

STATEMENT BY DIRECTORS

for the financial year ended 31 December 2003

In the opinion of the directors, the balance sheet of the Bank and the financial statements of the Group as set out on pages 35 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 2003 and of the results of the business, and changes in equity and 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

20 February 2004

AUDITORS' REPORT TO THE MEMBERS OF FAR EASTERN BANK LIMITED

for the financial year ended 31 December 2003

We have audited the balance sheet of Far Eastern Bank Limited and the consolidated financial statements of the Group for the financial year ended 31 December 2003 set out on pages 35 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 balance sheet of the Bank and consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2003, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records (excluding 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, 20 February 2004

CONSOLIDATED INCOME STATEMENT

for the financial year ended 31 December 2003

	Note	The Group	
		2003 \$'000	2002 \$'000
Interest income	3	17,432	20,344
Less: Interest expense	4	4,083	6,584
Net interest income		13,349	13,760
Dividend income	5	360	385
Fee and commission income	6	1,338	1,562
Rental income	7	3,517	3,637
Other operating income	8	1,497	1,017
Income before operating expenses		20,061	20,361
Less:			
Staff costs	9	1,454	1,716
Other operating expenses	10	8,573	7,998
		10,027	9,714
Operating profit before provisions		10,034	10,647
Less: Provisions	11	1,726	1,287
Profit before tax		8,308	9,360
Less: Tax	12(a)	1,670	2,150
Net profit for the financial year attributable to members		6,638	7,210

The accompanying notes form an integral part of these financial statements.

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BALANCE SHEETS

as at 31 December 2003

		The Group		The Bank	
	Note	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Share capital and reserves					
Share capital	13	100,011	100,011	100,011	100,011
Statutory reserve	14	41,900	38,500	41,900	38,500
Revenue reserves	15	9,543	7,865	9,537	7,858
		151,454	146,376	151,448	146,369
Liabilities					
Current, fixed, savings accounts and other deposits of non-bank customers	16(b)	604,129	620,578	604,129	620,578
Deposits and balances of banks and agents		–	–	–	–
Deposits of and amounts owing to fellow subsidiaries		3,338	3,140	3,338	3,140
Deposits from subsidiaries		–	–	114	115
Deposits from holding company		37,252	15,881	37,252	15,881
	16(a)	644,719	639,599	644,833	639,714
Bills and drafts payable		2,077	1,194	2,077	1,194
Provision for current tax		1,599	1,977	1,599	1,977
Other liabilities	17	3,065	3,467	3,062	3,464
		651,460	646,237	651,571	646,349
		802,914	792,613	803,019	792,718
Off-balance sheet items					
Contingent liabilities	29	19,442	28,553	19,442	28,553
Derivative financial instruments	30	2,450	1,640	2,450	1,640
Commitments	31	160,441	177,802	160,441	177,802

	Note	The Group		The Bank	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Assets					
Cash and balances with central bank		17,140	18,444	17,140	18,444
Singapore Government treasury bills and securities	18	64,712	91,060	64,712	91,060
Placements and balances with banks and agents	19	7,023	6,784	7,023	6,784
Trade bills	20	860	898	860	898
Advances to customers	20	300,374	318,396	300,374	318,396
Placements with fellow subsidiaries		233	237	233	237
Deferred tax asset	12(c)	1,418	1,439	1,418	1,439
Other assets	21	2,159	2,004	2,159	2,004
Placements with and net amount owing by holding company	22	396,420	339,519	396,420	339,519
		790,339	778,781	790,339	778,781
Investment securities	23	519	594	519	594
Investments in associates of holding company	24	679	679	679	679
Investment in fellow subsidiary	25	129	189	129	189
Investments in subsidiaries	26	–	–	105	105
Fixed assets	27	11,248	12,370	11,248	12,370
		802,914	792,613	803,019	792,718

The accompanying notes form an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the financial year ended 31 December 2003

(a) **Recognised gains and losses**

There are no gains and losses that are recognised directly in the reserves of the Group for the financial years ended 31 December 2003 and 31 December 2002. The total recognised gains and losses of the Group for both the financial years are the same as their respective net profits for the financial year attributable to members.

(b) **Prior year adjustment**

**Prior year adjustment arising from a change in accounting
policy for investments as set out in Note 2(e)**

Decrease in retained profits at 31 December 2002

The Group
2002
\$'000

356

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

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

The accompanying notes form an integral part of these financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

for the financial year ended 31 December 2003

	2003 \$'000	2002 \$'000
Cash flows from operating activities		
Profit before tax	8,308	9,360
Adjustments for:		
Depreciation	549	575
(Write-back of provision)/provision for impairment of land and buildings	(30)	50
Operating profit before working capital changes	8,827	9,985
Working capital changes:		
Deposits	(16,449)	37,250
Bills and drafts payable	883	250
Other liabilities	(402)	(1,420)
Placements and balances with banks and agents	(239)	1,339
Trade bills and advances to customers	18,060	(14,570)
Other assets	(155)	(684)
Net balance of related companies	(35,328)	24,373
Cash (used in)/generated from operations	(24,803)	56,523
Income tax paid	(2,027)	(3,205)
Net cash (used in)/from operating activities	(26,830)	53,318
Cash flows from investing activities		
Net decrease in fixed assets	603	21
Net decrease in investment securities	135	10
Net cash from investing activities	738	31
Cash flows from financing activities		
Dividend paid by the Bank	(1,560)	(1,560)
Net cash used in financing activities	(1,560)	(1,560)
Net (decrease)/increase in cash and cash equivalents	(27,652)	51,789
Cash and cash equivalents at beginning of the financial year	109,504	57,715
Cash and cash equivalents at end of the financial year (Note 32)	81,852	109,504

The accompanying notes form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

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 as follows:

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 set out in Note 26 to the financial statements.

2 Significant accounting policies

(a) Effect of changes in Singapore Companies Legislation

Pursuant to the Singapore Companies (Amendment) Act 2002, with effect from the financial year commencing on or after 1 January 2003, Singapore-incorporated companies are required to prepare and present their statutory financial statements in accordance with Singapore Financial Reporting Standards ("FRS"). Hence, these financial statements, including the comparative figures, have been prepared in accordance with FRS.

Previously, the Group and the Bank prepared their statutory financial statements in accordance with the Singapore Statements of Accounting Standard. The adoption of FRS does not have a material impact on the accounting policies and figures presented in the statutory financial statements for the financial years ended 31 December 2002 and 2003.

(b) Basis of accounting

These financial statements are presented in Singapore dollars, the measurement currency of the Group and the Bank.

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain derivative financial instruments to fair value at the balance sheet date.

The preparation of financial statements in conformity with Singapore Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the financial year. Although these estimates are based on management's best knowledge and efforts, actual results may ultimately differ from those estimates.

(c) 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.

(d) 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.

(e) **Investments**

(i) Following the revision of Notice to Banks, MAS 605 – Revaluation of Assets, issued by the Monetary Authority of Singapore, which allows banks to mark to market their trading portfolios, the Group and the Bank have changed their accounting policy as follows:

- Singapore Government treasury bills, other than those held for trading, are stated at the lower of cost and market value, determined on an aggregate basis.
- Singapore Government securities, other than those held for trading, are stated at cost (adjusted for amortisation of premium or discount) and provisions are made for diminution in value, other than temporary, determined on an individual basis.
- Dealing securities are initially recognised in the balance sheets at amounts paid and are subsequently remeasured to fair value. The resultant profits and losses are taken up in the income statements.

Prior to 1 January 2003:

- Singapore Government treasury bills and securities were stated at the lower of cost (without adjustment for amortisation of premium or discount) and market value determined on an aggregate basis.
- Dealing securities were stated at the lower of cost and market value determined on an aggregate basis.

The new accounting policy has been applied retrospectively, with the financial statements, including prior-year comparatives, being presented as if the new accounting policy had always been in use. The comparatives have been restated to conform to the changed policy as follows:

	2002 The Group and The Bank \$'000
<i>Balance sheet</i>	
Decrease in Singapore Government treasury bills and securities	(396)
Decrease in provision for current tax	40
Decrease in retained profits	<u>(356)</u>
<i>Income statement</i>	
Decrease in profit after tax for the year	<u>(356)</u>

Had the accounting policy for investment not been changed, the effects on the financial statements for the financial year ended 31 December 2003 would have been as follows:

	2003 The Group and The Bank \$'000
<i>Balance sheet</i>	
Increase in Singapore Government treasury bills and securities	388
Increase in provision for current tax	<u>(39)</u>
Increase in retained profits	<u>349</u>
<i>Income statement</i>	
Decrease in profit after tax for the year	<u>(7)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

2 Significant accounting policies

(e) Investments (continued)

- (ii) Investment securities are stated at cost (adjusted for amortisation of premium or discount) and provisions are made for diminution in value, other than temporary, determined on an individual basis.

Fair value for publicly quoted investments is based on quoted market prices at the balance sheet date. Fair value for unquoted investments are based on other valuation techniques, such as discounting estimated cash flows at an appropriate rate.

- (iii) Investments in associates, fellow subsidiaries and subsidiaries are stated at cost and provisions are made for impairment, determined on an individual basis.

(f) 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 treasury bills and securities.

(g) Revenue recognition

- (i) Interest income is recognised on an accrual basis.
- (ii) Dividend income from investments is taken up gross in the income statements of the accounting period in which the dividend is received.
- (iii) Profits and losses on disposal of investments are taken up in the income statements.
- (iv) Fee and commission income and rental income are recognised on an accrual basis.

(h) 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, over the period of the respective leases, whichever is shorter.

(i) Tax

Deferred income tax is determined on the basis of tax effect accounting using the liability method. Deferred tax 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.

(j) Foreign currencies

Foreign currency monetary 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.

(k) **Derivative financial instruments**

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

Derivative financial instruments undertaken for trading purposes are subsequently remeasured at fair value and the resultant profits or losses are taken up in the income statements.

Derivative financial instruments entered into for hedging purposes are subsequently accounted for in a manner consistent with the accounting treatment of the hedged items.

(l) **Impairment**

Investments in associates, fellow subsidiaries, subsidiaries and fixed assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and/or value in use.

(m) **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.

Provisions for possible loan losses, diminution in value or impairment of other classes of assets, despite the use of the term "provisions", are not provisions as defined above. Instead, they represent adjustments to the carrying values of assets.

(n) **Employee benefits**

Equity compensation benefits

Employees of the Group and the Bank with the corporate grade of Vice President (or an equivalent rank) and above as well as selected employees below Vice President (or an equivalent rank) qualify for the UOB Executives' Share Option Scheme and the UOB 1999 Share Option Scheme (hereinafter called "the Schemes"), subject to certain restrictions.

Pursuant to these Schemes, options have been awarded to enable the holders to acquire shares in the holding company at the respective 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 Group and the Bank contributes to a legally required social security scheme, the Central Provident Fund, which is a defined contribution scheme.

These expenses are charged to the income statements as and when they arise and are included as part of staff costs.

(o) **Dividends**

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are declared.

(p) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in the current presentation. Where applicable, the comparatives have been adjusted or extended to take into account the change in accounting policy for investments [see Note 2 (e)].

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

3 Interest income

	The Group	
	2003	2002
	\$'000	\$'000
Singapore Government treasury bills and securities	2,046	1,756
Trade bills and advances to customers	13,521	15,719
Inter-bank balances	1,865	2,869
	17,432	20,344
Received/receivable from:		
Holding company	1,791	2,827
Third parties	15,641	17,517
	17,432	20,344

4 Interest expense

	The Group	
	2003	2002
	\$'000	\$'000
Non-bank deposits	4,052	6,548
Inter-bank balances	31	36
	4,083	6,584
Paid/payable to:		
Holding company	17	36
Fellow subsidiaries	17	21
Third parties	4,049	6,527
	4,083	6,584

5 Dividend income

	The Group	
	2003	2002
	\$'000	\$'000
Dividend income from:		
Investment in an unquoted fellow subsidiary	273	350
Other quoted investments	87	35
	360	385

6 Fee and commission income

	The Group	
	2003	2002
	\$'000	\$'000
Investment-related	1	78
Loan and trade-related	780	1,015
Other	557	469
	1,338	1,562

7 Rental income

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

8 Other operating income

	The Group	
	2003 \$'000	2002 \$'000
Net profit on disposal of investment securities and Singapore Government treasury bills and securities	61	1
Net profit on foreign exchange dealings	127	136
Net profit/(loss) on sale of fixed assets	468	(31)
Other income	841	911
	1,497	1,017

9 Staff costs

(a)

	The Group	
	2003 \$'000	2002 \$'000
Wages and salaries	1,150	1,254
Employer's contribution to the Central Provident Fund	167	184
Retrenchment benefits	—	179
Other staff-related costs	137	99
	1,454	1,716

(b)

	The Group	
	2003	2002
Number of employees at the balance sheet date	40	34

10 Other operating expenses

	The Group	
	2003 \$'000	2002 \$'000
Included in other operating expenses are the following:		
Depreciation of fixed assets	549	575
Rental of premises and equipment	124	128
Maintenance of premises and other assets	400	407
Other expenses of premises	597	607
Auditors' remuneration:		
Audit fees	54	54
Other fees	9	4
Fees payable to directors of the Bank	63	59

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

11 Provisions

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

	The Group	
	2003	2002
	\$'000	\$'000
Specific provisions for and net write-offs of trade bills and advances to customers	1,752	1,237
Provisions for diminution in value of investments	4	–
(Write-back of provisions)/provisions for impairment of land and buildings	(30)	50
	1,726	1,287

12 Tax

(a) Tax expense

The tax charge to the consolidated income statement comprises the following:

	The Group	
	2003	2002
	\$'000	\$'000
On the profit of the financial year:		
Current tax	1,683	2,017
Deferred tax	21	(27)
	1,704	1,990
(Over)/underprovision in preceding financial year:		
Current tax	(34)	–
Deferred tax resulting from reduction in income tax rate	–	160
	1,670	2,150

(b) Tax reconciliation

The tax charge on the results of the Group for the financial year differs from the theoretical amount that would arise by applying the Singapore statutory income tax rate to the profit before tax due to the following:

	The Group	
	2003	2002
	\$'000	\$'000
Profit before tax	8,308	9,360
Tax calculated at a tax rate of 22% (2002: 22%)	1,828	2,059
Effects on:		
Singapore statutory stepped income exemption	(12)	(12)
Net income not taxable for tax purposes	(45)	(32)
Income taxed at a concessionary rate of 10%	(67)	(25)
	1,704	1,990

(c) **Deferred tax**

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

The Group and The Bank

	Accelerated tax depreciation	
	2003	2002
	\$'000	\$'000
Deferred tax liability		
At 1 January	418	496
Charged/(credited) to income statements		
– due to temporary differences	21	(27)
– due to reduction in income tax rate	–	(51)
At 31 December	439	418
	Non-tax deductible general provision	
	2003	2002
	\$'000	\$'000
Deferred tax asset		
At 1 January	1,857	2,068
Charged to income statements		
– due to reduction in income tax rate	–	(211)
At 31 December	1,857	1,857

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 tax authority. Deferred tax asset and liability after netting are shown in the balance sheets as follows:

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Deferred tax asset	1,857	1,857
Deferred tax liability	(439)	(418)
Deferred tax asset (net) shown in balance sheets	1,418	1,439

13 Share capital of the Group and the Bank

(a) **Authorised ordinary share capital**

The total authorised number of ordinary shares is 200,000,000 shares (2002: 200,000,000 shares) with a par value of \$1 per share (2002: \$1 per share).

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

The number of issued ordinary shares at 31 December 2003 is 100,010,566 shares (2002: 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 2003

14 Statutory reserve

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Balance at 1 January	38,500	34,500
Transfer from revenue reserves (Note 15)	3,400	4,000
Balance at 31 December	41,900	38,500

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

	2003			2002		
	General reserve	Retained profits	Total	General reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January						
As previously reported	4,000	4,221	8,221	2,000	4,215	6,215
Prior year adjustment for change in accounting policy	–	(356)	(356)	–	–	–
As restated	4,000	3,865	7,865	2,000	4,215	6,215
Net profit for the financial year attributable to members	–	6,638	6,638	–	7,210	7,210
Transfer to general reserve	2,600	(2,600)	–	2,000	(2,000)	–
Transfer to statutory reserve (Note 14)	–	(3,400)	(3,400)	–	(4,000)	(4,000)
Final dividend in respect of financial year ended 31 December 2002 (2002: 31 December 2001) of 2 cents per share paid, net of tax at 22%	–	(1,560)	(1,560)	–	(1,560)	(1,560)
Balance at 31 December	6,600	2,943	9,543	4,000	3,865	7,865

(b) **The Bank**

	General reserve \$'000	2003 Retained profits \$'000	Total \$'000	General reserve \$'000	2002 Retained profits \$'000	Total \$'000
Balance at 1 January						
As previously reported	4,000	4,214	8,214	2,000	4,207	6,207
Prior year adjustment for change in accounting policy	–	(356)	(356)	–	–	–
As restated	4,000	3,858	7,858	2,000	4,207	6,207
Net profit for the financial year attributable to members	–	6,639	6,639	–	7,211	7,211
Transfer to general reserve	2,600	(2,600)	–	2,000	(2,000)	–
Transfer to statutory reserve (Note 14)	–	(3,400)	(3,400)	–	(4,000)	(4,000)
Final dividend in respect of financial year ended 31 December 2002 (2002: 31 December 2001) of 2 cents per share paid, net of tax at 22%	–	(1,560)	(1,560)	–	(1,560)	(1,560)
Balance at 31 December	6,600	2,937	9,537	4,000	3,858	7,858

- (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

	The Group		The Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Analysed by maturity period:				
Within 1 year	635,010	634,571	635,124	634,686
Over 1 year but within 3 years	5,824	5,028	5,824	5,028
Over 3 years but within 5 years	3,885	–	3,885	–
	644,719	639,599	644,833	639,714

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

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

(b)

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Included in deposits of non-bank customers are:		
Fixed deposits	283,254	304,419
Savings and other	320,875	316,159
	604,129	620,578

17 Other liabilities

	The Group		The Bank	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Accrued interest payable	1,417	1,873	1,417	1,874
Provisions for other liabilities and charges	276	274	275	273
Other liabilities	1,372	1,320	1,370	1,317
	3,065	3,467	3,062	3,464

18 Singapore Government treasury bills and securities

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
At cost adjusted for premium and discount	64,716	91,060
Provisions for diminution in value	(4)	—
	64,712	91,060
Market value at 31 December	65,104	92,495

Movement in the provisions for diminution in value of Singapore Government treasury bills and securities is as follows:

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
At 1 January	—	—
Charge to income statement	4	—
At 31 December	4	—

19 Placements and balances with banks and agents

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Analysed by maturity period:		
Within 1 year	7,023	6,784

20 Trade bills and advances to customers

(a)

	The Group and The Bank	
	2003 \$'000	2002 \$'000
Gross trade bills	860	898
Gross advances to customers	319,215	336,289
Specific provisions	(4,231)	(3,456)
Interest-in-suspense	(2,551)	(2,378)
General provisions	(12,059)	(12,059)
	300,374	318,396
Total gross trade bills and advances to customers	320,075	337,187

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

	The Group and The Bank	
	2003 \$'000	2002 \$'000
Within 1 year	139,053	155,839
Over 1 year but within 3 years	27,123	28,401
Over 3 years but within 5 years	24,215	23,467
Over 5 years	129,684	129,480
	320,075	337,187

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

	The Group and The Bank			
	2003		2002	
	\$'000	%	\$'000	%
Manufacturing	18,667	6	23,935	7
Building and construction	14,476	5	15,441	5
Housing	121,729	38	124,692	37
General commerce	72,000	23	70,379	21
Transport, storage and communications	3,305	1	11,994	4
Non-bank financial institutions	14,260	4	13,738	4
Professionals and private individuals (excluding housing loans)	58,568	18	59,133	17
Other	17,070	5	17,875	5
	320,075	100	337,187	100

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20 Trade bills and advances to customers (continued)

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

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Substandard	27,403	24,139
Doubtful	–	377
Loss	4,969	4,722
Total non-performing loans	32,372	29,238

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

- (e) The movements in provisions are as follows:

	The Group and The Bank							
	2003				2002			
	Specific provisions	Interest-in-suspense	General provisions	Total	Specific provisions	Interest-in-suspense	General provisions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January	3,456	2,950	12,059	18,465	3,701	2,753	12,059	18,513
Write-off against provisions	(828)	(519)	–	(1,347)	(1,404)	(586)	–	(1,990)
Net charge to income statements	1,603	–	–	1,603	1,159	–	–	1,159
Interest suspended	–	806	–	806	–	783	–	783
Balance at 31 December	4,231	3,237	12,059	19,527	3,456	2,950	12,059	18,465

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 21.

21 Other assets

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Interest receivable	1,696	1,944
Interest-in-suspense [Note 20(e)]	(686)	(572)
	1,010	1,372
Other	1,149	632
	2,159	2,004

22 Holding company

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

23 Investment securities

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Quoted equity investments, at cost	519	594
Market value at 31 December	784	846

24 Investments in associates of holding company

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Unquoted equity investments:		
At cost	1,250	1,250
Provisions for impairment	(571)	(571)
	679	679
Total investments in associates of holding company	679	679

25 Investment in fellow subsidiary

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Unquoted equity shares, at cost	129	189

The details of the fellow subsidiary are set out below:

Name of fellow subsidiary	Principal activities	Country of incorporation and place of business	Bank's interest therein 2003 and 2002
UOBT (2003) Limited (formerly known as United Overseas Bank Trustee Ltd)	Trustee and investment management services	Singapore	20%

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26 Investments in subsidiaries

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

			The Bank	
			2003	2002
			\$'000	\$'000
Unquoted equity shares, at cost			105	105
Subsidiaries	Principal activities	Country of incorporation and place of business	Cost of Bank's investment	
			2003	2002
			\$'000	\$'000
FEB Realty Company Pte Ltd	Dormant	Singapore	100	100
Far Eastern Bank Nominees Private Limited	Nominee services	Singapore	5	5
			105	105

27 Fixed assets

(a)

The Group and The Bank						
	2003			2002		
	Land and buildings	Office equipment, computers, fixtures and other assets	Total	Land and buildings	Office equipment, computers, fixtures and other assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January:						
Cost	20,835	3,547	24,382	20,835	4,288	25,123
Accumulated depreciation	(7,525)	(3,415)	(10,940)	(7,016)	(4,069)	(11,085)
Provision for impairment	(1,072)	–	(1,072)	(1,022)	–	(1,022)
Net book value	12,238	132	12,370	12,797	219	13,016
Movements during the financial year:						
Additions	–	257	257	–	21	21
Disposals	(860)	–	(860)	–	(42)	(42)
Write-back/(charge) in provision for impairment	30	–	30	(50)	–	(50)
Depreciation charge	(504)	(45)	(549)	(509)	(66)	(575)
Net book value at 31 December	10,904	344	11,248	12,238	132	12,370
Balance at 31 December:						
Cost	19,803	3,799	23,602	20,835	3,547	24,382
Accumulated depreciation	(7,857)	(3,455)	(11,312)	(7,525)	(3,415)	(10,940)
Provision for impairment	(1,042)	–	(1,042)	(1,072)	–	(1,072)
Net book value	10,904	344	11,248	12,238	132	12,370

(b) Based on directors' valuation, the estimated market value of the land and buildings of the Group and the Bank as at 31 December 2003 is \$54 million (2002: \$69 million). The excess of the estimated market values over the net book values 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 2003 amounting to \$10.2 million (2002: \$10.6 million). The rest of the properties is freehold.

28 Dividends

The directors have proposed a final dividend in respect of the financial year ended 31 December 2003 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 financial year ending 31 December 2004. The final dividend for 2002 was 2 cents per share net of tax at 22% amounting to a total of \$1,560,000.

29 Contingent liabilities

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Direct credit substitutes	8,083	8,510
Transaction-related contingencies	2,624	2,351
Trade-related contingencies	8,735	17,692
	19,442	28,553

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.

30 Derivative financial instruments

(a)	The Group and The Bank					
	2003			2002		
	Contract or underlying principal amount \$'000	Fair value		Contract or underlying principal amount \$'000	Fair value	
		Assets \$'000	Liabilities \$'000		Assets \$'000	Liabilities \$'000
Foreign exchange contracts						
Forwards (non-trading)	2,450	23	6	1,640	18	5

- (b) Derivative financial instruments held by the Group and the Bank are forwards whose values change in response to the change in the "underlying" foreign exchange rates. In its normal course of business, the Group and the Bank transact in customised derivatives to meet the specific needs of their customers. The risks associated with the use of derivatives, as well as management's policies for controlling these risks are set out in Note 34.

The table above analyse the contract or underlying principal amounts (notional amounts) and the fair values of the Group's and the Bank's derivative financial instruments at the balance sheet date. A positive valuation represents a financial asset and a negative valuation represents a financial liability. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date. They do not necessarily indicate the amounts of future cash flows or the fair values of the derivatives and, therefore, do not represent total amounts at risk.

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for the financial year ended 31 December 2003

31 Commitments

	The Group and The Bank	
	2003	2002
	\$'000	\$'000
Undrawn credit facilities	160,341	177,702
Other	100	100
	160,441	177,802

32 Cash and cash equivalents

	The Group	
	2003	2002
	\$'000	\$'000
Cash and balances with central bank	17,140	18,444
Singapore Government treasury bills and securities	64,712	91,060
	81,852	109,504

33 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.

34 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.

(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 20(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 2003 and 31 December 2002.

The Group also has potential credit risk exposure to undrawn credit facilities of \$160 million (2002: \$178 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 certain credit standards and are cancellable at the option of the Group subject to notice requirements. From past experience, many of these undrawn credit facilities are expected to expire without being drawn upon.

(b) **Foreign exchange risk**

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2003

34 Financial risk management

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

	The Group 2003		
	Singapore dollars \$'000	Other \$'000	Total \$'000
Assets			
Cash and balances with central bank	17,084	56	17,140
Singapore Government treasury bills and securities	64,712	–	64,712
Placements and balances with banks, agents and related companies	387,000	16,676	403,676
Trade bills and advances to customers	293,256	7,978	301,234
Fixed assets	11,248	–	11,248
Other	4,883	21	4,904
	778,183	24,731	802,914
Liabilities			
Current, fixed, savings accounts and other deposits of non-bank customers	591,611	12,518	604,129
Deposits and balances of banks, agents and related companies	29,541	11,049	40,590
Bills and drafts payable	2,077	–	2,077
Other	4,152	512	4,664
	627,381	24,079	651,460
Shareholders' funds	151,454	–	151,454
	778,835	24,079	802,914
Net on-balance sheet position	(652)	652	–
Net off-balance sheet position	754	(754)	–
Net foreign currency gap	102	(102)	–

	The Group 2002		
	Singapore dollars \$'000	Other \$'000	Total \$'000
Assets			
Cash and balances with central bank	18,430	14	18,444
Singapore Government treasury bills and securities	91,060	–	91,060
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
Other	4,876	29	4,905
	<u>771,209</u>	<u>21,404</u>	<u>792,613</u>
Liabilities			
Current, fixed, savings accounts and other deposits of non-bank customers	611,066	9,512	620,578
Deposits and balances of banks, agents and related companies	8,390	10,631	19,021
Bills and drafts payable	1,191	3	1,194
Other	4,867	577	5,444
	<u>625,514</u>	<u>20,723</u>	<u>646,237</u>
Shareholders' funds	<u>146,376</u>	<u>–</u>	<u>146,376</u>
	<u>771,890</u>	<u>20,723</u>	<u>792,613</u>
Net on-balance sheet position	(681)	681	–
Net off-balance sheet position	945	(945)	–
Net foreign currency gap	<u>264</u>	<u>(264)</u>	<u>–</u>

(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.

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for the financial year ended 31 December 2003

34 Financial risk management

(c) Interest rate risk (continued)

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 2003										
	Total	Non-interest bearing	Up to 7 days	Over 7 days to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 3 years	Over 3 years	Total interest bearing	Effective interest rate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Assets										
Cash and balances with central bank	17,140	17,140	—	—	—	—	—	—	—	—
Singapore Government treasury bills and securities	64,712	—	—	—	18,180	—	37,468	9,064	64,712	3.37
Placements and balances with banks, agents and related companies	403,676	—	101,153	302,523	—	—	—	—	403,676	0.84
Trade bills and advances to customers	301,234	—	151,896	14,387	16,896	61,611	56,444	—	301,234	3.97
Other	16,152	16,152	—	—	—	—	—	—	—	—
	802,914	33,292	253,049	316,910	35,076	61,611	93,912	9,064	769,622	—
Liabilities										
Current, fixed, savings accounts and other deposits of non-bank customers	604,129	—	328,072	29,446	84,258	152,644	5,824	3,885	604,129	0.65
Deposits and balances of banks, agents and related companies and bills and drafts payable	42,667	—	42,428	78	161	—	—	—	42,667	0.57
Other	4,664	4,664	—	—	—	—	—	—	—	—
	651,460	4,664	370,500	29,524	84,419	152,644	5,824	3,885	646,796	—
Shareholders' funds	151,454	151,454	—	—	—	—	—	—	—	—
	802,914	156,118	370,500	29,524	84,419	152,644	5,824	3,885	646,796	—
Net interest rate sensitivity gap	—	(122,826)	(117,451)	287,386	(49,343)	(91,033)	88,088	5,179	122,826	—

The Group
2002

	Total \$'000	Non- interest bearing \$'000	Up to 7 days \$'000	Over 7 days to 1 month \$'000	Over 1 to 3 months \$'000	Over 3 to 12 months \$'000	Over 1 to 3 years \$'000	Over 3 years \$'000	Total interest bearing \$'000	Effective interest rate %
Assets										
Cash and balances with central bank	18,444	18,444	–	–	–	–	–	–	–	–
Singapore Government treasury bills and securities	91,060	–	–	–	–	18,381	64,424	8,255	91,060	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
Other	17,275	17,275	–	–	–	–	–	–	–	–
	792,613	35,719	262,791	278,486	11,346	113,774	82,153	8,344	756,894	–
Liabilities										
Current, fixed, savings accounts and other deposits of non-bank customers	620,578	85,496	240,472	51,410	75,031	163,141	5,028	–	535,082	0.75
Deposits and balances of banks, agents and related companies and bills and drafts payable	20,215	6,444	11,510	1,220	1,041	–	–	–	13,771	0.12
Other	5,444	5,444	–	–	–	–	–	–	–	–
	646,237	97,384	251,982	52,630	76,072	163,141	5,028	–	548,853	–
Shareholders' funds										
	146,376	146,376	–	–	–	–	–	–	–	–
	792,613	243,760	251,982	52,630	76,072	163,141	5,028	–	548,853	–
Net interest rate sensitivity gap										
	–	(208,041)	10,809	225,856	(64,726)	(49,367)	77,125	8,344	208,041	–

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 withdrawal of funds 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.

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34 Financial risk management

(d) Liquidity risk (continued)

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 treasury bills and securities.

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

	The Group 2003							
	Total \$'000	Up to 7 days \$'000	Over 7 days to 1 month \$'000	Over 1 to 3 months \$'000	Over 3 to 12 months \$'000	Over 1 to 3 years \$'000	Over 3 years \$'000	Non- specific maturity \$'000
Assets								
Cash and balances with central bank	17,140	17,140	–	–	–	–	–	–
Singapore Government treasury bills and securities	64,712	–	–	18,180	–	37,468	9,064	–
Placements and balances with banks, agents and related companies	403,676	101,153	302,523	–	–	–	–	–
Trade bills and advances to customers	301,234	102,069	9,572	3,282	5,289	27,123	153,899	–
Other	16,152	624	902	71	17	137	–	14,401
	802,914	220,986	312,997	21,533	5,306	64,728	162,963	14,401
Liabilities								
Current, fixed, savings accounts and other deposits of non-bank customers	604,129	328,072	29,446	84,258	152,644	5,824	3,885	–
Deposits and balances of banks, agents and related companies and bills and drafts payable	42,667	42,428	78	161	–	–	–	–
Other	4,664	392	31	89	161	6	–	3,985
	651,460	370,892	29,555	84,508	152,805	5,830	3,885	3,985
Shareholders' funds	151,454	–	–	–	–	–	–	151,454
	802,914	370,892	29,555	84,508	152,805	5,830	3,885	155,439
Net maturity mismatch	–	(149,906)	283,442	(62,975)	(147,499)	58,898	159,078	(141,038)

		The Group 2002						
	Total \$'000	Up to 7 days \$'000	Over 7 days to 1 month \$'000	Over 1 to 3 months \$'000	Over 3 to 12 months \$'000	Over 1 to 3 years \$'000	Over 3 years \$'000	Non- specific maturity \$'000
Assets								
Cash and balances with central bank	18,444	18,444	–	–	–	–	–	–
Singapore Government treasury bills and securities	91,060	–	–	–	18,381	64,424	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	–
Other	17,275	809	28	49	410	76	–	15,903
	792,613	211,131	275,097	6,115	30,264	92,901	161,202	15,903
Liabilities								
Current, fixed, savings accounts and other deposits of non-bank customers	620,578	325,968	51,410	75,031	163,141	5,028	–	–
Deposits and balances of banks, agents and related companies and bills and drafts payable	20,215	17,954	1,220	1,041	–	–	–	–
Other	5,444	984	155	226	453	15	–	3,611
	646,237	344,906	52,785	76,298	163,594	5,043	–	3,611
Shareholders' funds								
	146,376	–	–	–	–	–	–	146,376
	792,613	344,906	52,785	76,298	163,594	5,043	–	149,987
Net maturity mismatch								
	–	(133,775)	222,312	(70,183)	(133,330)	87,858	161,202	(134,084)

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 29 and 31. 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.

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35 Fair values of financial instruments

Financial instruments comprise financial assets, financial liabilities and also derivative financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

The on-balance sheet financial assets and financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with Singapore Financial Reporting Standard 32 ("FRS 32") comprise all its assets and liabilities with the exception of deferred tax asset, investments in subsidiaries, fixed assets and provision for current tax. 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 treasury bills and securities and investment securities whose fair values are shown in Notes 18 and 23 respectively.

The fair values of derivative financial instruments are shown in Note 30. 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 measurement of fair values, such as for Singapore Government treasury bills and 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 are 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 of negligible credit risk and 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 their fair values. 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 type, risk characteristics, maturity and pricing profile, and non-performing accounts. In evaluating the reasonableness of fair value, the Group and the Bank perform 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 collateral. General provisions are also deducted in arriving at the fair values 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 FRS 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 positions and the values of their net assets.

36 Related party transactions

All related party transactions entered into by the Bank are in the ordinary course of its banking business and are at arm's length commercial terms. In addition to the related party information shown elsewhere in the financial statements, the other related party transactions are performance guarantee of \$540,000 (2002: \$585,000). The estimated value of collateral for these credit facilities are \$3,750,000 (2002: \$3,750,000).

37 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the current presentation.

38 Authorisation of financial statements

On 20 February 2004, the Board of Directors of Far Eastern Bank Limited authorised these financial statements for issue.