

Group Financial Review

Review of financial performance

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Note

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

Review of financial performance

Highlights and performance indicators

	2006	2005		Variance (%)
Summarised profit and loss (\$ million)				
Net interest income (NII)	21.4	19.7	+	8.4
Non-interest income (Non-NII)	5.7	5.4	+	5.5
Total income	27.1	25.1	+	7.8
Less: Total expenses	9.4	9.0	+	3.5
Operating profit before impairment charges	17.7	16.1	+	10.2
Less: Impairment charges	1.2	0.1		NM
Less: Tax	3.0	3.2	–	5.6
Net profit after tax	13.5	12.8	+	5.1
Key indicators				
Income mix (%):				
NII/Total income	79.0	78.6	+	0.4% point
Non-NII/Total income	21.0	21.4	–	0.4% point
	100.0	100.0		–
Return on average shareholders' equity (ROE) (%)	7.8	7.9	–	0.1% point
Basic earnings per share (EPS) (cents)	13.5	12.8	+	5.5
Return on average total assets (ROA) (%)	1.6	1.6		–
Net interest margin (%)	2.79	2.59	+	0.20% point
Expense/Income ratio (%)	34.5	35.9	–	1.4% points
Final dividend per share (cents)	2.0	2.0		–
Other indicators				
Customer loans (net) (\$ million)	213.0	257.2	–	17.2
Customer deposits (\$ million)	615.3	647.7	–	5.0
Loans/Deposits ratio ⁺ (%)	34.6	39.7	–	5.1% points
Non-performing loans (NPLs) (\$ million)	6.0	7.8	–	23.3
Cumulative impairment (\$ million)	12.5	13.3	–	5.9
NPLs/Gross customer loans (%)	2.7	2.9	–	0.2% point
Cumulative impairment/NPLs (%)	208.1	169.6	+	38.5% points
Total assets (\$ million)	835.6	860.2	–	2.9
Shareholders' equity (\$ million)	178.8	166.7	+	7.2
Revaluation surplus* (\$ million)	57.8	41.1	+	40.6
Net asset value (NAV) per share (\$)	1.79	1.67	+	7.2
Revalued NAV per share (\$)	2.37	2.08	+	13.9
Capital adequacy ratio (%)	58.5	50.9	+	7.6% points

⁺ "Loans" refer to net customer loans while "Deposits" refer to customer deposits.

* Refer to unrealised revaluation surplus on properties which was not incorporated into the financial statements.

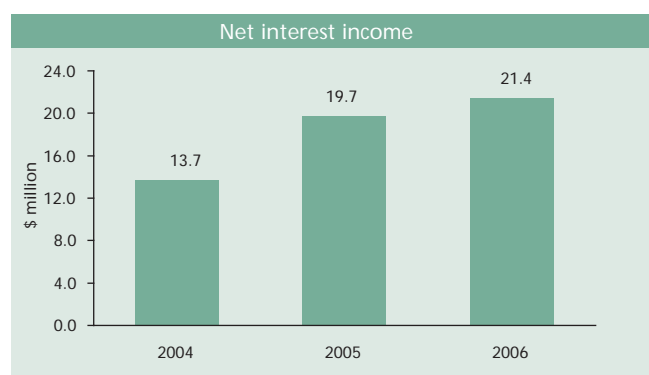
NM denotes "not meaningful".

Group Financial Review

Review of Group performance

The Group recorded a net profit after tax (NPAT) of \$13.5 million for the financial year ended 31 December 2006, representing an increase of 5.1% over the \$12.8 million recorded for the financial year ended 31 December 2005. The increase in NPAT was mainly attributed to higher net interest income and profit on disposal of fixed assets, partially offset by higher impairment charges and operating expenses.

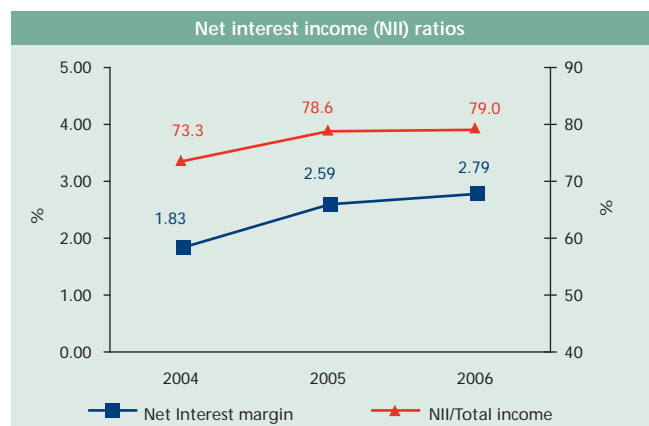
Net interest income



Net interest income for the Group increased 8.4% to \$21.4 million in 2006 from \$19.7 million in 2005. Net interest income continued to be the major contributor of total income, accounting for 79.0% (2005: 78.6%) of total income.

The increase in net interest income was mainly from inter-bank money market activities, partially offset by lower contributions from loans.

Net interest margin rose 20 basis points to 2.79% in 2006 from 2.59% in 2005.



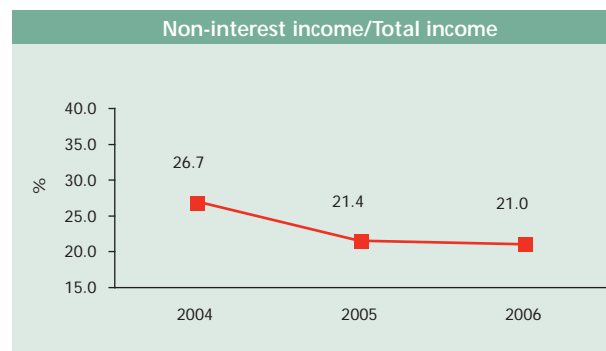
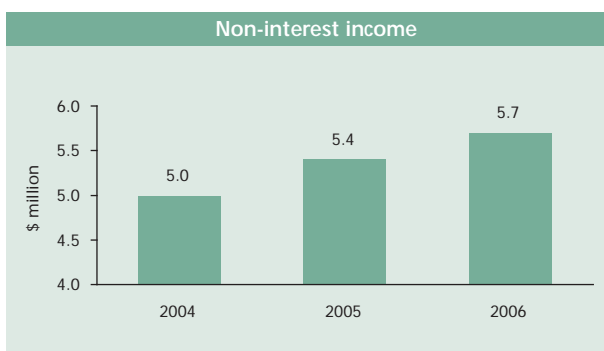
Average interest rates and margin

	2006			2005		
	Average	Interest	Average	Average	Interest	Average
	balance		interest rate	balance		interest rate
	\$'000	\$'000	%	\$'000	\$'000	%
Total interest bearing assets	766,405	28,141	3.67	763,726	23,939	3.13
Total interest bearing liabilities	610,139	6,740	1.10	616,007	4,195	0.68
Net interest income		21,401			19,744	
Net interest margin ⁺			2.79			2.59

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

Non-interest income

The Group's non-interest income for 2006 accounted for 21.0% of total income. Total non-interest income increased by 5.5% to \$5.7 million in 2006 from \$5.4 million in 2005. The increase was mainly due to profit on disposal of fixed assets, partly offset by loss on Singapore Government securities and lower rental income.



Group Financial Review

Composition of non-interest income

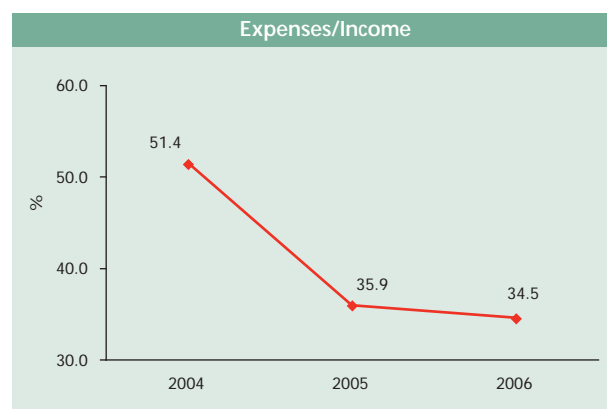
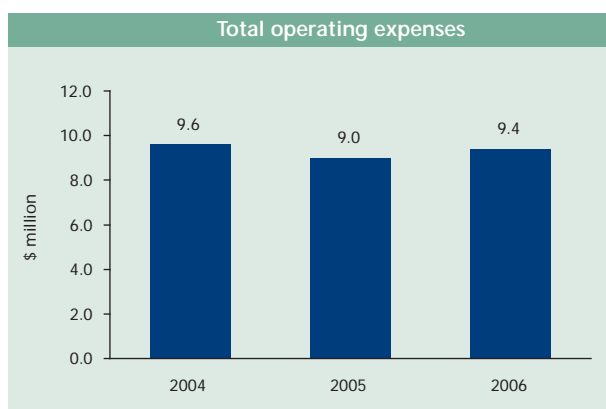
	2006 \$'000	2005 \$'000	Variance %
Fee and commission income			
Investment-related	192	3	NM
Loan-related and trade-related	535	689	(22.4)
Other	484	559	(13.4)
	1,211	1,251	(3.2)
Dividend and rental income	2,587	2,703	(4.3)
Other operating income			
Net profit/(loss) from:			
Government securities	(40)	447	(108.9)
Foreign exchange	289	323	(10.5)
Disposal of fixed assets	948	(12)	NM
Other	689	675	2.1
	1,886	1,433	31.6
Total non-interest income	5,684	5,387	5.5

Operating expenses

Total operating expenses increased to \$9.4 million in 2006 from \$9.0 million in 2005, mainly due to higher management fees payable to holding company, partially offset by lower staff costs.

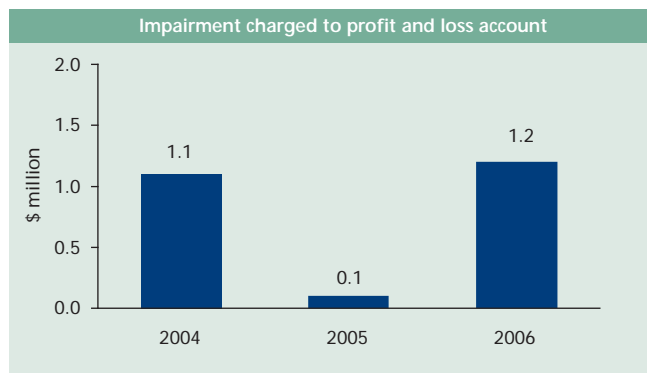
With the increase in total income outpacing the increase in total expenses, the expense-to-income ratio of the Group improved 1.4% points to 34.5% in 2006 from 35.9% in 2005.

	2006 \$'000	2005 \$'000	Variance %
Staff costs	597	1,031	(42.1)
Other operating expenses	8,755	8,002	9.4
Total operating expenses	9,352	9,033	3.5



Group Financial Review

Impairment charged to profit and loss account



Total impairment charges was \$1.2 million in 2006 as compared to \$0.1 million in 2005 mainly due to higher impairment charges on loans.

Individual impairment on

Loans
Investments
Properties and other fixed assets
Total impairment charges

2006 \$'000	2005 \$'000	Variance %
1,343	129	941.1
(18)	(41)	56.1
(104)	(30)	(246.7)
1,221	58	NM

Overview of balance sheet

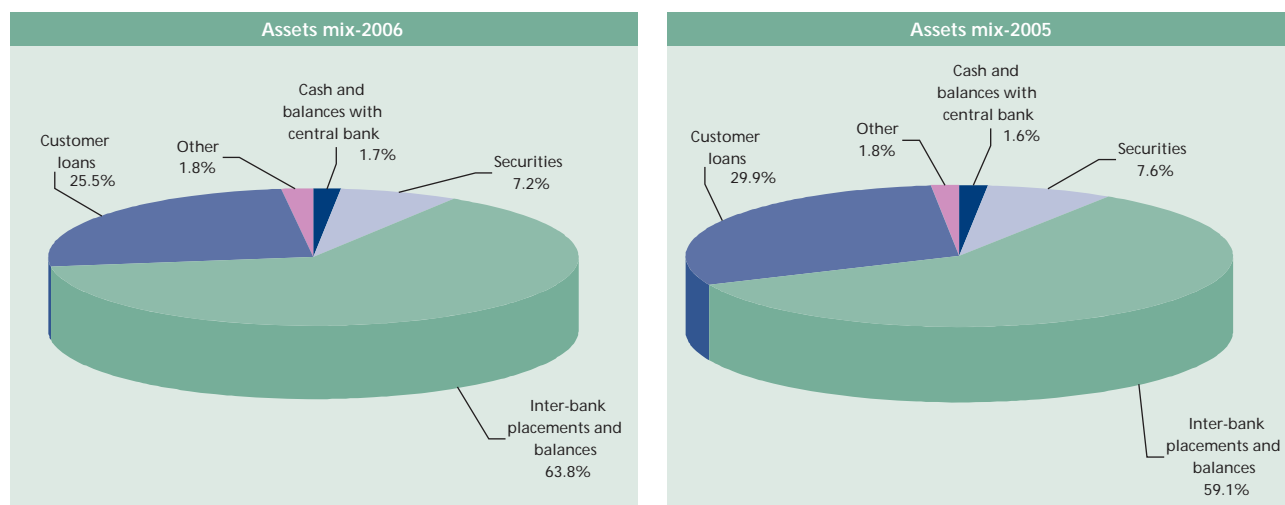
Total assets

Group total assets decreased 2.9% to \$835.6 million as at 31 December 2006 from \$860.2 million as at 31 December 2005. The decrease was primarily from customer loans, partially offset by increase in inter-bank placements and balances.

Assets mix

	2006		2005	
	\$'000	%	\$'000	%
Cash and balances with central bank	14,076	1.7	13,830	1.6
Securities*	59,908	7.2	65,550	7.6
Inter-bank placements and balances	533,293	63.8	508,200	59.1
Customer loans	212,994	25.5	257,186	29.9
Other	15,365	1.8	15,451	1.8
Total assets	835,636	100.0	860,217	100.0

* Comprising Singapore Government treasury bills and securities and investment securities.



Securities

Securities held by the Group as at 31 December 2006 were \$59.9 million (2005: \$65.6 million), comprising mainly Singapore Government treasury bills and securities.

	2006		2005	
	\$'000	%	\$'000	%
Singapore Government treasury bills and securities	59,154	98.7	64,792	98.8
Quoted equity shares	754	1.3	758	1.2
Total securities	59,908	100.0	65,550	100.0

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Customer loans

Net loans and advances to customers were lower at \$213.0 million as at 31 December 2006 compared to \$257.2 million as at 31 December 2005. The decrease by \$44.2 million or 17.2% was mainly from housing loans, overdrafts and term loans.

Customer loans analysed by product group

	2006		2005	
	\$'000	%	\$'000	%
Housing loans	75,469	33.5	99,439	36.8
Term loans	87,475	38.8	95,586	35.3
Trade financing	13,623	6.0	16,317	6.0
Overdrafts	48,903	21.7	59,105	21.9
Total gross customer loans	225,470	100.0	270,447	100.0
Individual impairment	(417)		(1,202)	
Collective impairment	(12,059)		(12,059)	
Total net customer loans	212,994		257,186	

Gross customer loans analysed by industry

	2006		2005	
	\$'000	%	\$'000	%
Manufacturing	16,945	7.5	20,256	7.5
Building and construction	8,710	3.9	10,846	4.0
Housing loans	75,469	33.5	99,439	36.8
General commerce	56,074	24.9	67,017	24.8
Transport, storage and communication	2,778	1.2	3,197	1.2
Non-bank financial institutions	9,289	4.1	10,190	3.8
Professionals and private individuals (excluding housing loans)	52,153	23.1	55,567	20.5
Other	4,052	1.8	3,935	1.4
Total gross customer loans	225,470	100.0	270,447	100.0

Gross customer loans analysed by currency and fixed/variable rates

	2006			2005		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore dollar	49,811	168,424	218,235	52,143	209,674	261,817
US dollar	4,152	97	4,249	5,600	301	5,901
Japanese yen	1,026	–	1,026	1,844	–	1,844
Other	1,960	–	1,960	885	–	885
Total gross customer loans	56,949	168,521	225,470	60,472	209,975	270,447

Gross customer loans analysed by remaining maturity

	2006		2005	
	\$'000	%	\$'000	%
Within 1 year	76,410	33.9	92,368	34.2
Over 1 year but within 3 years	22,747	10.1	27,347	10.1
Over 3 years but within 5 years	21,671	9.6	23,606	8.7
Over 5 years	104,642	46.4	127,126	47.0
Total gross customer loans	225,470	100.0	270,447	100.0

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Deposits

Total deposits decreased by 5.4% or \$37.0 million to \$645.7 million as at 31 December 2006 from \$682.7 million as at 31 December 2005, mainly attributed to lower fixed deposits, partially offset by higher savings and other deposits.

Deposits analysed by product group

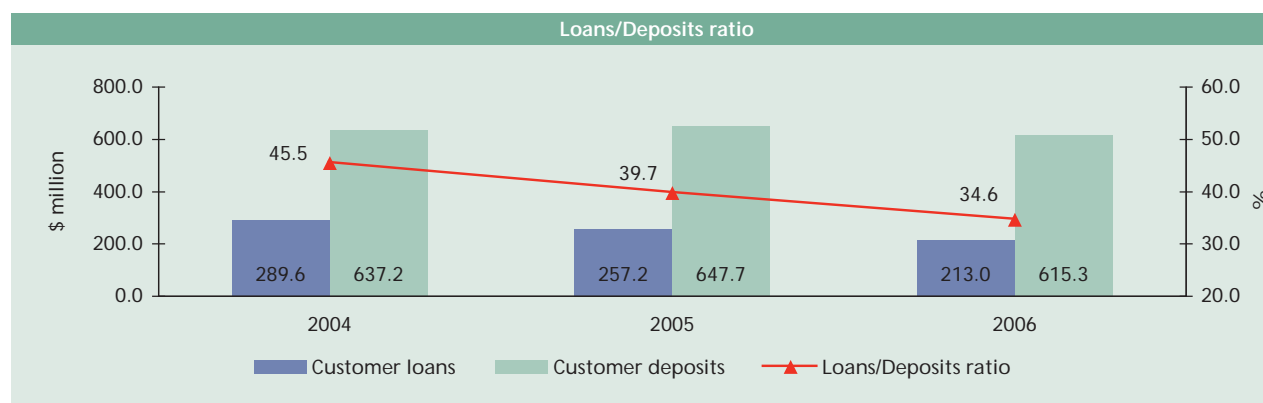
	2006		2005	
	\$'000	%	\$'000	%
Customer deposits				
Fixed deposits	258,705	40.1	304,823	44.7
Savings and other deposits	356,618	55.2	342,866	50.2
	615,323	95.3	647,689	94.9
Fellow subsidiaries' deposits	1,988	0.3	1,833	0.3
Holding company's deposits	28,376	4.4	33,135	4.8
Total deposits	645,687	100.0	682,657	100.0

Deposits analysed by remaining maturity

	2006		2005	
	\$'000	%	\$'000	%
Within 1 year	610,074	94.5	654,573	95.9
Over 1 year but within 3 years	16,689	2.6	6,893	1.0
Over 3 years but within 5 years	12,146	1.9	21,191	3.1
Over 5 years	6,778	1.0	-	-
Total deposits	645,687	100.0	682,657	100.0

Loans/Deposits ratio

With the decrease in net customer loans of 17.2% outpacing the decrease in customer deposits of 5.0%, the loans-to-deposits ratio declined 5.1% points to 34.6% in 2006 from 39.7% in 2005.



Shareholders' equity

Shareholders' equity as at 31 December 2006 was \$178.8 million, representing a 7.2% increase over the \$166.7 million as at 31 December 2005.

As at 31 December 2006, revaluation surplus of \$57.8 million (2005: \$41.1 million) on properties was not included in the financial statements.

	2006 \$'000	2005 \$'000	Variance %
Shareholders' equity	178,755	166,731	7.2
Add: Revaluation surplus	57,752	41,068	40.6
Shareholders' equity including revaluation surplus	236,507	207,799	13.8
Net asset value (NAV) per share (\$)	1.79	1.67	7.2
Revaluation surplus per share (\$)	0.58	0.41	41.5
Revalued NAV per share (\$)	2.37	2.08	13.9

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Capital adequacy ratios

The Capital Adequacy Ratios ("CAR") of the Group were computed in accordance with the capital framework set by the Monetary Authority of Singapore ("MAS").

As at 31 December 2006, the Group's total CAR was 58.5%, well above the minimum total CAR of 10% set by MAS. Compared to the total CAR of 50.9% as at 31 December 2005, it had increased 7.6% points attributed mainly to net profit for the financial year and lower risk-weighted assets.

	2006 \$'000	2005 \$'000
Tier 1 Capital		
Share capital	100,011	100,011
Disclosed reserves	77,172	66,617
	177,183	166,628
Upper Tier 2 Capital		
Cumulative collective impairment	3,870	4,200
Revaluation surplus on equity securities	141	143
	4,011	4,343
Total capital	181,194	170,971
Risk-weighted assets (including market risk)	309,615	336,033
Capital adequacy ratios		
Tier 1 capital	57.2%	49.6%
Total capital	58.5%	50.9%