FAR EASTERN BANK LIMITED

(A SUBSIDIARY OF UNITED OVERSEAS BANK LIMITED)

ANNUAL REPORT 2002

# United | for Growth

**FAR EASTERN BANK LIMITED**

(INCORPORATED IN SINGAPORE)

AND ITS SUBSIDIARIES

## CONTENTS



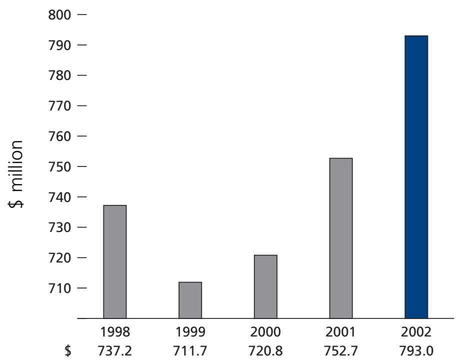
*All figures in this Annual Report are in Singapore dollars unless otherwise specified.*

# Financial Highlights (Consolidated)

### Total Assets

2002: $793.0 million + 5.4%

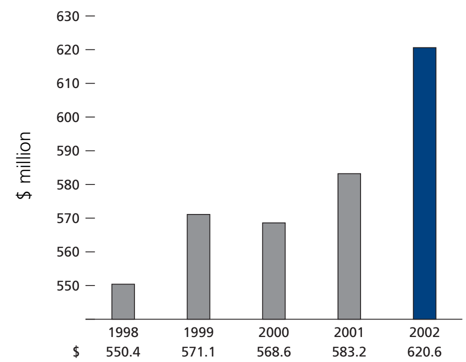
2001: $752.7 million




### Customer Deposits

2002: $620.6 million + 6.4%

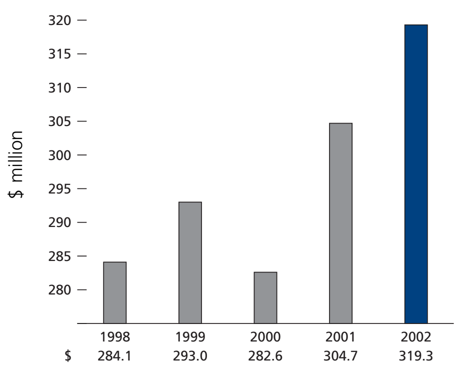
2001: $583.2 million




### Customer Loans

2002: $319.3 million + 4.8%

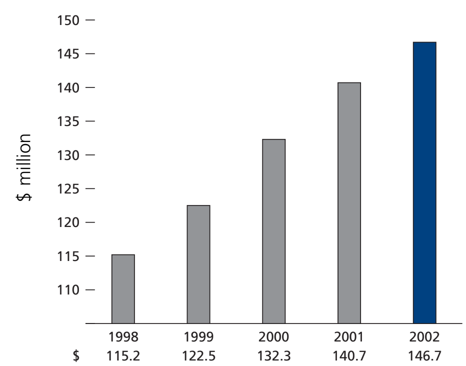
2001: $304.7 million




### Shareholders' Funds

2002: $146.7 million + 4.3%

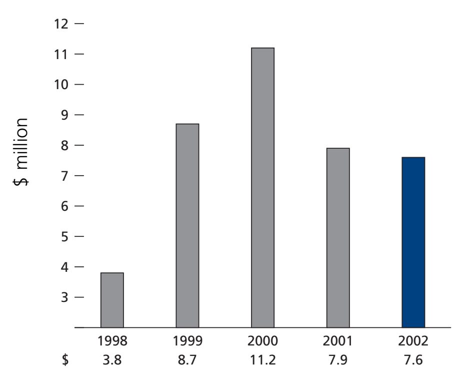
2001: $140.7 million




### Net Profit After Tax

2002: $7.6 million – 3.8%

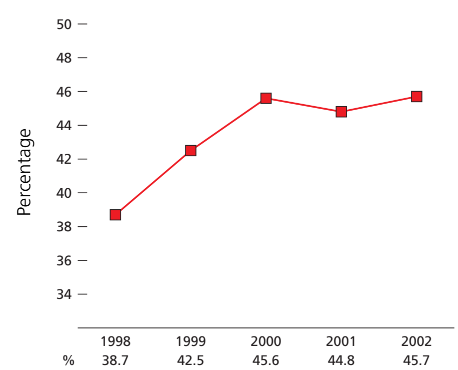
2001: $7.9 million




### Capital Adequacy Ratio

2002: 45.7% + 0.9% point

2001: 44.8%

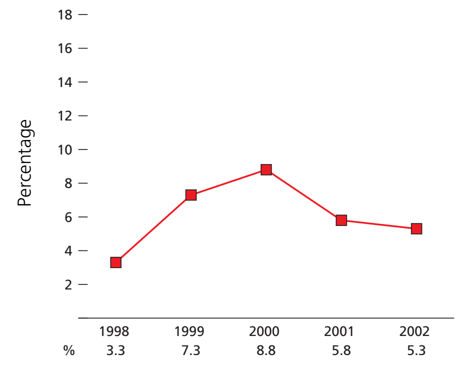


# Financial Highlights (Consolidated)

### Return On Average Shareholders' Funds

2002: 5.3% – 0.5% point

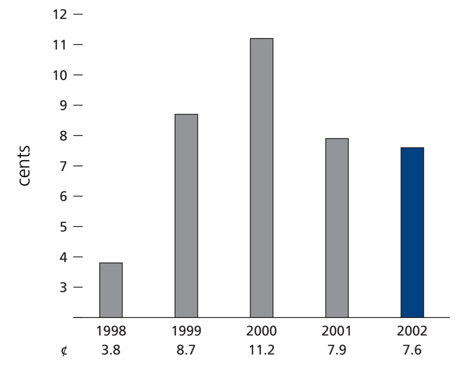
2001: 5.8%




### Earnings Per Share

2002: 7.6 cents – 3.8%

2001: 7.9 cents




### Total Non-Performing Loans (NPLs)

NPLs

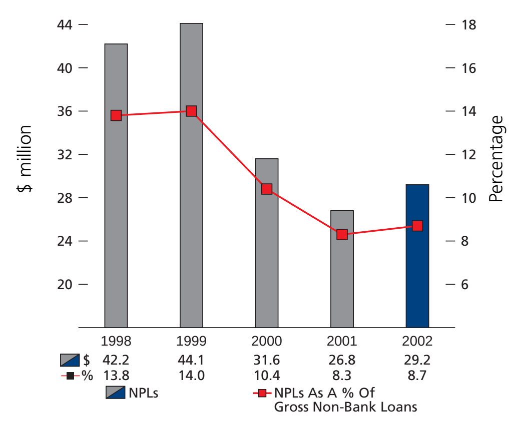
2002: $29.2 million + 9.1%

2001: $26.8 million

NPLs As A % Of Gross Non-Bank Loans

2002: 8.7% + 0.4% point

2001: 8.3%




### Total Cumulative Provisions

Cumulative Specific Provision

2002: $5.8 million + 0.6%

2001: $5.8 million

Cumulative General Provision

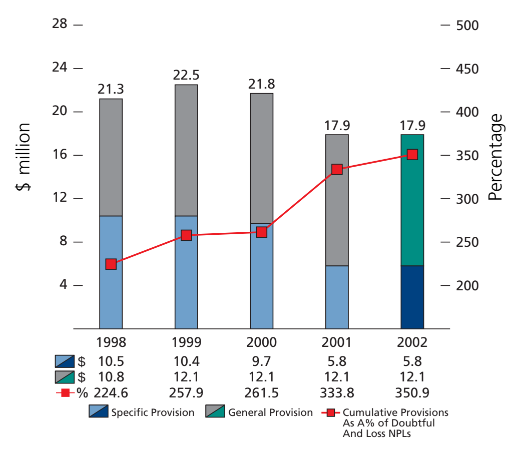
2002: $12.1 million –

2001: $12.1 million

Total Cumulative Provisions As A % Of Doubtful And Loss NPLs

2002: 350.9% + 17.1% points

2001: 333.8%




*Note:*
*Certain figures in this report may not add up to the relevant totals due to rounding.*
*Figures/ratios have been adjusted for impact of adopting Singapore Statement of Accounting Standard (SAS) 10: Events After Balance Sheet Date with effect from 2000 and SAS 12: Income Taxes with effect from 2001.*

# Chairman's Statement

**Wee Cho Yaw**
*Chairman & Chief Executive Officer*

The economic rebound that Singapore expected in the second half of 2002 did not materialise. The threat of a war in Iraq and fears of more acts of terrorism by Islamic radical groups dampened the US and world economies. As a consequence, the Singapore economy only grew by 2% last year.

Reflecting the poor business climate, the FEB Group's After-Tax Profit dropped to $7.6 million, from $7.9 million in 2001. While total assets grew by 5.4% to $793 million and total deposits increased by 6.1% to $639.6 million, net interest income fell by 6.8% to $14.2 million. The poor business environment caused Non-Performing Loans to increase from $26.8 million in 2001 to $29.2 million last year.

The Board proposes to transfer $6 million to Reserves and to recommend a first and final dividend of 2% less 22% income tax for the financial year ended 31 December 2002. Total dividend paid out would amount to $1.6 million.

The 2003 business climate is clouded with uncertainties. The war in Iraq and its aftermath will have a significant impact on the world economy. Singapore will thus face another challenging year.

The banking sector will also face greater competition as the Government proceeds with its liberalisation programme. The FEB Group will, therefore, have to work much harder to maintain its niche market of the small and medium-sized enterprises. And it will continue to work closely with the United Overseas Bank Group to ensure that FEB customers enjoy the same level of quality service and products.

In conclusion, I would like to thank Board Directors for their wise counsel during the past year, and management and staff members for their dedication and contributions.

**Wee Cho Yaw**
Chairman & Chief Executive Officer

March 2003

# Corporate Information

**BOARD OF DIRECTORS**

Wee Cho Yaw
*Chairman*

Wee Ee Cheong
Koh Beng Seng
Lee Chin Chuan
Ong Chu Meng
Wong Meng Meng
Sim Wong Hoo
Philip Yeo Liat Kok
Dr Cham Tao Soon

**EXECUTIVE COMMITTEE**

Wee Cho Yaw
*Chairman*

Wee Ee Cheong
Koh Beng Seng

**NOMINATING COMMITTEE**

Wong Meng Meng
*Chairman*

Wee Cho Yaw
Koh Beng Seng
Sim Wong Hoo
Dr Cham Tao Soon

**REMUNERATION COMMITTEE**

Wee Cho Yaw
*Chairman*

Philip Yeo Liat Kok
Dr Cham Tao Soon

**SECRETARY**

Vivien Chan (Mrs)

**SHARE TRANSFER OFFICE**

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4th Storey
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**REGISTERED OFFICE**

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SWIFT: UOVBSGSG
Website: www.uobgroup.com

# Corporate Information

**GENERAL MANAGEMENT**

Wee Cho Yaw
*Chairman and Chief Executive Officer*

Wee Ee Cheong
*Deputy Chairman & President*

Koh Beng Seng
*Deputy President*

Terence Ong Sea Eng
*Senior Executive Vice President*
*Global Treasury and Asset Management*

Samuel Poon Hon Thang
*Senior Executive Vice President*
*Institutional Banking*

Joseph Chen Seow Chan
*Managing Director*
*Trading & Institutional Treasury Services,*
*Global Treasury*

Bill Chua Teck Huat
*Executive Vice President*
*Operations*

Susan Hwee (Ms)
*Executive Vice President*
*Information Technology*

Kuek Tong Au
*Executive Vice President*
*Corporate Services*

Michael Lau Hwai Keong
*Executive Vice President*
*International and Strategic Planning & Research*

David Loh Hong Kit
*Eecutive Vice President*
*Risk Management & Compliance*

Sim Puay Suang (Ms)
*Executive Vice President*
*Personal Financial Services*

Wee Joo Yeow
*Executive Vice President*
*Corporate Banking*

Wong Chong Fatt
*Executive Vice President*
*High Networth Customers &*
*Managing Director,*
*Banknotes, Futures & Personal Treasury Services,*
*Global Treasury*

Yeo Eng Cheong
*Executive Vice President*
*Commercial Credit*

Larry Lam
*Senior Vice President & Head*
*Internal Audit*

# Branch Network

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**CORRESPONDENTS**
In all principal cities of the world

# Group Financial Review



*All variances in this report were computed from amounts stated in thousands and certain figures 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.*

*Certain comparative figures for 2001 have been restated for impact of adopting the revised Statement of Accounting Standard (SAS) 12 on Income Taxes.*

# Group Financial Review

## REVIEW OF FINANCIAL PERFORMANCE

### HIGHLIGHTS AND PERFORMANCE INDICATORS

| | 2002 | 2001 | Increase/ Decrease | (%) |
|---|---|---|---|---|
| **Key Indicators** | | | | |
| Net interest income (NII) ($ million) | **14.2** | 15.2 | – | 6.8 |
| Non-interest income ($ million) | **6.6** | 6.4 | + | 2.5 |
| Total income ($ million) | **20.8** | 21.6 | – | 4.0 |
| Total expenses ($ million) | **9.7** | 10.7 | – | 9.2 |
| Operating profit before provisions ($ million) | **11.0** | 10.9 | + | 1.1 |
| Net profit after tax (NPAT) ($ million) | **7.6** | 7.9 | – | 3.8 |
| Income mix: | | | | |
| Net interest income/Total income (%) | **68.2** | 70.2 | – | 2.0% points |
| Non-interest income/Total income (%) | **31.8** | 29.8 | + | 2.0% points |
| | **100.0** | 100.0 | | – |
| Return on average shareholders' funds (ROE) (%) | **5.3** | 5.8 | – | 0.5% point |
| Basic earnings per share (EPS) (cents) | **7.6** | 7.9 | – | 3.8 |
| Return on average total assets (ROA) (%) | **1.0** | 1.1 | – | 0.1% point |
| NII/Average interest-bearing assets (%) | **1.75** | 1.00 | + | 0.75% point |
| Expense/Income ratio (%) | **46.8** | 49.5 | – | 2.7% points |
| **Other Indicators** | | | | |
| Customer loans (net) ($ million) | **319.3** | 304.7 | + | 4.8 |
| Customer deposits ($ million) | **620.6** | 583.2 | + | 6.4 |
| Loans/Deposits ratio+ (%) | **51.5** | 52.3 | – | 0.8% point |
| Non-performing loans (NPLs) ($ million) | **29.2** | 26.8 | + | 9.1 |
| Cumulative provisions ($ million) | **17.9** | 17.9 | + | 0.2 |
| NPLs/Gross customer loans (%) | **8.7** | 8.3 | + | 0.4% point |
| Cumulative provisions/NPLs (%) | **61.2** | 66.6 | – | 5.4% points |
| Total assets ($ million) | **793.0** | 752.7 | + | 5.4 |
| Shareholders' funds ($ million) | **146.7** | 140.7 | + | 4.3 |
| Unrealised surplus from revaluation** ($ million) | **57.0** | 61.1 | – | 6.7 |
| Net asset value (NAV) per share ($) | **1.47** | 1.41 | + | 4.3 |
| Revalued NAV per share ($) | **2.04** | 2.02 | + | 1.0 |
| Capital adequacy ratio (BIS) (%) | **45.7** | 44.8 | + | 0.9% point |
| Dividend rates (%) | | | | |
| Final | **2.0** | 2.0 | – | – |
| Manpower (number) | **34** | 36 | – | 2 number |

+ *Loans refer to net customer loans while deposits refer to customer deposits.*
*** Not incorporated into the accounts.*

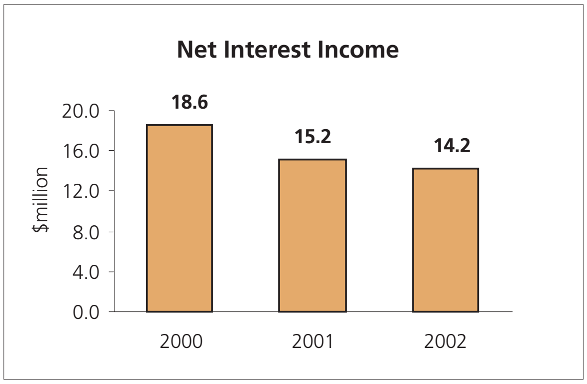
## GROUP PROFITS

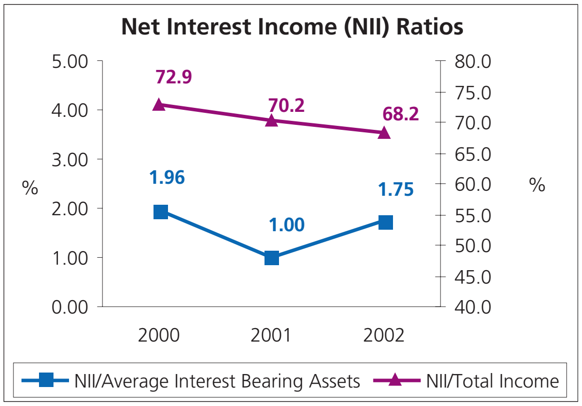
The Group has posted a net profit after tax of $7.6 million for the financial year ended 31 December 2002, down 3.8% from $7.9 million in the previous year. The decline was mainly attributable to lower net interest income, lower dealing income and higher provisions, partially offset by lower operating expenses and higher fee and commission income.

## FINANCIAL RATIOS

- Earnings per share decreased by 3.8%, from 7.9 cents to 7.6 cents in 2002.
- Return on average shareholders' funds, at 5.3%, decreased by 0.5% point from 5.8% in 2001.
- Net asset value (NAV) per share increased by $0.06 or 4.3%, from $1.41 in 2001 to $1.47 in 2002.
- Total dividend of 2% (2001: 2%) was 4.9 times covered by net profit (2001: 5.0 times).

## NET INTEREST INCOME




Net interest income for the Group eased 6.8% or $1.0 million to $14.2 million from $15.2 million in 2001. Net interest income continued to be the major contributor of total income, accounting for 68.2% (2001: 70.2%) of total income.

The decline in net interest income was primarily attributable to substantial drop in inter-bank placements interest margin, partially negated by improved margin from government securities. Despite a drop in net interest income, overall net interest margin on average interest-bearing assets rose marginally by 0.75% point to 1.75% in 2002.

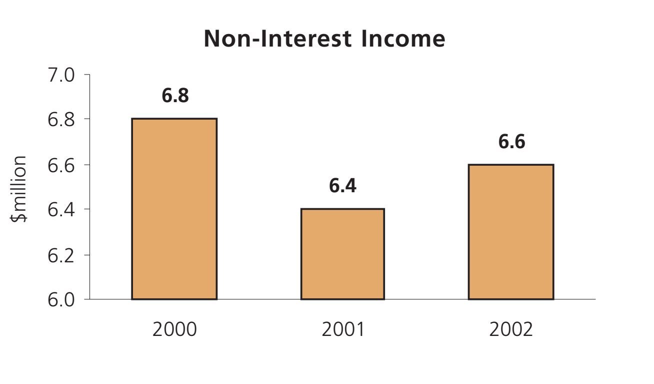
**Group Average Interest Margin**

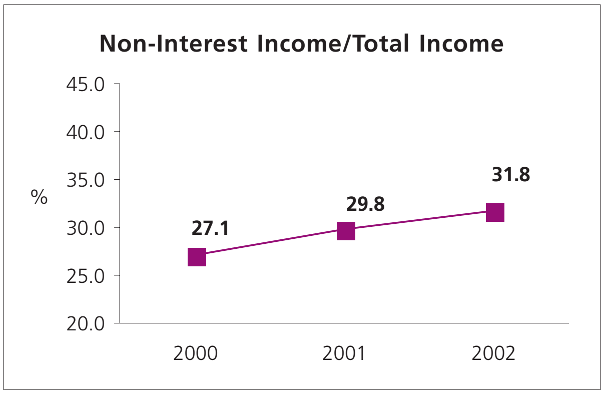
| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Average Balance* $'000** | **Interest $'000** | **Average Rate %** | Average Balance* $'000 | Interest $'000 | Average Rate % |
| **Assets** | | | | | | |
| Interest bearing assets | **808,185** | **20,740** | **2.57** | 1,513,198 | 43,502 | 2.87 |
| Interest bearing liabilities | **669,386** | **6,584** | **0.98** | 1,375,135 | 28,319 | 2.06 |
| Net interest income | | **14,156** | | | 15,183 | |
| Group average interest margin+ | | | **1.75** | | | 1.00 |

** Computed based on monthly 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 2002 accounted for 31.8% of total income. Total non-interest income rose by $0.2 million or 2.5% to $6.6 million in 2002.




The increase in non-interest income was derived mainly from growth in loan-related fees and rental income, partially offset by a drop in dealing income from securities and foreign exchange.

### Composition Of Non-Interest Income

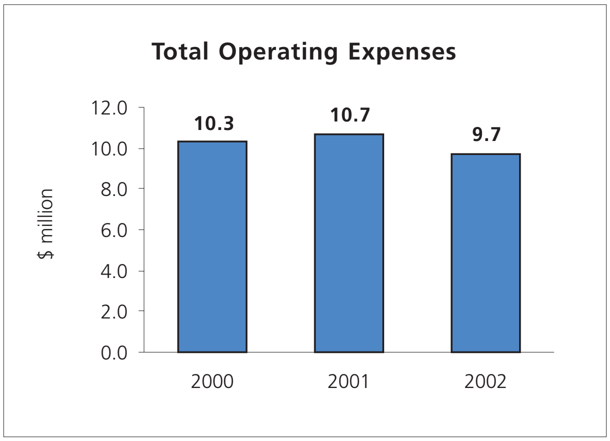
| | **2002 $'000** | 2001 $'000 | Increase/ (Decrease) % |
|---|---|---|---|
| Fee and commission income | | | |
| Investment-related | **78** | 7 | 1,014.3 |
| Trade-related | **567** | 554 | 2.3 |
| Loan-related | **448** | 254 | 76.4 |
| Others | **469** | 446 | 5.2 |
| | **1,562** | 1,261 | 23.9 |
| Dividend and rental income | **4,022** | 3,883 | 3.6 |
| Other operating income | | | |
| Dealing income | **137** | 349 | (60.7) |
| Others | **880** | 947 | (7.1) |
| | **1,017** | 1,296 | (21.5) |
| Total non-interest income | **6,601** | 6,440 | 2.5 |

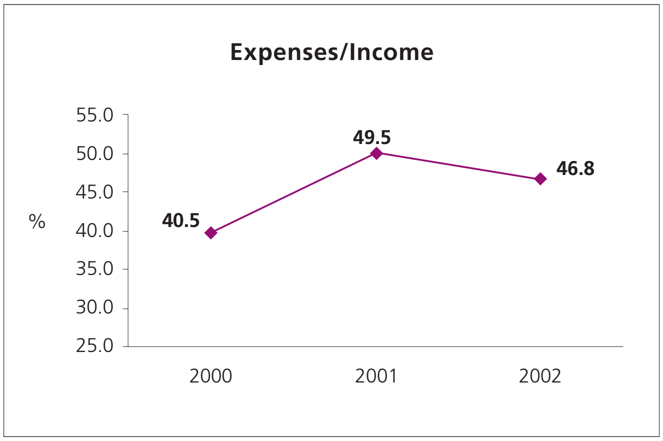
### OPERATING EXPENSES

Group's total operating expenses fell 9.2% to $9.7 million from $10.7 million in 2001, arising from decline in both staff expenses and other operating expenses by 2.5% and 10.5% respectively.

Expense to income ratio dropped by 2.7% points to 46.8% in 2002 as compared to 49.5% in 2001, resulting mainly from lower payments for premise-related expenses and lower depreciation charges.

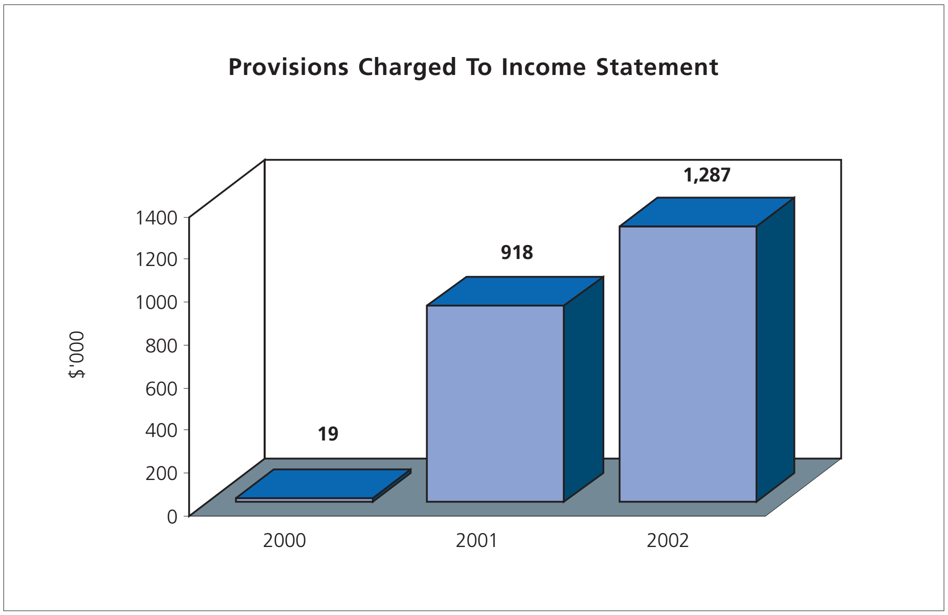
| | **2002 $'000** | 2001 $'000 | Increase/ (Decrease) % |
|---|---|---|---|
| Staff expenses | **1,716** | 1,760 | (2.5) |
| Other operating expenses | **7,998** | 8,940 | (10.5) |
| Total operating expenses | **9,714** | 10,700 | (9.2) |



**PROVISIONS CHARGED TO INCOME STATEMENT**

For 2002, the total provision charge was at $1.3 million, up $0.4 million or 40.2% compared with $0.9 million in 2001. The increase was substantially due to higher specific provisions for loans and properties, partially offset by nil provision for investments in 2002.




| | **2002** | 2001 |
|---|---|---|
| | **$'000** | $'000 |
| **The Group** | | |
| Specific provision for loans | **1,237** | 671 |
| Specific provision for diminution in value of investments | **–** | 565 |
| Specific provision for diminution in value of properties | **50** | (318) |
| Total provisions | **1,287** | 918 |

## OVERVIEW OF BALANCE SHEET

### TOTAL ASSETS

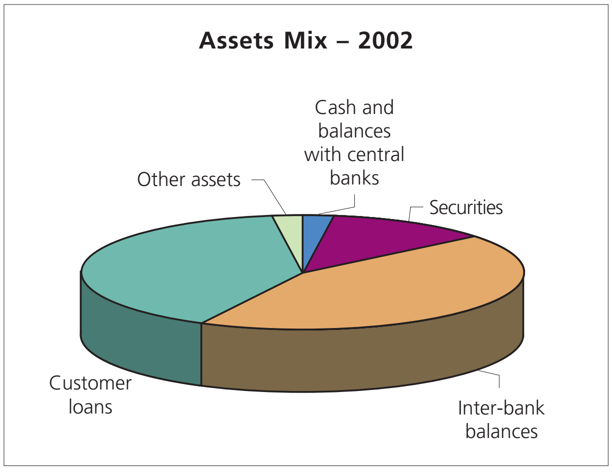
Group total assets increased to $793.0 million as at 31 December 2002, a 5.4% growth compared with $752.7 million previously. The growth was primarily from securities and customer loans, partially offset by lower inter-bank balances.

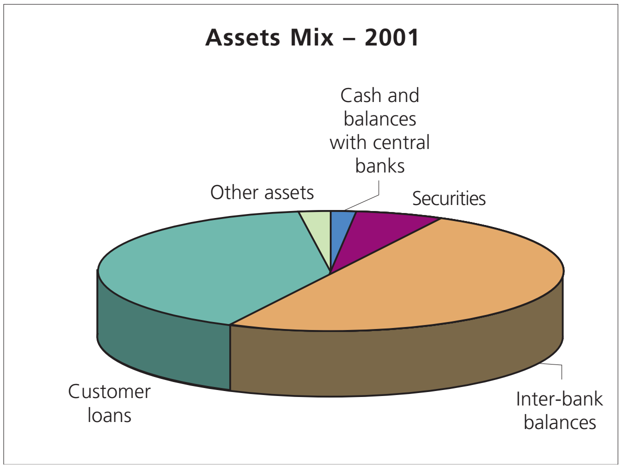
**Assets Mix**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | $'000 | % | $'000 | % |
| Cash and balances with central banks | **18,444** | **2.3** | 12,916 | 1.7 |
| Securities* | **92,050** | **11.6** | 45,328 | 6.0 |
| Inter-bank balances | **346,303** | **43.7** | 372,802 | 49.5 |
| Customer loans | **319,294** | **40.3** | 304,724 | 40.5 |
| Other assets | **16,918** | **2.1** | 16,883 | 2.3 |
| Total assets | **793,009** | **100.0** | 752,653 | 100.0 |

**Comprising Singapore government securities, dealing and investment securities.*

As at 31 December 2002, all securities were non-dealing assets and mainly in Singapore government securities amounting to $91.5 million.



## CUSTOMER LOANS

The Group's net loans and advances to customers rose from $304.7 million to $319.3 million as at 31 December 2002 (up $14.6 million or 4.8%) resulting from substantial growth in term loans portfolio.

### Customer Loans By Type

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **$'000** | **%** | $'000 | % |
| Housing loans | **124,692** | **37.0** | 127,651 | 39.6 |
| Term loans | **82,272** | **24.4** | 61,137 | 19.0 |
| Trade financing | **15,907** | **4.7** | 13,326 | 4.1 |
| Overdrafts | **114,316** | **33.9** | 120,467 | 37.3 |
| Total gross customer loans | **337,187** | **100.0** | 322,581 | 100.0 |
| Less: General provision | **(12,059)** | | (12,059) | |
| Specific provision and interest-in-suspense | **(5,834)** | | (5,798) | |
| Net customer loans | **319,294** | | 304,724 | |

### Gross Customer Loans Analysed By Currency And Fixed/Variable Rates

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Fixed Rate $'000** | **Variable Rate $'000** | **Total $'000** | Fixed Rate $'000 | Variable Rate $'000 | Total $'000 |
| Singapore Dollars | **123,694** | **203,247** | **326,941** | 92,733 | 220,568 | 313,301 |
| US Dollars | **3,118** | **1,911** | **5,029** | 3,664 | 2,239 | 5,903 |
| Japanese Yen | **3,563** | **397** | **3,960** | 2,523 | 107 | 2,630 |
| Others | **1,044** | **213** | **1,257** | 747 | – | 747 |
| Group Total | **131,419** | **205,768** | **337,187** | 99,667 | 222,914 | 322,581 |

*For a breakdown of Group loans and advances by remaining maturity and industry, please refer to Notes 21(b) and 21(c) to the Financial Statements respectively.*

### Credit Facilities To Related Parties

As at 31 December 2002, there were no outstanding loans or advances granted to related parties except for letter of credit and guarantees that were given by the Group on behalf of related parties in the ordinary course of business on normal terms and conditions. The outstanding amount of the credit facilities at 31 December 2002 were as follows:

| | **2002** | 2001 |
|---|---|---|
| | **$'000** | $'000 |
| **Off-Balance Sheet Credit Facilities** | | |
| Directors of the Bank and director-related parties+ | **585** | 716 |

+ *Director-related parties include the immediate family members of the directors of the Bank, entities in which a director of the Bank or his family members have a substantial shareholding, and credit facilities guaranteed by the directors of the Bank.*

## DEPOSITS

Total Group deposits went up by 6.1% or $36.7 million to $639.6 million as at 31 December 2002, mainly attributable to higher savings and other deposits from customers. Customer deposits accounted for 97.0% of total Group deposits.

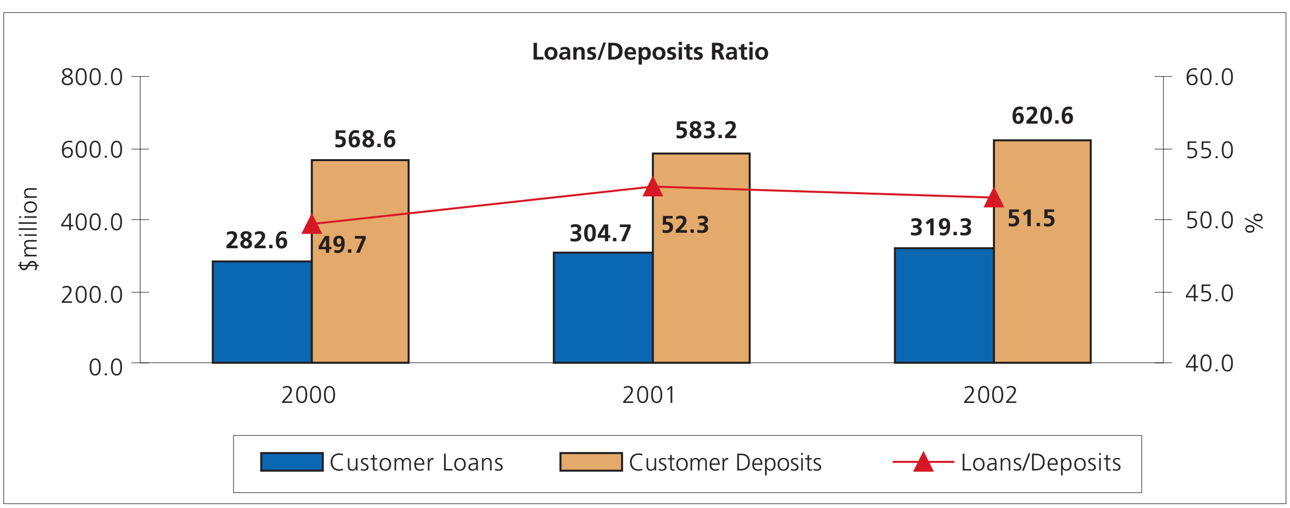
### Deposits By Type

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **$'000** | **%** | $'000 | % |
| Bankers' deposits | **–** | **–** | 142 | – |
| Customer deposits | | | | |
| Fixed deposits | **304,419** | **47.6** | 301,361 | 50.0 |
| Savings and others | **316,159** | **49.4** | 281,825 | 46.7 |
| | **620,578** | **97.0** | 583,186 | 96.7 |
| Fellow subsidiaries' deposits | **3,140** | **0.5** | 3,025 | 0.5 |
| Holding company's deposits | **15,881** | **2.5** | 16,578 | 2.8 |
| Total deposits | **639,599** | **100.0** | 602,931 | 100.0 |

*For a breakdown of deposits by remaining maturity, please refer to Note 16(a) to the Financial Statements.*

### Loans/Deposits Ratio

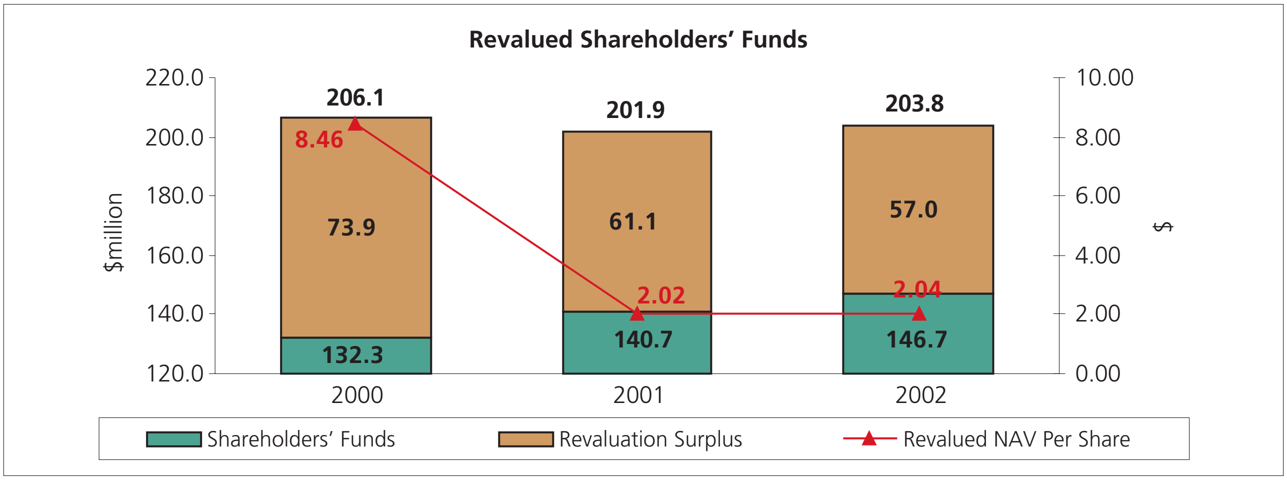
As a result of positive growth in customer deposits and net customer loans of 6.4% and 4.8% respectively, the loans-to-deposits ratio slipped 0.8% point from 52.3% in 2001 to 51.5% in 2002.



## SHAREHOLDERS' FUNDS

Group shareholders' funds stood at $146.7 million as at 31 December 2002 as compared to $140.7 million as at 31 December 2001.

Unrealised revaluation surpluses in properties and long-term investments amounting to $57.0 million as at 31 December 2002, were not incorporated into the Group's accounts.




| | 2002<br>$'000 | 2001<br>$'000 |
|---|---|---|
| Shareholders' funds per book | **146,732** | 140,726 |
| Add: Surplus on revaluation *(not incorporated in the accounts)* | **57,038** | 61,133 |
| Shareholders' funds including revaluation surplus | **203,770** | 201,859 |
| | | |
| Net asset value (NAV) per share (in $) | | |
| NAV per book | **1.47** | 1.41 |
| Revaluation surplus | **0.57** | 0.61 |
| Total revalued NAV | **2.04** | 2.02 |

## CAPITAL ADEQUACY RATIO

The Capital Adequacy Ratio (CAR) of the Group was computed in accordance with the guidelines issued by the Basle Committee on Banking Supervision. As at 31 December 2002, the Group maintained a strong Total Capital ratio of 45.7%, which is more than five times the minimum Bank for International Settlements (BIS) requirement of 8%, and above the minimum 12% required by the Monetary Authority of Singapore. CAR of the Group strenghtened from 44.8% to 45.7%.

| | **2002** | 2001 |
|---|---|---|
| | **$'000** | $'000 |
| **Capital** | | |
| Tier 1 – Core capital | | |
| Share capital | **100,011** | 100,011 |
| Disclosed reserves | **44,868** | 38,651 |
| | **144,879** | 138,662 |
| Tier 2 – Supplementary capital | | |
| Undisclosed reserves | **–** | 700 |
| Revaluation reserves on investments and properties* | **11,989** | 10,524 |
| General loan loss provisions+ | **4,412** | 4,300 |
| | **16,401** | 15,524 |
| **Total Capital** | **161,280** | 154,186 |
| **Risk-Weighted Assets** | | |
| Total risk-weighted assets including market risk | **352,961** | 344,035 |
| **Capital Adequacy Ratios** | | |
| Tier 1 | **41.0%** | 40.3% |
| Total capital | **45.7%** | 44.8% |

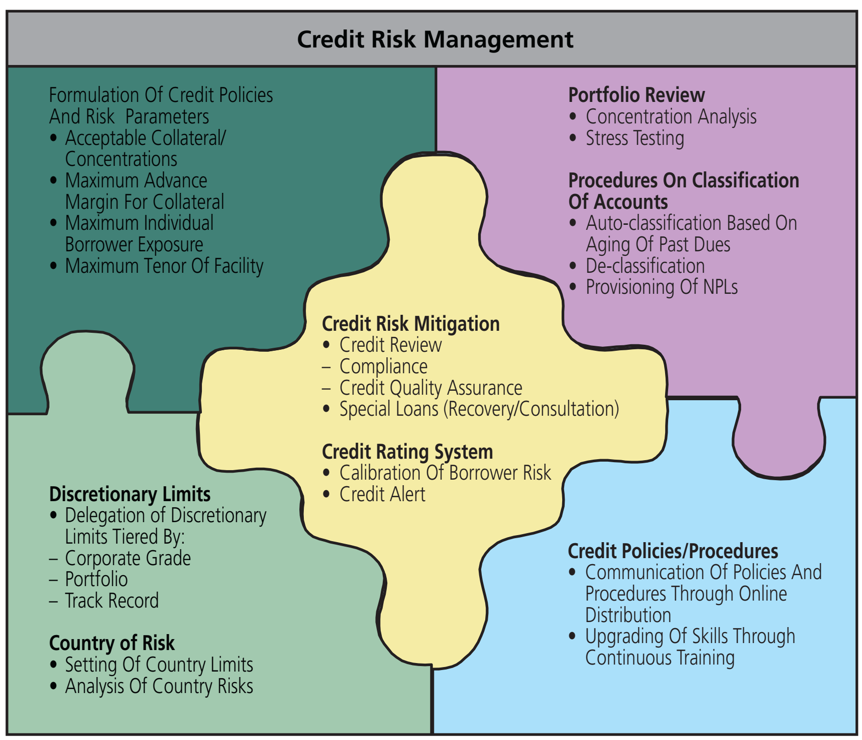
** After discount of 55% in accordance with BIS guidelines.*
*+ Excluding specific and earmarked provisions.*

## CREDIT AND COUNTRY RISK MANAGEMENT

### CREDIT RISK

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

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




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, collateral concentrations, identified high risk areas, maximum tenor and acceptable structures and collateral types.

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

Credit relationships with 'Related Parties' must be established on a strictly arm's length commercial basis. An approving authority shall abstain and absent himself/herself from the deliberation and approval of credit cases where the borrower is a 'Related Party' except that an approving authority may participate in the credit deliberation if the 'Related Party' is a:

- company in the FEB Group;
- public listed company or company related to a public listed company;
- company formed by professional bodies, trade or clan associations or societies.

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

A comprehensive set of limits (country, regional, industry and counter-party) are in place to address concentration issues in the Bank's portfolio and a rigorous process is established to regularly review and report asset concentrations and portfolio quality so that risks are accurately assessed and properly monitored and approved. These cover large credit exposures by obligor group, collateral type, industry, product and country, level of non-performing loans (NPLs) and adequacy of provisioning requirements.

In particular, the trends and composition of exposures to property-related loans are closely monitored, analysed and reported on an ongoing basis to ensure exposures are kept within regulatory requirement and internal guidelines. The exposure concentrations and NPLs by industry type are reported to the Credit Committee and Executive Committee on a monthly basis and Board of Directors on a quarterly basis.

Credit audits and reviews are regularly carried out to proactively identify and address potential weakness in the credit process and to pre-empt any unexpected deterioration in the credit quality.

The Bank has a counter-party risk rating system in place to support consistent credit risk analysis for each counterparty. The risk rating system, together with our plans to estimate recovery rates and exposures upon default will enable us to better quantify potential credit losses in future.

**Customer Loans**

The Group's Loans and advances are made to customers in various industry segments and business lines.

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

As at 31 December 2002, about 54.5% of the Group exposure to customers resided in the personal financial services portfolio, which comprised mainly housing loans and other mortgage loans.

The composition of loans and advances to customers, contingent liabilities and corresponding non-performing portions are as follows :

| By Industry Type (%) | Loans & Advances | | Contingent Liabilities | | Non-Performing Loans | |
|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| Manufacturing | **7.1** | 4.7 | **2.6** | 4.1 | **4.2** | 4.2 |
| Building and construction | **4.6** | 7.6 | **4.3** | 4.0 | **2.5** | 3.2 |
| Housing loans | **37.0** | 39.6 | **–** | – | **20.4** | 34.4 |
| General commerce | **20.9** | 18.0 | **23.0** | 22.8 | **45.6** | 40.9 |
| Transport, storage and communication | **3.5** | 2.8 | **8.9** | 5.1 | **–** | 0.3 |
| Non-bank financial institutions | **4.1** | 1.9 | **48.2** | 49.9 | **–** | – |
| Professionals and private individuals | **17.5** | 18.3 | **3.1** | 2.0 | **23.4** | 12.6 |
| Others | **5.3** | 7.1 | **9.9** | 12.1 | **3.9** | 4.4 |
| **Total (%)** | **100.0** | 100.0 | **100.0** | 100.0 | **100.0** | 100.0 |
| **Total ($ million)** | **337.2** | 322.6 | **28.6** | 28.0 | **29.2** | 26.8 |

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

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

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

The Group's provisions for credit losses are intended to cover probable credit losses through charges against profit. The provisions consist of an element that is specific to the individual loan and also a general element that has not been specifically applied. The Group constantly reviews the quality of its loan portfolio based on its knowledge of the borrowers and, where applicable, of the relevant industry and country of operation. A specific provision is made when the Group believes that the creditworthiness of a borrower has deteriorated to such an extent that the recovery of the whole outstanding loan is in doubt. The amount of specific provision to be made is based on the difference between the discounted cash flows (or collateral value) of an impaired loan and the carrying value of that loan. A general provision is made to cover possible losses and could be used to cushion any unforeseen losses in the loan portfolio.

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

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

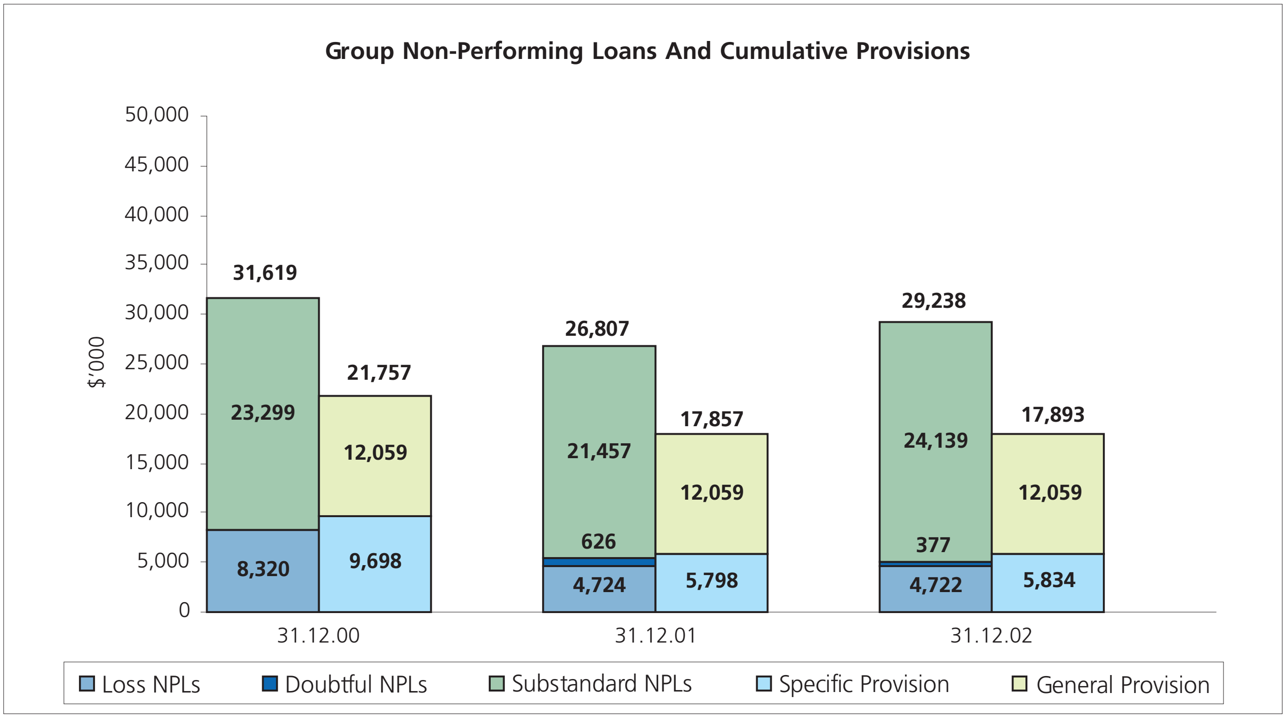
**Write-Off**

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

**Non-Performing Loans (NPLs) And Cumulative Provisions**

The Group's Non-Performing Loans (NPLs) increased 9% or $2.4 million from $26.8 million as at end-2001 to $29.2 million as at end-2002. The increase was in the substandard category which amounted to 82.6% of the total NPLs. Correspondingly, NPLs as a percentage of gross customer loans rose to 8.7% as compared to 8.3% as at end-2001.

Total cumulative specific and general provisions for the Group as at end-2002 remained at $17.9 million. As at 31 December 2002, general provision was $12.1 million or 67.4% of total cumulative provisions. The total cumulative provisions provided 61.2% cover against the Group's NPLs and 350.9% of NPLs classified as Doubtful and Loss.



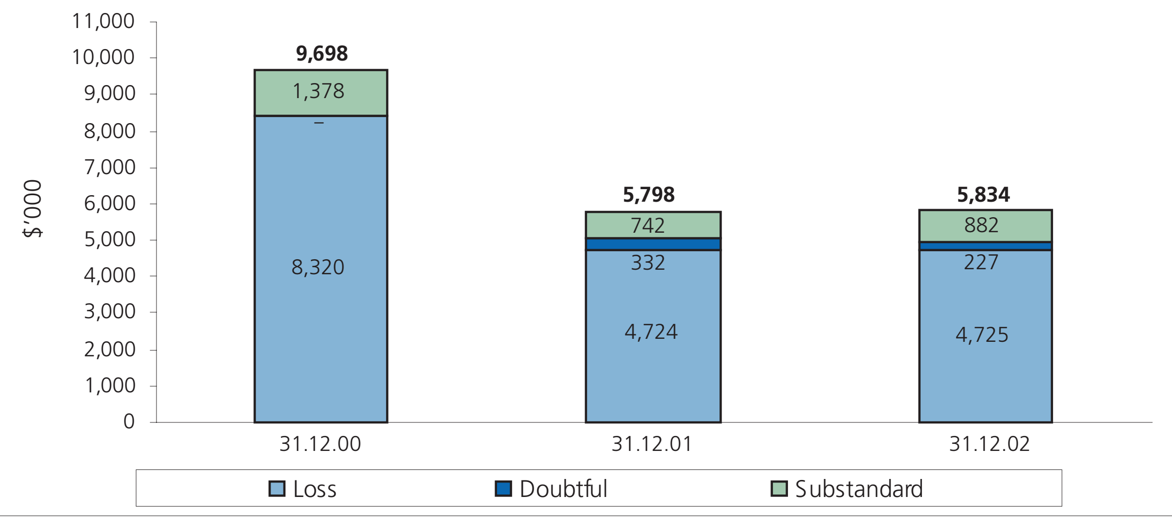

| Ratios (%) | 31.12.02 | 31.12.01 | 31.12.00 |
|---|---|---|---|
| NPLs/Gross customer loans | **8.7** | 8.3 | 10.4 |
| Cumulative provisions/NPLs | **61.2** | 66.6 | 68.8 |
| Cumulative provisions/Doubtful & Loss NPLs | **350.9** | 333.8 | 261.5 |
| Cumulative provisions/Unsecured NPLs | **281.9** | 350.6 | 214.3 |
| Cumulative provisions/Gross customer loans | **5.3** | 5.5 | 7.1 |
| General provision/Gross customer loans (net of specific provision) | **3.6** | 3.8 | 4.1 |
| NPLs/Total assets | **3.7** | 3.6 | 4.4 |

**Specific Provisions**

Group's specific provision remained at $5.8 million as at end-2002. About 81% of specific provision made for expected loan losses is for 'Loss' accounts.

The specific provision for each classified loan grade is shown in the following chart:

**Specific Provision By Loan Classification**




**Rescheduled And Restructured Accounts**

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

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

A restructured account is one where the original terms and conditions of the facilities have been modified significantly to assist the borrower to overcome financial difficulties where the longer-term prospect of the business or project is still deemed to be viable. A restructuring exercise could encompass a change in the credit facility type, or in the repayment schedule including moratorium, or extension of interest and/or principal payments and reduction of accrued interest, including forgiveness of interest and/or reduction in interest rate charged. When an account has been restructured based on financial consideration, the account will be graded as 'Non-Performing'. It can only be upgraded to 'Pass' after six months when all payments are current in terms of the restructured terms and conditions and there is no reasonable doubt as to the ultimate collectability of principal and interest.

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

**$'000**

| Loan Classification | 31.12.02 | | 31.12.01 | |
|---|---|---|---|---|
| | **Amount** | **Specific Provisions** | Amount | Specific Provisions |
| Substandard | **–** | **–** | 2,109 | – |
| Doubtful | **–** | **–** | 607 | 333 |
| Loss | **127** | **127** | 7 | 7 |
| Total | **127** | **127** | 2,723 | 340 |

**Ageing of NPLs**

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

| Ageing (Days) | 31.12.02 | | 31.12.01 | |
|---|---|---|---|---|
| | **Amount ($'000)** | **% Of Total NPLs** | Amount ($'000) | % Of Total NPLs |
| Current | **4,661** | **16.0** | 5 | – |
| ≤ 90 | **1,955** | **6.7** | 6,262 | 23.4 |
| 91 to 180 | **6,501** | **22.2** | 6,875 | 25.6 |
| ≥ 181 | **16,121** | **55.1** | 13,665 | 51.0 |
| Total | **29,238** | **100.0** | 26,807 | 100.0 |

**Collateral Types**

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

The secured NPLs of the Group by collateral type were as follows:

| | **2002 $'000** | 2001 $'000 |
|---|---|---|
| Property | **22,376** | 20,855 |
| Market Securities | **227** | 808 |
| Cash & Deposits | **288** | 51 |
| Total | **22,891** | 21,714 |

**BALANCE SHEET RISK MANAGEMENT**

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

The Group's Asset Liability Committee (ALCO) approves the policies and limits for balance sheet risk. This risk is monitored and managed through the framework of approved policies and limits and reported regularly to ALCO, Executive Committee of the Board and the Board of Directors.

In carrying out its business activities the Group strives to meet customers' demands and preferences for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a gain or loss in earnings. In managing balance sheet risk, the primary objective, therefore, is to monitor and avert significant volatility in Net Interest Income (NII) and Economic Value of Equity (EVE). For instance, when there are significant changes in market interest rates, the Group will adjust its lending and deposit rates to the extent necessary to stabilise its NII.

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

The table in number 36(c) of notes to the financial statements represents the Group's interest rate risk sensitivity based on repricing mismatches as at 31 December 2002. 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. This tends to benefit net interest income when interest rates are rising. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. This tends to benefit net interest income when interest rates are falling. Interest rate sensitivity may also vary during repricing periods and amongst the currencies in which the Group has positions. As at 31 December 2002, the Group had an overall positive interest rate sensitivity gap of $208.4 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. The interest rate repricing profile, which includes lending, funding and liquidity activities, typically leads to a negative interest rate sensitivity gap in the shorter term.

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

Economic Value of Equity (EVE) is simply the present value of the Group's assets less the present value of the Group's liabilities, currently held by the Group. In EVE sensitivity simulation modelling, the present values for all the Group's cash flows are computed, with the focus on changes in EVE under various interest rate environments. This economic perspective measures interest rate risk across the entire time spectrum of the balance sheet.

Stress testing is also performed regularly on balance sheet risk to determine the sensitivity of the Group's capital to the impact of more extreme interest rate movements. This stress testing is conducted to assess that even under more extreme market movements, for example the Asian Crisis, its capital will not deteriorate beyond its approved risk tolerance. Such tests are also performed to provide early warning of potential worst-case losses so as to facilitate proactive management of these risks in the rapidly changing financial markets. The results of these stress testing are presented to ALCO, Executive Committee of the Board and Board meetings.

**LIQUIDITY RISK MANAGEMENT**

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

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

The management of liquidity risk is carried out throughout the year by a combination of cash flow management, maintenance of high quality marketable securities and other short-term investments that can be readily converted to cash, diversification of the funding base, and proactive management of the Group's 'core deposits'. 'Core deposits' is a major source of liquidity for the Bank. These 'core deposits' are generally stable non-bank deposits, like current accounts, savings accounts and fixed deposits. The Bank monitors the stability of its 'core deposits' by analysing their volatility over time.

In accordance with the regulatory liquidity risk management framework, liquidity risk is measured and managed on a projected cash flow basis. The Group is required to monitor liquidity under "Business As Usual" and "Bank-Specific Crisis" scenarios. Liquidity cash flow mismatch limits have been established to limit the Group's liquidity exposure. The Group has also identified certain early warning indicators and established the trigger points for possible contingency situations. These early warning indicators are monitored closely so that immediate action can be taken. On a tactical daily liquidity management level, a Global Treasury/Asset Liability Management (GT/ALM) unit is tasked with the responsibility to effectively manage the overall liquidity cash flows in accordance with the approved Group's liquidity risk management policy and limits.

**LIQUIDITY RISK MANAGEMENT** (continued)

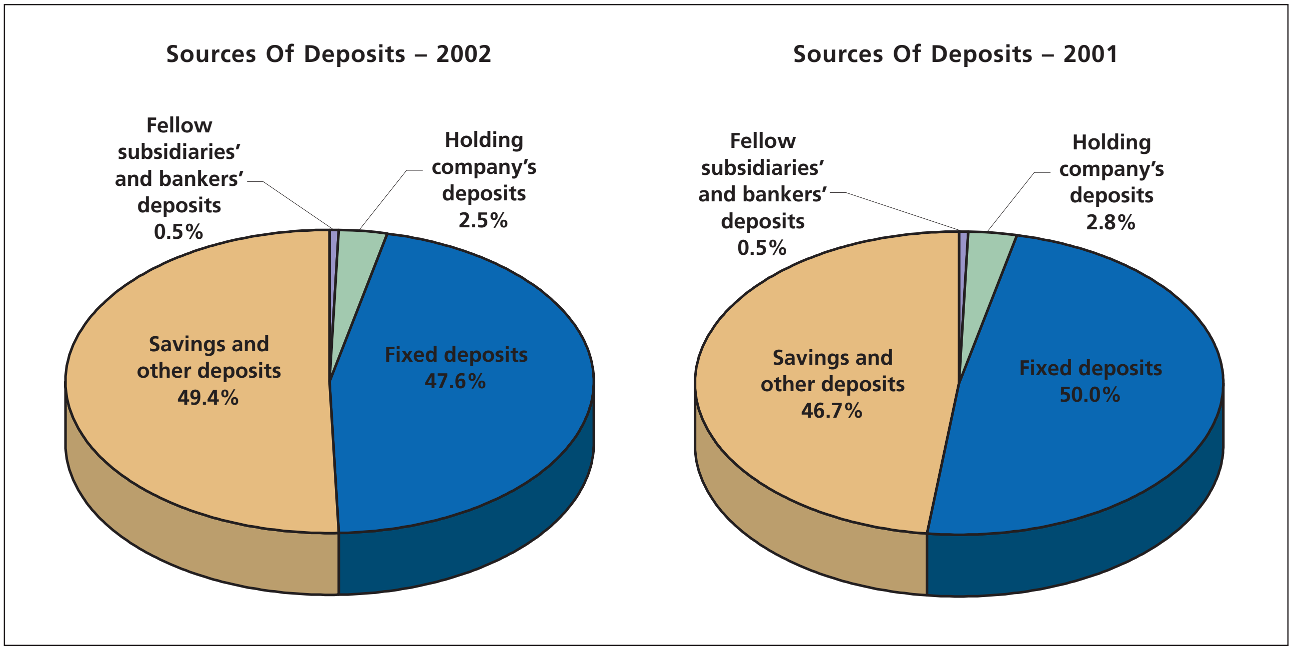
Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior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

The table in number 36(d) of notes to the financial statements shows the maturity mismatch analysis of the Bank's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Less than 7 Days' time band of $133.8 million comprises mainly customers' current accounts and savings accounts that are repayable on demand. However, when these customer deposits are adjusted for behavioural characteristics, the projected net cash outflow in the 'Less than 7 Days' time band is very much reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

**Sources Of Deposits**

The Group has access to diverse funding sources. Liquidity is provided by a variety of both short-term and long-term instruments. The diversity of funding sources enhances funding flexibility, reduces dependence on any one source of funds, and generally lowers the overall cost of funds. In making funding decisions, management considers market conditions, prevailing interest rates, liquidity needs, and the desired maturity profile of its liabilities.

Non-bank customers' fixed deposits, savings and other deposits continued to form a significant part of the Group's overall funding base in the year under review. These customer deposits amounted to $620.6 million in 2002 and accounted for 97.0% of total Group deposits. Fellow subsidiaries, bankers' and holding company's deposits on the other hand amounted to only $19.0 million and formed the remaining 3% of total Group deposits. In terms of deposits' mix, savings and other deposits comprised the majority of the funding base at 49.4% followed by fixed deposits at 47.6%.




| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **$ '000** | **%** | $ '000 | % |
| Customer deposits | | | | |
| Fixed deposits | **304,419** | **47.6** | 301,361 | 50.0 |
| Savings and other deposits | **316,159** | **49.4** | 281,825 | 46.7 |
| Fellow subsidiaries' and bankers' deposits | **3,140** | **0.5** | 3,167 | 0.5 |
| Holding company's deposits | **15,881** | **2.5** | 16,578 | 2.8 |
| Total deposits | **639,599** | **100.0** | 602,931 | 100.0 |

## OPERATIONAL RISK MANAGEMENT

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

Operational risk is managed through a framework of policies, techniques and procedures as approved by the Group's Management Committee (MC) under its delegated authority from the Board of Directors of the Group. The decisions of the MC and its monthly risk management report are reviewed by the Executive Committee of the Board.

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

**OPERATIONAL RISK MANAGEMENT** (continued)

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

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

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

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

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

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

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

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

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

# Directors' Report

For the financial year ended 31 December 2002

The directors present their report to the members together with the audited financial statements of the Bank and of the Group for the financial year ended 31 December 2002.

**DIRECTORS**

The directors holding office at the date of this report are:

Mr Wee Cho Yaw
Mr Wee Ee Cheong
Mr Koh Beng Seng
Mr Lee Chin Chuan
Mr Ong Chu Meng
Mr Wong Meng Meng
Mr Sim Wong Hoo
Mr Philip Yeo Liat Kok
Dr Cham Tao Soon

**PRINCIPAL ACTIVITIES**

The Bank is principally engaged in the business of banking in all its aspects. The principal activities of its subsidiaries are disclosed in Note 27 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

**ACQUISITION AND DISPOSAL OF SUBSIDIARIES**

There was no acquisition or disposal of subsidiaries during the financial year.

**RESULTS FOR THE FINANCIAL YEAR**

| | The Group $'000 | The Bank $'000 |
|---|---|---|
| Net profit attributable to members | 7,566 | 7,567 |

**MATERIAL TRANSFERS TO OR FROM RESERVES AND PROVISIONS**

Material movements in reserves and provisions are set out in the notes to the financial statements.

**ISSUE OF SHARES AND DEBENTURES**

There were no changes in the issued ordinary share capital of the Bank or any corporation in the Group during the financial year.

There were no issues of debentures by the Bank or any corporation in the Group during the financial year.

**ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose object was to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

**DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS**

(a) The interests of the directors holding office at the end of the financial year in the share capital of the Bank and related corporations according to the register of directors' shareholdings were as follows:

| | Number of Ordinary Shares of $1 each | | | |
|---|---|---|---|---|
| | Shareholdings registered in the name of directors | | Shareholdings in which directors are deemed to have an interest | |
| | **At 31.12.2002** | At 1.1.2002 | **At 31.12.2002** | At 1.1.2002 |
| **The Bank** | | | | |
| Mr Lee Chin Chuan | **538,178** | 538,178 | **4,455,443** | 4,399,441 |
| Mr Ong Chu Meng | **302,185** | 302,185 | **1,969,850** | 1,969,850 |
| **United Overseas Bank Limited** | | | | |
| Mr Wee Cho Yaw | **16,390,248** | 16,390,248 | **209,258,142** | 146,375,326 |
| Mr Wee Ee Cheong | **2,794,899** | 2,794,899 | **143,985,251** | 143,985,251 |
| Mr Lee Chin Chuan | **–** | – | **73,727** | 73,727 |
| Dr Cham Tao Soon | **–** | – | **4,520** | 4,520 |
| **United Overseas Insurance Limited** | | | | |
| Mr Wee Cho Yaw | **25,400** | 25,400 | **–** | – |
| **Overseas Union Securities Limited** | | | | |
| Mr Ong Chu Meng | **3,125** | 3,125 | **–** | – |
| **Industrial & Commercial Bank Limited** | | | | |
| Mr Wee Ee Cheong | **–** | – | **–** | 356,000 |
| **Overseas Union Trust Limited** | | | | |
| Mr Ong Chu Meng | **–** | 9,750 | **–** | – |

(b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share options of related corporations.

**DIVIDENDS**

Dividends paid, declared and recommended since the end of the Bank's previous financial year were as follows:

| | $'000 |
|---|---|
| A final dividend of 2 cents per share net of tax at 22% was paid on 13 May 2002 in respect of the financial year ended 31 December 2001 as proposed in the Directors' Report for that financial year | 1,560 |
| A proposed final dividend of 2 cents per share recommended by the directors, net of tax at 22%, in respect of the financial year ended 31 December 2002 | 1,560 |

**BAD AND DOUBTFUL DEBTS**
Before the financial statements of the Bank were made out, the directors took reasonable steps to ascertain that proper action has been taken in relation to the writing off of bad debts and providing for doubtful debts of the Bank and have satisfied themselves that all known bad debts of the Bank have been written off and that where necessary adequate provision has been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render any amounts written off for bad debts or provided for doubtful debts in the consolidated financial statements of the Group inadequate to any substantial extent.

**CURRENT ASSETS**
Before the financial statements of the Bank were made out, the directors took reasonable steps to ascertain that current assets of the Bank which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values or that adequate provision has been made for the diminution in values of such current assets.

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report, which would render the values attributed to current assets in the consolidated financial statements of the Group misleading.

**CHARGES ON ASSETS AND CONTINGENT LIABILITIES**
At the date of this report, no charges have arisen since the end of the financial year on the assets of the Bank or any other corporation in the Group which secure the liability of any other person, nor has any contingent liability arisen since the end of the financial year in the Bank or any other corporation in the Group other than those normally undertaken in the course of the activities of the Bank and the Group.

**ABILITY TO MEET OBLIGATIONS**
No contingent or other liability of the Bank or any corporation in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank and of the Group to meet their obligations as and when they fall due.

**OTHER CIRCUMSTANCES AFFECTING THE FINANCIAL STATEMENTS**
At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the consolidated financial statements which would render any amount stated in the financial statements of the Bank and the consolidated financial statements of the Group misleading.

**UNUSUAL ITEMS**
In the opinion of the directors, the results of the operations of the Bank and of the Group during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

**UNUSUAL ITEMS AFTER THE YEAR-END DATE**
In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which would affect substantially the results of the operations of the Bank and of the Group for the financial year in which this report is made.

**DIRECTORS' CONTRACTUAL BENEFITS**
Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than as disclosed in the consolidated financial statements and in this report) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except that certain directors received remuneration from related corporations in their capacity as directors and/or executives of those corporations.

**SHARE OPTIONS**

(a) There were no options granted by the Bank or any of its subsidiaries during the financial year to subscribe for unissued shares of the Bank or its subsidiaries.

(b) No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Bank or its subsidiaries.

(c) There were no unissued shares under option in respect of the Bank or its subsidiaries as at 31 December 2002.

On behalf of the directors

**Wee Cho Yaw**
Chairman

**Wee Ee Cheong**
Deputy Chairman

28 February 2003

# Statement by Directors

For the financial year ended 31 December 2002

In the opinion of the directors, the financial statements set out on pages 37 to 65 are drawn up so as to give a true and fair view of the state of affairs of the Bank and of the Group at 31 December 2002, the results of the business and changes in equity of the Bank and of the Group and the cash flows of the Group for the financial year then ended, and at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

On behalf of the directors

**Wee Cho Yaw**
Chairman

**Wee Ee Cheong**
Deputy Chairman

28 February 2003

# Auditors' Report to the Members of Far Eastern Bank Limited

For the financial year ended 31 December 2002

We have audited the financial statements of Far Eastern Bank Limited and the consolidated financial statements of the Group for the financial year ended 31 December 2002 set out on pages 37 to 65. 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 Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance 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 accompanying financial statements of the Bank and consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act ("Act") and Singapore Statements of Accounting Standard and so as to give a true and fair view of:

    (i) the state of affairs of the Bank and of the Group at 31 December 2002, and the profit and changes in equity of the Bank and of the Group and the cash flows of the Group for the financial year ended on that date; and

    (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements of the Bank and the consolidated financial statements of the Group; and

(b) the accounting and other records, and the registers required by the Act to be kept by the Bank and by those subsidiaries incorporated in Singapore of which we are the auditors 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 financial statements of the Bank 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 as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Singapore did not include any comment made under Section 207(3) of the Act.

PricewaterhouseCoopers
Certified Public Accountants

Singapore, 28 February 2003

# Income Statements

For the financial year ended 31 December 2002

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | **Notes** | **2002** | 2001 | **2002** | 2001 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| Interest income | 3 | **20,740** | 43,502 | **20,740** | 43,502 |
| *Less*: Interest expense | 4 | **6,584** | 28,319 | **6,585** | 28,321 |
| Net interest income | | **14,156** | 15,183 | **14,155** | 15,181 |
| Dividend income | 5 | **385** | 418 | **386** | 423 |
| Fee and commission income | 6 | **1,562** | 1,261 | **1,562** | 1,261 |
| Rental income | 7 | **3,637** | 3,465 | **3,637** | 3,465 |
| Other operating income | 8 | **1,017** | 1,296 | **1,017** | 1,296 |
| Income before operating expenses | | **20,757** | 21,623 | **20,757** | 21,626 |
| *Less*: | | | | | |
| Staff costs | 9 | **1,716** | 1,760 | **1,716** | 1,760 |
| Other operating expenses | 10 | **7,998** | 8,940 | **7,997** | 8,939 |
| | | **9,714** | 10,700 | **9,713** | 10,699 |
| Operating profit before provisions | | **11,043** | 10,923 | **11,044** | 10,927 |
| *Less*: Provisions | 11 | **1,287** | 918 | **1,287** | 918 |
| **Profit before taxation** | | **9,756** | 10,005 | **9,757** | 10,009 |
| *Less:* Taxation | 12(a) | **2,190** | 2,141 | **2,190** | 2,142 |
| **Net profit for the financial year attributable to members** | | **7,566** | 7,864 | **7,567** | 7,867 |

*The accompanying notes form an integral part of these financial statements.*
*Auditors' Report – Page 36.*

# Balance Sheets

As at 31 December 2002

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | **Notes** | **2002** | 2001 | **2002** | 2001 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **Share capital and reserves** | | | | | |
| Share capital | 13 | **100,011** | 100,011 | **100,011** | 100,011 |
| Statutory reserve | 14 | **38,500** | 34,500 | **38,500** | 34,500 |
| Revenue reserves | 15 | **8,221** | 6,215 | **8,214** | 6,207 |
| | | **146,732** | 140,726 | **146,725** | 140,718 |
| **Liabilities** | | | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | 16(b) | **620,578** | 583,186 | **620,578** | 583,186 |
| Deposits and balances of banks and agents | | **–** | 142 | **–** | 142 |
| Deposits of and amounts owing to fellow subsidiaries | | **3,140** | 3,025 | **3,140** | 3,025 |
| Deposits from subsidiaries | | **–** | – | **115** | 114 |
| Deposits from holding company | | **15,881** | 16,578 | **15,881** | 16,578 |
| | 16 | **639,599** | 602,931 | **639,714** | 603,045 |
| Bills and drafts payable | | **1,194** | 944 | **1,194** | 944 |
| Provision for current taxation | | **2,017** | 3,165 | **2,017** | 3,163 |
| Other liabilities | 17 | **3,467** | 4,887 | **3,464** | 4,888 |
| | | **646,277** | 611,927 | **646,389** | 612,040 |
| | | **793,009** | 752,653 | **793,114** | 752,758 |
| **Off-balance sheet items** | | | | | |
| Contingent liabilities | 30 | **28,553** | 27,954 | **28,553** | 27,954 |
| Derivative financial instruments | 31 | **1,640** | 2,807 | **1,640** | 2,807 |
| Commitments | 32 | **177,802** | 180,990 | **177,802** | 180,990 |

# Balance Sheets

As at 31 December 2002

| | Notes | The Group 2002 $'000 | The Group 2001 $'000 | The Bank 2002 $'000 | The Bank 2001 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central bank | | **18,444** | 12,916 | **18,444** | 12,916 |
| Singapore Government securities | 18 | **91,456** | 44,799 | **91,456** | 44,799 |
| Dealing securities | 19 | **–** | 529 | **–** | 529 |
| Placements and balances with banks and agents | 20 | **6,784** | 8,123 | **6,784** | 8,123 |
| Trade bills | 21 | **898** | 558 | **898** | 558 |
| Advances to customers | 21 | **318,396** | 304,166 | **318,396** | 304,166 |
| Placements with fellow subsidiaries | | **237** | 32 | **237** | 32 |
| Deferred tax asset | 12(c) | **1,439** | 1,572 | **1,439** | 1,572 |
| Other accounts | 22 | **2,004** | 1,320 | **2,004** | 1,320 |
| Placements with and net amount owing by holding company | 23 | **339,519** | 364,679 | **339,519** | 364,679 |
| | | **779,177** | 738,694 | **779,177** | 738,694 |
| Investment securities | 24 | **594** | – | **594** | – |
| Investments in associates of holding company | 25 | **679** | 754 | **679** | 754 |
| Investment in fellow subsidiary | 26 | **189** | 189 | **189** | 189 |
| Investments in subsidiaries | 27 | **–** | – | **105** | 105 |
| Fixed assets | 28 | **12,370** | 13,016 | **12,370** | 13,016 |
| | | **793,009** | 752,653 | **793,114** | 752,758 |

*The accompanying notes form an integral part of these financial statements.*
*Auditors' Report – Page 36.*

# Statements of Recognised Gains and Losses

For the financial year ended 31 December 2002

(a) **Recognised gains and losses**

There are no gains and losses that are recognised directly in the reserves of the Group and the Bank for the financial years ended 31 December 2002 and 31 December 2001. The total recognised gains and losses of the Group and the Bank for both the financial years are the same as their respective net profits for the financial year attributable to members.

(b) **Prior year adjustment**

| | The Group and The Bank |
|---|---|
| | 2001 |
| | $'000 |
| **Prior year adjustment arising from change in accounting policy resulting from adoption of revised SAS 12** | |
| Credited to retained profits at 31 December 2001 | 2,068 |

(c) **Changes in shareholders' equity**

Changes in shareholders' equity for the Group and the Bank are set out in Notes 13 to 15.

*The accompanying notes form an integral part of these financial statements.*
*Auditors' Report – Page 36.*

# Consolidated Cash Flow Statement

For the financial year ended 31 December 2002

| | 2002<br>$'000 | 2001<br>$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | **9,756** | 10,005 |
| | | |
| Adjustments for: | | |
| Depreciation | **575** | 737 |
| Provision for diminution in value of investments in associates of holding company | **–** | 565 |
| Provision/(write-back of provision) for diminution in value of land and buildings | **50** | (318) |
| Operating profit before working capital changes | **10,381** | 10,989 |
| | | |
| Working capital changes: | | |
| Deposits | **37,250** | 14,109 |
| Bills and drafts payable | **250** | 374 |
| Other liabilities | **(1,420)** | (1,484) |
| Dealing securities | **10** | 30 |
| Placements and balances with banks and agents | **1,339** | 12,894 |
| Trade bills and advances to customers | **(14,570)** | (22,134) |
| Other accounts | **(684)** | 1,809 |
| Net balance of related companies | **24,373** | (2,237) |
| Cash generated from operations | **56,929** | 14,350 |
| | | |
| Income tax paid | **(3,205)** | (3,245) |
| **Net cash from operating activities** | **53,724** | 11,105 |
| | | |
| **Cash flows from investing activities** | | |
| Net decrease/(increase) in fixed assets | **21** | (13) |
| **Net cash from/(used) in investing activities** | **21** | (13) |
| | | |
| **Cash flows from financing activities** | | |
| Dividend paid by the Bank | **(1,560)** | (1,472) |
| **Net cash used in financing activities** | **(1,560)** | (1,472) |
| | | |
| **Net increase in cash and cash equivalents** | **52,185** | 9,620 |
| Cash and cash equivalents at beginning of the financial year | **57,715** | 48,095 |
| **Cash and cash equivalents at end of the financial year (Note 33)** | **109,900** | 57,715 |

*The accompanying notes form an integral part of these financial statements.*
*Auditors' Report – Page 36.*

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

**1 General**

The Bank is incorporated and domiciled in Singapore. The address of its registered office is:

80 Raffles Place
UOB Plaza
Singapore 048624

The Bank is principally engaged in the business of banking in all its aspects. The principal activities of its subsidiaries are disclosed in Note 27 to the financial statements.

**2 Significant accounting policies**

(a) **Basis of accounting**

The financial statements are prepared in accordance with and comply with Singapore Statements of Accounting Standard ("SAS"). The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain derivative financial instruments to market value at the balance sheet date.

The financial statements of the Bank and the consolidated financial statements of the Group are expressed in Singapore Dollars.

(b) **Basis of consolidation**

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to the end of the financial year. Inter-company balances and transactions and resulting unrealised profits and losses are eliminated in full on consolidation.

(c) **Trade bills and advances to customers**

Trade bills and advances to customers are stated at cost less provisions for possible losses. These provisions comprise specific provisions made for any debts considered to be doubtful of collection and a general provision maintained to cover losses which, although not specifically identified, are inherent in any portfolio of loans and advances. Known bad debts are written off.

(d) **Investments**

(i) Singapore Government securities are stated at the lower of cost and market value determined on an aggregate basis.

(ii) Dealing securities are stated at the lower of cost and market value determined on an aggregate basis.

(iii) Investment securities, and investments in subsidiaries, fellow subsidiaries and associates of the holding company are stated at cost and provisions are made for diminution in value which is other than temporary, determined on an individual basis.

(e) **Cash and cash equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the balance sheet amounts of cash and balances with central bank and Singapore Government securities.

(f) **Revenue recognition**

(i) Interest income is accrued on a day-to-day basis.

(ii) Dividend income from investments is taken up gross in the income statements of the accounting period in which the dividend is declared.

(iii) Profits and losses on disposal of investments are taken to the income statements.

(iv) Fee and commission income and rental income are recognised on an accrual basis.

(g) **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Fixed assets, other than land and buildings, are depreciated on a straight-line basis over 5 or 10 years. Freehold land and leasehold land exceeding 99 years tenure are not depreciated. Other leasehold land is depreciated on a straight-line basis over the period of the lease. Buildings are depreciated on a straight-line basis over 50 years or, where applicable, over the period of the respective leases, whichever is shorter.

(h) **Taxation**

Deferred income tax is determined on the basis of tax effect accounting using the liability method. Deferred taxation is provided in full on significant temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

Deferred income tax is provided on significant temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Prior to 1 January 2002, deferred tax was provided on significant timing differences arising from the different treatments in accounting and taxation of relevant items except when it can be demonstrated with reasonable probability that the tax deferral would continue for the foreseeable future. In accounting for timing differences, deferred tax assets were not accounted for unless there was reasonable expectation of their realisation.

The new accounting policy was adopted to comply with the revised Statement of Accounting Standard (“SAS”) 12 and has been accounted for retrospectively. The comparatives for the financial year ended 31 December 2001 have been restated to conform to the changed policy.

The adjustments made to the comparative figures are as follows:

| | **Increased/(decreased) by The Group and The Bank** |
|---|---|
| | 2001 |
| | $’000 |
| Retained profits | 2,068 |
| Provision for deferred taxation | (496) |
| Deferred tax asset | 1,572 |

The change in accounting policy had no effect on the results of the Group and the Bank for the financial year ended 31 December 2001.

(i) **Foreign currencies**

Foreign currency assets and liabilities are translated to Singapore Dollars at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are converted to Singapore Dollars at the rates of exchange ruling on the transaction dates. All exchange differences are taken up in the income statements.

**2 Significant accounting policies** (continued)

(j) **Derivative financial instruments**
Derivative financial instruments are initially recognised in the balance sheets at amounts paid or received, as appropriate.

Those undertaken for trading purposes are subsequently remeasured at fair value and the resultant profits or 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.

(k) **Provisions**
Provisions are recognised when the Group or the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) **Employee benefits**
*Equity compensation benefits*
Employees of the Bank with the position of Vice President (or an equivalent position) and above as well as selected employees below Vice President qualify for the UOB Executives' Share Option Scheme and the UOB 1999 Share Option Scheme, subject to certain restrictions.

Pursuant to these Schemes, options have been awarded to enable the holders to acquire shares in the holding company at exercise price.

The Group and the Bank do not recognise share options issued under these Schemes as a charge to the income statements.

*Post employment benefits*
The Bank contributes to legally required social security schemes and these schemes are considered defined contribution schemes.

(m) **Dividends**
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(n) **Comparatives**
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current financial year. Where applicable, the comparatives have been adjusted or extended to take into account the requirements of the revised SAS 12 which the Group and the Bank adopted in 2002.

**3 Interest income**

| | **The Group and The Bank** | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Singapore Government treasury bills and securities | **2,152** | 1,049 |
| Trade bills and advances to customers | **15,719** | 17,546 |
| Inter-bank balances | **2,869** | 24,907 |
| | **20,740** | 43,502 |
| Received/receivable from: | | |
| Holding company | **2,827** | 24,679 |
| Third parties | **17,913** | 18,823 |
| | **20,740** | 43,502 |

## 4 Interest expense

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Non-bank deposits | **6,548** | 9,246 | **6,549** | 9,248 |
| Inter-bank balances | **36** | 19,073 | **36** | 19,073 |
| | **6,584** | 28,319 | **6,585** | 28,321 |
| Paid/payable to: | | | | |
| Holding company | **36** | 19,070 | **36** | 19,070 |
| Subsidiaries | **–** | – | **1** | 2 |
| Fellow subsidiaries | **21** | 77 | **21** | 77 |
| Third parties | **6,527** | 9,172 | **6,527** | 9,172 |
| | **6,584** | 28,319 | **6,585** | 28,321 |

## 5 Dividend income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Dividend income from: | | | | |
| Investment in an unquoted subsidiary | **–** | – | **1** | 5 |
| Investment in an unquoted fellow subsidiary | **350** | 350 | **350** | 350 |
| Other quoted investments | **35** | 68 | **35** | 68 |
| | **385** | 418 | **386** | 423 |

## 6 Fee and commission income

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Investment-related | **78** | 7 |
| Loan and trade-related | **1,015** | 808 |
| Others | **469** | 446 |
| | **1,562** | 1,261 |

## 7 Rental income

Rental income represents income from the tenanted areas of the buildings owned by the Bank.

## 8 Other operating income

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Net profit on disposal of dealing securities and Singapore Government treasury bills and securities | **1** | 126 |
| Net profit on foreign exchange dealings | **136** | 223 |
| Net loss on sale of fixed assets | **(31)** | (1) |
| Other income | **911** | 948 |
| | **1,017** | 1,296 |

**9 Staff costs**

(a)

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Wages and salaries | **1,254** | 1,427 |
| Employer's contribution to the Central Provident Fund | **184** | 214 |
| Retrenchment benefits | **179** | 48 |
| Other staff-related costs | **99** | 71 |
| | **1,716** | 1,760 |

(b)

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| Number of employees at the balance sheet date | **34** | 36 |

**10 Other operating expenses**

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Depreciation | **575** | 737 | **575** | 737 |
| Rental of premises and equipment | **128** | 139 | **128** | 139 |
| Maintenance of premises and other assets | **407** | 386 | **407** | 386 |
| Other expenses of premises | **607** | 1,047 | **607** | 1,047 |
| Auditors' remuneration: | | | | |
| Audit fees | **54** | 51 | **53** | 50 |
| Other fees* | **4** | 9 | **4** | 9 |
| Fees payable to directors of the Bank | **59** | 63 | **59** | 63 |
| Other expenses | **6,164** | 6,508 | **6,164** | 6,508 |
| | **7,998** | 8,940 | **7,997** | 8,939 |

** Includes fees in respect of audit-related work required by laws and regulations.*

**11 Provisions**

Provisions charged/(credited) to the income statements during the financial year are as follows:

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Specific provisions for and net write-offs of trade bills and advances to customers | **1,237** | 671 |
| Provision for diminution in value of investments in associates of holding company | **–** | 565 |
| Provision/(write-back of provision) for diminution in value of land and buildings | **50** | (318) |
| | **1,287** | 918 |

## 12 Taxation

### (a) Taxation expense

The taxation charge to the income statements comprises the following:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| On the profit of the financial year: | | | | |
| Current taxation | **2,057** | 2,517 | **2,057** | 2,518 |
| Deferred taxation relating to the reversal of temporary differences | **(27)** | (65) | **(27)** | (65) |
| | **2,030** | 2,452 | **2,030** | 2,453 |
| Under/(overprovision) in preceding financial year: | | | | |
| Current taxation | **–** | (311) | **–** | (311) |
| Deferred taxation resulting from reduction in income tax rate | **160** | – | **160** | – |
| | **2,190** | 2,141 | **2,190** | 2,142 |

In 2002, the Government enacted a change in the income tax rate from 24.5% to 22%.

### (b) Tax reconciliation

The taxation charge on the results of the Group and the Bank for the financial year is lower than the amount of tax determined by applying the Singapore statutory income tax rate to the profit before taxation due to the following factors:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Profit before taxation | **9,756** | 10,005 | **9,757** | 10,009 |
| Tax calculated at a tax rate of 22% (2001: 24.5%) | **2,146** | 2,451 | **2,146** | 2,452 |
| Singapore statutory stepped income exemption | **(12)** | (13) | **(12)** | (13) |
| Net (income)/expenses not taxable/deductible for tax purposes | **(32)** | 177 | **(32)** | 177 |
| One-off Singapore income tax rebate | **–** | (129) | **–** | (129) |
| Income taxed at a concessionary rate of 10% | **(72)** | (34) | **(72)** | (34) |
| | **2,030** | 2,452 | **2,030** | 2,453 |

**12 Taxation** (continued)

(c) **Deferred taxation**

The movements in deferred tax asset and liability of the Group and the Bank (prior to offsetting of balances within the same tax jurisdiction) during the financial year are as follows:

**The Group and The Bank**

| | Accelerated tax depreciation | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| **Deferred tax liability** | | |
| At 1 January | **496** | 561 |
| Credited to income statements | | |
| – due to reversal of temporary differences | **(27)** | (65) |
| – due to reduction in income tax rate | **(51)** | – |
| At 31 December | **418** | 496 |

| | Non-tax deductible general provision | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| **Deferred tax asset** | | |
| At 1 January | | |
| As previously reported | **–** | – |
| Prior year adjustment for change in accounting policy resulting from adoption of revised SAS 12 | **2,068** | 2,068 |
| As restated | **2,068** | 2,068 |
| Charged to income statements | | |
| – due to reduction in income tax rate | **(211)** | – |
| At 31 December | **1,857** | 2,068 |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts, determined after appropriate offsetting, are shown in the balance sheets as follows:

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Deferred tax asset | **1,857** | 2,068 |
| Deferred tax liability | **(418)** | (496) |
| Deferred tax asset (net) shown in balance sheets | **1,439** | 1,572 |

**13 Share capital of the Bank**

(a) **Authorised ordinary share capital**

The total authorised number of ordinary shares is 200,000,000 shares (2001: 200,000,000 shares) with a par value of $1 per share (2001: $1 per share).

(b) **Issued and fully paid ordinary share capital**

The number of issued ordinary shares at 31 December 2002 is 100,010,566 shares (2001: 100,010,566 shares) with a par value of $1 per share. The issued shares were fully paid.

## 14 Statutory reserve

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Balance at 1 January | **34,500** | 30,500 |
| Transfer from revenue reserves (Note 15) | **4,000** | 4,000 |
| Balance at 31 December | **38,500** | 34,500 |

The statutory reserve is maintained in accordance with the provisions of the Singapore Banking Act, Cap. 19. This reserve is non-distributable unless approved by the relevant authority.

## 15 Revenue reserves

(a) **The Group**

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **General reserve $'000** | **Retained profits $'000** | **Total $'000** | General reserve $'000 | Retained profits $'000 | Total $'000 |
| Balance at 1 January | | | | | | |
| As previously reported | **2,000** | **2,147** | **4,147** | 22,500 | 54,891 | 77,391 |
| Prior year adjustment for change in accounting policy resulting from adoption of revised SAS 12 | **–** | **2,068** | **2,068** | – | 2,068 | 2,068 |
| As restated | **2,000** | **4,215** | **6,215** | 22,500 | 56,959 | 79,459 |
| Net profit for the financial year attributable to members | **–** | **7,566** | **7,566** | – | 7,864 | 7,864 |
| Bonus issue | **–** | **–** | **–** | (22,500) | (53,136) | (75,636) |
| Transfer to general reserve | **2,000** | **(2,000)** | **–** | 2,000 | (2,000) | – |
| Transfer to statutory reserve (Note 14) | **–** | **(4,000)** | **(4,000)** | – | (4,000) | (4,000) |
| Final dividend in respect of financial year ended 31 December 2001 (2001: 31 December 2000) of 2 cents (2001: 8 cents) per share paid, net of tax at 22% (2001: 24.5%) | **–** | **(1,560)** | **(1,560)** | – | (1,472) | (1,472) |
| Balance at 31 December | **4,000** | **4,221** | **8,221** | 2,000 | 4,215 | 6,215 |

**15 Revenue reserves** (continued)

(b) **The Bank**

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **General reserve $'000** | **Retained profits $'000** | **Total $'000** | General reserve $'000 | Retained profits $'000 | Total $'000 |
| Balance at 1 January | | | | | | |
| As previously reported | **2,000** | **2,139** | **4,139** | 22,500 | 54,880 | 77,380 |
| Prior year adjustment for change in accounting policy resulting from adoption of revised SAS 12 | **–** | **2,068** | **2,068** | – | 2,068 | 2,068 |
| As restated | **2,000** | **4,207** | **6,207** | 22,500 | 56,948 | 79,448 |
| Net profit for the financial year attributable to members | **–** | **7,567** | **7,567** | – | 7,867 | 7,867 |
| Bonus issue | **–** | **–** | **–** | (22,500) | (53,136) | (75,636) |
| Transfer to general reserve | **2,000** | **(2,000)** | **–** | 2,000 | (2,000) | – |
| Transfer to statutory reserve (Note 14) | **–** | **(4,000)** | **(4,000)** | – | (4,000) | (4,000) |
| Final dividend in respect of financial year ended 31 December 2001 (2001: 31 December 2000) of 2 cents (2001: 8 cents) per share paid, net of tax at 22% (2001: 24.5%) | **–** | **(1,560)** | **(1,560)** | – | (1,472) | (1,472) |
| Balance at 31 December | **4,000** | **4,214** | **8,214** | 2,000 | 4,207 | 6,207 |

(c) In each financial year, the Group and the Bank transfer a certain amount of retained profits to the general reserve. The general reserve has not been earmarked for any particular purpose. The revenue reserves of the Group and the Bank are distributable.

**16 Deposits of and amounts owing to non-bank customers, banks and agents, subsidiaries, fellow subsidiaries and holding company**

(a)

| | **The Group** | | **The Bank** | |
|---|---|---|---|---|
| | **2002 $'000** | 2001 $'000 | **2002 $'000** | 2001 $'000 |
| Analysed by maturity period: | | | | |
| Within 1 year | **634,571** | 601,981 | **634,686** | 602,095 |
| Over 1 year but within 3 years | **5,028** | 950 | **5,028** | 950 |
| | **639,599** | 602,931 | **639,714** | 603,045 |

(b)

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Included in deposits of non-bank customers are: | | |
| Fixed deposits | **304,419** | 301,361 |
| Savings and others | **316,159** | 281,825 |
| | **620,578** | 583,186 |

## 17 Other liabilities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Accrued interest payable | **1,873** | 2,761 | **1,874** | 2,763 |
| Provision for other liabilities and charges | **274** | 1,055 | **273** | 1,054 |
| Other liabilities | **1,320** | 1,071 | **1,317** | 1,071 |
| | **3,467** | 4,887 | **3,464** | 4,888 |

## 18 Singapore Government securities

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| At cost | **91,456** | 44,799 |
| Market value at 31 December | **92,495** | 44,953 |

## 19 Dealing securities

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Quoted equity investments, at cost | **–** | 529 |
| Market value at 31 December | **–** | 904 |

## 20 Placements and balances with banks and agents

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Analysed by maturity period: | | |
| Within 1 year | **6,784** | 8,123 |

**21 Trade bills and advances to customers**

(a)

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Gross trade bills | **898** | 558 |
| Gross advances to customers | **336,289** | 322,023 |
| Specific provisions | **(3,456)** | (3,701) |
| Interest-in-suspense | **(2,378)** | (2,097) |
| General provisions | **(12,059)** | (12,059) |
| | **318,396** | 304,166 |
| Total gross trade bills and advances to customers | **337,187** | 322,581 |

(b) Total gross trade bills and advances to customers analysed by maturity period:

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Within 1 year | **155,839** | 148,689 |
| Over 1 year but within 3 years | **28,401** | 30,298 |
| Over 3 years but within 5 years | **23,467** | 23,503 |
| Over 5 years | **129,480** | 120,091 |
| | **337,187** | 322,581 |

(c) Total gross trade bills and advances to customers analysed by industry group:

| | The Group and The Bank | | | |
|---|---|---|---|---|
| | **2002** | | 2001 | |
| | **$'000** | **%** | $'000 | % |
| Manufacturing | **23,935** | **7** | 15,303 | 5 |
| Building and construction | **15,441** | **5** | 24,670 | 8 |
| Housing | **124,692** | **37** | 127,651 | 39 |
| General commerce | **70,379** | **21** | 58,002 | 18 |
| Transport, storage and communications | **11,994** | **4** | 9,035 | 3 |
| Non-bank financial institutions | **13,738** | **4** | 6,062 | 2 |
| Professionals and private individuals (excluding housing loans) | **59,133** | **17** | 59,014 | 18 |
| Others | **17,875** | **5** | 22,844 | 7 |
| | **337,187** | **100** | 322,581 | 100 |

(d) At the balance sheet date, the gross amount of trade bills and advances to customers that are regarded as non-performing loans are as follows:

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Substandard | **24,139** | 21,457 |
| Doubtful | **377** | 626 |
| Loss | **4,722** | 4,724 |
| Total non-performing loans | **29,238** | 26,807 |

Non-performing loans are those classified as Substandard, Doubtful and Loss in accordance with MAS Notice 612. All foreseeable losses relating to these non-performing loans have been provided for in the financial statements.

(e) The movements in provisions are as follows:

| | The Group and The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | | | | 2001 | | | |
| | **Specific provisions** | **Interest-in-suspense** | **General provisions** | **Total** | Specific provisions | Interest-in-suspense | General provisions | Total |
| | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 January | **3,701** | **2,753** | **12,059** | **18,513** | 7,471 | 3,560 | 12,059 | 23,090 |
| Write-off against provisions | **(1,404)** | **(586)** | **–** | **(1,990)** | (4,244) | (1,163) | – | (5,407) |
| Net charge to income statements | **1,159** | **–** | **–** | **1,159** | 474 | – | – | 474 |
| Interest suspended | **–** | **783** | **–** | **783** | – | 356 | – | 356 |
| Balance at 31 December | **3,456** | **2,950** | **12,059** | **18,465** | 3,701 | 2,753 | 12,059 | 18,513 |

General provisions comprise provisions for possible loan losses, contingencies and other banking risks.

The movements in interest-in-suspense include amounts relating to interest receivable as shown in Note 22.

## 22 Other accounts

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Interest receivable | **1,944** | 1,685 |
| Interest-in-suspense [Note 21(e)] | **(572)** | (656) |
| | **1,372** | 1,029 |
| Other assets | **632** | 291 |
| | **2,004** | 1,320 |

## 23 Holding company

The Bank is a member of the United Overseas Bank Group. The immediate holding company, which is also the ultimate holding company, is United Overseas Bank Limited, a company incorporated in Singapore.

**24 Investment securities**

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Quoted equity investments, at cost | **594** | – |
| Market value at 31 December | **846** | – |

**25 Investments in associates of holding company**

(a)

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Quoted equity investments, at cost | **–** | 75 |
| Unquoted equity investments: | | |
| At cost | **1,250** | 1,250 |
| Provision for diminution in value | **(571)** | (571) |
| | **679** | 679 |
| Total investments in associates of holding company | **679** | 754 |
| Market value at 31 December: | | |
| Quoted equity investments | **–** | 85 |

(b) The movements in provision for diminution in value of investments in associates of the holding company are as follows:

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Balance at 1 January | **571** | 6 |
| Net charge to income statements | **–** | 565 |
| Balance at 31 December | **571** | 571 |

**26 Investment in fellow subsidiary**

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Unquoted equity shares, at cost | **189** | 189 |

The details of the fellow subsidiary are set out below:

| Name of fellow subsidiary | Country of incorporation and place of business | Bank's interest therein 2002 and 2001 | Principal activities |
|---|---|---|---|
| United Overseas Bank Trustee Ltd | Singapore | 20% | Trustee and investment management services |

## 27 Investments in subsidiaries

The details of the wholly-owned subsidiaries of the Bank are as follows:

| | The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Unquoted equity shares, at cost | **105** | 105 |

| Subsidiaries | Activity | Country of incorporation and place of business | Cost of Bank's investment | |
|---|---|---|---|---|
| | | | **2002** | 2001 |
| | | | **$'000** | $'000 |
| FEB Realty Company Pte Ltd | Dormant | Singapore | **100** | 100 |
| Far Eastern Bank Nominees Private Limited | Nominee services | Singapore | **5** | 5 |
| | | | **105** | 105 |

## 28 Fixed assets

(a) **The Group and The Bank**

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Land and buildings** | **Office equipment, computers, fixtures and other assets** | **Total** | Land and buildings | Office equipment, computers, fixtures and other assets | Total |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| Balances at 1 January: | | | | | | |
| Cost | **20,835** | **4,288** | **25,123** | 20,835 | 4,361 | 25,196 |
| Accumulated depreciation | **(7,016)** | **(4,069)** | **(11,085)** | (6,509) | (3,925) | (10,434) |
| Provision for diminution in value | **(1,022)** | **–** | **(1,022)** | (1,340) | – | (1,340) |
| Net book value | **12,797** | **219** | **13,016** | 12,986 | 436 | 13,422 |
| Movements during the financial year: | | | | | | |
| Additions | **–** | **21** | **21** | – | 17 | 17 |
| Disposals | **–** | **(42)** | **(42)** | – | (4) | (4) |
| (Charge)/write-back in provision for diminution in value | **(50)** | **–** | **(50)** | 318 | – | 318 |
| Depreciation charge | **(509)** | **(66)** | **(575)** | (507) | (230) | (737) |
| Net book value at 31 December | **12,238** | **132** | **12,370** | 12,797 | 219 | 13,016 |
| Balances at 31 December: | | | | | | |
| Cost | **20,835** | **3,547** | **24,382** | 20,835 | 4,288 | 25,123 |
| Accumulated depreciation | **(7,525)** | **(3,415)** | **(10,940)** | (7,016) | (4,069) | (11,085) |
| Provision for diminution in value | **(1,072)** | **–** | **(1,072)** | (1,022) | – | (1,022) |
| Net book value | **12,238** | **132** | **12,370** | 12,797 | 219 | 13,016 |

(b) Based on Directors' valuation, the estimated market value of the land and buildings of the Group and the Bank as at 31 December 2002 is $69 million (2001: $74 million). The excess of the estimated market value over the net book value of the land and buildings is not recognised in the financial statements.

(c) Included in the land and buildings of the Group and the Bank are leasehold properties with net book value at 31 December 2002 amounting to $10.6 million (2001: $11.1 million). The rest of the properties is freehold.

## 29 Dividends

The directors have proposed a final dividend in respect of the financial year ended 31 December 2002 of 2 cents per share net of tax at 22%, amounting to a total of $1,560,000. These financial statements do not reflect this proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2003. The final dividend for 2001 was 2 cents per share net of tax at 22% amounting to a total of $1,560,000.

## 30 Contingent liabilities

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Direct credit substitutes | **8,510** | 5,580 |
| Transaction-related contingencies | **2,351** | 3,083 |
| Trade-related contingencies | **17,692** | 19,291 |
| | **28,553** | 27,954 |

In their normal course of business, the Group and the Bank conduct business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities is offset by corresponding obligations of third parties.

## 31 Derivative financial instruments

(a) **The Group and The Bank**

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Contract or underlying principal amount $'000** | **Year-end positive fair value $'000** | **Year-end negative fair value $'000** | Contract or underlying principal amount $'000 | Year-end positive fair value $'000 | Year- end negative fair value $'000 |
| **Foreign exchange contracts** | | | | | | |
| Forwards | **1,640** | **18** | **5** | 2,807 | 23 | 10 |

(b) The derivative financial instruments of the Group and the Bank comprise only foreign exchange contracts that arise from currency exposures originated by commercial banking business. The table above analyses the notional principal amounts and the year-end positive and negative fair values of the derivatives. The definition and basis of computing the fair values is set out in greater detail in Note 37.

## 32 Commitments

| | The Group and The Bank | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Undrawn credit facilities | **177,702** | 180,890 |
| Others | **100** | 100 |
| | **177,802** | 180,990 |

## 33 Cash and cash equivalents

| | The Group | |
|---|---|---|
| | **2002** | 2001 |
| | **$'000** | $'000 |
| Cash and balances with central bank | **18,444** | 12,916 |
| Singapore Government securities | **91,456** | 44,799 |
| | **109,900** | 57,715 |

## 34 Results and total assets by geographical region

The results and total assets of the Group and the Bank arise entirely in Singapore, based on the location where the transactions and assets are booked.

## 35 Non-current assets and liabilities

To comply with the disclosure requirements of the Ninth Schedule of the Singapore Companies Act, set out below are the non-current assets and non-current liabilities of the Group and the Bank. Assets and liabilities other than those disclosed below are current.

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Non-current assets** | | | | |
| Trade bills and advances to customers (gross) | **181,348** | 173,892 | **181,348** | 173,892 |
| Deferred tax asset | **1,439** | 1,572 | **1,439** | 1,572 |
| Investment securities | **594** | – | **594** | – |
| Investments in associates of holding company | **679** | 754 | **679** | 754 |
| Investment in fellow subsidiary | **189** | 189 | **189** | 189 |
| Investments in subsidiaries | **–** | – | **105** | 105 |
| Fixed assets | **12,370** | 13,016 | **12,370** | 13,016 |
| | **196,619** | 189,423 | **196,724** | 189,528 |
| **Non-current liabilities** | | | | |
| Deposits of and amounts owing to non-bank customers, banks and agents, subsidiaries and fellow subsidiaries | **5,028** | 950 | **5,028** | 950 |

## 36 Financial risk management

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

Managing financial risks is an integral part of the Group's business. Being a banking subsidiary of the UOB Group, the management of such risks is carried out centrally by the various specialist committees of the UOB Group under policies approved by the Directors of the Bank and its holding company. Accordingly, the Group adopts the risk management policies of the UOB Group. These policies not only include the parameters for the risks that the Group may undertake for the various financial instruments, but also directions on the types of business that the Group may engage in, guidelines for accepting customers for all types of financial instruments and the terms under which customer business is conducted.

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

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

**36 Financial risk management** (continued)

(a) **Credit risk**

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

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

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

In respect of its lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, geographical and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

In respect of other credit risk activities such as money market transactions and off-balance sheet derivatives, the Group adopts the UOB Group's counterparty risk policies that set out approved counterparties with which the Group may transact and their respective transaction limits.

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counterparties that permit the Group to offset receivables and payables with such counterparties.

Given the amounts, types and nature of its existing products and businesses, the Group assesses that industry concentration risk arises primarily from the Group's trade bills and advances to customers. Note 21(c) analyses the Group's total gross trade bills and advances to customers by industry classification as at the balance sheet date.

The Group's financial assets and credit-related contingent liabilities by geographical concentration are mainly in Singapore as at 31 December 2002 and 31 December 2001.

The Group also has potential credit risk exposure to undrawn credit facilities of $178 million (2001: $181 million). These represent unused portions of authorisation to extend credit mainly in the form of loans, guarantees and trade finance products such as letters of credit. However, the likely amount of exposure is less than the total undrawn credit facilities since most of these are contingent upon customers maintaining specific credit standards and are cancellable at the option of the Group subject to notice requirements. From past experience, many of these undrawn credit facilities are expected to expire without being drawn upon.

(b) **Foreign exchange risk**

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

In general, the Group does not engage in a significant amount of foreign exchange position-taking or proprietary business. Its foreign exchange exposures arise mainly from its customer facilitation business. The Group utilises mainly foreign currency forwards to hedge its foreign exchange exposures.

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

The following table sets out the Group's assets, liabilities and derivative financial instruments by currency as at the balance sheet date. The off-balance sheet gap represents the net contract/underlying principal amounts of derivatives, which are principally used to reduce the Group's exposure to currency movements.

| | The Group 2002 | | |
|---|---|---|---|
| | **Singapore Dollars $'000** | **Others $'000** | **Total $'000** |
| **Assets** | | | |
| Cash and balances with central bank | **18,430** | **14** | **18,444** |
| Singapore Government securities | **91,456** | **–** | **91,456** |
| Placements and balances with banks, agents and related companies | **335,397** | **11,143** | **346,540** |
| Trade bills and advances to customers | **309,076** | **10,218** | **319,294** |
| Fixed assets | **12,370** | **–** | **12,370** |
| Others | **4,876** | **29** | **4,905** |
| | **771,605** | **21,404** | **793,009** |
| **Liabilities** | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | **611,066** | **9,512** | **620,578** |
| Deposits and balances of banks, agents and related companies | **8,390** | **10,631** | **19,021** |
| Bills and drafts payable | **1,191** | **3** | **1,194** |
| Other liabilities | **4,907** | **577** | **5,484** |
| | **625,554** | **20,723** | **646,277** |
| **Shareholders' funds** | **146,732** | **–** | **146,732** |
| | **772,286** | **20,723** | **793,009** |
| Net on-balance sheet position | **(681)** | **681** | **–** |
| Net off-balance sheet position | **945** | **(945)** | **–** |
| Net foreign currency gap | **264** | **(264)** | **–** |

**36 Financial risk management** (continued)

(b) **Foreign exchange risk** (continued)

| | The Group 2001 | | |
|---|---|---|---|
| | Singapore Dollars $'000 | Others $'000 | Total $'000 |
| **Assets** | | | |
| Cash and balances with central bank | 12,817 | 99 | 12,916 |
| Singapore Government securities | 44,799 | – | 44,799 |
| Placements and balances with banks, agents and related companies | 363,515 | 9,319 | 372,834 |
| Trade bills and advances to customers | 296,025 | 8,699 | 304,724 |
| Fixed assets | 13,016 | – | 13,016 |
| Others | 4,333 | 31 | 4,364 |
| | 734,505 | 18,148 | 752,653 |
| **Liabilities** | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | 578,373 | 4,813 | 583,186 |
| Deposits and balances of banks, agents and related companies | 8,025 | 11,720 | 19,745 |
| Bills and drafts payable | 775 | 169 | 944 |
| Other liabilities | 7,491 | 561 | 8,052 |
| | 594,664 | 17,263 | 611,927 |
| **Shareholders' funds** | 140,726 | – | 140,726 |
| | 735,390 | 17,263 | 752,653 |
| Net on-balance sheet position | (885) | 885 | – |
| Net off-balance sheet position | 2,001 | (2,001) | – |
| Net foreign currency gap | 1,116 | (1,116) | – |

(c) **Interest rate risk**

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

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

The table below 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.

| | The Group 2002 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total $'000** | **Non-interest bearing $'000** | **Up to 7 days $'000** | **Over 7 days to 1 month $'000** | **Over 1 to 3 months $'000** | **Over 3 to 12 months $'000** | **Over 1 to 3 years $'000** | **Over 3 years $'000** | **Total interest bearing $'000** | **Effective interest rate %** |
| **Assets** | | | | | | | | | | |
| Cash and balances with central bank | **18,444** | **18,444** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Singapore Government securities | **91,456** | **–** | **–** | **–** | **–** | **18,381** | **64,820** | **8,255** | **91,456** | **3.82** |
| Placements and balances with banks, agents and related companies | **346,540** | **–** | **74,540** | **272,000** | **–** | **–** | **–** | **–** | **346,540** | **0.66** |
| Trade bills and advances to customers | **319,294** | **–** | **188,251** | **6,486** | **11,346** | **95,393** | **17,729** | **89** | **319,294** | **4.75** |
| Others | **17,275** | **17,275** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **793,009** | **35,719** | **262,791** | **278,486** | **11,346** | **113,774** | **82,549** | **8,344** | **757,290** | **–** |
| **Liabilities** | | | | | | | | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | **620,578** | **85,496** | **240,472** | **51,410** | **75,031** | **163,141** | **5,028** | **–** | **535,082** | **0.75** |
| Deposits and balances of banks, agents and related companies and bills and drafts payable | **20,215** | **6,444** | **11,510** | **1,220** | **1,041** | **–** | **–** | **–** | **13,771** | **0.12** |
| Others | **5,484** | **5,484** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **646,277** | **97,424** | **251,982** | **52,630** | **76,072** | **163,141** | **5,028** | **–** | **548,853** | **–** |
| **Shareholders' funds** | **146,732** | **146,732** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **793,009** | **244,156** | **251,982** | **52,630** | **76,072** | **163,141** | **5,028** | **–** | **548,853** | **–** |
| **Net interest rate sensitivity gap** | **–** | **(208,437)** | **10,809** | **225,856** | **(64,726)** | **(49,367)** | **77,521** | **8,344** | **208,437** | **–** |

**36 Financial risk management** (continued)

(c) **Interest rate risk** (continued)

The Group 2001

| | Total $'000 | Non-interest bearing $'000 | Up to 7 days $'000 | Over 7 days to 1 month $'000 | Over 1 to 3 months $'000 | Over 3 to 12 months $'000 | Over 1 to 3 years $'000 | Over 3 years $'000 | Total interest bearing $'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and balances with central bank | 12,916 | 12,916 | – | – | – | – | – | – | – | – |
| Singapore Government securities | 44,799 | – | – | – | – | 5,542 | 24,005 | 15,252 | 44,799 | 3.19 |
| Placements and balances with banks, agents and related companies | 372,834 | – | 372,834 | – | – | – | – | – | 372,834 | 1.03 |
| Trade bills and advances to customers | 304,724 | – | 153,120 | 63,860 | 7,644 | 28,028 | 50,119 | 1,953 | 304,724 | 4.71 |
| Others | 17,380 | 17,380 | – | – | – | – | – | – | – | – |
| | 752,653 | 30,296 | 525,954 | 63,860 | 7,644 | 33,570 | 74,124 | 17,205 | 722,357 | – |
| **Liabilities** | | | | | | | | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | 583,186 | 100,332 | 194,224 | 41,830 | 80,008 | 165,842 | 950 | – | 482,854 | 1.34 |
| Deposits and balances of banks, agents and related companies and bills and drafts payable | 20,689 | 5,944 | 14,745 | – | – | – | – | – | 14,745 | 1.11 |
| Others | 8,052 | 8,052 | – | – | – | – | – | – | – | – |
| | 611,927 | 114,328 | 208,969 | 41,830 | 80,008 | 165,842 | 950 | – | 497,599 | – |
| **Shareholders' funds** | 140,726 | 140,726 | – | – | – | – | – | – | – | – |
| | 752,653 | 255,054 | 208,969 | 41,830 | 80,008 | 165,842 | 950 | – | 497,599 | – |
| **Net interest rate sensitivity gap** | – | (224,758) | 316,985 | 22,030 | (72,364) | (132,272) | 73,174 | 17,205 | 224,758 | – |

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 Group manages its interest rate risk by applying dynamic simulation modeling techniques on the above information, which is based on contractual terms.

(d) **Liquidity risk**

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

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

These controls and policies include the setting of limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Group also has access to contingency funding assistance from the UOB Group should such a need arise.

Additionally, the Group is required by law to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements. The majority of these liquid assets are held in marketable Singapore Government securities.

The following table shows the maturity analysis of the Group's assets and liabilities based on contractual terms.

| | The Group 2002 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total $'000 | Up to 7 days $'000 | Over 7 days to 1 month $'000 | Over 1 to 3 months $'000 | Over 3 to 12 months $'000 | Over 1 to 3 years $'000 | Over 3 years $'000 | Non-specific maturity $'000 |
| **Assets** | | | | | | | | |
| Cash and balances with central bank | **18,444** | **18,444** | – | – | – | – | – | – |
| Singapore Government securities | **91,456** | – | – | – | **18,381** | **64,820** | **8,255** | – |
| Placements and balances with banks, agents and related companies | **346,540** | **74,540** | **272,000** | – | – | – | – | – |
| Trade bills and advances to customers | **319,294** | **117,338** | **3,069** | **6,066** | **11,473** | **28,401** | **152,947** | – |
| Others | **17,275** | **809** | **28** | **49** | **410** | **76** | – | **15,903** |
| | **793,009** | **211,131** | **275,097** | **6,115** | **30,264** | **93,297** | **161,202** | **15,903** |
| **Liabilities** | | | | | | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | **620,578** | **325,968** | **51,410** | **75,031** | **163,141** | **5,028** | – | – |
| Deposits and balances of banks, agents and related companies and bills and drafts payable | **20,215** | **17,954** | **1,220** | **1,041** | – | – | – | – |
| Others | **5,484** | **984** | **155** | **226** | **493** | **15** | – | **3,611** |
| | **646,277** | **344,906** | **52,785** | **76,298** | **163,634** | **5,043** | – | **3,611** |
| **Shareholders' funds** | **146,732** | – | – | – | – | – | – | **146,732** |
| | **793,009** | **344,906** | **52,785** | **76,298** | **163,634** | **5,043** | – | **150,343** |
| **Net maturity mismatch** | – | **(133,775)** | **222,312** | **(70,183)** | **(133,370)** | **88,254** | **161,202** | **(134,440)** |

## 36 Financial risk management (continued)

### (d) Liquidity risk (continued)

| | The Group 2001 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total $'000 | Up to 7 days $'000 | Over 7 days to 1 month $'000 | Over 1 to 3 months $'000 | Over 3 to 12 months $'000 | Over 1 to 3 years $'000 | Over 3 years $'000 | Non-specific maturity $'000 |
| **Assets** | | | | | | | | |
| Cash and balances with central bank | 12,916 | 12,916 | – | – | – | – | – | – |
| Singapore Government securities | 44,799 | – | – | – | 5,542 | 24,005 | 15,252 | – |
| Placements and balances with banks, agents and related companies | 372,834 | 372,834 | – | – | – | – | – | – |
| Trade bills and advances to customers | 304,724 | 131,308 | 5,807 | 745 | 2,598 | 28,621 | 135,645 | – |
| Others | 17,380 | 443 | 20 | 2 | 9 | 97 | 458 | 16,351 |
| | 752,653 | 517,501 | 5,827 | 747 | 8,149 | 52,723 | 151,355 | 16,351 |
| **Liabilities** | | | | | | | | |
| Current, fixed, savings accounts and other deposits of non-bank customers | 583,186 | 294,556 | 41,830 | 80,008 | 165,842 | 950 | – | – |
| Deposits and balances of banks, agents and related companies and bills and drafts payable | 20,689 | 20,689 | – | – | – | – | – | – |
| Others | 8,052 | 1,113 | 239 | 457 | 948 | 5 | – | 5,290 |
| | 611,927 | 316,358 | 42,069 | 80,465 | 166,790 | 955 | – | 5,290 |
| **Shareholders' funds** | 140,726 | – | – | – | – | – | – | 140,726 |
| | 752,653 | 316,358 | 42,069 | 80,465 | 166,790 | 955 | – | 146,016 |
| **Net maturity mismatch** | – | 201,143 | (36,242) | (79,718) | (158,641) | 51,768 | 151,355 | (129,665) |

The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group has a significant amount of "core" deposits of non-bank customers which are contractually at call and thus, included in the "Up to 7 days" time band, but history shows that such deposits provide a stable source of long term funding for the Group.

In addition to the above, the Group is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 30 and 32. The total outstanding contractual amounts do not represent future cash requirements since the Group 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 letters of credit) are reimbursed immediately by customers.

## 37 Fair values of financial instruments

Financial instruments comprise financial assets, financial liabilities and also derivative financial instruments. 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 financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with Singapore Statements of Accounting Standard 32 ("SAS 32") comprise all its assets and liabilities with the exception of deferred tax asset, investments in subsidiaries, fixed assets and provision for current taxation. The 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 Singapore Government securities, dealing securities and investment securities whose fair values are shown in Notes 18, 19 and 24 respectively.

The fair values of derivative financial instruments are shown in Note 31. The fair values of financial instrument contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and the Bank assess that their respective fair values are unlikely to be significant.

Where available, quoted and observable market prices are used as the measure of fair values, such as for Singapore Government securities, dealing securities and most of the off-balance sheet derivative financial instruments.

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:

- The fair values of cash and balances with central bank, and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are (a) of negligible credit risk and (b) either short-term in nature or repriced frequently.

- The Group and the Bank consider the carrying amount of advances to customers 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 homogeneous groups by product types, risk characteristics, maturity and pricing profiles, and non-performing accounts. In evaluating the reasonableness of fair value, the Group and the Bank performed analysis on each of the homogeneous groups, taking into account various hypothetical credit spread and market interest rate scenarios, future expected loss experience and estimated forced sale values of collaterals. General provisions are also deducted in arriving at the fair value as a discount for credit risk inherent in the large portfolio of advances to customers.

- The Group and the Bank consider the carrying amounts 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. The Group and the Bank have also performed analysis after taking into account the current interest rate environment and determined that their fair values are not likely to be materially sensitive to shifts in market interest rates.

- For derivative financial instruments 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 experience and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

In addition, the fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of SAS 32 which requires fair value information to be disclosed. These include fixed assets, long-term relationships with customers, franchise and other intangibles, which are integral to the full assessment of the Group's and the Bank's financial position and the value of their net assets.

## 38 Authorisation of financial statements

On 28 February 2003, the Board of Directors of Far Eastern Bank Limited authorised these financial statements for issue.

*Auditors' Report – Page 36.*

# Notice of Annual General Meeting

Notice is hereby given that the **Forty-Fourth Annual General Meeting** of members of the Company will be held at the Penthouse of United Overseas Bank Limited, 80 Raffles Place, 61st Storey, UOB Plaza 1, Singapore 048624 on Thursday, 8 May 2003 at 11.00 am to transact the following business:

**As Ordinary Business**

**Resolution 1** To receive the Financial Statements, the Directors' Report and the Auditors' Report for the year ended 31 December 2002.

**Resolution 2** To declare a first and final dividend of 2% less income tax for the year ended 31 December 2002.

**Resolution 3** To approve Directors' fees of $58,750 for 2002 (2001: $62,500).

**Resolution 4** To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.

To re-elect the following Directors:

**Resolution 5** Wong Meng Meng

**Resolution 6** Dr Cham Tao Soon

To pass the following resolution under Section 153(6) of the Companies Act, Cap. 50:

"THAT pursuant to Section 153(6) of the Companies Act, Cap. 50, Mr ______________________________ be and is hereby re-appointed as a Director of the Company to hold such office until the next Annual General Meeting of the Company."

in respect of:

**Resolution 7** Wee Cho Yaw

**Resolution 8** Lee Chin Chuan

**Resolution 9** Ong Chu Meng

**As Special Business**

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

**Resolution 10** "THAT pursuant to Section 161 of the Companies Act, Cap. 50, approval be and is hereby given to the Directors to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution shall not exceed 10 per cent of the issued share capital of the Company for the time being."

### Note to Resolution 10

**Resolution 10** is to enable the Directors to issue shares in the Company (other than on a bonus or rights issue) up to an amount not exceeding 10 per cent of the issued share capital of the Company for the time being. This approval will expire at the conclusion of the next Annual General Meeting. The Directors would only issue shares under this resolution where they consider it appropriate and in the interest of the Company to do so.

By Order of the Board

**Vivien Chan**
Secretary
Singapore, 12 April 2003

**Notes:**

1 A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2 To be effective, the instrument appointing a proxy, must be deposited at the Office of the Company Secretary at 80 Raffles Place, 4th Storey, UOB Plaza 1, Singapore 048624, not less than 48 hours before the time set for holding the Meeting.

# Proxy Form

**FAR EASTERN BANK LIMITED**
(INCORPORATED IN THE REPUBLIC OF SINGAPORE)

Number of Shares Held

| |
|---|
| |

I/We ________________________________________ (Name)

of ________________________________________ (Address)

being a member/members of Far Eastern Bank Limited (the "Company"), hereby appoint:

| Name | NRIC/Passport Number | Proportion of Shareholdings | |
|---|---|---|---|
| | | No. of Shares | (%) |
| Address | | | |

and/or *(delete as appropriate)*

| Name | NRIC/Passport Number | Proportion of Shareholdings | |
|---|---|---|---|
| | | No. of Shares | (%) |
| Address | | | |

or failing him/her, the Chairman of the Meeting as my/our proxy, to attend and vote for me/us on my/our behalf at the **Forty-Fourth Annual General Meeting** of members of the Company, to be held at the Penthouse of United Overseas Bank Limited, 80 Raffles Place, 61st Storey, UOB Plaza 1, Singapore 048624 on Thursday, 8 May 2003 at 11.00 am and at any adjournment thereof.

*(Please indicate with an "X" in the space provided how you wish your proxy to vote. In the absence of specific directions, the proxy will vote as the proxy deems fit.)*

| No. | Ordinary Resolutions | For | Against |
|---|---|---|---|
| | **Ordinary Business** | | |
| 1 | Financial Statements, Directors' Report and Auditors' Report | | |
| 2 | First and Final Dividend | | |
| 3 | Directors' Fees | | |
| 4 | Auditors and their Remuneration | | |
| 5 | Re-election (Wong Meng Meng) | | |
| 6 | Re-election (Dr Cham Tao Soon) | | |
| 7 | Re-appointment (Wee Cho Yaw) | | |
| 8 | Re-appointment (Lee Chin Chuan) | | |
| 9 | Re-appointment (Ong Chu Meng) | | |
| | **Special Business** | | |
| 10 | Authority to Issue Shares | | |

Dated this ____________ day of ____________ 2003

________________________________________
Signature(s) or Common Seal of Shareholder

**IMPORTANT:** PLEASE READ NOTES OVERLEAF

**Notes:**

1 This Proxy, to be effective, must be deposited at the Office of the Company Secretary at 80 Raffles Place, 4th Storey, UOB Plaza 1, Singapore 048624, not less than 48 hours before the time set for holding the Meeting. A proxy need not be a member of the Company.

2 Please indicate with an "X" in the appropriate box how you wish your proxy to vote. If this Proxy is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain at his discretion.

3 If the member is a corporation, this Proxy must be executed under its common seal or the hand of its duly authorised officer or attorney.

4 Any alteration made in this form should be initialled by the person who signs it.

Fold along this line (1)

Fold along this line (2)

Fold along this line and glue overleaf. Do not staple.

**FEB**

Postage will be paid by addressee.
For posting in Singapore only.

BUSINESS REPLY SERVICE
PERMIT NO. 07399

The Company Secretary
Far Eastern Bank Limited
80 Raffles Place, 4th Storey
UOB Plaza 1
Singapore 048624

Fold along this line and glue overleaf. Do not staple.

Fold along this line (3) and glue overleaf. Do not staple.