

# 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

	Notes	The Group		The Bank	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'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
<b>Profit before taxation</b>		9,756	10,005	9,757	10,009
Less: Taxation	12(a)	2,190	2,141	2,190	2,142
<b>Net profit for the financial year attributable to members</b>		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 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>Share capital and reserves</b>					
Share capital	13	<b>100,011</b>	100,011	<b>100,011</b>	100,011
Statutory reserve	14	<b>38,500</b>	34,500	<b>38,500</b>	34,500
Revenue reserves	15	<b>8,221</b>	6,215	<b>8,214</b>	6,207
		<b>146,732</b>	140,726	<b>146,725</b>	140,718
<b>Liabilities</b>					
Current, fixed, savings accounts and other deposits of non-bank customers	16(b)	<b>620,578</b>	583,186	<b>620,578</b>	583,186
Deposits and balances of banks and agents		–	142	–	142
Deposits of and amounts owing to fellow subsidiaries		<b>3,140</b>	3,025	<b>3,140</b>	3,025
Deposits from subsidiaries		–	–	<b>115</b>	114
Deposits from holding company		<b>15,881</b>	16,578	<b>15,881</b>	16,578
	16	<b>639,599</b>	602,931	<b>639,714</b>	603,045
Bills and drafts payable		<b>1,194</b>	944	<b>1,194</b>	944
Provision for current taxation		<b>2,017</b>	3,165	<b>2,017</b>	3,163
Other liabilities	17	<b>3,467</b>	4,887	<b>3,464</b>	4,888
		<b>646,277</b>	611,927	<b>646,389</b>	612,040
		<b>793,009</b>	752,653	<b>793,114</b>	752,758
<b>Off-balance sheet items</b>					
Contingent liabilities	30	<b>28,553</b>	27,954	<b>28,553</b>	27,954
Derivative financial instruments	31	<b>1,640</b>	2,807	<b>1,640</b>	2,807
Commitments	32	<b>177,802</b>	180,990	<b>177,802</b>	180,990

# Balance Sheets

As at 31 December 2002

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

# Consolidated Cash Flow Statement

For the financial year ended 31 December 2002

	2002 \$'000	2001 \$'000
<b>Cash flows from operating activities</b>		
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)
<b>Net cash from operating activities</b>	53,724	11,105
<b>Cash flows from investing activities</b>		
Net decrease/(increase) in fixed assets	21	(13)
<b>Net cash from/(used) in investing activities</b>	21	(13)
<b>Cash flows from financing activities</b>		
Dividend paid by the Bank	(1,560)	(1,472)
<b>Net cash used in financing activities</b>	(1,560)	(1,472)
<b>Net increase in cash and cash equivalents</b>	52,185	9,620
Cash and cash equivalents at beginning of the financial year	57,715	48,095
<b>Cash and cash equivalents at end of the financial year (Note 33)</b>	109,900	57,715

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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

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.



# Notes to the Financial Statements

For the financial year ended 31 December 2002

(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:

	<b>Increased/(decreased) by The Group and The Bank</b>
	2001
	\$'000
Retained profits	2,068
Provision for deferred taxation	(496)
Deferred tax asset	<u>1,572</u>

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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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 \$'000	2001 \$'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
	<b>20,740</b>	<b>43,502</b>
Received/receivable from:		
Holding company	2,827	24,679
Third parties	17,913	18,823
	<b>20,740</b>	<b>43,502</b>

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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
	<b>6,584</b>	<b>28,319</b>	<b>6,585</b>	<b>28,321</b>
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
	<b>6,584</b>	<b>28,319</b>	<b>6,585</b>	<b>28,321</b>

## 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
	<b>385</b>	<b>418</b>	<b>386</b>	<b>423</b>

## 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
	<b>1,562</b>	<b>1,261</b>

## 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
	<b>1,017</b>	<b>1,296</b>

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 9 Staff costs

(a)

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

(b)

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
Number of employees at the balance sheet date	<b>34</b>	36

## 10 Other operating expenses

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

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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 12 Taxation

### (a) Taxation expense

The taxation charge to the income statements comprises the following:

	The Group		The Bank	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'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 \$'000	2001 \$'000	2002 \$'000	2001 \$'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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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

	<b>Accelerated tax depreciation</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	<b>\$'000</b>
<b>Deferred tax liability</b>		
At 1 January	<b>496</b>	561
Credited to income statements		
– due to reversal of temporary differences	<b>(27)</b>	(65)
– due to reduction in income tax rate	<b>(51)</b>	–
At 31 December	<b>418</b>	496
	<b>Non-tax deductible general provision</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	<b>\$'000</b>
<b>Deferred tax asset</b>		
At 1 January		
As previously reported	–	–
Prior year adjustment for change in accounting policy resulting from adoption of revised SAS 12	<b>2,068</b>	2,068
As restated	<b>2,068</b>	2,068
Charged to income statements		
– due to reduction in income tax rate	<b>(211)</b>	–
At 31 December	<b>1,857</b>	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:

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	<b>\$'000</b>
Deferred tax asset	<b>1,857</b>	2,068
Deferred tax liability	<b>(418)</b>	(496)
Deferred tax asset (net) shown in balance sheets	<b>1,439</b>	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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 14 Statutory reserve

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Balance at 1 January	<b>34,500</b>	30,500
Transfer from revenue reserves (Note 15)	<b>4,000</b>	4,000
Balance at 31 December	<b>38,500</b>	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

	<b>2002</b>			<b>2001</b>		
	<b>General reserve</b>	<b>Retained profits</b>	<b>Total</b>	General reserve	Retained profits	Total
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	\$'000	\$'000	\$'000
Balance at 1 January						
As previously reported	<b>2,000</b>	<b>2,147</b>	<b>4,147</b>	22,500	54,891	77,391
Prior year adjustment for change in accounting policy resulting from adoption of revised SAS 12	–	<b>2,068</b>	<b>2,068</b>	–	2,068	2,068
As restated	<b>2,000</b>	<b>4,215</b>	<b>6,215</b>	22,500	56,959	79,459
Net profit for the financial year attributable to members	–	<b>7,566</b>	<b>7,566</b>	–	7,864	7,864
Bonus issue	–	–	–	(22,500)	(53,136)	(75,636)
Transfer to general reserve	<b>2,000</b>	<b>(2,000)</b>	–	2,000	(2,000)	–
Transfer to statutory reserve (Note 14)	–	<b>(4,000)</b>	<b>(4,000)</b>	–	(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%)	–	<b>(1,560)</b>	<b>(1,560)</b>	–	(1,472)	(1,472)
Balance at 31 December	<b>4,000</b>	<b>4,221</b>	<b>8,221</b>	2,000	4,215	6,215

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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



# Notes to the Financial Statements

For the financial year ended 31 December 2002

(b)

Included in deposits of non-bank customers are:

Fixed deposits

Savings and others

## The Group and The Bank

2002	2001
\$'000	\$'000

304,419	301,361
---------	---------

316,159	281,825
---------	---------

620,578	583,186
---------	---------

## 17 Other liabilities

Accrued interest payable

Provision for other liabilities and charges

Other liabilities

### The Group

### The Bank

2002	2001	2002	2001
\$'000	\$'000	\$'000	\$'000

1,873	2,761	1,874	2,763
-------	-------	-------	-------

274	1,055	273	1,054
-----	-------	-----	-------

1,320	1,071	1,317	1,071
-------	-------	-------	-------

3,467	4,887	3,464	4,888
-------	-------	-------	-------

## 18 Singapore Government securities

At cost

Market value at 31 December

## The Group and The Bank

2002	2001
\$'000	\$'000

91,456	44,799
--------	--------

92,495	44,953
--------	--------

## 19 Dealing securities

Quoted equity investments, at cost

Market value at 31 December

## The Group and The Bank

2002	2001
\$'000	\$'000

–	529
---	-----

–	904
---	-----

## 20 Placements and balances with banks and agents

Analysed by maturity period:

Within 1 year

## The Group and The Bank

2002	2001
\$'000	\$'000

6,784	8,123
-------	-------

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 21 Trade bills and advances to customers

(a)

		The Group and The Bank	
		2002	2001
		\$'000	\$'000
Gross trade bills		<b>898</b>	558
Gross advances to customers		<b>336,289</b>	322,023
Specific provisions		<b>(3,456)</b>	(3,701)
Interest-in-suspense		<b>(2,378)</b>	(2,097)
General provisions		<b>(12,059)</b>	(12,059)
		<b>318,396</b>	304,166
Total gross trade bills and advances to customers		<b>337,187</b>	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		<b>155,839</b>	148,689
Over 1 year but within 3 years		<b>28,401</b>	30,298
Over 3 years but within 5 years		<b>23,467</b>	23,503
Over 5 years		<b>129,480</b>	120,091
		<b>337,187</b>	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		<b>23,935</b>	<b>7</b>	15,303	5
Building and construction		<b>15,441</b>	<b>5</b>	24,670	8
Housing		<b>124,692</b>	<b>37</b>	127,651	39
General commerce		<b>70,379</b>	<b>21</b>	58,002	18
Transport, storage and communications		<b>11,994</b>	<b>4</b>	9,035	3
Non-bank financial institutions		<b>13,738</b>	<b>4</b>	6,062	2
Professionals and private individuals (excluding housing loans)		<b>59,133</b>	<b>17</b>	59,014	18
Others		<b>17,875</b>	<b>5</b>	22,844	7
		<b>337,187</b>	<b>100</b>	322,581	100

# Notes to the Financial Statements

For the financial year ended 31 December 2002

- (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:

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Substandard	<b>24,139</b>	21,457
Doubtful	<b>377</b>	626
Loss	<b>4,722</b>	4,724
Total non-performing loans	<b>29,238</b>	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:

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

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Interest receivable	<b>1,944</b>	1,685
Interest-in-suspense [Note 21(e)]	<b>(572)</b>	(656)
	<b>1,372</b>	1,029
Other assets	<b>632</b>	291
	<b>2,004</b>	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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 24 Investment securities

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Quoted equity investments, at cost	<b>594</b>	–
Market value at 31 December	<b>846</b>	–

## 25 Investments in associates of holding company

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Quoted equity investments, at cost	–	75
Unquoted equity investments:		
At cost	<b>1,250</b>	1,250
Provision for diminution in value	<b>(571)</b>	(571)
	<b>679</b>	679
Total investments in associates of holding company	<b>679</b>	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:

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Balance at 1 January	<b>571</b>	6
Net charge to income statements	–	565
Balance at 31 December	<b>571</b>	571

## 26 Investment in fellow subsidiary

	<b>The Group and The Bank</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Unquoted equity shares, at cost	<b>189</b>	189

The details of the fellow subsidiary are set out below:

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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 27 Investments in subsidiaries

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

			<b>The Bank</b>	
			<b>2002</b>	2001
			<b>\$'000</b>	\$'000
Unquoted equity shares, at cost			<b>105</b>	105

  

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

## 28 Fixed assets

### (a) The Group and The Bank

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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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

<b>The Group and The Bank</b>		
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Direct credit substitutes	<b>8,510</b>	5,580
Transaction-related contingencies	<b>2,351</b>	3,083
Trade-related contingencies	<b>17,692</b>	19,291
	<b>28,553</b>	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

	<b>2002</b>			<b>2001</b>		
	<b>Contract or underlying principal amount \$'000</b>	<b>Year-end positive fair value \$'000</b>	<b>Year-end negative fair value \$'000</b>	<b>Contract or underlying principal amount \$'000</b>	<b>Year-end positive fair value \$'000</b>	<b>Year-end negative fair value \$'000</b>
<b>Foreign exchange contracts</b>						
Forwards	<b>1,640</b>	<b>18</b>	<b>5</b>	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

<b>The Group and The Bank</b>		
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Undrawn credit facilities	<b>177,702</b>	180,890
Others	<b>100</b>	100
	<b>177,802</b>	180,990

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 33 Cash and cash equivalents

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>\$'000</b>	\$'000
Cash and balances with central bank	<b>18,444</b>	12,916
Singapore Government securities	<b>91,456</b>	44,799
	<b>109,900</b>	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.

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

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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.



# Notes to the Financial Statements

For the financial year ended 31 December 2002

(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.

	<b>The Group 2002</b>		
	<b>Singapore Dollars \$'000</b>	<b>Others \$'000</b>	<b>Total \$'000</b>
<b>Assets</b>			
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
	<b>771,605</b>	<b>21,404</b>	<b>793,009</b>
<b>Liabilities</b>			
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
	<b>625,554</b>	<b>20,723</b>	<b>646,277</b>
<b>Shareholders' funds</b>	<b>146,732</b>	<b>–</b>	<b>146,732</b>
	<b>772,286</b>	<b>20,723</b>	<b>793,009</b>
Net on-balance sheet position	(681)	681	–
Net off-balance sheet position	945	(945)	–
Net foreign currency gap	264	(264)	–

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 36 Financial risk management (continued)

### (b) Foreign exchange risk (continued)

	The Group 2001		
	Singapore Dollars \$'000	Others \$'000	Total \$'000
<b>Assets</b>			
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
	<b>734,505</b>	<b>18,148</b>	<b>752,653</b>
<b>Liabilities</b>			
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
	<b>594,664</b>	<b>17,263</b>	<b>611,927</b>
<b>Shareholders' funds</b>	<b>140,726</b>	<b>–</b>	<b>140,726</b>
	<b>735,390</b>	<b>17,263</b>	<b>752,653</b>
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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

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 %
<b>Assets</b>										
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	-
<b>Liabilities</b>										
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	-
<b>Shareholders' funds</b>	146,732	146,732	-	-	-	-	-	-	-	-
	793,009	244,156	251,982	52,630	76,072	163,141	5,028	-	548,853	-
<b>Net interest rate sensitivity gap</b>	-	(208,437)	10,809	225,856	(64,726)	(49,367)	77,521	8,344	208,437	-

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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 %
<b>Assets</b>										
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	–
<b>Liabilities</b>										
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	–
<b>Shareholders' funds</b>										
	140,726	140,726	–	–	–	–	–	–	–	–
	752,653	255,054	208,969	41,830	80,008	165,842	950	–	497,599	–
<b>Net interest rate sensitivity gap</b>										
	–	(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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

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
<b>Assets</b>								
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
	<b>793,009</b>	<b>211,131</b>	<b>275,097</b>	<b>6,115</b>	<b>30,264</b>	<b>93,297</b>	<b>161,202</b>	<b>15,903</b>
<b>Liabilities</b>								
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
	<b>646,277</b>	<b>344,906</b>	<b>52,785</b>	<b>76,298</b>	<b>163,634</b>	<b>5,043</b>	<b>–</b>	<b>3,611</b>
<b>Shareholders' funds</b>	<b>146,732</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>146,732</b>
	<b>793,009</b>	<b>344,906</b>	<b>52,785</b>	<b>76,298</b>	<b>163,634</b>	<b>5,043</b>	<b>–</b>	<b>150,343</b>
<b>Net maturity mismatch</b>	<b>–</b>	<b>(133,775)</b>	<b>222,312</b>	<b>(70,183)</b>	<b>(133,370)</b>	<b>88,254</b>	<b>161,202</b>	<b>(134,440)</b>

# Notes to the Financial Statements

For the financial year ended 31 December 2002

## 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
<b>Assets</b>								
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
<b>Liabilities</b>								
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
<b>Shareholders' funds</b>	140,726	–	–	–	–	–	–	140,726
	752,653	316,358	42,069	80,465	166,790	955	–	146,016
<b>Net maturity mismatch</b>	–	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.

# Notes to the Financial Statements

For the financial year ended 31 December 2002

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.

# 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."



# Notice of Annual General Meeting

## 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
	<b>Ordinary Business</b>		
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)		
	<b>Special Business</b>		
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 initialised by the person who signs it.

Fold along this line (1)

Fold along this line (2)

**FEB**

**BUSINESS REPLY SERVICE  
PERMIT NO. 07399**



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

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

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

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

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