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 Financial Review

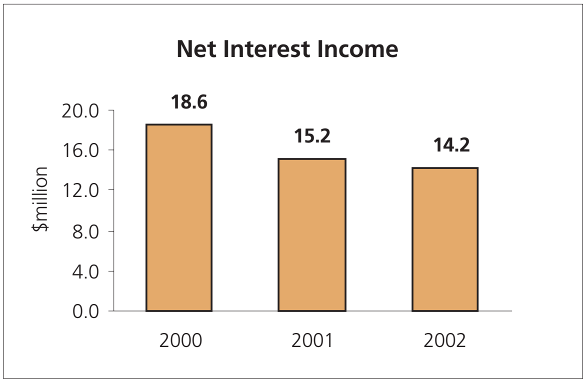
GROUP PROFITS

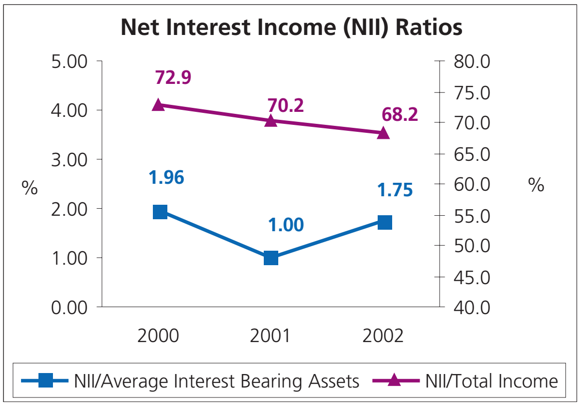
The Group has posted a net profit after tax of $7.6 million for the financial year ended 31 December 2002, down 3.8% from $7.9 million in the previous year. The decline was mainly attributable to lower net interest income, lower dealing income and higher provisions, partially offset by lower operating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

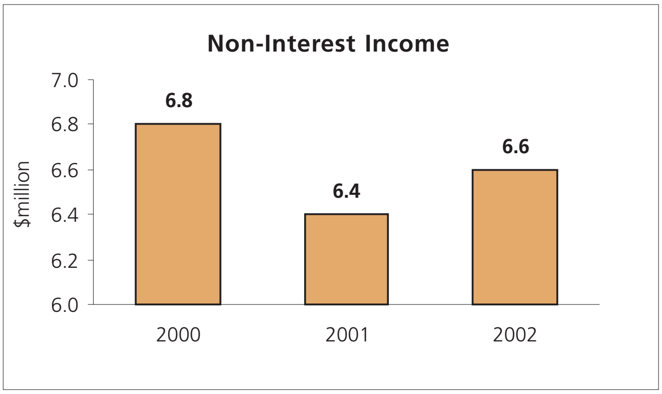
Group Average Interest Margin

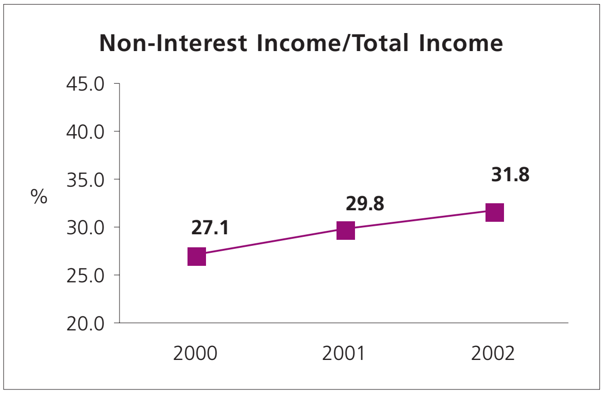
	2002			2001		
	Average Balance* $'000	**Interest $'000**	**Average Rate %**	Average Balance* $'000	Interest $'000	Average Rate %
Assets						
Interest bearing assets	**808,185**	**20,740**	**2.57**	1,513,198	43,502	2.87
Interest bearing liabilities	**669,386**	**6,584**	**0.98**	1,375,135	28,319	2.06
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

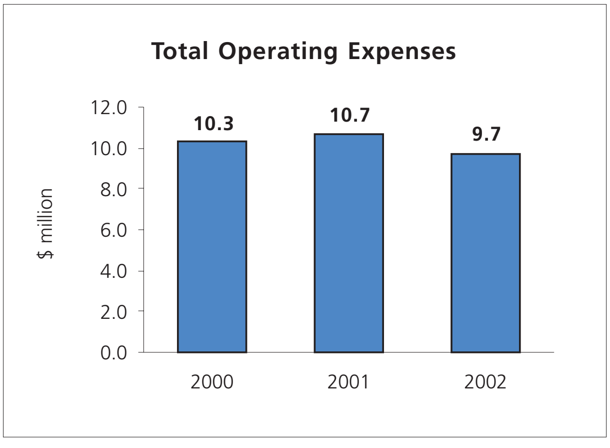
	2002 $'000	2001 $'000	Increase/ (Decrease) %
Fee and commission income			
Investment-related	**78**	7	1,014.3
Trade-related	**567**	554	2.3
Loan-related	**448**	254	76.4
Others	**469**	446	5.2
	1,562	1,261	23.9
Dividend and rental income	**4,022**	3,883	3.6
Other operating income			
Dealing income	**137**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

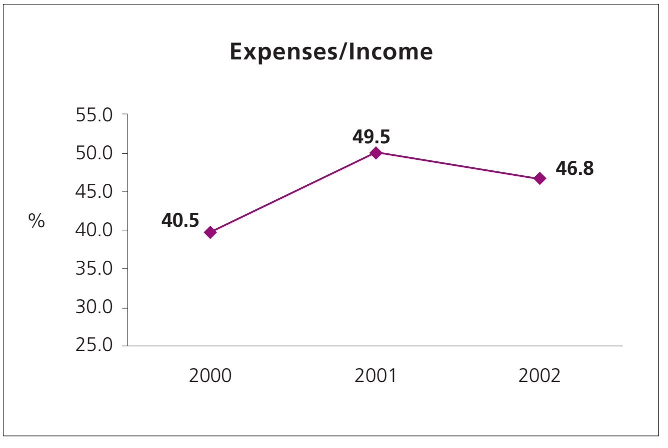
OPERATING EXPENSES

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.

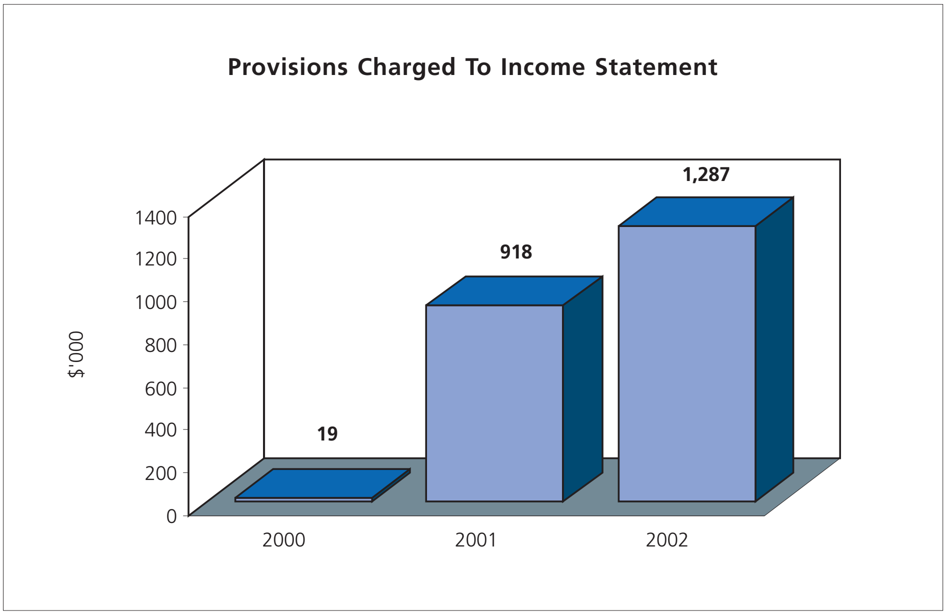
	2002 $'000	2001 $'000	Increase/ (Decrease) %
Staff expenses	**1,716**	1,760	(2.5)
Other operating expenses	**7,998**	8,940	(10.5)
Total operating expenses	**9,714**	10,700	(9.2)





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

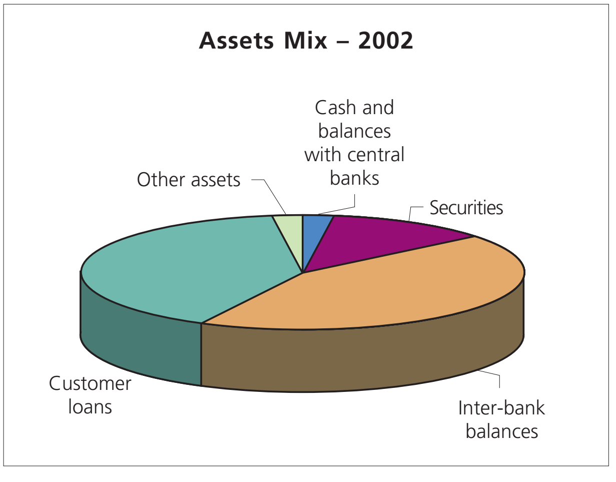
Group total assets increased to $793.0 million as at 31 December 2002, a 5.4% growth compared with $752.7 million previously. The growth was primarily from securities and customer loans, partially offset by lower inter-bank balances.

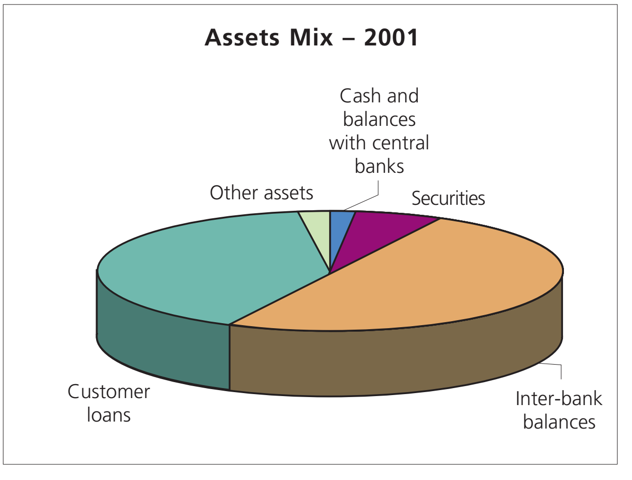
Assets Mix

	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.

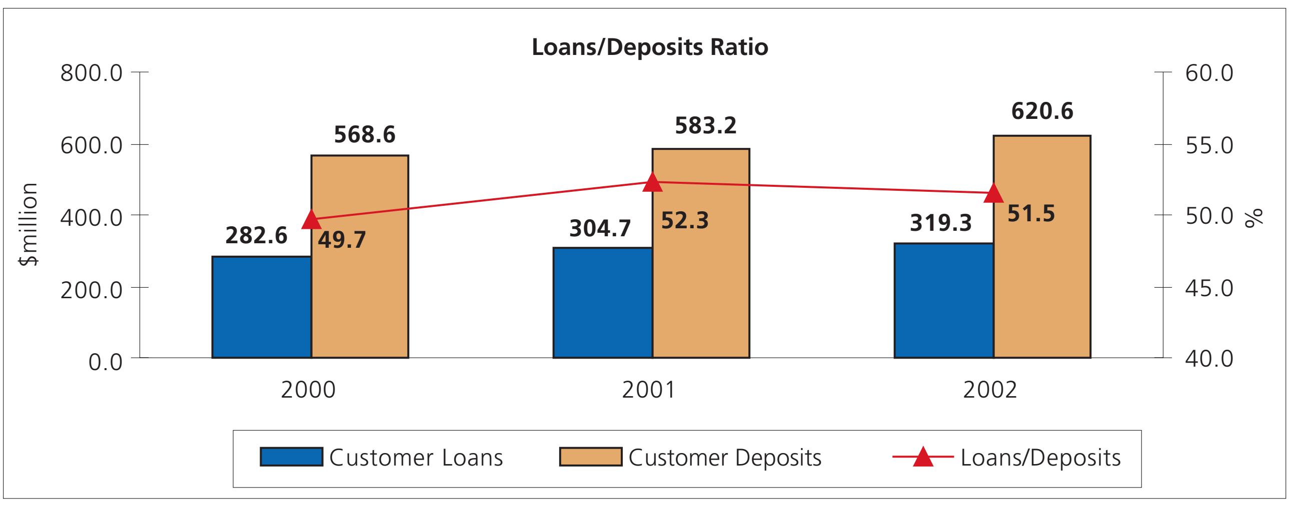
Deposits By Type

	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

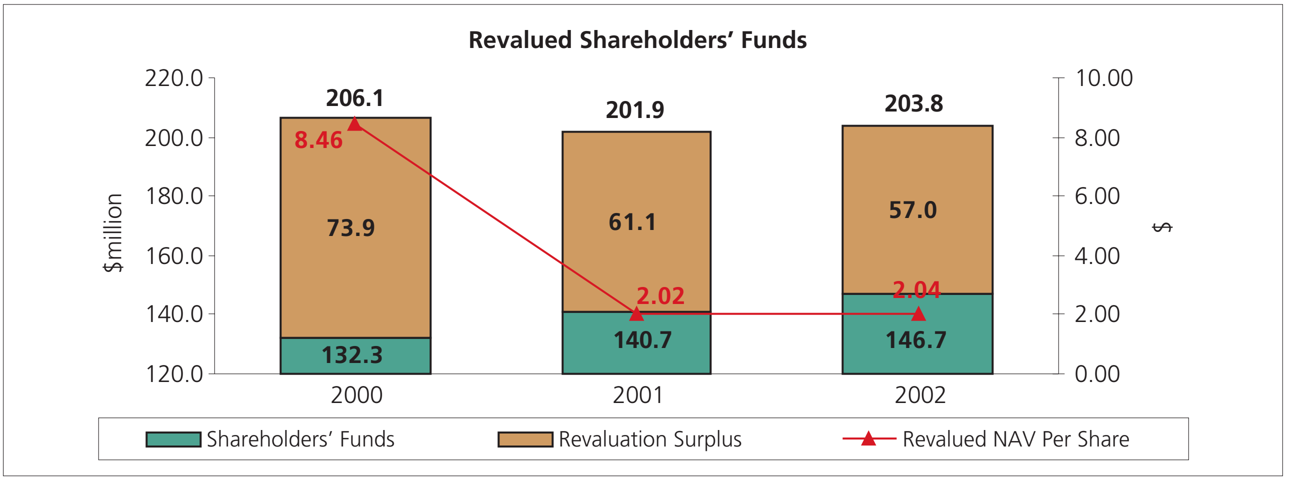
As a result of positive growth in customer deposits and net customer loans of 6.4% and 4.8% respectively, the loans-to-deposits ratio slipped 0.8% point from 52.3% in 2001 to 51.5% in 2002.



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 **$'000**	2001 $'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%

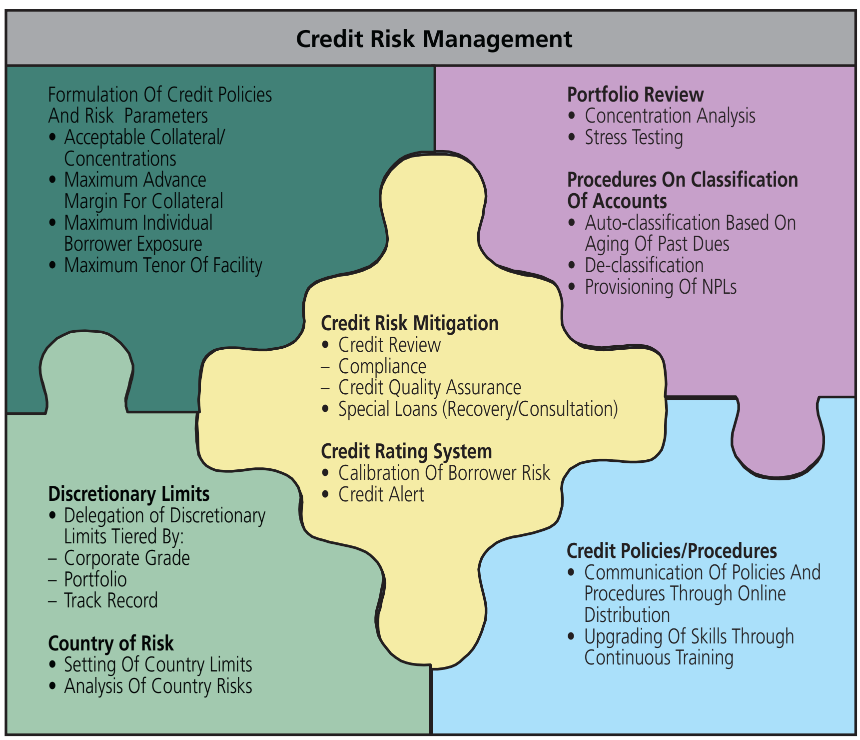
** After discount of 55% in accordance with BIS guidelines.*
+ Excluding specific and earmarked provisions.

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

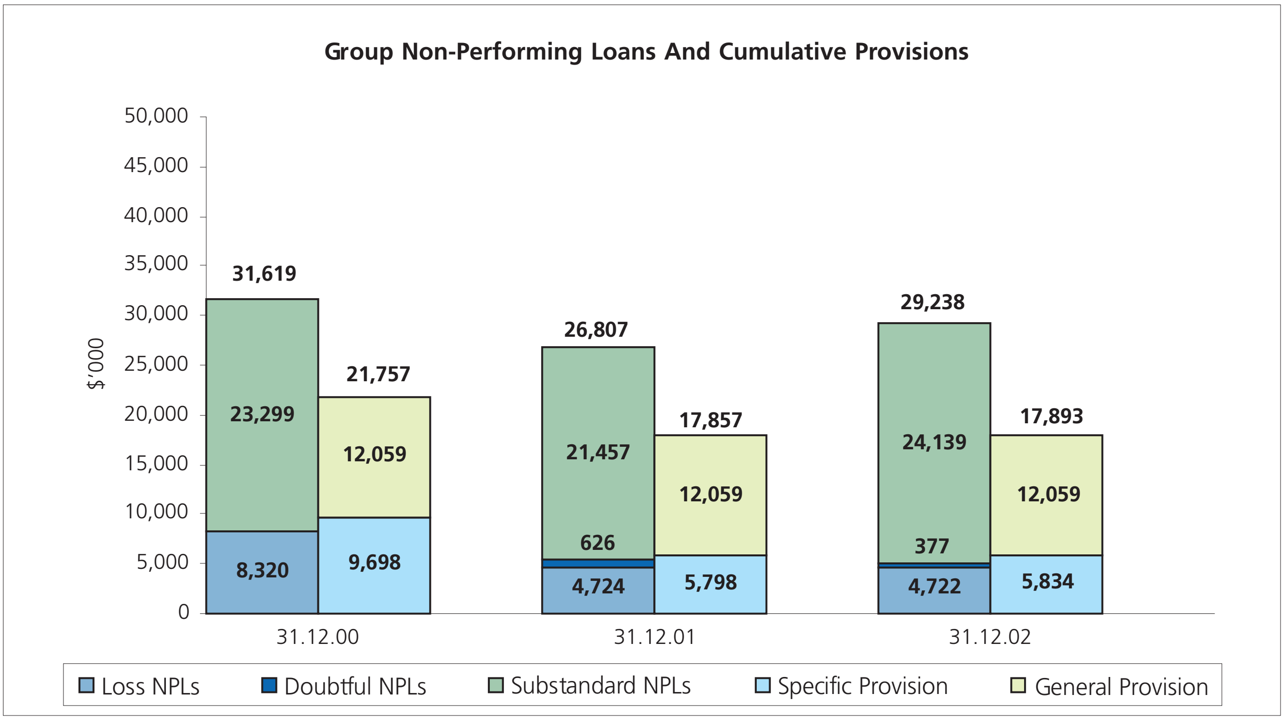
Write-Off

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.

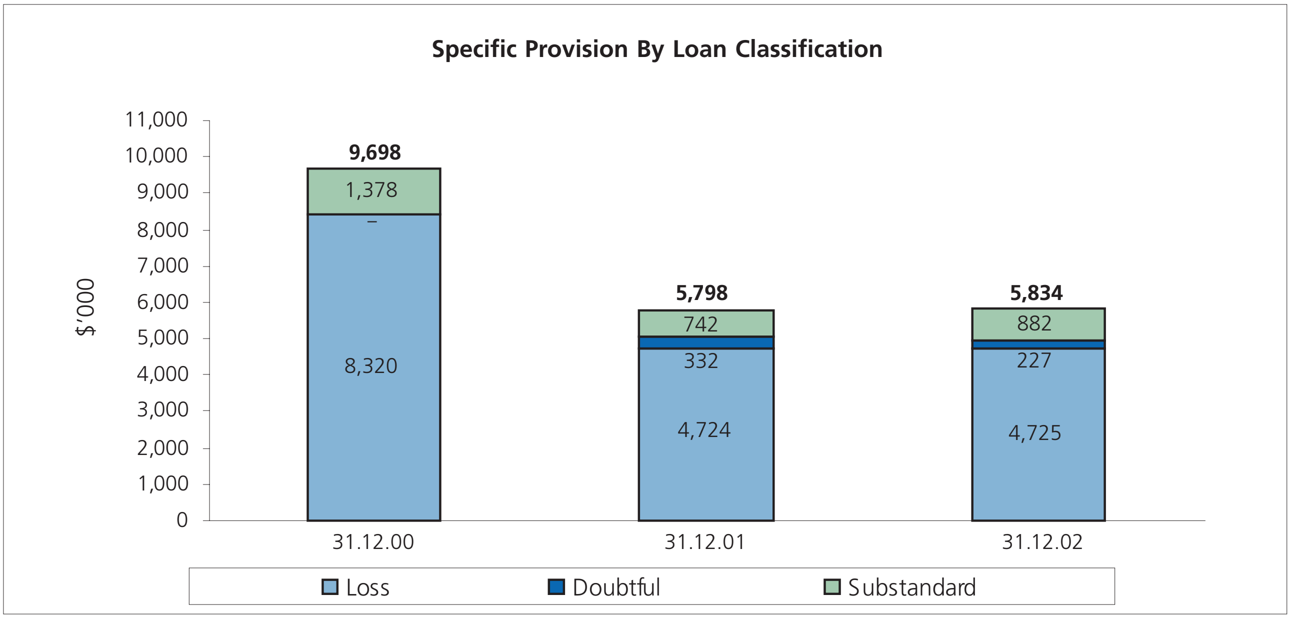


Ratios (%)	**31.12.02**	31.12.01	31.12.00
NPLs/Gross customer loans	**8.7**	8.3	10.4
Cumulative provisions/NPLs	**61.2**	66.6	68.8
Cumulative provisions/Doubtful & Loss NPLs	**350.9**	333.8	261.5
Cumulative provisions/Unsecured NPLs	**281.9**	350.6	214.3
Cumulative provisions/Gross customer loans	**5.3**	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:



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)

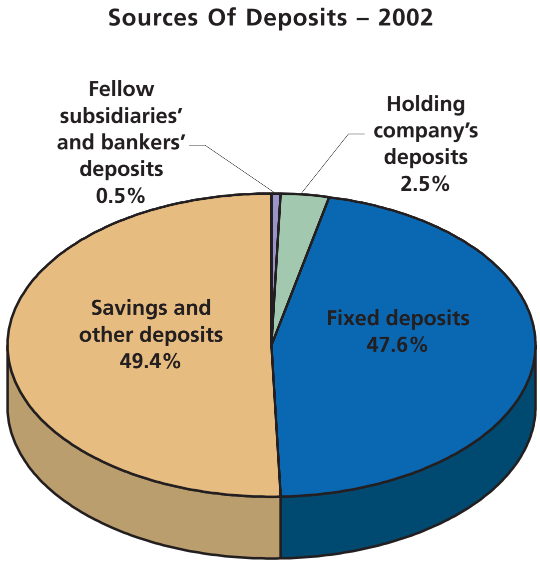
Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior 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.

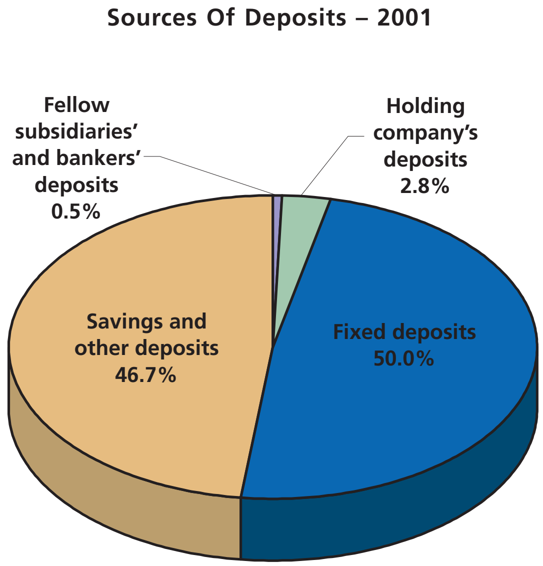
The table in number 36(d) of notes to the financial statements shows the maturity mismatch analysis of the Bank's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Less 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.