,328	-	18,851	17,564
	<u>1,642,328</u>	<u>286</u>	<u>18,851</u>	<u>18,231</u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****31 Commitments and contingencies**

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

	2003		2002	
	Principal Amount RM'000	Credit Equivalent amount* RM'000	Principal amount RM'000	Credit Equivalent amount* RM'000
The Group and Bank				
Direct credit substitutes	693,208	693,208	659,059	659,059
Transaction-related contingent items	954,445	477,223	789,539	394,770
Short-term self-liquidating trade-related contingencies	353,821	70,764	369,874	73,975
Irrevocable commitments to extend credit				
- maturity more than one year	1,006,399	503,200	1,063,003	531,502
- maturity less than one year	10,172,853	-	9,614,921	-
Foreign exchange related contracts				
- less than one year	2,575,290	38,457	2,770,506	36,132
- more than one year	316,611	207,162	50,000	16
Interest rate related contracts				
- less than one year	230,000	768	1,563,900	3,168
- more than one year	6,627,500	103,905	3,912,000	42,616
Miscellaneous	245,114	-	187,998	-
Total	<u>23,175,241</u>	<u>2,094,687</u>	<u>20,980,800</u>	<u>1,741,238</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

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Notes to the financial statements for the year ended 31 December 2003 (continued)

31 Commitments and contingencies (continued)

Foreign exchange and interest rate related contracts for the Group and Bank are subject to market risk and credit risk.

Breakdown of foreign exchange contracts and interest rate contracts are as follows:

	2003 Principal amount RM'000	2002 Principal amount RM'000
The Group and Bank		
Foreign exchange contract		
- forward and futures contracts	627,101	633,506
- cross currency interest rate swaps	2,264,800	2,137,000
Interest rate contracts		
- forward and futures contracts	3,425,535	3,274,900
- swaps	<u>3,431,965</u>	<u>2,201,000</u>

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at end of 31 December 2003 the amounts of contracts which were not hedged and hence, exposed to market risk was RM4,943,674 (2002: RM2,478,971).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the term of a contract in which the Bank has a gain position. As at end of 31 December 2003, the amounts of credit risk, measured in term of the cost to replace the profitable contracts, was RM2,263,350 (2002: RM4,303,555). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****32 Capital commitments**

	2003	2002
	Principal amount RM'000	Principal amount RM'000
The Group and Bank		
Capital expenditure:		
- authorised and contracted for	7,059	9,323
- authorised but not contracted for	13,475	10,854
Balance as at end of the year	20,534	20,177
Analysed as follows:		
- fixed assets	20,534	20,177

33 Lease commitments

The Group and the Bank has lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:

	2003	2002
	RM'000	RM'000
The Group and The Bank		
<u>Year</u>		
Within 1 year	2,421	3,272
Later than 1 year and not later than 5 years	2,897	4,772
Later than 5 years	670	526
	5,988	8,570

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****34 Capital adequacy**

	2003 RM'000	2002 RM'000
The Bank		
Tier I capital		
- paid-up share capital	470,000	470,000
- share premium	322,555	322,555
- other reserves	793,744	755,222
- deferred tax adjustment	(40,502)	-
	<u>1,545,797</u>	<u>1,547,777</u>
Tier II capital		
- property revaluation reserve	25,281	26,514
- general provision for bad and doubtful debts	251,888	251,888
	<u>277,169</u>	<u>278,402</u>
Total capital	1,822,966	1,826,179
Less: Investment in subsidiaries	(51)	(51)
Capital base	<u>1,822,915</u>	<u>1,826,128</u>
(a) The capital adequacy ratios of the Bank are as follows:		
Core capital ratio	11.13%	12.33%
Risk-weighted capital ratio	<u>13.13%</u>	<u>14.55%</u>
(b) Breakdown of gross risk-weighted assets in the various categories of risk-weights are as follows:		
0%	7,930,524	5,376,845
10%	427,874	99,511
20%	3,954,014	2,475,548
50%	3,650,577	3,238,449
100%	<u>11,225,635</u>	<u>10,427,549</u>
	<u>27,188,624</u>	<u>21,617,902</u>
Total risk-weighted assets	<u>13,884,514</u>	<u>12,551,834</u>

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Notes to the financial statements for the year ended 31 December 2003 (continued)

35 Financial risk management

The Bank's activities are principally related to transacting in and use of financial instruments, including derivatives. Transaction in, and the use of, financial instruments expose the Bank to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Managing financial risks is an integral part of the Bank's business and it is carried out centrally by the various specialist committees of the Bank under policies approved by the Directors of the Bank. These policies not only include the parameters for the risks that the Bank may undertake for the various financial instruments, but also directions on the types of business that the Bank 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 Bank have established processes to identify, measure, monitor and ultimately, mitigate these financial risks. Additionally, the Directors of the Bank and the Bank's Risk Management Division provide an independent oversight to ensure that those risk management policies are complied with through a variety of established controls and reporting processes.

Discussions on the main financial risks that the Bank is exposed to and how it manages these risks are set out below:

(a) Foreign exchange risk

Foreign exchange risk is the risk to earnings and values of financial instruments caused by fluctuations in foreign exchange rates.

The Bank's foreign exchange exposures arise mainly from its financial exchange position-taking or proprietary business, and customer facilitation business. The Bank 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 Group ALCO. 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 the Risk Management Division, through the Market Risk Management Department and the Settlement Department.

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Notes to the financial statements for the year ended 31 December 2003 (continued)

35 Financial risk management (continued)

(b) Credit risk

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

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

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

In respect of lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrower, 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 derivatives financial instruments, the Bank has counter-party risk policies that set out approved counter-parties with which the Bank may transact and their respective transaction limit.

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, and entering into netting arrangements with counter-parties that permit the Bank to offset receivables and payables with such counter-parties.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(b) Credit risk (continued)**

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

	Short term funds and placements with financial institutions RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Specific provision, interest-in- suspense and general provision RM'000	Other assets RM'000	On balance sheet total RM'000	Commit- ment and contin- gencies RM'000
2003								
The Group								
Agriculture and mining	-	-	-	153,057	(25,485)	-	127,572	97,009
Manufacturing	-	-	-	3,183,139	(317,939)	-	2,865,200	3,310,409
Electricity, gas and water	-	92,159	-	121,130	(2,059)	-	211,230	45,309
Construction	-	-	-	856,869	(141,635)	-	715,234	1,761,893
Real estate	-	-	-	573,722	(9,754)	-	563,968	224,426
General commerce	-	63,091	-	2,385,092	(151,106)	-	2,297,077	1,961,190
Transport, infrastructure, storage and communication	-	10,057	-	126,626	(11,524)	9,248	134,407	159,582
Finance, insurance, business services and government agencies	5,623,585	3,244,833	336,735	548,637	(169,614)	430,627	10,014,803	11,750,901
Residential landed property, securities and transport vehicles	-	42,491	-	4,937,916	(110,052)	-	4,870,355	1,834,152
Others	-	-	-	2,742,072	(124,416)	460,360	3,078,016	2,024,370
	<u>5,623,585</u>	<u>3,452,631</u>	<u>336,735</u>	<u>15,628,260</u>	<u>(1,063,584)</u>	<u>900,235</u>	<u>24,877,862</u>	<u>23,175,241</u>
Other assets not subject to credit risk	-	-	-	-	-	344,547	344,547	-
	<u>5,623,585</u>	<u>3,452,631</u>	<u>336,735</u>	<u>15,628,260</u>	<u>(1,063,584)</u>	<u>1,244,782</u>	<u>25,222,409</u>	<u>23,175,241</u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(b) Credit risk (continued)**

	Short term funds and placements with financial institutions RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Specific provision, interest-in- suspense and general provision RM'000	Other assets RM'000	On balance sheet total RM'000	Commit- ment and conting- encies RM'000
2002								
The Group								
Agriculture and mining	-	-	-	138,121	(32,432)	-	105,689	92,570
Manufacturing	-	-	5	2,927,389	(359,667)	-	2,567,727	2,832,432
Electricity, gas and water	-	-	-	13,228	(252)	-	12,976	167,626
Construction	-	-	-	749,066	(100,952)	-	648,114	1,667,645
Real estate	-	-	-	601,746	(11,441)	-	590,305	309,145
General commerce	-	18,647	-	2,272,846	(201,797)	-	2,089,696	1,822,270
Transport, infrastructure, storage and communication	-	214,407	1,099	121,662	(10,890)	3,942	330,220	219,686
Finance, insurance, business services and government agencies	4,153,440	970,768	197,237	604,196	(66,303)	381,693	6,241,031	10,181,661
Residential landed property, securities and transport vehicles	-	9,933	-	4,528,233	(103,406)	-	4,434,760	2,139,435
Others	-	-	-	2,082,229	(153,656)	261,977	2,190,550	1,548,330
	4,153,440	1,213,755	198,341	14,038,716	(1,040,796)	647,612	19,211,068	20,980,800
Other assets not subject to credit risk	183,139	-	13,426	-	-	387,967	584,532	-
	4,336,579	1,213,755	211,767	14,038,716	(1,040,796)	1,035,579	19,795,600	20,980,800

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**Notes to the financial statements
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	Short term funds and placements with financial institutions RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Specific provision, interest-in- suspense and general provision RM'000	Other assets RM'000	On balance sheet total RM'000	Commit- ment and conting- encies RM'000
2003								
The Bank								
Agriculture and mining	-	-	-	153,057	(25,485)	-	127,572	97,009
Manufacturing	-	-	-	3,182,532	(317,305)	-	2,865,227	3,310,409
Electricity, gas and water	-	92,159	-	121,130	(2,059)	-	211,230	45,309
Construction	-	-	-	856,869	(141,635)	-	715,234	1,761,893
Real estate	-	-	-	573,722	(9,754)	-	563,968	224,426
General commerce	-	63,091	-	2,385,092	(151,107)	-	2,297,076	1,961,190
Transport, infrastructure, storage and communication	-	10,057	-	126,626	(11,524)	9,248	134,407	159,582
Finance, insurance, business services and government agencies	5,623,585	3,244,833	336,735	548,637	(169,614)	430,627	10,014,803	11,750,901
Residential landed property, securities and transport vehicles	-	42,491	-	4,937,916	(110,052)	-	4,870,355	1,834,152
Others	-	-	-	2,742,047	(124,417)	460,360	3,077,990	2,030,372
	<u>5,623,585</u>	<u>3,452,631</u>	<u>336,735</u>	<u>15,627,628</u>	<u>(1,062,952)</u>	<u>900,235</u>	<u>24,877,862</u>	<u>23,175,241</u>
Other assets not subject to credit risk	-	-	-	-	-	335,163	335,163	-
	<u><u>5,623,585</u></u>	<u><u>3,452,631</u></u>	<u><u>336,735</u></u>	<u><u>15,627,628</u></u>	<u><u>(1,062,952)</u></u>	<u><u>1,235,398</u></u>	<u><u>25,213,025</u></u>	<u><u>23,175,241</u></u>

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(b) Credit risk (continued)**

	Short term funds and placements with financial institutions RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Specific provision, interest-in- suspense and general provision RM'000	Other assets RM'000	On balance sheet total RM'000	Commit- ment and conting- encies RM'000
2002								
The Bank								
Agriculture and mining	-	-	-	138,121	(32,432)	-	105,689	92,570
Manufacturing	-	-	5	2,926,584	(358,888)	-	2,567,701	2,832,432
Electricity, gas and water	-	-	-	13,228	(251)	-	12,977	167,626
Construction	-	-	-	749,066	(100,950)	-	648,116	1,667,645
Real estate	-	-	-	601,746	(11,440)	-	590,306	309,145
General commerce	-	18,647	-	2,272,846	(201,792)	-	2,089,701	1,822,270
Transport, infrastructure, storage and communication	-	214,407	1,099	121,653	(10,881)	3,941	330,219	219,686
Finance, insurance, business services and government agencies	4,153,440	970,768	197,237	604,196	(66,302)	381,694	6,241,033	10,181,661
Residential landed property, securities and transport vehicles	-	9,933	-	4,528,233	(103,395)	-	4,434,771	2,139,435
Others	-	-	-	2,082,229	(153,651)	261,636	2,190,214	1,548,330
	4,153,440	1,213,755	198,341	14,037,902	(1,039,982)	647,271	19,210,727	20,980,800
Other assets not subject to credit risk	183,139	-	13,426	-	-	388,018	584,583	-
	4,336,579	1,213,755	211,767	14,037,902	(1,039,982)	1,035,289	19,795,310	20,980,800

(c) Interest rate risk

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

Sensitivity to interest rates arises from the difference in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Bank's policies.

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**Notes to the financial statements
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The following table shows the interest rate sensitivity gap, by time bands on which interest rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000
2003								
The Group								
Assets								
Cash and short term funds	5,072,384	-	-	-	-	-	111,638	5,184,022
Securities purchased under resale agreements	-	62,400	-	374,286	-	-	-	436,686
Deposits and placements with financial institutions	-	2,876	-	-	-	-	-	2,876
Dealing securities	1,091,693	1,086,794	653,986	-	481,462	138,696	-	3,452,631
Investment securities	95,000	-	-	-	413	2,000	239,322	336,735
Loans, advances and financing	10,403,113	921,537	612,082	140,919	825,727	217,053	1,444,245	14,564,676
Other assets	-	-	-	-	-	-	1,244,783	1,244,783
	<u>16,662,190</u>	<u>2,073,607</u>	<u>1,266,068</u>	<u>515,205</u>	<u>1,307,602</u>	<u>357,749</u>	<u>3,039,988</u>	<u>25,222,409</u>
Liabilities								
Deposits from customers	4,310,194	1,878,619	732,078	4,163,439	622,985	79,291	1,733,080	13,519,686
Deposits and placements of banks and financial institutions	1,907,784	1,599,165	566,404	114,000	-	-	69,996	4,257,349
Obligations on securities sold under repurchase agreements	2,107,491	4,399	-	-	-	-	-	2,111,890
Bills and acceptances payables	269	14,541	18,989	-	-	-	1,523,963	1,557,762
Amount due to Cagamas	9,631	172,899	99,661	49,046	1,086,636	73,913	-	1,491,786
Other liabilities	-	-	-	-	-	-	637,251	637,251
	<u>8,335,369</u>	<u>3,669,623</u>	<u>1,417,132</u>	<u>4,326,485</u>	<u>1,709,621</u>	<u>153,204</u>	<u>3,964,290</u>	<u>23,575,724</u>
On-balance sheet interest sensitivity gap	8,326,821	(1,596,016)	(151,604)	(3,811,280)	(402,019)	204,545		
Off-balance sheet interest sensitivity gap	(280,000)	75,600	(113,600)	503,000	(45,100)	(139,900)		
Total interest sensitivity gap	<u>8,046,821</u>	<u>(1,520,416)</u>	<u>(264,664)</u>	<u>(3,308,280)</u>	<u>(447,119)</u>	<u>64,645</u>		

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(c) Interest rate risk (continued)**

	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000
2002								
The Group								
Assets								
Cash and short term funds	3,125,407	-	-	-	-	-	136,501	3,261,908
Securities purchased under resale agreements	356,532	-	-	-	-	-	-	356,532
Deposits and placements with financial institutions	-	633,500	38,000	-	-	-	46,639	718,139
Dealing securities	474,999	399,649	75,741	-	88,707	174,659	-	1,213,755
Investment securities	-	35,246	123,768	792	35,429	3,104	13,428	211,767
Loans, advances and financing	9,754,760	374,247	672,839	55,115	379,108	190,360	1,571,491	12,997,920
Other assets	-	-	-	-	-	-	1,035,579	1,035,579
	<u>13,711,698</u>	<u>1,442,642</u>	<u>910,348</u>	<u>55,907</u>	<u>503,244</u>	<u>368,123</u>	<u>2,803,638</u>	<u>19,795,600</u>
Liabilities								
Deposits from customers	5,106,456	1,936,681	1,314,863	2,082,579	175,501	47,862	1,318,940	11,982,882
Deposits and placements of banks and financial institutions	1,120,746	513,424	570,065	-	-	-	34,691	2,238,926
Obligations on securities sold under repurchase agreements	476,673	399,867	75,481	-	-	-	-	952,021
Bills and acceptances payables	6,809	18,863	4,303	-	-	-	1,641,906	1,671,881
Amount due to Cagamas	5,327	10,711	23,109	192,713	587,447	82,487	-	901,794
Other liabilities	-	-	-	-	-	-	446,743	446,743
	<u>6,716,011</u>	<u>2,879,546</u>	<u>1,987,821</u>	<u>2,275,292</u>	<u>762,948</u>	<u>130,349</u>	<u>3,442,280</u>	<u>18,194,247</u>
On-balance sheet interest sensitivity gap	6,995,687	(1,436,904)	(1,077,473)	(2,219,385)	(259,704)	237,774		
Off-balance sheet interest sensitivity gap	30,000	610,900	(569,900)	(321,000)	280,000	(30,000)		
Total interest sensitivity gap	<u>7,025,687</u>	<u>(826,004)</u>	<u>(1,647,373)</u>	<u>(2,540,385)</u>	<u>20,296</u>	<u>207,774</u>		

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Notes to the financial statements for the year ended 31 December 2003 (continued)

35 Financial risk management (continued)

(c) Interest rate risk (continued)

	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000
2003								
The Bank								
Assets								
Cash and short term funds	5,072,384	-	-	-	-	-	111,638	5,184,022
Securities purchased under resale agreements	-	62,400	-	374,286	-	-	-	436,686
Deposits and placements with financial institutions	-	2,876	-	-	-	-	-	2,876
Dealing securities	1,091,693	1,086,794	653,986	-	481,462	138,696	-	3,452,631
Investment securities	95,000	-	-	-	413	2,000	239,322	336,735
Loans, advances and financing	10,403,113	921,537	612,082	140,919	825,727	217,053	1,444,245	14,564,676
Other assets	-	-	-	-	-	-	1,235,399	1,235,399
	<u>16,662,190</u>	<u>2,073,607</u>	<u>1,266,068</u>	<u>515,205</u>	<u>1,307,602</u>	<u>357,749</u>	<u>3,030,604</u>	<u>25,213,025</u>
Liabilities								
Deposits from customers	4,310,194	1,878,619	732,078	4,163,439	622,985	79,291	1,733,329	13,519,935
Deposits and placements of banks and financial institutions	1,907,784	1,599,165	566,404	114,000	-	-	69,996	4,257,349
Obligations on securities sold under repurchase agreements	2,107,491	4,399	-	-	-	-	-	2,111,890
Bills and acceptances payables	269	14,541	18,989	-	-	-	1,523,963	1,557,762
Amount due to Cagamas	9,631	172,899	99,661	49,046	1,086,636	73,913	-	1,491,786
Other liabilities	-	-	-	-	-	-	637,443	637,443
	<u>8,335,369</u>	<u>3,669,623</u>	<u>1,417,132</u>	<u>4,326,485</u>	<u>1,709,621</u>	<u>153,204</u>	<u>3,964,731</u>	<u>23,576,165</u>
On-balance sheet interest sensitivity gap	8,326,821	(1,596,016)	(151,064)	(3,811,280)	(402,019)	204,545		
Off-balance sheet interest sensitivity gap	(280,000)	75,600	(113,600)	503,000	(45,100)	(139,900)		
Total interest sensitivity gap	<u>8,046,821</u>	<u>(1,520,416)</u>	<u>(264,664)</u>	<u>(3,308,280)</u>	<u>(447,119)</u>	<u>64,645</u>		

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(c) Interest rate risk (continued)**

	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Total RM'000
2002								
The Bank								
Assets								
Cash and short term funds	3,125,407	-	-	-	-	-	136,501	3,261,908
Securities purchased under resale agreements	356,532	-	-	-	-	-	-	356,532
Deposits and placements with financial institutions	-	633,500	38,000	-	-	-	46,639	718,139
Dealing securities	474,999	399,649	75,741	-	88,707	174,659	-	1,213,755
Investment securities	-	35,246	123,768	792	35,429	3,104	13,428	211,767
Loans, advances and financing	9,754,760	374,247	672,839	55,115	379,108	190,360	1,571,491	12,997,920
Other assets	-	-	-	-	-	-	1,035,289	1,035,289
	<u>13,711,698</u>	<u>1,442,642</u>	<u>910,348</u>	<u>55,907</u>	<u>503,244</u>	<u>368,123</u>	<u>2,803,348</u>	<u>19,795,310</u>
Liabilities								
Deposits from customers	5,106,456	1,936,681	1,314,863	2,082,579	175,501	47,862	1,319,221	11,983,163
Deposits and placements of banks and financial institutions	1,120,746	513,424	570,065	-	-	-	34,691	2,238,926
Obligations on securities sold under repurchase agreements	476,673	399,867	75,481	-	-	-	-	952,021
Bills and acceptances payables	6,690	18,863	4,303	-	-	-	1,642,025	1,671,881
Amount due to Cagamas	5,327	10,711	23,109	192,713	587,447	82,487	-	901,794
Other liabilities	-	-	-	-	-	-	446,720	446,720
	<u>6,715,892</u>	<u>2,879,546</u>	<u>1,987,821</u>	<u>2,275,292</u>	<u>762,948</u>	<u>130,349</u>	<u>3,442,657</u>	<u>18,194,505</u>
On-balance sheet interest sensitivity gap	6,995,806	(1,436,904)	(1,077,473)	(2,219,385)	(259,704)	237,774		
Off-balance sheet interest sensitivity gap	30,000	610,900	(569,900)	(321,000)	280,000	(30,000)		
Total interest sensitivity gap	<u>7,025,806</u>	<u>(826,004)</u>	<u>(1,647,373)</u>	<u>(2,540,385)</u>	<u>20,296</u>	<u>207,774</u>		

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

The effective interest rate of the financial assets and liabilities as at balance sheet date are as follows:

	2003	2002
	%	%
The Group and Bank		
Assets		
Cash and short term funds	3.04	2.94
Securities purchase under resale agreement	3.25	3.12
Deposits and placements with financial institutions	3.04	2.94
Dealing securities	3.73	4.04
Investment securities	2.91	2.93
Loans, advances and financing	6.50	7.10
Liabilities		
Deposits from customers	2.78	2.91
Deposits and placements of banks and financial institutions	1.12	1.87
Obligations on securities sold under repurchase agreements	3.02	2.93
Bills and acceptances payables	2.12	2.00
Amount due to Cagamas	<u>3.69</u>	<u>4.16</u>

(d) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank 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 under the guidelines issued by Bank Negara Malaysia, and avoiding raising funds at market premiums or through forced sale of assets.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(d) Liquidity risk (continued)**

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

	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
2003							
The Group							
Assets							
Cash and short term funds	5,184,022	-	-	-	-	-	5,184,022
Securities purchased under resale agreement	62,400	-	374,286	-	-	-	436,686
Deposits and placements with financial institutions	2,876	-	-	-	-	-	2,876
Dealing securities	2,218,788	613,685	-	481,462	138,696	-	3,452,631
Investment securities	95,000	300	-	38,207	182,648	20,580	336,735
Loans and advances	5,969,806	799,195	727,158	3,142,020	3,926,497	-	14,564,676
Other assets	-	-	-	-	-	1,244,783	1,244,783
	<u>13,532,892</u>	<u>1,413,180</u>	<u>1,101,444</u>	<u>3,661,689</u>	<u>4,247,841</u>	<u>1,265,363</u>	<u>25,222,409</u>
Liabilities							
Deposits from customers	9,342,269	1,580,481	2,340,864	167,547	79,291	9,234	13,519,686
Deposits and placements of banks and financial institutions	3,576,944	566,405	114,000	-	-	-	4,257,349
Obligations on securities sold under repurchase agreements	2,111,890	-	-	-	-	-	2,111,890
Bills and acceptances payables	1,023,838	418,258	495	-	-	115,172	1,557,763
Amount due to Cagamas	182,530	99,661	49,046	1,086,636	73,912	-	1,491,785
Other liabilities	-	-	-	-	-	637,251	637,251
	<u>16,237,471</u>	<u>2,664,805</u>	<u>2,504,405</u>	<u>1,254,183</u>	<u>153,203</u>	<u>761,657</u>	<u>23,575,724</u>
Net maturity mismatches	<u>(2,704,579)</u>	<u>(1,251,625)</u>	<u>(1,402,961)</u>	<u>2,407,506</u>	<u>4,094,639</u>		

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(d) Liquidity risk (continued)**

	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
2002							
The Group							
Assets							
Cash and short term funds	3,261,908	-	-	-	-	-	3,261,908
Securities purchased under resale agreement	356,532	-	-	-	-	-	356,532
Deposits and placements with financial institutions	633,500	84,639	-	-	-	-	718,139
Dealing securities	874,648	75,741	-	88,707	174,659	-	1,213,755
Investment securities	35,246	123,768	792	35,429	3,104	13,428	211,767
Loans, advances and financing	4,195,733	1,034,516	1,937,553	3,565,192	2,264,926	-	12,997,920
Other assets	-	-	-	-	-	1,035,579	1,035,579
	<u>9,357,567</u>	<u>1,318,664</u>	<u>1,938,345</u>	<u>3,689,328</u>	<u>2,442,689</u>	<u>1,049,007</u>	<u>19,795,600</u>
Liabilities							
Deposits from customers	7,042,856	1,314,863	2,082,579	175,501	47,862	1,319,221	11,982,882
Deposits and placements of banks and financial institutions	1,668,861	570,065	-	-	-	-	2,238,926
Obligations on securities sold under repurchase agreements	876,540	75,481	-	-	-	-	952,021
Bills and acceptances payables	1,394,841	277,040	-	-	-	-	1,671,881
Amount due to Cagamas	16,038	23,109	192,713	587,447	82,487	-	901,794
Other liabilities	-	-	-	-	-	446,743	446,743
	<u>10,999,136</u>	<u>2,260,558</u>	<u>2,275,292</u>	<u>762,948</u>	<u>130,349</u>	<u>1,765,964</u>	<u>18,194,247</u>
Net maturity mismatches	<u>(1,641,569)</u>	<u>(941,894)</u>	<u>(336,947)</u>	<u>2,926,380</u>	<u>2,312,340</u>		

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(d) Liquidity risk (continued)**

	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
2003							
The Bank							
Assets							
Cash and short term funds	5,184,022	-	-	-	-	-	5,184,022
Securities purchased under resale agreement	62,400	-	374,286	-	-	-	436,686
Deposits and placements with financial institutions	2,876	-	-	-	-	-	2,876
Dealing securities	2,218,788	613,685	-	481,462	138,696	-	3,452,631
Investment securities	95,000	300	-	38,207	182,648	20,580	336,735
Loans, advances and financing	5,969,806	799,195	727,158	3,142,020	3,926,497	-	14,564,676
Other assets	-	-	-	-	-	1,235,399	1,235,399
	<u>13,532,892</u>	<u>1,413,180</u>	<u>1,101,444</u>	<u>3,661,689</u>	<u>4,247,841</u>	<u>1,255,979</u>	<u>25,213,025</u>
Liabilities							
Deposits from customers	9,342,269	1,580,481	2,340,864	167,547	79,291	9,482	13,519,934
Deposits and placements of banks and financial institutions	3,576,944	566,405	114,000	-	-	-	4,257,349
Obligations on securities sold under repurchase agreements	2,111,890	-	-	-	-	-	2,111,890
Bills and acceptances payables	1,023,838	418,258	494	-	-	115,172	1,557,762
Amount due to Cagamas	182,530	99,661	49,046	1,086,636	73,912	-	1,491,785
Other liabilities	-	-	-	-	-	637,445	637,445
	<u>16,237,471</u>	<u>2,664,805</u>	<u>2,504,404</u>	<u>1,254,183</u>	<u>153,203</u>	<u>762,099</u>	<u>23,576,165</u>
Net maturity mismatches	<u>(2,704,579)</u>	<u>(1,251,625)</u>	<u>(1,402,960)</u>	<u>2,407,506</u>	<u>4,094,639</u>		

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Bank has significant amount of “core” deposits from non-bank customers which are contractual at call and thus, included in the “Up to 3 months” time band, but historically shows such deposits providing a stable source of long-term funding for the Bank.

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****35 Financial risk management (continued)****(d) Liquidity risk (continued)**

	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
2002							
The Bank							
Assets							
Cash and short term funds	3,261,908	-	-	-	-	-	3,261,908
Securities purchased under resale agreement	356,532	-	-	-	-	-	356,532
Deposits and placements with financial institutions	633,500	84,639	-	-	-	-	718,139
Dealing securities	874,648	75,741	-	88,707	174,659	-	1,213,755
Investment securities	35,246	123,768	792	35,429	3,104	13,428	211,767
Loans, advances and financing	4,195,733	1,034,516	1,937,553	3,565,192	2,264,926	-	12,997,920
Other assets	-	-	-	-	-	1,035,289	1,035,289
	<u>9,357,567</u>	<u>1,318,664</u>	<u>1,938,345</u>	<u>3,689,328</u>	<u>2,442,689</u>	<u>1,048,717</u>	<u>19,795,310</u>
Liabilities							
Deposits from customers	7,043,137	1,314,863	2,082,579	175,501	47,862	1,319,221	11,983,163
Deposits and placements of banks and financial institutions	1,668,861	570,065	-	-	-	-	2,238,926
Obligations on securities sold under repurchase agreements	876,540	75,481	-	-	-	-	952,021
Bills and acceptances payables	1,394,841	277,040	-	-	-	-	1,671,881
Amount due to Cagamas	16,038	23,109	192,713	587,447	82,487	-	901,794
Other liabilities	-	-	-	-	-	446,720	446,720
	<u>10,999,417</u>	<u>2,260,558</u>	<u>2,275,292</u>	<u>762,948</u>	<u>130,349</u>	<u>1,765,941</u>	<u>18,194,505</u>
Net maturity mismatches	<u>(1,641,850)</u>	<u>(941,894)</u>	<u>(336,947)</u>	<u>2,926,380</u>	<u>2,312,340</u>		

United Overseas Bank (Malaysia) Bhd

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Notes to the financial statements for the year ended 31 December 2003 (continued)

35 Financial risk management (continued)

(d) Liquidity risk (continued)

In addition, the Bank is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments. The total outstanding contractual amounts do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the commitments to pay third parties (such as letter of credit) are reimbursed immediately by customers.

36 Fair value of financial assets and liabilities

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

The on-balance sheet financial assets and liabilities of the Group and Bank whose fair values are required to be disclosed in accordance with MASB Standard 24 comprise of all its assets and liabilities with the exception of investments in subsidiaries, investments in associates, fixed assets and provision for current and deferred taxation. The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****36 Fair value of financial assets and liabilities (continued)**

	Carrying amount RM'000	Estimated fair value RM'000
2003		
The Group and Bank		
Dealing securities	3,452,631	3,453,421
Investment securities	336,735	359,397
	<u>3,789,366</u>	<u>3,812,818</u>
2002		
The Group and Bank		
Dealing securities	1,213,755	1,213,755
Investment securities	211,767	232,659
	<u>1,425,522</u>	<u>1,446,414</u>

Off-balance sheet derivatives are instruments whose values change in response to the change in one or more “underlying”, such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In its normal course of business, the Group and Bank customise derivative to meet specific needs of their customers. The Group and Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. The fair values of the derivatives are as follows:

	Contract or underlying Principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2003			
The Group and Bank			
Foreign exchange contracts			
- forwards	4,372,101	1,326	235
- swaps	2,454,800	2,264	6,962
Interest rate related contracts			
- futures	3,619,500	1,234	1,154
- swaps	3,431,965	48,188	37,416
	<u>14,278,366</u>	<u>5,012</u>	<u>8,767</u>

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****36 Fair value of financial assets and liabilities (continued)**

	Contract or underlying Principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
2002			
The Group and Bank			
Foreign exchange contracts			
- forwards	367,406	192	263
- swaps	2,453,100	4,247	3,102
Interest rate related contracts			
- futures	3,274,900	803	249
- swaps	<u>2,201,000</u>	<u>22,187</u>	<u>25,869</u>

The table above analyse the notional principal amounts and the positive and negative fair values of the Group's and Banks' off-balance sheet derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date for both trading and hedging instruments. They do not necessarily indicate the amounts of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive and negative fair values represent the favourable and unfavourable fair values respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at balance sheet date.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant. Where available, quoted and observable market prices are used as the measure of fair values, such as for government treasury bills and securities and quoted securities. Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions, the principal ones being as follows:

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Notes to the financial statements for the year ended 31 December 2003 (continued)

36 Fair value of financial assets and liabilities (continued)

- (a) The fair values of cash and balances with Bank Negara Malaysia and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are of negligible credit risk and either short term in nature or repriced frequently.
- (b) The Group and Bank consider the carrying amount of loans and advances as a reasonable approximation of its fair value. Presently, market and observable prices do not exist as there is currently no ready market wherein exchanges between willing parties occur. In estimating the fair value, loans are categorised into homogenous groups by product types, risk characteristics, maturity and pricing profiles, and non-performing accounts. General provisions are also deducted in arriving at the fair value as a discount for credit risk inherent in the large portfolio of loans and advances.
- (c) The Group and Bank consider the carrying amount of all its deposits, such as non bank customers' deposits and deposits and balances of banks, agents and related companies, as reasonable approximation of their respective fair values given that these are mostly repayable on demand and short term in nature.
- (d) The fair values of amounts due to Cagamas are considered to reasonably approximate their carrying values. In estimating the fair values, the amounts due from Cagamas are discounted using prevailing rates offered by Cagamas Berhad.
- (e) For off-balance sheet derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

United Overseas Bank (Malaysia) Bhd

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Notes to the financial statements for the year ended 31 December 2003 (continued)

37 Segmental analysis

Segment information is presented in respect of the Group's business segment.

(a) **Business segment**

The Group's business segment can be organised into the following main segments reflecting the Group's internal reporting structure:-

Individual Banking focuses mainly on servicing individual customers. Products and services that are extended to customers include loans and mortgages, credit cards, remittance services, deposit collection and wealth management products.

Institutional Banking encompasses commercial credit and investment banking. Products and services include financing options, trade services, custody services, corporate finance and capital markets.

The Group's Global Treasury focuses on foreign exchange, foreign currency account, banknotes, money market investment product and gold bullion products.

- (b) In accordance with MASB 22, the Group has volunteered to present reporting by business segment, the information for the previous financial year was not presented as it is not practical to do so since the Group does not present any segment information prior to the adoption of MASB 22.

United Overseas Bank (Malaysia) Bhd

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**Notes to the financial statements
for the year ended 31 December 2003 (continued)****37 Segmental analysis (continued)**

Group	Individual banking RM'000	Insitutional banking RM'000	Global treasury RM'000	Total RM'000
Income before operating expenses	249,235	447,755	97,074	794,064
Segment profit before tax	<u>105,788</u>	<u>300,310</u>	<u>60,833</u>	466,930
Goodwill amortisation				(1,621)
Operation profit after goodwill amortisation and provisions				465,309
Share of profit of associates				20,461
Profit before tax				485,770
Tax and minority interest				(128,168)
Net profit for the financial year attributable to members				<u>357,602</u>
Other information				
Segment assets	5,415,938	9,441,631	9,839,415	24,696,984
Unallocated assets				525,425
Total assets				<u>25,222,409</u>
Segment liabilities	9,051,482	6,465,097	7,421,892	22,938,471
Unallocated liabilities				637,253
Total liabilities				<u>23,575,724</u>
Capital expenditure	-	406	37,968	38,374
Depreciation of fixed assets	5,013	270	18,369	23,652

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

**Notes to the financial statements
for the year ended 31 December 2003 (continued)****37 Segmental analysis (continued)**

	Individual banking RM'000	Institutional banking RM'000	Global treasury RM'000	Total RM'000
Bank				
Income before operating expenses	249,235	447,755	97,068	794,058
Segment profit before tax	<u>105,788</u>	<u>300,310</u>	<u>60,867</u>	466,964
Tax and minority interest				<u>(121,304)</u>
Net profit for the financial year attributable to members				<u>345,660</u>
Other information				
Segment assets	5,415,938	9,441,631	9,839,415	24,696,984
Unallocated assets				<u>516,041</u>
Total assets				<u>25,213,025</u>
Segment liabilities	9,051,482	6,465,097	7,422,142	22,938,721
Unallocated liabilities				<u>637,444</u>
Total liabilities				<u>23,576,165</u>
Capital expenditure	-	406	37,968	38,374
Depreciation of fixed assets	<u>5,013</u>	<u>270</u>	<u>18,369</u>	<u>23,652</u>

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169 (15)

of the Companies Act, 1965

We, Wee Cho Yaw and Lee Chin Yong, Francis, being two of the Directors of United Overseas Bank (Malaysia) Bhd state that, in the opinion of the Directors, the financial statements set out on pages 22 to 85 are drawn up so as to give a true and fair view of the state of affairs of the Group and Bank as at 31 December 2003 and of the results and cash flows of the Group and Bank for the year ended on that date in accordance with Bank Negara Malaysia Guidelines and the applicable approved accounting standards in Malaysia.

In accordance with a resolution of the Board of Directors dated 11 February 2004.

Wee Cho Yaw

Director

Lee Chin Yong, Francis

Director

Kuala Lumpur

Statutory declaration

I, Lee Chin Yong, Francis, being the Director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 22 to 85 are correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Lee Chin Yong, Francis

Director

Subscribed and solemnly declared at Kuala Lumpur on 11 February 2004

Before me:

Zainudin @ Nordin bin Ab Manaf

Commissioner for Oaths

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Report of the auditors to the members of United Overseas Bank (Malaysia) Bhd

(Company No: 271809 K)

(Incorporated in Malaysia)

We have audited the financial statements set out on pages 22 to 85. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act 1965, Bank Negara Malaysia Guidelines and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by section 169 of the companies Act 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and the Company as at 31 December 2003 and of the result and cash flows of the Group and the Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

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

Company No: 271809 K

United Overseas Bank (Malaysia) Bhd

(Incorporated in Malaysia)

Report of the auditors to the members of United Overseas Bank (Malaysia) Bhd (continued)

(Company No: 271809 K)

(Incorporated in Malaysia)

Our audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of section 174 of the Act.

PricewaterhouseCoopers

(AF: 1146)

Chartered Accountants

Dato' Ahmad Johan Bin Mohammad Raslan

(No. 1867/09/04 (J))

Partner of the firm

Kuala Lumpur

11 February 2004