

GROUP FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

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

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

Certain comparative figures for 2002 have been restated for impact of change in accounting policy for investments.



REVIEW OF FINANCIAL PERFORMANCE

Highlights and performance indicators

	2003	2002	Increase/ decrease	(%)
Key indicators				
Net interest income (NII) (\$ million)	13.3	13.8	–	3.0
Non-interest income (\$ million)	6.7	6.6	+	1.7
Total income (\$ million)	20.0	20.4	–	1.5
Total expenses (\$ million)	10.0	9.7	+	3.2
Operating profit before provisions (\$ million)	10.0	10.7	–	5.7
Net profit after tax (NPAT) (\$ million)	6.6	7.2	–	7.9
Income mix:				
Net interest income/Total income (%)	66.5	67.6	–	1.1% points
Non-interest income/Total income (%)	33.5	32.4	+	1.1% points
	100.0	100.0		–
Return on average shareholders' funds (ROE) (%)	4.4	5.1	–	0.7% point
Basic earnings per share (EPS) (cents)	6.6	7.2	–	7.9
Return on average total assets (ROA) (%)	0.8	0.9	–	0.1% point
NII/Average interest-bearing assets (%)	1.71	1.70	+	0.01% point
Expense/Income ratio (%)	50.0	47.7	+	2.3% points
Other indicators				
Customer loans (net) (\$ million)	301.2	319.3	–	5.7
Customer deposits (\$ million)	604.1	620.6	–	2.7
Loans/deposits ratio ⁺ (%)	49.9	51.5	–	1.6% points
Non-performing loans (NPLs) (\$ million)	32.4	29.2	+	10.7
Cumulative provisions (\$ million)	18.8	17.9	+	5.3
NPLs/Gross customer loans (%)	10.1	8.7	+	1.4% points
Cumulative provisions/NPLs (%)	58.2	61.2	–	3.0% points
Total assets (\$ million)	802.9	792.6	+	1.3
Shareholders' funds (\$ million)	151.5	146.4	+	3.5
Unrealised surplus from revaluation* (\$ million)	43.4	57.0	–	23.9
Net asset value (NAV) per share (\$)	1.51	1.46	+	3.5
Revalued NAV per share (\$)	1.95	2.03	–	4.2
Capital adequacy ratio (BIS) (%)	47.0	45.7	+	1.3% points
Dividend rates (%)				
Final	2.0	2.0		–
Manpower (number)	40	34	+	6 number

⁺ Loans refer to net customer loans while deposits refer to customer deposits.

* Not incorporated into the financial statements.

GROUP FINANCIAL REVIEW

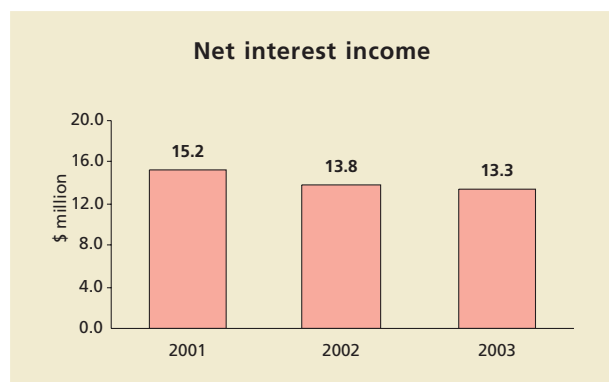
Group profits

The Group has posted a net profit after tax of \$6.6 million for the financial year ended 31 December 2003, down 7.9% from \$7.2 million in the previous year. The decline was mainly attributable to higher provisions, lower net interest income, higher operating expenses, lower loan-related fees and rental income, partially offset by higher other operating income and lower tax provision.

Financial ratios

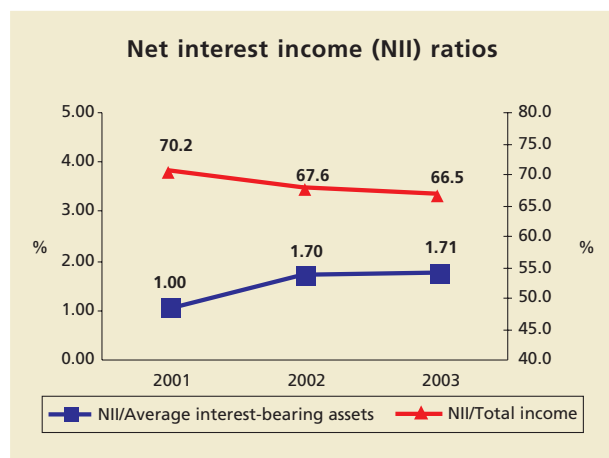
- Earnings per share decreased by 7.9%, from 7.2 cents to 6.6 cents in 2003.
- Return on average shareholders' funds, at 4.4%, decreased by 0.7% point from 5.1% in 2002.
- Net asset value (NAV) per share increased by \$0.05 or 3.5%, from \$1.46 in 2002 to \$1.51 in 2003.
- Total dividend of 2% (2002: 2%) was 4.1 times covered by net profit (2002: 4.6 times).

Net interest income



Net interest income for the Group eased 3.0% or \$0.5 million to \$13.3 million from \$13.8 million in 2002. Net interest income continued to be the major contributor of total income, accounting for 66.5% (2002: 67.6%) of total income.

The decline in net interest income was primarily attributable to a drop in non-bank loans interest margin, partially negated by improved margin from inter-bank money market activities. Despite a drop in net interest income, overall net interest margin on average interest-bearing assets rose marginally by 0.01% point to 1.71% in 2003.



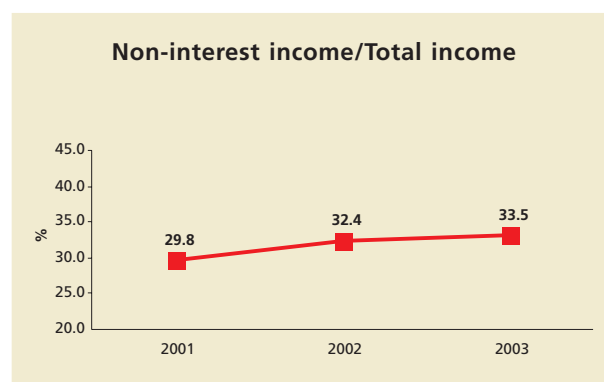
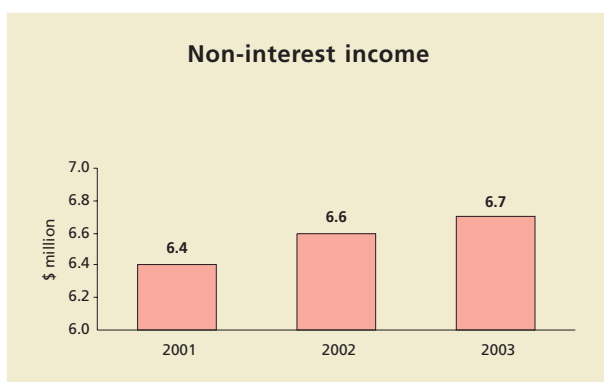
Group average interest margin

	2003			2002		
	Average balance \$'000	Interest \$'000	Average interest rate %	Average balance \$'000	Interest \$'000	Average interest rate %
Total interest bearing assets	779,593	17,432	2.24	808,185	20,344	2.52
Total interest bearing liabilities	632,258	4,083	0.65	669,386	6,584	0.98
Net interest income		<u>13,349</u>			<u>13,760</u>	
Group average interest margin ⁺			<u>1.71</u>			<u>1.70</u>

⁺ Interest margin represents net interest income as a percentage of average interest bearing assets.

Non-interest income

The Group's non-interest income for 2003 accounted for 33.5% of total income. Total non-interest income rose by \$0.1 million or 1.7% to \$6.7 million in 2003.



The increase in non-interest income was derived mainly from profit on sale of property, partially offset by a decrease in loan-related fees and rental income.

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Composition of non-interest income

	2003	2002	Increase/ (decrease)
	\$'000	\$'000	%
Fee and commission income			
Investment-related	1	78	(98.7)
Trade-related	527	567	(7.1)
Loan-related	253	448	(43.5)
Other	557	469	18.8
	1,338	1,562	(14.3)
Dividend and rental income	3,877	4,022	(3.6)
Other operating income			
Dealing income	155	137	13.1
Other	1,342	880	52.5
	1,497	1,017	47.2
Total non-interest income	6,712	6,601	1.7

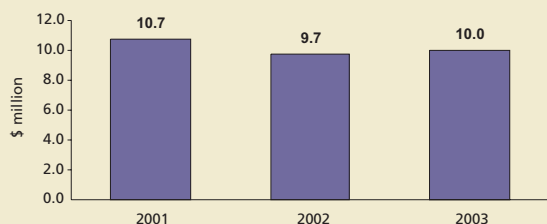
Operating expenses

Group's total operating expenses rose 3.2% to \$10.0 million from \$9.7 million in 2002, arising from an increase in other operating expenses by 7.2%, partially offset by a decline in staff expenses by 15.3%.

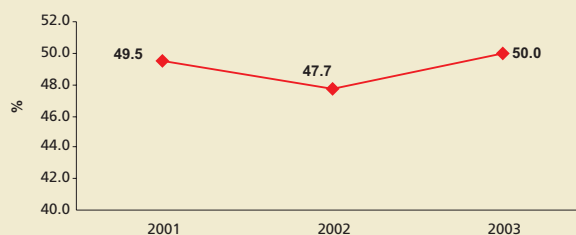
Expense to income ratio rose by 2.3% points to 50.0% in 2003 as compared to 47.7% in 2002, resulting mainly from last year's reversal of contingency reserve and property tax rebate, together with a higher donation made this year.

	2003	2002	Increase/ (decrease)
	\$'000	\$'000	%
Staff expenses	1,454	1,716	(15.3)
Other operating expenses	8,573	7,998	7.2
Total operating expenses	10,027	9,714	3.2

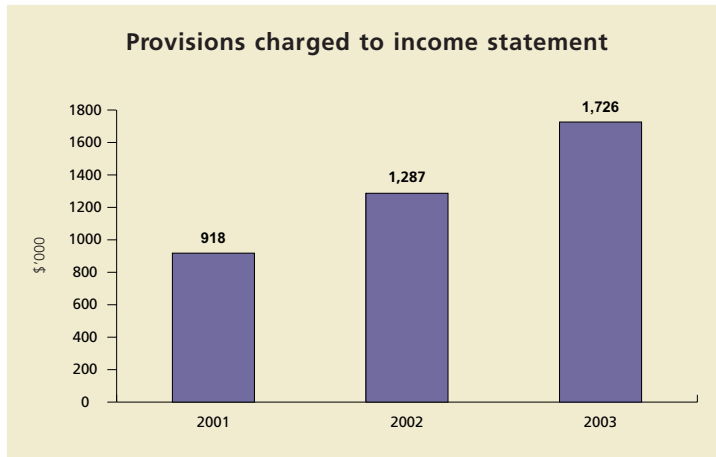
Total operating expenses



Expenses/income



Provisions charged to income statement



For 2003, the total provision charge was at \$1.7 million, up \$0.4 million or 34.1% compared with \$1.3 million in 2002. The increase was substantially due to higher specific provisions for loans, partially offset by write-back of provision for properties in 2003.

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

2003 \$'000	2002 \$'000
1,752	1,237
4	–
(30)	50
1,726	1,287

GROUP FINANCIAL REVIEW

OVERVIEW OF BALANCE SHEET

Total assets

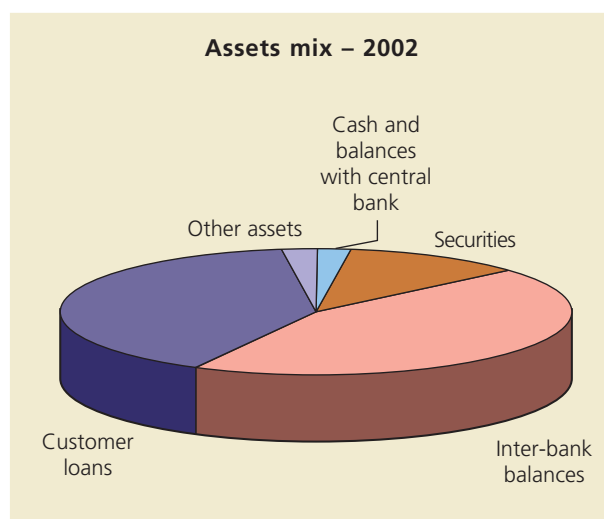
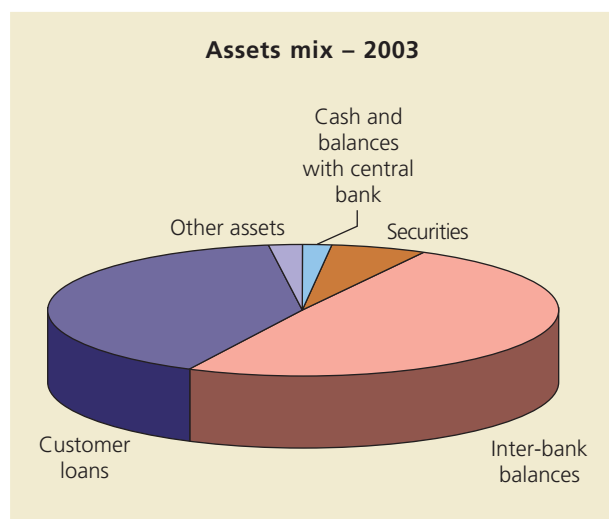
Group total assets increased to \$802.9 million as at 31 December 2003, a 1.3% growth compared with \$792.6 million previously. The growth was primarily from inter-bank balances, partially offset by lower securities and customer loans.

Assets mix

	2003		2002	
	\$'000	%	\$'000	%
Cash and balances with central bank	17,140	2.1	18,444	2.3
Securities*	65,231	8.1	91,654	11.6
Inter-bank balances	403,443	50.3	346,303	43.7
Customer loans	301,234	37.5	319,294	40.3
Other assets	15,866	2.0	16,918	2.1
Total assets	802,914	100.0	792,613	100.0

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

As at 31 December 2003, all securities were non-dealing assets and mainly in Singapore Government treasury bills and securities amounting to \$64.7 million.



Customer loans

The Group's net loans and advances to customers dropped from \$319.3 million to \$301.2 million as at 31 December 2003. The decrease of \$18.1 million or 5.7% was mainly from overdraft portfolio.

Customer loans analysed by product group

	2003		2002	
	\$'000	%	\$'000	%
Housing loans	121,729	38.0	124,692	37.0
Term loans	83,882	26.2	82,272	24.4
Trade financing	14,639	4.6	15,907	4.7
Overdrafts	99,825	31.2	114,316	33.9
Total gross customer loans	320,075	100.0	337,187	100.0
Less: General provisions	(12,059)		(12,059)	
Specific provisions and interest-in-suspense	(6,782)		(5,834)	
Net customer loans	301,234		319,294	

Gross customer loans analysed by industry

	2003		2002	
	\$'000	%	\$'000	%
Manufacturing	18,667	5.8	23,935	7.1
Building and construction	14,476	4.5	15,441	4.6
Housing	121,729	38.0	124,692	37.0
General commerce	72,000	22.5	70,379	20.9
Transport, storage and communications	3,305	1.0	11,994	3.5
Non-bank financial institutions	14,260	4.5	13,738	4.1
Professionals and private individuals (excluding housing loans)	58,568	18.3	59,133	17.5
Other	17,070	5.4	17,875	5.3
Group Total	320,075	100.0	337,187	100.0

Gross customer loans analysed by currency and fixed/variable rates

	2003			2002		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore Dollars	141,671	170,392	312,063	123,694	203,247	326,941
US Dollars	2,247	751	2,998	3,118	1,911	5,029
Japanese Yen	3,184	632	3,816	3,563	397	3,960
Other	1,184	14	1,198	1,044	213	1,257
Group Total	148,286	171,789	320,075	131,419	205,768	337,187

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Gross customer loans analysed by remaining maturity

	2003		2002	
	\$'000	%	\$'000	%
Within 1 year	139,053	43.4	155,839	46.2
Over 1 year but within 3 years	27,123	8.5	28,401	8.4
Over 3 years but within 5 years	24,215	7.6	23,467	7.0
Over 5 years	129,684	40.5	129,480	38.4
Group Total	320,075	100.0	337,187	100.0

Credit facilities to related parties

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

	2003	2002
	\$'000	\$'000
Directors of the Bank and director-related parties ⁺	540	585

Off-balance sheet credit facilities

⁺ 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 individuals, companies or firms whose credit facilities are guaranteed by the directors of the Bank.

Deposits

Total Group deposits went up by 0.8% or \$5.1 million to \$644.7 million as at 31 December 2003, mainly attributable to higher deposits from the holding company.

Deposits analysed by product group

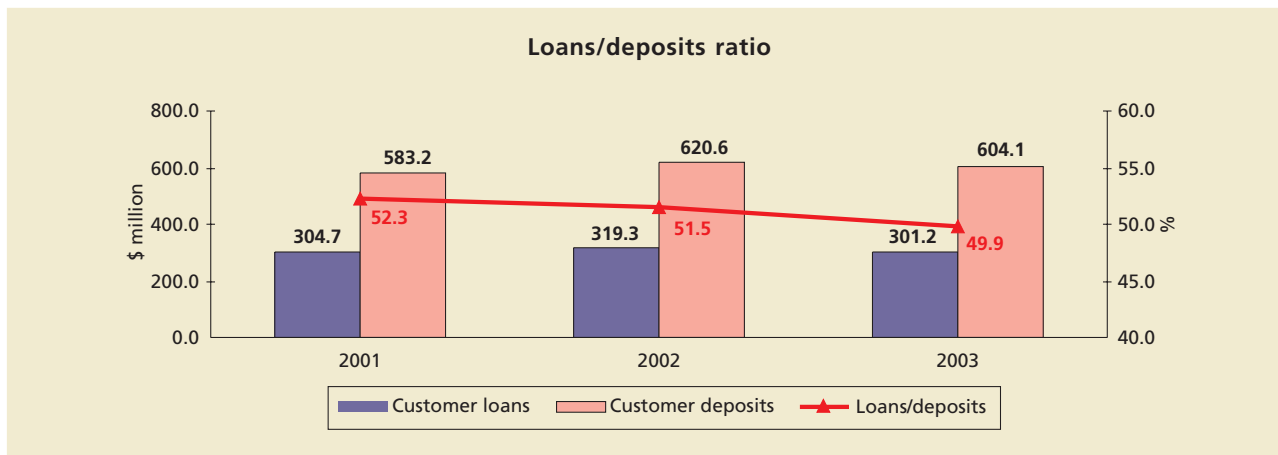
	2003		2002	
	\$'000	%	\$'000	%
Customer deposits				
Fixed deposits	283,254	43.9	304,419	47.6
Savings and other	320,875	49.8	316,159	49.4
	604,129	93.7	620,578	97.0
Fellow subsidiaries' deposits	3,338	0.5	3,140	0.5
Holding company's deposits	37,252	5.8	15,881	2.5
Total deposits	644,719	100.0	639,599	100.0

Deposits analysed by remaining maturity

	2003		2002	
	\$'000	%	\$'000	%
Within 1 year	635,010	98.5	634,571	99.2
Over 1 year but within 3 years	5,824	0.9	5,028	0.8
Over 3 years but within 5 years	3,885	0.6	–	–
Total deposits	644,719	100.0	639,599	100.0

Loans/deposits ratio

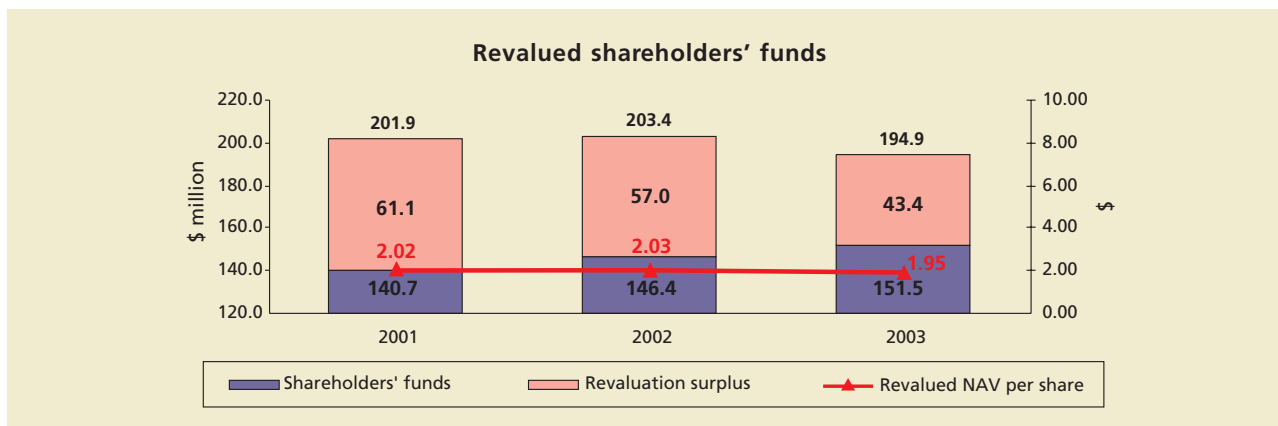
As a result of negative growth in customer deposits and net customer loans of 2.7% and 5.7% respectively, the loans-to-deposits ratio declined 1.6% points from 51.5% in 2002 to 49.9% in 2003.



Shareholders' funds

Group shareholders' funds stood at \$151.5 million as at 31 December 2003 as compared to \$146.4 million as at 31 December 2002.

Unrealised revaluation surpluses in properties and long-term investments amounting to \$43.4 million as at 31 December 2003, were not incorporated into the Group's financial statements.



	2003 \$'000	2002 \$'000
Shareholders' funds per book	151,454	146,376
Add: Surplus on revaluation (not incorporated in the financial statements)	43,413	57,038
Shareholders' funds including revaluation surplus	194,867	203,414
Net asset value (NAV) per share (in \$)		
NAV per book	1.51	1.46
Revaluation surplus	0.44	0.57
Total revalued NAV	1.95	2.03

GROUP FINANCIAL REVIEW

CAPITAL ADEQUACY RATIO (CAR)

The Capital Adequacy Ratio (CAR) of the Group was computed in accordance with the guidelines issued by the Basel Committee on Banking Supervision. As at 31 December 2003, the Group maintained a strong Total Capital ratio of 47.0%, which is well above the minimum of 8% and 12% as required by the Bank for International Settlements (BIS) and the Monetary Authority of Singapore respectively.

	2003 \$'000	2002 \$'000
Capital		
Tier 1 – Core capital		
Share capital	100,011	100,011
Disclosed reserves	50,029	44,868
	<hr/> 150,040	<hr/> 144,879
Tier 2 – Supplementary capital		
Revaluation reserves on investments and properties*	8,992	11,989
General loan loss provisions ⁺	4,345	4,412
	<hr/> 13,337	<hr/> 16,401
Total capital	<hr/> 163,377	<hr/> 161,280
Risk-weighted assets		
Total risk-weighted assets including market risk	<hr/> 347,564	<hr/> 352,961
Capital adequacy ratio		
Tier 1	43.2%	41.0%
Total capital	<hr/> 47.0%	<hr/> 45.7%

* After discount of 55% in accordance with BIS guidelines.

+ Excluding specific and earmarked provisions.