

# Group Financial Review

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*Certain figures in this report may not add up to the relevant totals due to rounding.*

*Certain comparative figures have been restated to conform with the current year's presentation.*

## REVIEW OF FINANCIAL PERFORMANCE

### Highlights and performance indicators

	2004	2003		Variance (%)
<b>Key indicators</b>				
Net interest income (NII) (\$ million)	13.7	13.3	+	2.9
Non-interest income (Non-NII) (\$ million)	5.0	6.7	–	25.3
Total income (\$ million)	18.7	20.0	–	6.5
Total expenses (\$ million)	9.6	10.0	–	3.9
Operating profit before provisions (\$ million)	9.1	10.0	–	9.1
Net profit after tax (\$ million)	6.2	6.6	–	6.3
Income mix:				
NII/Total income (%)	73.3	66.5	+	6.8% points
Non-NII/Total income (%)	26.7	33.5	–	6.8% points
	100.0	100.0		–
Return on average shareholders' funds (ROE) (%)	4.1	4.4	–	0.3% point
Basic earnings per share (EPS) (cents)	6.2	6.6	–	6.1
Return on average total assets (ROA) (%)	0.8	0.8		–
NII/Average interest bearing assets (%)	1.75	1.71	+	0.04% point
Expense/Income ratio (%)	51.4	50.0	+	1.4% points
Dividend rates (%)				
Final	2.0	2.0		–
<b>Other indicators</b>				
Customer loans (net) (\$ million)	289.6	301.2	–	3.9
Customer deposits (\$ million)	637.2	604.1	+	5.5
Loans/Deposits ratio <sup>+</sup> (%)	45.5	49.9	–	4.4% points
Non-performing loans (NPLs) (\$ million)	22.1	32.4	–	31.6
Cumulative provisions (\$ million)	20.5	18.8	+	8.8
NPLs/Gross customer loans (%)	7.1	10.1	–	3.0% points
Cumulative provisions/NPLs (%)	92.6	58.2	+	34.4% points
Total assets (\$ million)	824.1	802.9	+	2.6
Shareholders' funds (\$ million)	156.1	151.5	+	3.0
Unrealised revaluation surplus* (\$ million)	38.0	43.4	–	12.5
Net asset value (NAV) per share (\$)	1.56	1.51	+	3.3
Revalued NAV per share (\$)	1.94	1.95	–	0.5
Capital adequacy ratio <sup>^</sup> (%)	46.6	44.0	+	2.6% points
Manpower (number)	39	40	–	1 number

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

<sup>\*</sup> Refers to revaluation surplus on properties and investment securities which was not incorporated into the financial statements.

<sup>^</sup> Computed under the revised capital framework for Singapore-incorporated banks issued by MAS, which was effective from 30 June 2004. The comparative figure as at 31 December 2003 has been adjusted to conform with the revised framework accordingly.

## Group Financial Review

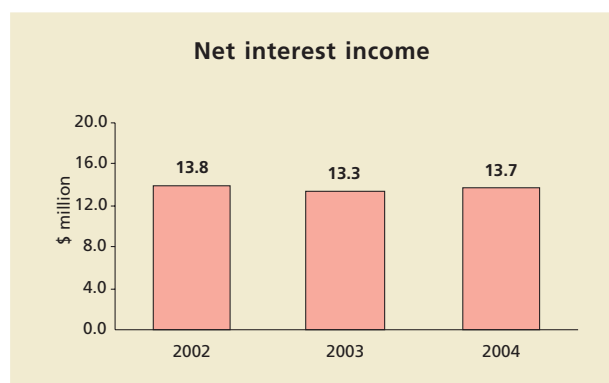
### Group profits

The Group recorded a net profit after tax (NPAT) of \$6.2 million for the financial year ended 31 December 2004, down 6.3% from \$6.6 million in 2003. The decline in NPAT was mainly attributable to lower rental income and last year's profit on sale of property, partially offset by lower specific provision for loans, lower operating expenses and higher net interest income.

### Financial ratios

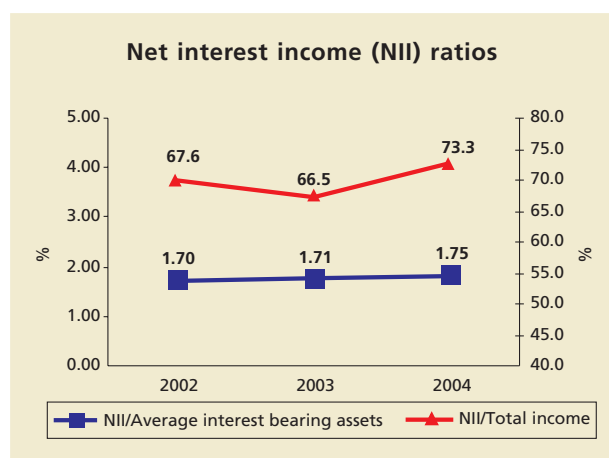
- Earnings per share decreased by 6.1%, from 6.6 cents in 2003 to 6.2 cents in 2004.
- Return on average shareholders' funds, at 4.1%, decreased by 0.3% point from 4.4% in 2003.
- Net asset value (NAV) per share increased by 5 cents or 3.3%, from \$1.51 in 2003 to \$1.56 in 2004.
- Total dividend of 2% (2003: 2%) was 3.9 times covered by net profit (2003: 4.1 times).

### Net interest income



Net interest income for the Group increased 2.9% or \$0.4 million to \$13.7 million from \$13.3 million in 2003. Net interest income continued to be the major contributor of total income, accounting for 73.3% (2003: 66.5%) of total income.

The increase in net interest income was primarily attributable to improved margin from interbank money market activities, partially negated by lower volume and interest margin from government securities.



The net interest margin on average interest bearing assets rose marginally by 0.04% point to 1.75% in 2004.

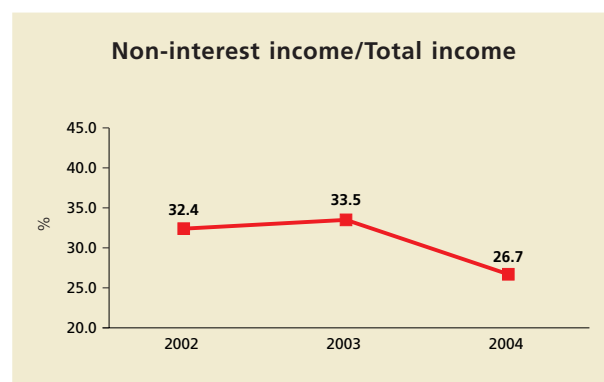
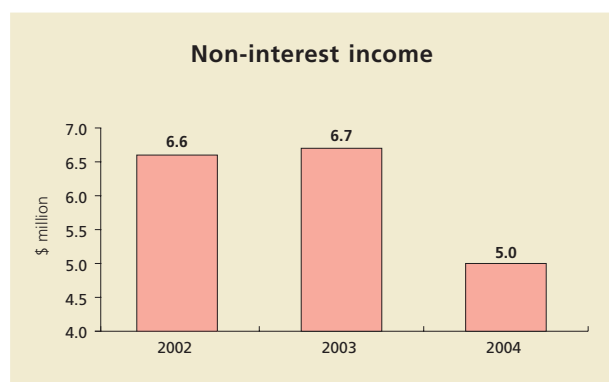
### Average interest margin

	2004			2003		
	Average balance \$'000	Interest \$'000	Average interest rate %	Average balance \$'000	Interest \$'000	Average interest rate %
Total interest bearing assets	783,710	16,989	2.17	779,593	17,432	2.24
Total interest bearing liabilities	634,582	3,247	0.51	632,258	4,083	0.65
Net interest income		<u>13,742</u>			<u>13,349</u>	
Average interest margin <sup>+</sup>			<u>1.75</u>			<u>1.71</u>

<sup>+</sup> Average interest margin represents net interest income as a percentage of average interest bearing assets.

### Non-interest income

The Group's non-interest income for 2004 accounted for 26.7% of total income. Total non-interest income dropped by \$1.7 million or 25.3% to \$5.0 million in 2004.



The decrease in non-interest income was mainly due to decline in rental income as a result of lower occupancy rate, coupled with last year's profit on sale of property.

## Group Financial Review

### Composition of non-interest income

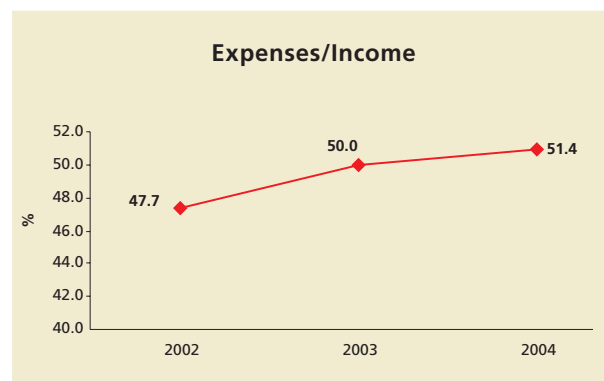
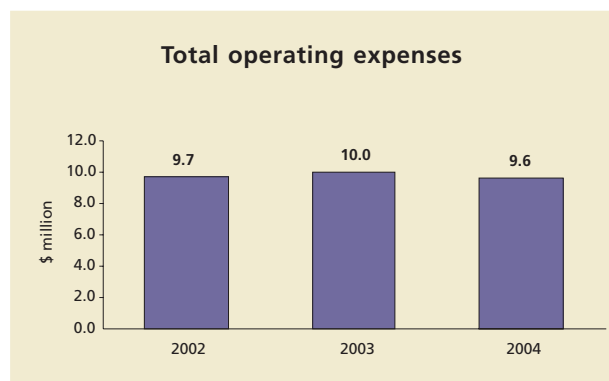
	2004 \$'000	2003 \$'000	Variance %
Fee and commission income			
Investment-related	2	1	100.0
Trade-related	665	527	26.2
Loan-related	156	253	(38.3)
Other	595	557	6.8
	1,418	1,338	6.0
Dividend and rental income	2,492	3,877	(35.7)
Other operating income			
Net profit from:			
Investment and government securities	47	61	(23.0)
Foreign exchange dealings	279	127	119.7
Disposal of fixed assets	–	468	(100.0)
Other	780	841	(7.3)
	1,106	1,497	(26.1)
Total non-interest income	5,016	6,712	(25.3)

### Operating expenses

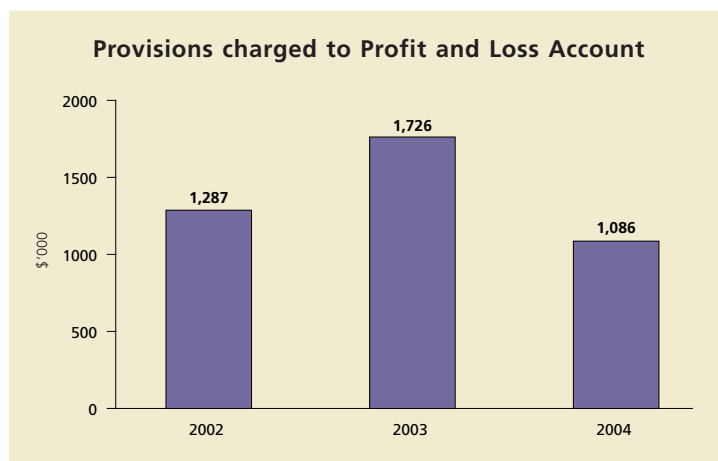
Total operating expenses fell 3.9% to \$9.6 million from \$10.0 million in 2003, attributable to the decline in both staff costs and other operating expenses by 1.3% and 4.4% respectively.

As a result of the higher decrease in total income compared to the decrease in total operating expenses, the expense to income ratio of the Group improved by 1.4% points to 51.4% in 2004 from 50.0% in 2003.

	2004 \$'000	2003 \$'000	Variance %
Staff costs	1,435	1,454	(1.3)
Other operating expenses	8,198	8,573	(4.4)
Total operating expenses	9,633	10,027	(3.9)



## Provisions charged to Profit and Loss Account



For 2004, the total provision charge was at \$1.1 million, down \$0.6 million or 37.1% compared with \$1.7 million in 2003. The decrease was substantially due to lower specific provisions for loans.

Specific provisions for loans  
 Specific provisions for diminution in value of investments  
 Specific provisions for impairment of properties  
 Total provisions

2004 \$'000	2003 \$'000
1,098	1,752
(82)	4
70	(30)
<b>1,086</b>	<b>1,726</b>

## Group Financial Review

### OVERVIEW OF BALANCE SHEET

#### Total assets

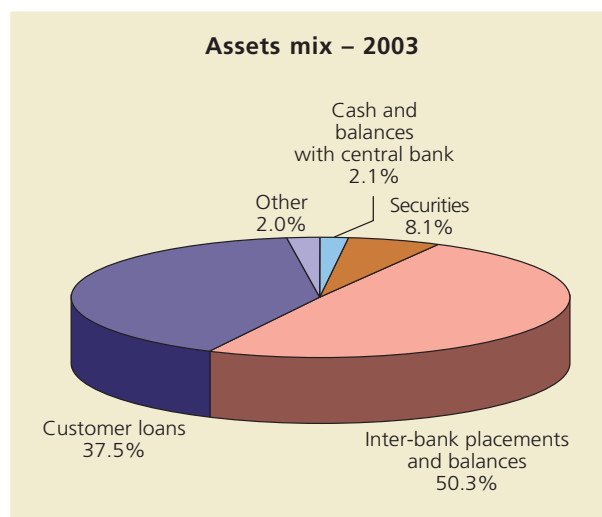
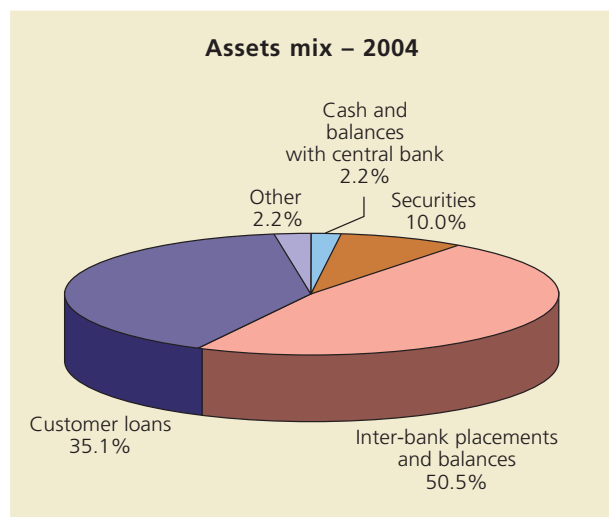
Group total assets increased to \$824.1 million as at 31 December 2004, a 2.6% growth over the \$802.9 million recorded as at 31 December 2003. The growth was primarily from securities and inter-bank balances, partially offset by the decrease in customer loans.

#### Assets mix

	2004		2003	
	\$'000	%	\$'000	%
Cash and balances with central bank	17,733	2.2	17,140	2.1
Securities*	82,738	10.0	65,231	8.1
Inter-bank placements and balances	416,356	50.5	403,676	50.3
Customer loans	289,602	35.1	301,234	37.5
Other	17,697	2.2	15,633	2.0
Total assets	824,126	100.0	802,914	100.0

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

As at 31 December 2004, all securities were non-dealing assets. Included in these securities were Singapore Government treasury bills and securities amounting to \$82.3 million (2003: \$64.7 million).



## Customer loans

Net loans and advances to customers decreased from \$301.2 million to \$289.6 million as at 31 December 2004. The decrease of \$11.6 million or 3.9% was mainly from overdrafts portfolio.

### Customer loans analysed by product group

	2004		2003	
	\$'000	%	\$'000	%
Housing loans	116,573	37.6	121,729	38.0
Term loans	96,056	31.0	83,882	26.2
Trade financing	18,449	5.9	14,639	4.6
Overdrafts	79,025	25.5	99,825	31.2
Total gross customer loans	310,103	100.0	320,075	100.0
Less: General provisions	(12,059)		(12,059)	
Specific provisions and interest-in-suspense	(8,442)		(6,782)	
Total net customer loans	289,602		301,234	

### Gross customer loans analysed by industry

	2004		2003	
	\$'000	%	\$'000	%
Manufacturing	18,302	5.9	18,667	5.8
Building and construction	11,161	3.6	14,476	4.5
Housing loans	116,573	37.6	121,729	38.0
General commerce	81,598	26.3	83,615	26.1
Transport, storage and communication	2,877	0.9	3,305	1.0
Non-bank financial institutions	11,245	3.6	14,260	4.5
Professionals and private individuals (excluding housing loans)	61,932	20.0	58,568	18.3
Other	6,415	2.1	5,455	1.8
Total gross customer loans	310,103	100.0	320,075	100.0

### Gross customer loans analysed by currency and fixed/variable rates

	2004			2003		
	Fixed rate \$'000	Variable rate \$'000	Total \$'000	Fixed rate \$'000	Variable rate \$'000	Total \$'000
Singapore dollar	81,104	215,563	296,667	141,671	170,392	312,063
US dollar	4,812	390	5,202	2,247	751	2,998
Japanese yen	5,644	640	6,284	3,184	632	3,816
Other	1,925	25	1,950	1,184	14	1,198
Total gross customer loans	93,485	216,618	310,103	148,286	171,789	320,075



## Group Financial Review

### *Gross customer loans analysed by remaining maturity*

	2004		2003	
	\$'000	%	\$'000	%
Within 1 year	121,730	39.2	139,053	43.4
Over 1 year but within 3 years	26,568	8.6	27,123	8.5
Over 3 years but within 5 years	25,681	8.3	24,215	7.6
Over 5 years	136,124	43.9	129,684	40.5
Total gross customer loans	310,103	100.0	320,075	100.0

### *Credit facilities to related parties*

As at 31 December 2004 and 31 December 2003, there were no outstanding loans or advances granted to related parties except for performance guarantees that were given by the Group to a related party in the ordinary course of business on normal terms and conditions. The outstanding amount of the credit facilities at 31 December were as follows:

	2004 \$'000	2003 \$'000
Off-balance sheet credit facilities		
Associate of the holding company	341	540

### **Deposits**

Total deposits went up by 2.5% or \$16.2 million to \$660.9 million as at 31 December 2004, mainly attributable to higher savings and other deposits from customers.

### *Deposits analysed by product group*

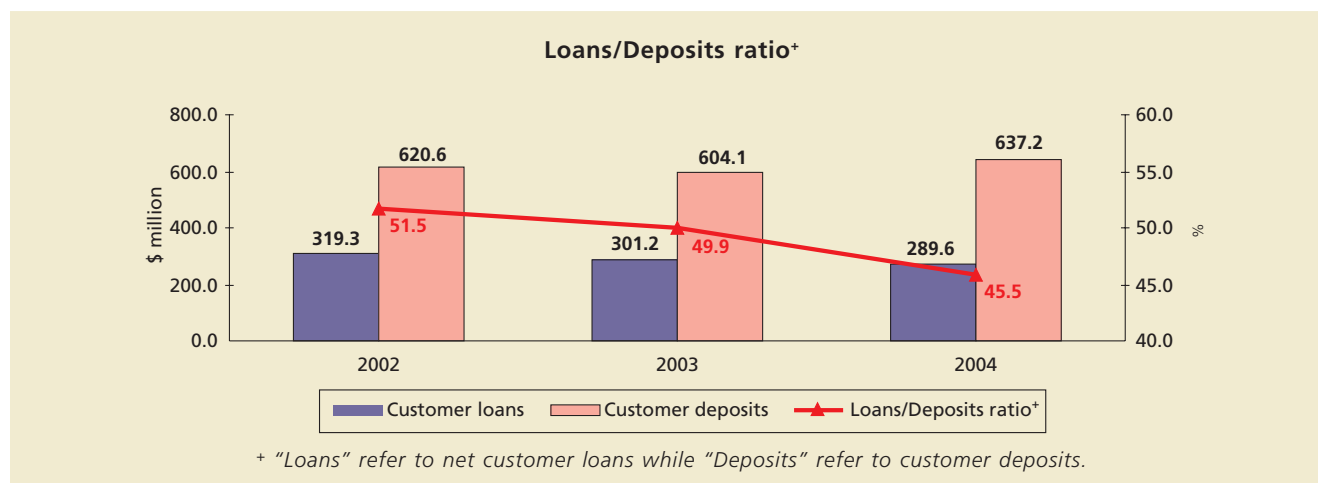
	2004		2003	
	\$'000	%	\$'000	%
Customer deposits				
Fixed deposits	292,362	44.2	283,254	43.9
Savings and other deposits	344,810	52.2	320,875	49.8
	637,172	96.4	604,129	93.7
Fellow subsidiaries' deposits	2,463	0.4	3,338	0.5
Holding company's deposits	21,310	3.2	37,252	5.8
Total deposits	660,945	100.0	644,719	100.0

### *Deposits analysed by remaining maturity*

	2004		2003	
	\$'000	%	\$'000	%
Within 1 year	642,007	97.1	635,010	98.5
Over 1 year but within 3 years	7,006	1.1	5,824	0.9
Over 3 years but within 5 years	11,932	1.8	3,885	0.6
Total deposits	660,945	100.0	644,719	100.0

### Loans/Deposits ratio<sup>+</sup>

As a result of the decrease in net customer loans of 3.9% coupled with the increase in customer deposits of 5.5%, the loans-to-deposits ratio declined 4.4% points to 45.5% as at 31 December 2004.



### Shareholders' funds

Shareholders' funds as at 31 December 2004 stood at \$156.1 million as compared to \$151.5 million as at 31 December 2003.

Unrealised revaluation surplus on properties and investment securities amounted to \$38.0 million as at 31 December 2004. The revaluation surplus was not incorporated into the financial statements.

	2004 \$'000	2003 \$'000
Shareholders' funds	<b>156,073</b>	151,454
Add: Revaluation surplus*	<b>37,977</b>	43,413
Shareholders' funds including revaluation surplus	<b>194,050</b>	194,867
Net asset value (NAV) per share (\$)	<b>1.56</b>	1.51
Revaluation surplus per share (\$)	<b>0.38</b>	0.44
Revalued NAV per share (\$)	<b>1.94</b>	1.95

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

## Group Financial Review

### CAPITAL ADEQUACY RATIOS

The Capital Adequacy Ratios ("CAR") of the Group were computed in accordance to the revised capital framework for Singapore-incorporated banks issued by the Monetary Authority of Singapore ("MAS").

As at 31 December 2004, the Group's total CAR was 46.6%, well above the minimum total CAR of 10% set by MAS. Compared to the total CAR of 44.0% as at 31 December 2003, it had increased 2.6% points mainly attributable to the decrease in risk-weighted assets coupled with the increase in Tier 1 capital due primarily to the net profit recorded for the financial year ended 31 December 2004.

	2004 \$'000	2003^ \$'000
<b>Capital</b>		
Tier 1 capital		
Share capital	100,011	100,011
Disclosed reserves	56,065	50,029
	<b>156,076</b>	150,040
Upper Tier 2 capital		
Cumulative general provisions	4,301	4,389
<b>Total capital</b>	<b>160,377</b>	154,429
<b>Risk-weighted assets</b> (including market risk)	<b>344,110</b>	351,125
<b>Capital adequacy ratios</b>		
Tier 1	45.4%	42.7%
Total capital	46.6%	44.0%

^ The comparative figures as at 31 December 2003 have been adjusted to conform with the revised capital framework for Singapore-incorporated banks issued by MAS, which was effective from 30 June 2004.