2000

Banking Convenience. Anytime, Anywhere.

GROUP FINANCIAL REVIEW (CONSOLIDATED)

REVIEW OF FINANCIAL PERFORMANCE

GROUP PROFITS

The Group recorded a strong profit growth of 20.1% for 2000 with net profit after tax reaching $913 million. This represented an increase of $153 million over the $760 million registered in 1999. The growth was due mainly to higher net interest income resulting from an increase in loan volume, lower provisions, higher profit recognised from the sale of Unity Towers upon its completion, as well as higher profits from associates. These were partially offset by lower fee and commission income, primarily from stockbroking and investment activities.

In view of the good performance achieved for the year, the Directors of the Bank have proposed a higher final dividend of 25% (1999: 12%). Together with the interim dividend of 15% (1999: 8%), the total dividend for 2000 will amount to 40% (1999: Interim and final dividend of 20% and special bonus dividend of 25%).

FINANCIAL RATIOS

(1) Earnings per share increased by 19.9%, from 72.4 cents in 1999 to 86.8 cents in 2000. The price over earnings per share (P/E) ratio, based on the Bank's last done share price of $13.60 on 8 March 2001, was 15.7.

(2) Return on average shareholders' funds, at 14.1%, increased by 1.5% points from 12.6% in 1999.

(3) Net tangible asset (NTA) backing per share rose by $0.54 or 9.2%, from $5.89 in 1999 to $6.43 in 2000.

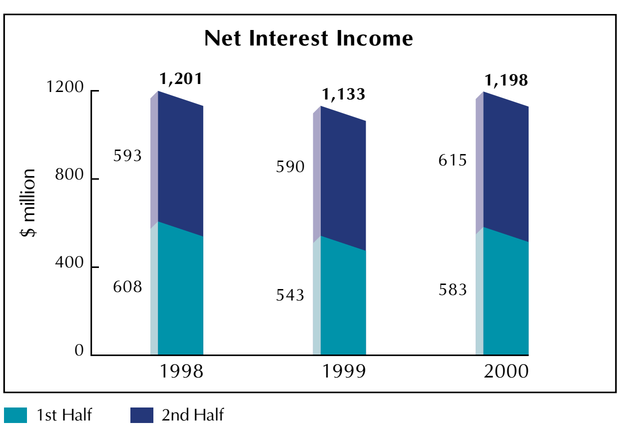
(4) Total dividend of 40% (1999: 20%, excluding the special bonus dividend of 25%) was 2.9 times covered by net profit (1999: 5.0 times, or 1.8 times if the special bonus dividend was included).

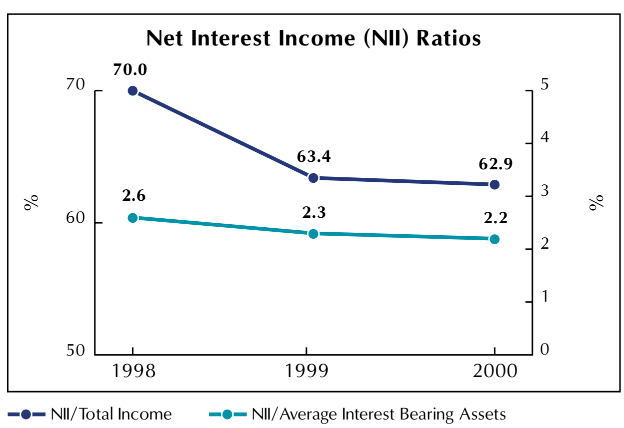
TOTAL INCOME

Group total income increased by $117 million or 6.6%, from $1,788 million in 1999 to $1,905 million in 2000. Contributing to the growth in total income were increases in both net interest income and non-interest income.

NET INTEREST INCOME

Net interest income for the Group rose by $65 million or 5.8%, from $1,133 million in 1999 to $1,198 million in 2000. Net interest income continued to be the major contributor of total income, accounting for about 62.9% (1999: 63.4%) of total income.





The increase in net interest income reflected higher earnings from securities, stronger growth in loan volume, and higher margins earned on the Group's excess funds arising from the ability of Global Treasury to capitalise on the higher net inter-bank rates in 2000. The average interest margin, however, decreased by 0.1% point, from 2.3% in 1999 to 2.2% in 2000, due primarily to the lower loan spread in 2000.

Average Interest And Non-Interest Bearing Assets And Liabilities

	2000			1999		
	Average Balance $ million	**Interest $ million**	**Average Interest Rate %**	Average Balance $ million	Interest $ million	Average Interest Rate %
Assets						
Interest bearing						
Customer loans	**28,745**	**1,857**	**6.5**	27,456	1,731	6.3
Inter-bank balances	**18,605**	**996**	**5.4**	13,926	606	4.4
Government securities	**5,681**	**167**	**2.9**	6,256	111	1.8
Dealing and investment securities	**928**	**33**	**3.6**	661	11	1.7
Total interest bearing assets	**53,959**	**3,053**	**5.7**	48,299	2,459	5.1
Non-interest bearing						
Cash and balances with central banks	**1,741**			1,785		
Investments in associates	**1,270**			1,145		
Fixed assets	**1,229**			1,207		
Other assets	**1,310**			1,345		
Total non-interest bearing assets	**5,550**			5,482		
Total assets	**59,509**			53,781		
Liabilities						
Interest bearing						
Customer deposits	**38,536**	**1,257**	**3.3**	38,610	1,058	2.7
Inter-bank balances	**11,993**	**598**	**5.0**	6,304	268	4.3
Total interest bearing liabilities	**50,529**	**1,855**	**3.7**	44,914	1,326	3.0
Non-interest bearing						
Other liabilities	**2,246**			2,833		
Total liabilities	**52,775**			47,747		
Net interest income/ margin		**1,198**	**2.2**		1,133	2.3

Analysis Of Changes In Net Interest Income

	2000			1999		
	Volume Change $ million	**Rate Change $ million**	**Net Change $ million**	Volume Change $ million	Rate Change $ million	Net Change $ million
Interest bearing assets						
Customer loans	**81**	**45**	**126**	(102)	(507)	(609)
Inter-bank balances	**204**	**186**	**390**	117	(64)	53
Government securities	**(10)**	**66**	**56**	40	(56)	(16)
Dealing and investment securities	**4**	**18**	**22**	5	(5)	–
Total interest bearing assets	**279**	**315**	**594**	60	(632)	(572)
Interest bearing liabilities						
Customer deposits	**(2)**	**201**	**199**	113	(649)	(536)
Inter-bank balances	**242**	**88**	**330**	10	22	32
Total interest bearing liabilities	**240**	**289**	**529**	123	(627)	(504)

NON-INTEREST INCOME

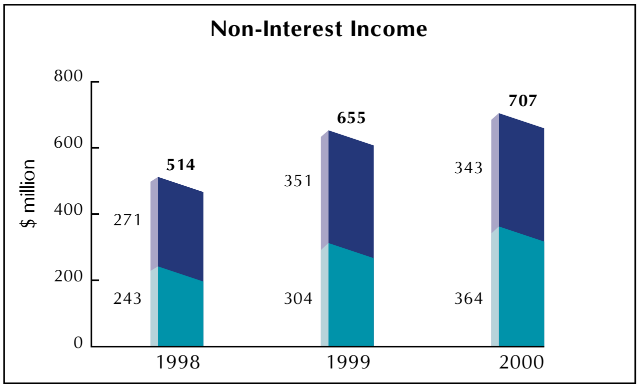
The Group's non-interest income for 2000 accounted for 37.1% of total income, higher than the 36.6% registered in 1999. Total non-interest income grew by $52 million or 7.9% to $707 million in 2000.

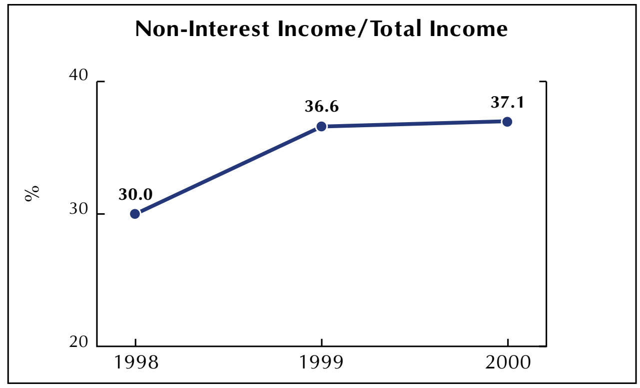
The increase in non-interest income primarily resulted from the higher profit of $54 million recognised from the sale of Unity Towers upon its completion, and from an improvement in dealing income by $6 million.

These increases were partially offset by:

- lower rental income, which declined by $5 million as a result of lower rental and occupancy rates; and
- lower fee and commission income which fell by $6 million, impacted by reduced contributions from stockbroking and investment activities and partially offset by higher income from credit card, loan and trade-related activities.

Lower brokerage fees following the liberalisation of fixed brokerage coupled with a lower trading volume accounted for the decreased stockbroking income during the year. Further, contributions from the Bank's stockbroking subsidiary, UOB Securities, to stockbroking income ceased after its merger with Kay Hian Holdings in October 2000 to form a new associate, UOB-Kay Hian Holdings. Accordingly, contributions from the new company were reflected as part of the Group's share of profits from associates.





1st Half   2nd Half

Composition Of Non-Interest Income

	2000 $ million	1999 $ million	Increase/ (Decrease) %
Fee and commission income			
Stockbroking	**39**	71	(45.1)
Asset management	**61**	57	7.0
Investment-related	**25**	30	(16.7)
Trade-related	**67**	58	15.5
Loan-related	**39**	32	21.9
Credit card	**50**	41	22.0
Others	**49**	47	4.3
	330	336	(1.5)
Dealing income	**149**	143	4.2
Dividend and rental	**79**	82	(3.7)
Other operating income	**149**	94	58.5
Total	**707**	655	7.9

OPERATING EXPENSES

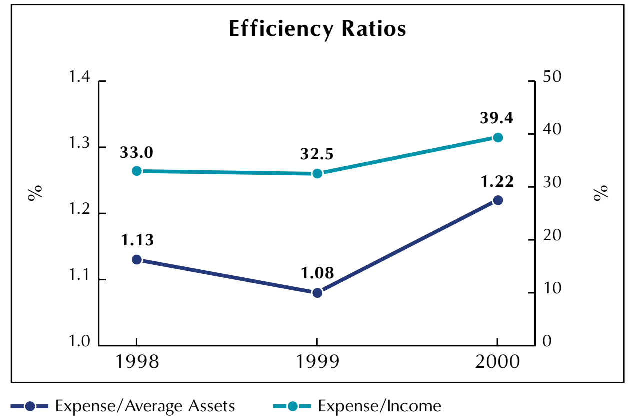
Total Group operating expenses rose by 29.4% or $170 million to $751 million in 2000, attributable to both an increase in staff costs and in other operating expenses. The inclusion of the operating expenses of United Overseas Bank Philippines (UOBP) and UOB Radanasin Bank (UOBR) for the first time in 2000 also contributed, to an extent, to the increase.

Operating Expenses

	2000		1999	Increase/(Decrease)	
	Group Total $ million	**Excluding UOBP & UOBR $ million**	Group Total $ million	Group Total %	Excluding UOBP & UOBR %
Staff expenses	**381**	**350**	285	33.8	22.8
Other operating expenses	**370**	**315**	296	25.2	6.4
Total operating expenses	**751**	**665**	581	29.4	14.5

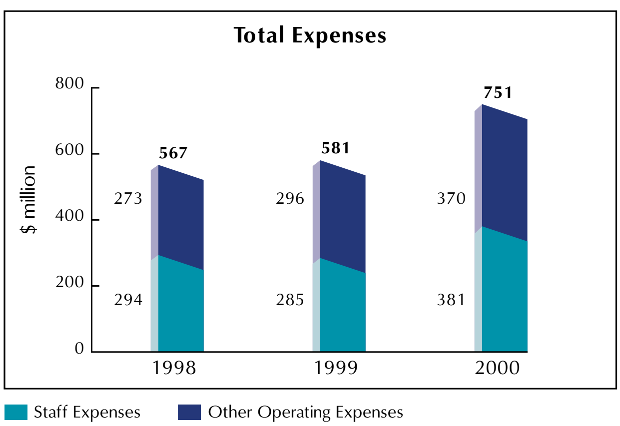
Efficiency Ratios

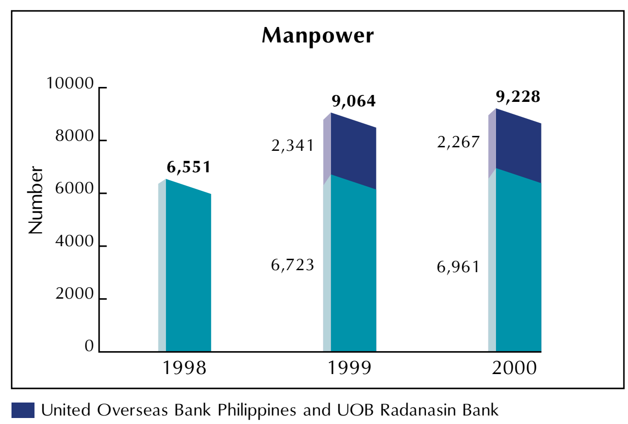
- Expense to income ratio rose to 39.4% in 2000 (1999: 32.5%); while
- Expense to average assets increased to 1.22% in the same year (1999: 1.08%).



Staff Expenses

Total staff costs grew by 33.8%, from $285 million in 1999 to $381 million in 2000, as a result of manpower increases, alignment of staff remuneration to market practice, and a doubling of training costs as the Group continues to develop and invest in staff. The inclusion of the staff expenses of UOBP and UOBR for the first time in 2000 also contributed to the increase. Manpower, including that of UOBP and UOBR, rose by 164 to reach 9,228 as at 31 December 2000.



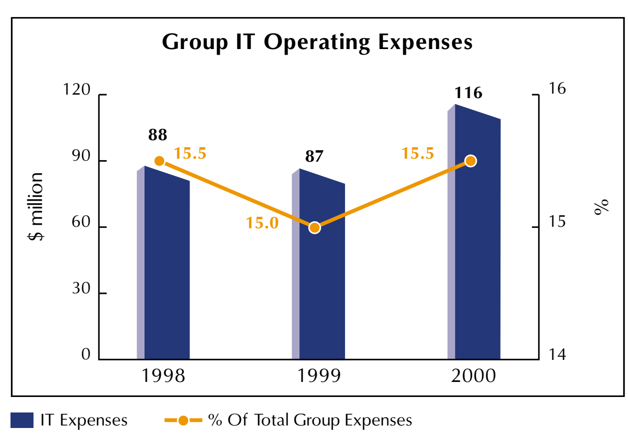


Other Operating Expenses

Other operating expenses were $370 million in 2000, up 25.2% from the $296 million in 1999. The increase in expenses was primarily attributable to increased technology spending, along with the inclusion of the operating expenses of UOBP and UOBR for the first time in 2000. The higher technology spending reflected continued investment to develop the Group's IT infrastructure, particularly its Touch, Click and Mortar (TCM) model.

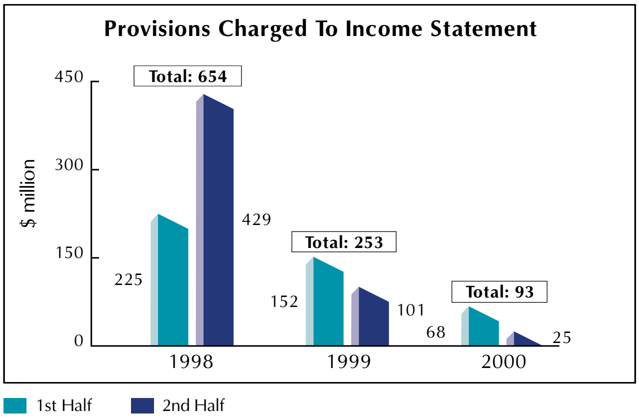
Other operating expenses showed a marginal increase of only 6.4% if contributions from UOBP and UOBR were not included, reflecting the effect of the Group's efforts to control costs during the year under review.

IT operating expenses for the year increased by $29 million to $116 million and accounted for 15.5% of total Group expenses. The increase reflected higher costs associated with IT integration and enhancement initiatives at the Group's regional banking subsidiaries, in particular, UOBP and UOBR.



PROVISIONS CHARGED TO INCOME STATEMENT

Total provisions made in 2000 amounted to $93 million. Compared to the charge for provisions of $253 million in 1999, there was a reduction of $160 million or 63.1%. The specific provision made for loans was 69.7% lower, from $238 million in 1999 to $72 million in 2000, and reflected lower loan defaults. In view of the improved loan quality and the more stable environment in the region, a general provision of $53 million was reversed in the second half of 2000. However, this was partially offset by the higher charges made in respect of investment in equities, as reflected by the higher provision for diminution in other assets in the second half of 2000.



	First Half 2000 $ million	Second Half 2000 $ million	**Full Year 2000 $ million**	First Half 1999 $ million	Second Half 1999 $ million	Full Year 1999 $ million
The Group						
Specific provision for loans	62	10	**72**	144	94	238
General provision for loans	–	(53)	**(53)**	18	1	19
Specific provision for diminution in value of other assets	6	68	**74**	(10)	6	(4)
Total provisions	68	25	**93**	152	101	253
Provisions Charged By Major Region:						
Specific Provision						
Five Regional Countries*	39	(6)	**33**	26	44	70
Greater China**	(2)	(2)	**(4)**	55	28	83
Singapore and other countries	25	18	**43**	63	22	85
	62	10	**72**	144	94	238
General Provision						
Five Regional Countries*	–	(52)	**(52)**	6	(9)	(3)
Greater China**	–	–	**–**	–	(1)	(1)
Singapore and other countries	–	(1)	**(1)**	12	11	23
	–	(53)	**(53)**	18	1	19
Specific provisions for diminution in value of other assets	6	68	**74**	(10)	6	(4)
Total provisions	68	25	**93**	152	101	253

* *The Five Regional Countries comprise Malaysia, Indonesia, Philippines, Thailand and South Korea.*

** *Greater China comprises China, Hong Kong S.A.R. and Taiwan.*

OVERVIEW OF BALANCE SHEET

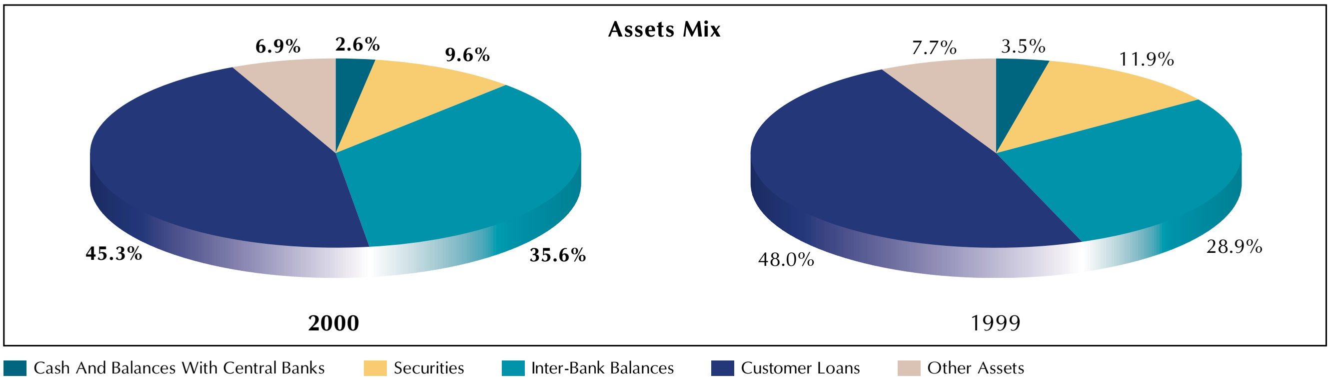
ASSETS AND LIABILITIES BY CURRENCY

The major portion of the Group's assets and liabilities is denominated in Singapore dollars and US dollars, accounting for about 79% of Group total assets and Group total liabilities respectively.

	Singapore Dollars $ million	US Dollars $ million	Malaysia Ringgit $ million	Hong Kong Dollars $ million	Thai Baht $ million	Others $ million	Total $ million
Assets							
Cash and balances with central banks	985	22	314	3	213	178	1,715
Singapore government treasury bills and securities	3,224	–	–	–	–	–	3,224
Other government treasury bills and securities	–	6	484	35	1,458	134	2,117
Dealing securities	170	250	115	12	1	9	557
Inter-bank balances	7,613	12,455	142	362	11	3,026	23,609
Customer loans	19,340	4,294	2,936	932	328	2,215	30,045
Other accounts	2,554	552	246	188	69	197	3,806
Fixed assets	957	108	43	42	50	51	1,251
Total assets	34,843	17,687	4,280	1,574	2,130	5,810	66,324
Liabilities							
Customer deposits	22,103	11,655	3,089	571	2,010	3,978	43,406
Bankers' deposits	2,878	7,818	1,247	456	1	1,031	13,431
Bills and drafts payable	77	23	4	–	3	22	129
Other liabilities	1,658	380	80	32	23	208	2,381
Total liabilities	26,716	19,876	4,420	1,059	2,037	5,239	59,347

TOTAL ASSETS

Total assets of the Group grew by 16.8% or $9,550 million, from $56,774 million in 1999 to $66,324 million in 2000. The increase came primarily from growth in inter-bank balances and customer loans.



Assets Mix

	2000		1999	
	$ million	**%**	$ million	%
Cash and balances with central banks	**1,715**	**2.6**	2,013	3.5
Securities+	**6,357**	**9.6**	6,737	11.9
Inter-bank balances	**23,609**	**35.6**	16,385	28.9
Customer loans	**30,045**	**45.3**	27,259	48.0
Other assets	**4,598**	**6.9**	4,380	7.7
Total assets	**66,324**	**100.0**	56,774	100.0

+ Comprise Singapore and other government securities and treasury bills, dealing and investment securities.

CUSTOMER LOANS

The Group's net loans and advances to customers increased by 10.2% or $2,786 million to $30,045 million in 2000. In addition, the Group's domestic loan growth outperformed that of the Singapore banking industry despite the competitive market conditions prevailing during the year. As shown in the following table, the growth in loans was fuelled by a double-digit growth in fixed loans.

By Loan Type

	2000 **$ million**	1999 $ million	Increase/ (Decrease) %
Fixed loans	**22,617**	19,820	14.1
Trade bills	**569**	583	(2.4)
Others	**8,524**	8,636	(1.3)
Total gross loans	**31,710**	29,039	9.2
Less: Interest-in-suspense and provisions	**(1,665)**	(1,780)	(6.5)
Net loans	**30,045**	27,259	10.2

Credit Facilities To Related Parties

The Group has granted credit facilities to the following related parties in the ordinary course of business on normal terms and conditions. The outstanding amounts of these credit facilities and the estimated values of collateral at 31 December 2000 are as follows:

	Loans And Advances $ million	2000 Off-Balance Sheet Credit Facilities* $ million	Estimated Values Of Collateral $ million
Associates of the Group	**810**	**58**	**1,621**
Directors of the Bank and director-related parties**	**348**	**87**	**502**
Corporations where the directors of the Bank are also directors***	**1,695**	**176**	**2,227**

* *Off-balance sheet credit facilities comprise direct credit substitutes, transaction-related contingencies and trade-related contingencies.*

** *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 (≥20%), and credit facilities guaranteed by the directors of the Bank.*

*** *This excludes credit facilities already included in the first two categories. However, it includes credit facilities granted to the subsidiaries of the corporations in this category.*

DEPOSITS

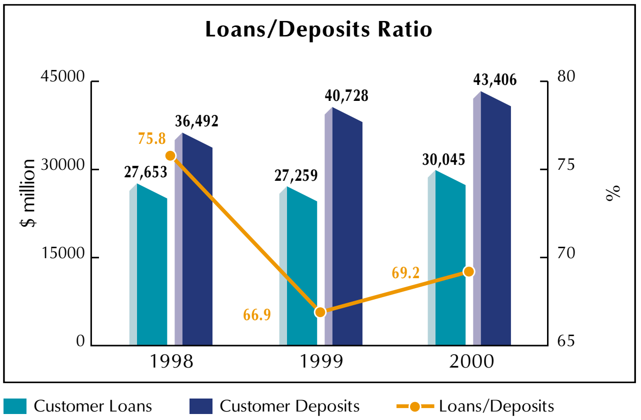
Total Group deposits grew from $47,207 million in 1999 to $56,837 million in 2000. Customer deposits accounted for about 76.4% of total Group deposits. The 20.4% increase in total Group deposits in 2000 over 1999 was led by strong performances in bankers' deposits and customers' fixed deposits. Customer deposits grew by $2,678 million or 6.6% to reach $43,406 million in 2000.

By Deposit Type

	2000 $ million	1999 $ million	Increase/ (Decrease) %
Bankers' deposits	**13,431**	6,479	107.3
Customer deposits			
Fixed deposits	**32,421**	28,721	12.9
Savings and others	**10,985**	12,007	(8.5)
	43,406	40,728	6.6
Total deposits	**56,837**	47,207	20.4

Loans/Deposits Ratio

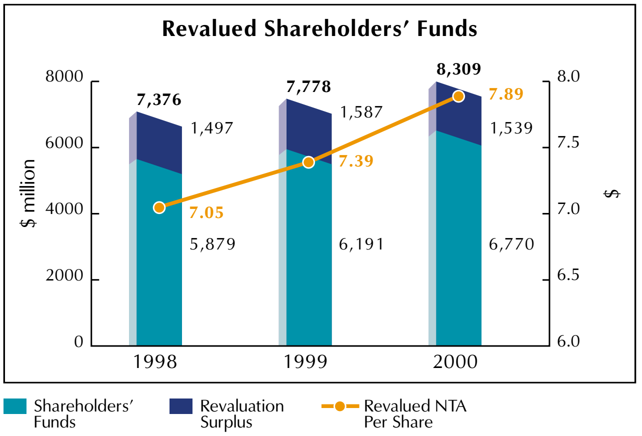
With the 10.2% growth in net customer loans outpacing the 6.6% growth in customer deposits, the loans to deposits ratio increased from 66.9% in 1999 to 69.2% in 2000.



SHAREHOLDERS' FUNDS

Group shareholders' funds rose by $579 million to $6,770 million in 2000. The increase of 9.3% over 1999 was due primarily to the retention of Group profits and higher share of the reserves of associates.

Unrealised revaluation surpluses in long-term investments and properties, amounting to $1,539 million for 2000, were not incorporated into the Group's accounts.



	2000 $ million	1999 $ million
Shareholders' funds per book	**6,770**	6,191
Add: Surplus on revaluation		
Properties	**1,485**	1,575
Long-term investments#	**54**	12
Total surplus on revaluation	**1,539**	1,587
Shareholders' funds including revaluation surplus	**8,309**	7,778
Net Tangible Asset (NTA) backing per share (in $)		
NTA per book	**6.43**	5.89
Revaluation surplus	**1.46**	1.50
Total revalued NTA	**7.89**	7.39

Exclude the revaluation surplus/deficit from investment in associates.

CAPITAL MANAGEMENT

The Capital Adequacy Ratio (CAR) of the Group was computed in accordance with the guidelines issued by the Basle Committee on Banking Supervision.

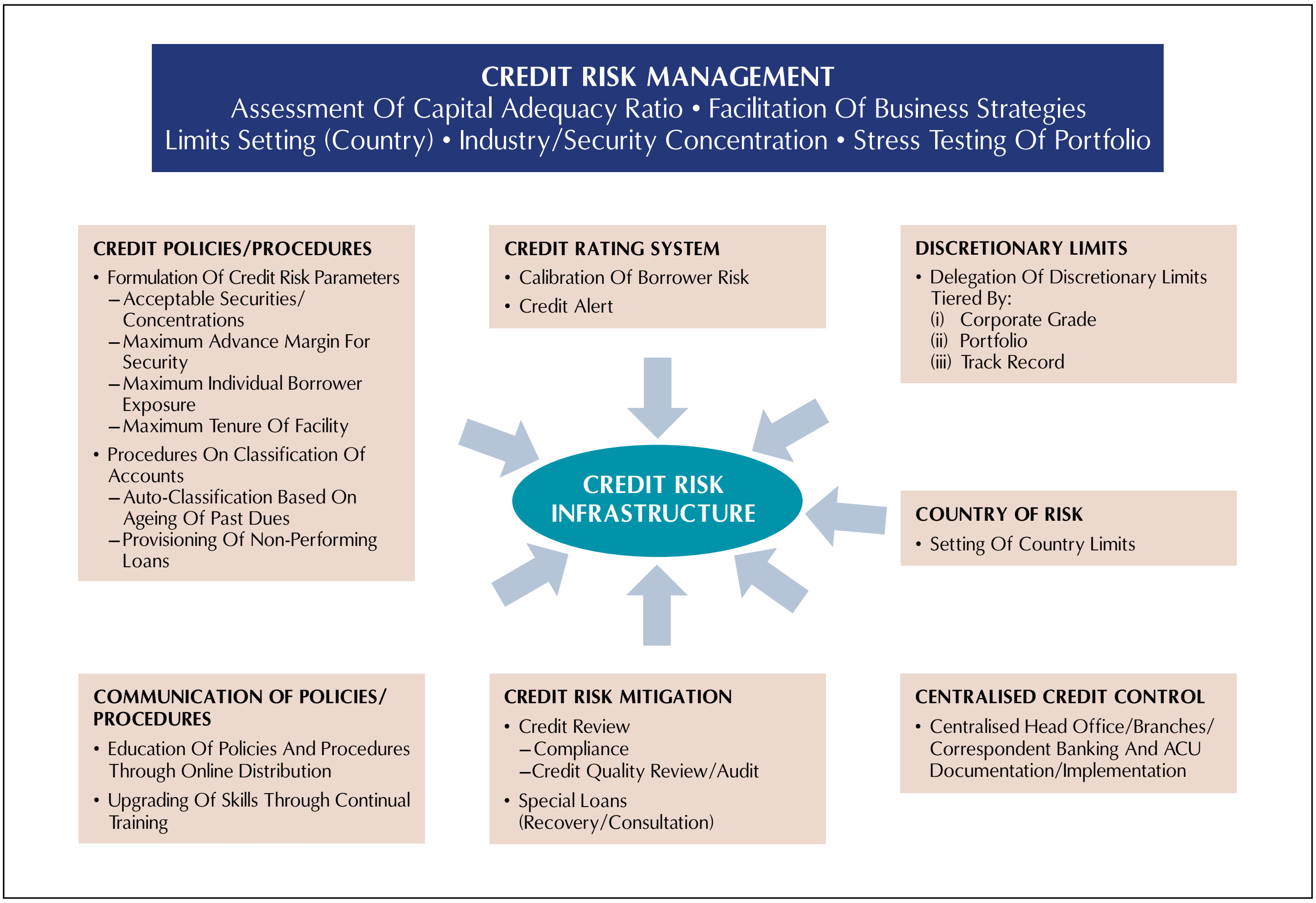
The Group's capital adequacy is measured by the ratio of the Group's capital to its risk-weighted assets, taking into account both the on-balance sheet assets and off-balance sheet transactions. The on-balance sheet assets and off-balance sheet transactions of the banking books and trading books are risk-weighted accordingly. The capital charges on the market risks of the trading books are computed using the standardised measurement method. These capital charges are then converted and incorporated as part of the risk-weighted assets.

Tier-1 capital comprises share capital, disclosed reserves and minority interests, while the Tier-2 supplementary capital consists primarily of general loan loss reserve and revaluation reserves on investments and properties held for investment purposes. The general loan loss reserve excludes specific and earmarked provisions, and the revaluation reserves, being the difference between the book value and market value, are discounted at 55%.

It is the Group's policy to maintain a strong capital position to support growth of the Group both organically and through acquisitions. As at 31 December 2000, the Group's CAR was 19.8%, down 1.9% points from 1999, but still more than twice the minimum requirement of 8% set by the Bank for International Settlements (BIS) and well above the minimum of 12% required by the Monetary Authority of Singapore. The decrease was due largely to higher risk-weighted assets resulting from growth in on-balance sheet assets, as well as to higher market risk charges on equities and interest rate-related instruments.

	2000 $ million	1999 $ million
Capital		
Tier 1 – Core capital		
Share capital	**1,052**	1,052
Disclosed reserves	**5,400**	4,873
Minority interests	**207**	437
	6,659	6,362
Tier 2 – Supplementary capital		
Revaluation reserves	**735**	724
General loan loss reserve	**333**	333
	1,068	1,057
Less: Investments in collateralised bond obligations	**(23)**	–
Overall capital	**7,704**	7,419
Risk-Weighted Assets		
Total risk-weighted assets adjusted to include market risks	**39,003**	34,137
Capital Adequacy Ratios		
Tier 1	**17.1%**	18.6%
Total capital	**19.8%**	21.7%

CREDIT AND COUNTRY RISK MANAGEMENT



CREDIT RISK

Counterparty and credit risk can be defined as the potential loss arising from any failure in the ability or willingness of customers to fulfil their financial and contractual obligations, as and when they 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 lending-related activities undertaken by the Group.

The Group has in place a disciplined process to regularly review and report on asset concentrations and portfolio quality so that risks are accurately assessed and properly monitored and approved. These include large credit exposures by obligor, aggregate exposure levels to individual groups/sectors, security types, internal credit ratings, industry exposures, level of non-performing loans, adequacy of provisioning requirements, and country risk concentrations.

Credit discretionary limits are delegated to officers of individual business units, depending on their levels of experience, and approvals of all credits are subject to credit policies and guidelines. Defined credit risk parameters encompass single borrower, obligor, security concentrations, identified high risk areas, maximum tenures and acceptable structures and collateral types, the objective of which is to build and maintain risk assets of high quality.

The Group also has in place a rigorous monitoring process that includes monthly reviews of all performing loans with excesses and past dues. At the same time, the Group's internal rating methodology is being refined to better quantify credit risk of corporate and large commercial credits. Such a rating process would result in a more accurate estimate of the probability of future defaults by borrowers and help to provide a guide to changes in the underlying credit quality of loan portfolios over the economic cycle.

Credit reviews and audits are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and check that credit policies/procedures are complied with. Any case of non-compliance is reported to the Bank's Credit Committee.

Section 27 of the Banking Act requires the Bank to report, on a monthly basis, credit facilities granted to the following: directors and their immediate family members, bank employees where such facilities are in excess of one year's salary, companies related to the Bank or its directors, and companies in which any of its directors or employees have an interest as director, manager, agent or guarantor ('related party loans').

The Bank has the following policy with regard to related party loans. If a director or an employee has an interest in a loan to a related party, he is required to abstain and absent himself from considering that loan. An exception is made when the loan is to be made to:

- companies in the UOB Group;
- publicly listed companies and their related companies; and
- companies formed by professional bodies, trade or clan associations, or societies.

The exceptions are made so as not to deprive the Bank of the advice and guidance of the director or employee who, by virtue of his directorship or other position in such companies, is in a better position to assess the creditworthiness of the companies. The Board would be informed immediately of any default in a related party loan. Section 29 of the Banking Act prohibits unsecured credit facilities to certain related parties.

Customer Loans

The Group's loans and advances to customers are well diversified by industry and business lines.

Obligor groups are determined according to the guidelines set out in MAS Notice 623. Where the parent company is a borrower, all credit facilities to the parent company and the companies in which it has 20% or more voting shares or control or influence over, are aggregated into a single obligor group.

Where the parent company is not a borrower, borrowings are not aggregated under the parent company's obligor group except where:

- the parent company is a guarantor;
- the parent company or other group companies use the borrowed funds;
- group companies are interdependent.

As at 31 December 2000, more than a third of the Group's exposure to customers resided in the personal financial services portfolio that was made up mainly of housing loans, other mortgage loans, credit cards and vehicle financing. The composition of loans and advances to customers by industry type and the corresponding non-performing portions are as follows:

By Industry Type (%)	Customer Loans		Non-Performing Loans	
	2000	1999	**2000**	1999
Manufacturing	**9.3**	8.8	**12.6**	13.4
Building and construction	**11.3**	10.6	**10.7**	10.7
Housing loans	**23.8**	25.3	**11.5**	8.8
General commerce	**12.2**	13.6	**23.1**	21.7
Transport, storage and communication	**2.2**	1.0	**2.4**	2.0
Financial institutions	**15.7**	15.1	**17.9**	16.0
Professionals and private individuals	**13.3**	12.6	**14.5**	17.8
Others	**12.2**	13.0	**7.3**	9.6
Total (%)	**100.0**	100.0	**100.0**	100.0
Total gross amount ($ million)	**31,710**	29,039	**2,610**	2,993

Non-Performing Loans (NPLs) And Cumulative Provisions

All loans and advances to customers are placed in 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 — when borrowers are unable to meet payments when due, as demonstrated by their payment records and information on their financial position and income. Borrowers are deemed to be unable to meet payment obligations when interest or principal repayments are more than 90 days in arrears upon which interest income is suspended and ceases to accrue.

Loans are also classified when the creditworthiness of the borrower is assessed to be weak or when facilities are restructured due to the borrower's inability to meet the original payment obligations. Such loans remain classified until servicing of the account is satisfactory and reclassification is not likely to recur. Where appropriate, classified loans are transferred to in-house recovery specialists to maximise recovery prospects.

The Group's provisions for credit losses are intended to cover probable credit losses as at 31 December 2000 through charges against profit. The provisions consist of an element which is specific to the individual loan and also a general element which has not been specifically applied. The Bank 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 Bank considers that the creditworthiness of a borrower has undergone a deterioration such 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. The general provision could be used to cushion any unforeseen losses in the loan portfolio which have not been specifically identified as such.

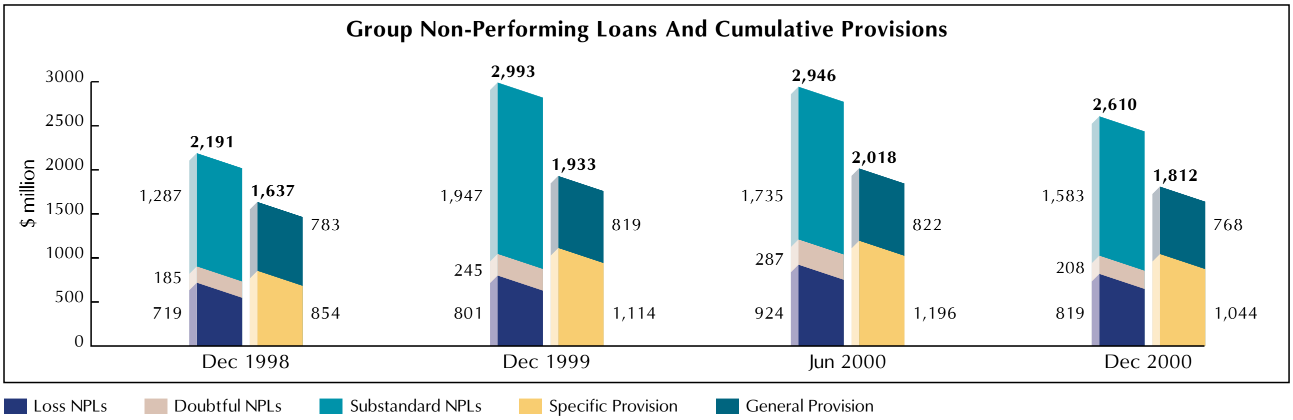
Specific provisions are made for each loan grade as shown in the table below.

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. The approval of the Monetary Authority of Singapore must be sought before accounts which fall within the list of MAS Notice 606, such as director-related loans, can be written off.

Globally, Non-Performing Loans (NPLs) of the Group fell 12.8% or $383 million, from $2,993 million as at end-1999 to $2,610 million as at end-2000. NPLs as a percentage of gross customer loans improved from 10.3% in 1999 to 8.2% in 2000. The improvement in NPLs was attributable to a more buoyant economy, proactive credit reviews, and continued caution in the selection of credits that the Group wants to retain in its portfolios.

Total cumulative specific and general provisions for the Group as at 31 December 2000 amounted to $1,812 million against $1,933 million as at 31 December 1999. As at 31 December 2000, general provision was $768 million, representing 42.4% of total cumulative provisions. The total cumulative provisions provided 69.4% (1999: 64.6%) cover against the Group's total NPLs and 176.4% (1999: 184.8%) of the NPLs that were classified as Doubtful or Loss.

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

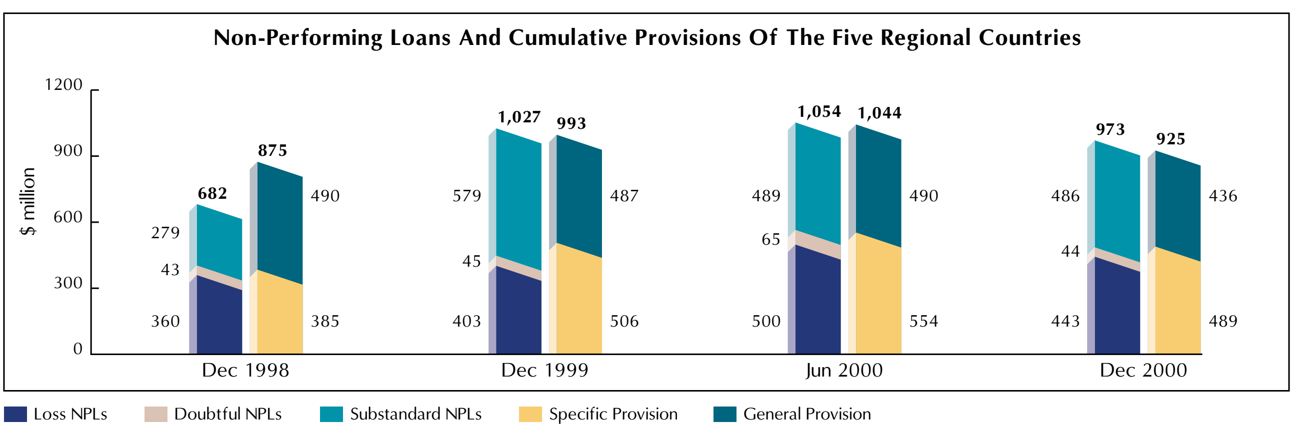


Ratios (%)	31.12.98	31.12.99	30.6.00	31.12.00
NPLs/Gross customer loans	7.5	10.3	9.7	**8.2**
NPLs/Gross customer loans (including contingent)	6.8	9.1	8.1	**6.9**
Cumulative provisions/NPLs	74.7	64.6	68.5	**69.4**
Cumulative provisions/Doubtful & Loss NPLs	181.1	184.8	166.6	**176.4**
Cumulative provisions/Gross customer loans	5.6	6.7	6.6	**5.7**
Specific provision/Gross customer loans	2.9	3.9	3.9	**3.3**
General provision/Gross customer loans	2.7	2.8	2.7	**2.4**
NPLs/Total assets	4.3	5.3	5.0	**3.9**

NPLs And Cumulative Provisions Of The Five Regional Countries

NPLs of the Five Regional Countries fell 5.3%, from $1,027 million as at end-1999 to $973 million as at end-2000, reversing the increasing NPL trend prior to the first half of 2000.

Cumulative specific and general provisions for the Five Regional Countries as at 31 December 2000 amounted to $925 million against $1,044 million as at 30 June 2000 and $993 million as at 31 December 1999. General provision was $436 million (1999: $487 million) against specific provision of $489 million (1999: $506 million). These cumulative provisions represented 95.1% (1999: 96.7%) of the total NPLs of the Five Regional Countries and 189.9% (1999: 221.7%) of the NPLs of the Five Regional Countries that were classified as Doubtful or Loss.



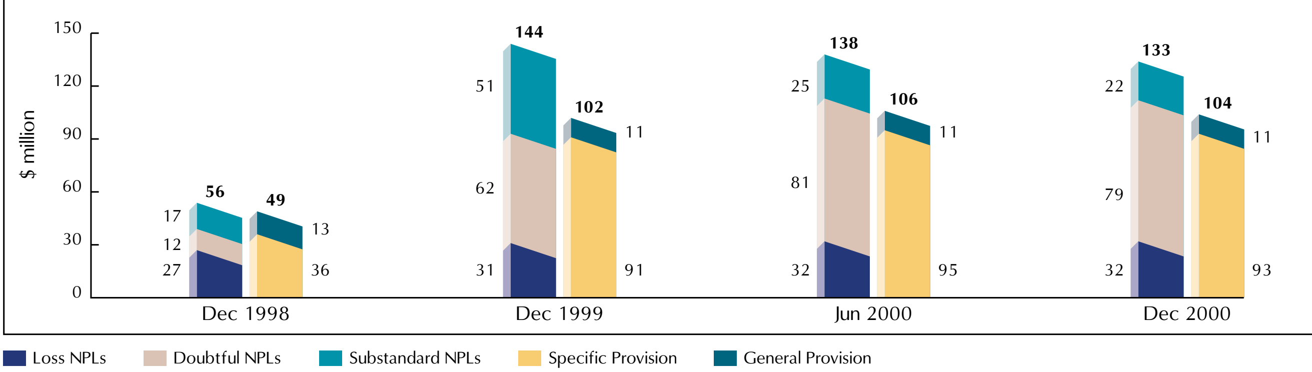
Ratios (%)	31.12.98	31.12.99	30.6.00	31.12.00
NPLs/Gross customer loans	19.1	28.3	25.6	**22.4**
NPLs/Gross customer loans (including contingent)	18.3	26.8	23.0	**19.7**
Cumulative provisions/NPLs	128.3	96.7	99.1	**95.1**
Cumulative provisions/Doubtful & Loss NPLs	217.1	221.7	184.8	**189.9**
Cumulative provisions/Gross customer loans	24.5	27.4	25.4	**21.3**
Specific provision/Gross customer loans	10.8	14.0	13.5	**11.3**
General provision/Gross customer loans	13.7	13.4	11.9	**10.0**
NPLs/Gross exposure to the Five Regional Countries	11.4	10.2	9.2	**9.5**

NPLs And Cumulative Provisions Of Greater China

NPLs of Greater China fell from $144 million as at end of 1999 to $138 million as at the first half of 2000, before ending lower at $133 million as at the end of 2000.

The cumulative specific and general provisions for Greater China as at 31 December 2000 amounted to $104 million. This represented a marginal increase of $2 million compared to provisions of $102 million made as at 31 December 1999. The NPLs of Greater China were 78.2% (1999: 70.8%) covered by cumulative provisions.

Non-Performing Loans And Cumulative Provisions Of Greater China



Ratios (%)	31.12.98	31.12.99	30.6.00	31.12.00
NPLs/Gross customer loans	6.3	16.2	15.0	**12.6**
NPLs/Gross customer loans (including contingent)	4.9	15.4	13.7	**11.7**
Cumulative provisions/NPLs	87.5	70.8	76.8	**78.2**
Cumulative provisions/Doubtful & Loss NPLs	125.6	109.7	93.8	**93.7**
Cumulative provisions/Gross customer loans	5.5	11.5	11.5	**9.8**
Specific provision/Gross customer loans	4.0	10.3	10.3	**8.8**
General provision/Gross customer loans	1.5	1.2	1.2	**1.0**
NPLs/Gross exposure to Greater China	2.1	7.5	5.7	**4.9**

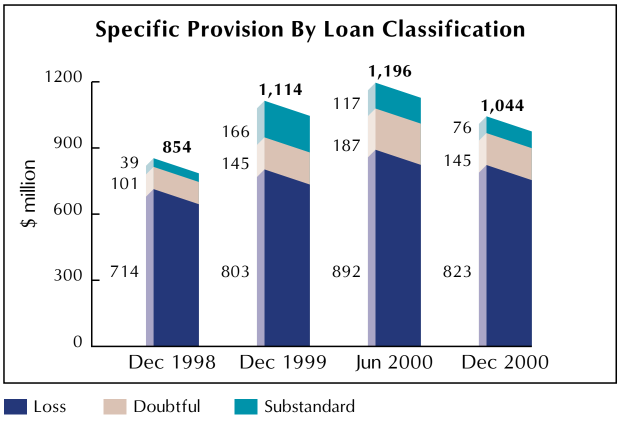
Group NPLs By Region

The fall in Group NPLs was primarily due to the lower NPLs of Singapore (–$327 million) and of the Five Regional Countries (–$54 million). NPLs of the Group's Singapore operations and of the Five Regional Countries accounted for 55.2% (1999: 59.1%) and 37.3% (1999: 34.3%) of Group NPLs respectively.

In $ million	31.12.98	31.12.99	30.6.00	31.12.00
Singapore	1,421	1,768	1,686	**1,441**
Malaysia	443	588	607	**550**
Indonesia	118	126	135	**128**
Philippines	1	181	157	**181**
Thailand	120	132	155	**114**
South Korea	–	–	–	**–**
Total Five Regional Countries	682	1,027	1,054	**973**
Greater China	56	144	138	**133**
Other OECD	32	54	68	**63**
Group Total	2,191	2,993	2,946	**2,610**

Specific Provision By Loan Classification

About three-quarters of specific provision made for expected loan losses are for 'Loss' accounts.



Specific Provision By Region

Accompanying the decline in NPLs, the Group's specific provision also decreased by 6.3% or $70 million to $1,044 million as at 31 December 2000. Specific provision for the Five Regional Countries fell by 3.4%, from $506 million as at 31 December 1999 to $489 million as at 31 December 2000. In Singapore, specific provision decreased by 13% or $66 million to $443 million as at 31 December 2000. This was in line with the improvement in the Singapore economy during the year.

In $ million	31.12.98	31.12.99	30.6.00	31.12.00
Singapore	413	509	529	**443**
Malaysia	247	280	297	**263**
Indonesia	63	92	103	**96**
Philippines	1	55	62	**55**
Thailand	74	79	92	**75**
South Korea	–	–	–	**–**
Total Five Regional Countries	385	506	554	**489**
Greater China	36	91	95	**93**
Other OECD	20	8	18	**19**
Specific provision for the Group	854	1,114	1,196	**1,044**
General provision for the Group	783	819	822	**768**
Total	1,637	1,933	2,018	**1,812**

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 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, 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, or a 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.

Financial difficulties can be triggered by various factors that could include:

- Tight cash flows arising from bad debts
- Impairment of securities
- Heightened country risk
- Diversification into non-related business
- Fraud/mismanagement of company
- Adverse changes in business outlook/environment
- Change in shareholder
- Change in borrower's key management.

At the Group, accounts that were rescheduled or restructured and classified during the year under review are as follows:

In $ million	Total Outstanding	Estimated Value Of Security	Unsecured Exposure	Provision Made	Interest-In-Suspense
Singapore	19	8	13	4	0.1
Overseas	2	2	1	1	–
Total	**21**	**10**	**14**	**5**	**0.1**

Collateral

NPLs are secured predominantly by properties. Properties are valued at forced sale value or 90% of estimated market value and such valuations are updated semi-annually. Other types of collateral include marketable securities which are usually listed stocks and shares, cash and deposits, and bankers' standby letters of credit (SBLCs). Marketable securities are valued at 100% of marked to market value while cash and deposits and SBLCs are valued at 100% of face value. Other collateral includes charge over vehicle, machinery, equipment and marine vessels valued at 50% to 90% of estimated market value, and debentures which are valued at 0% to 50% of the borrower's net book value.

As at 31 December 2000, the secured NPLs of the Group by collateral type are as follows:

In $ million	31 December 2000				
	Properties	Marketable Securities	Cash And Deposits	Others	Total
Singapore	**708**	**54**	**6**	**27**	**795**
Five Regional Countries	**313**	**11**	**1**	**16**	**341**
Greater China	**10**	**–**	**–**	**1**	**11**
Other OECD	**13**	**–**	**–**	**–**	**13**
Total	**1,044**	**65**	**7**	**44**	**1,160**

Ageing Of Customer Loans

Based on the ageing profile, 90% of the Group's loans and advances to customers had current payment records.

As at 31 December 2000, the ageing of customer loans by loan categories is as follows:

In $ million	Customer Loans (Actual + Contingent)						% Of Total Customer Loans
Ageing (Days)	Pass	Special Mention	Non-Performing	Total Direct	Contingent	Total Direct+ Contingent	
Current	27,615	241	221	28,077	5,764	33,841	90%
≤ 90	1,186	58	295	1,539	229	1,768	4%
91 to 180	–	–	242	242	–	242	1%
≥ 181	–	–	1,852	1,852	–	1,852	5%
Total	**28,801**	**299**	**2,610**	**31,710**	**5,993**	**37,703**	**100%**

Accounts that have payment records that are current or ≤90 days past due and/or in excess may be classified as 'Non-Performing' if the borrower is deemed to be financially weak. Accounts classified due to financial weakness are as follows:

In $ million	Total Outstanding	Estimated Value Of Security	Unsecured Exposure	Provision Made	Interest-In-Suspense
Singapore	32	35	3	1	1
Overseas	139	100	39	5	–
Total	**171**	**135**	**42**	**6**	**1**

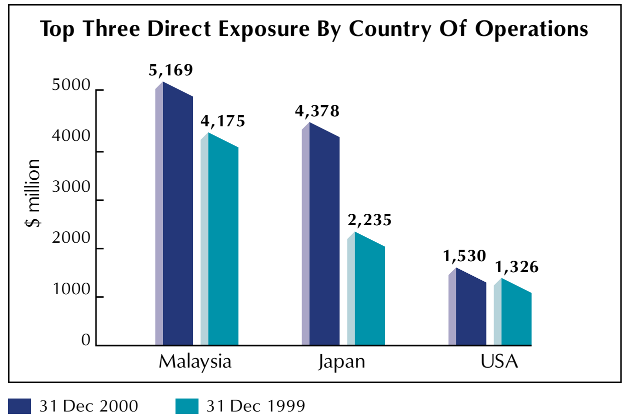
COUNTRY RISK

Assessing country risk is important as it is the risk that the Group will not be able to obtain payment from customers as a result of actions taken by foreign governments, such as exchange controls, debt moratoria and restrictions on the remittances of funds, even though the creditworthiness of the customers may not be impaired.

The Group's country and cross-border obligations (outside Singapore) are monitored and managed through a system of country limits, based on internal country credit gradings, to avoid concentrations of transfer, economic or political risks. Based on its grading, a country limit is set for each country. These limits are regularly reviewed. Country exposures are reported to the Bank's Credit Committee at least four times a year. At shorter time intervals, based on updates by country managers (at locations where the Group has a presence) and other sources, limits may be reviewed and new business directions proposed and set, as and when deemed necessary.

Country Exposure

The Group's total direct exposure to the countries (outside Singapore) in which it has a presence amounted to $19.8 billion as at 31 December 2000, or 29.9% of Group total assets. The exposure included all loans and advances to customers in the country, balances due from banks domiciled or operating in the country, investments in the country and balances due from the government. At a country level, direct exposure to Malaysia where the Group has a long-standing presence, remained the largest at $5.2 billion or 7.8% of Group total assets, followed by direct exposure to Japan at $4.4 billion or 6.6% of Group total assets.



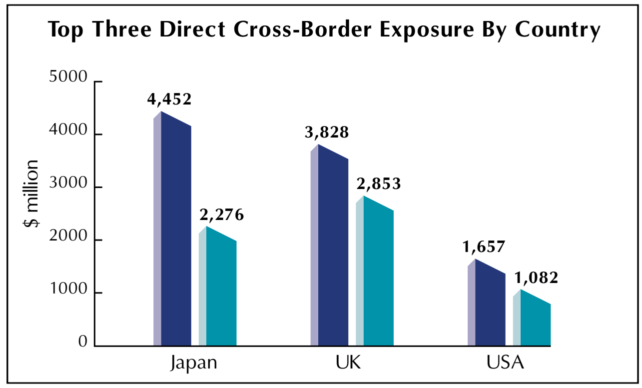
Note: Exposure to Japan as at 28 February 2001 was $3,443 million.

Country Exposure (in $ million)	31 December 2000 – Loans – Non-Bank – Direct (a)	Non-Bank – Contingent (b)	Central Banks & Government Securities (c)	Bank – Direct (d)	Bank – Contingent (e)	Investments (f)	Total (g) = (a+c+d+f)	Less: Loans/ Investments In Subsidiaries & Branches (h)	Exposure (Excluding Contingent) – Total 31.12.00 (i) = (g-h)	Total 31.12.99	% Of Group Total Assets 31.12.00	% Of Group Total Assets 31.12.99
Malaysia	3,167	468	993	1,118	14	470	5,748	579	5,169	4,175	7.8	7.4
Indonesia	311	38	45	79	2	35	470	34	436	490	0.7	0.9
Philippines	275	13	210	102	2	66	653	150	503	598	0.8	1.1
Thailand	420	223	1,648	66	19	190	2,324	165	2,159	2,696	3.2	4.7
South Korea	18	–	51	832	98	107	1,008	5	1,003	723	1.5	1.3
Five Regional Countries	**4,191**	**742**	**2,947**	**2,197**	**135**	**868**	**10,203**	**933**	**9,270**	**8,682**	**14.0**	**15.4**
Greater China	1,053	85	101	1,328	129	213	2,695	637	2,058	1,252	3.1	2.2
Other OECD	2,207	126	32	6,358	462	138	8,735	262	8,473	5,943	12.8	10.5
Others	7	13	4	19	19	–	30	9	21	23	–	–
Sub-Total	**3,267**	**224**	**137**	**7,705**	**610**	**351**	**11,460**	**908**	**10,552**	**7,218**	**15.9**	**12.7**
Total	**7,458**	**966**	**3,084**	**9,902**	**745**	**1,219**	**21,663**	**1,841**	**19,822**	**15,900**	**29.9**	**28.1**

Cross-Border Exposure

Cross-border exposure is based on the country of incorporation of the borrower net of risk transfers out to the country that the guarantor resides or where the collateral is situated. It comprises loans and advances to customers and banks (including placements), interest-bearing investments, acceptances, other monetary assets and on-balance sheet amounts arising from off-balance sheet financial instruments, denominated in currencies other than in the borrower's local currency. In monitoring cross-border exposure, the Group excludes local activities that are funded within the country of operation. The cross-border exposure of the Group is controlled through a well-developed system of country limits that are frequently reviewed to avoid concentrations of transfer, economic or political risks.

As at 31 December 2000, total direct cross-border exposure to the countries (outside Singapore) where the Group has a presence amounted to $15.7 billion. The countries where the Group's direct cross-border exposure exceeded 5% of Group total assets were Japan and United Kingdom, and comprised substantially placements with banks due within one year.



31 Dec 2000 31 Dec 1999

Note: Exposure to Japan as at 28 February 2001 was $3,599 million.

Cross-Border Exposure (in $ million)	31 December 2000								Exposure (Excluding Contingent)			
	Loans								Total		% Of Group Total Assets	
	Non-Bank		Central Banks & Government Securities	Bank		Investments	Intra-Group	Total	31.12.00	31.12.99	31.12.00	31.12.99
	Direct	Contingent		Direct	Contingent							
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) = (a+b+c+d+e+f+g)	(i) = (h-b-e)			
Malaysia	39	2	–	390	13	351	626	1,421	1,406	931	2.1	1.6
Indonesia	99	7	–	78	1	34	34	253	245	264	0.4	0.5
Philippines	17	–	1	16	1	66	49	150	149	128	0.2	0.2
Thailand	79	10	–	36	14	156	(114)	181	157	804	0.2	1.4
South Korea	17	–	–	643	98	107	7	872	774	592	1.2	1.0
Five Regional Countries	**251**	**19**	**1**	**1,163**	**127**	**714**	**602**	**2,877**	**2,731**	**2,719**	**4.1**	**4.7**
Greater China	325	27	–	1,175	129	219	624	2,499	2,343	2,012	3.5	3.5
Other OECD	394	99	6	9,743	462	112	310	11,126	10,565	6,671	15.9	11.8
Others	2	1	–	6	18	–	47	74	55	46	0.1	0.1
Sub-Total	**721**	**127**	**6**	**10,924**	**609**	**331**	**981**	**13,699**	**12,963**	**8,729**	**19.5**	**15.4**
Total	**972**	**146**	**7**	**12,087**	**736**	**1,045**	**1,583**	**16,576**	**15,694**	**11,448**	**23.6**	**20.1**

BALANCE SHEET RISK MANAGEMENT

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

The balance sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, thereby causing a mismatch in the interest repricing dates of the assets and liabilities. With changes in interest rates and yield curves over time, the size and nature of such mismatches in the banking book may impact the net interest income of the Group. The main objective, therefore, is to manage the balance sheet risk to achieve stable and sustainable net interest income in the long term.

The Bank's Asset Liability Committee (ALCO), under delegated authority from the Board of Directors, 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. The decisions of ALCO and its monthly risk management report are reviewed by the Bank's Executive Committee.

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 an indication of the potential impact on interest earnings through the 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 following table represents the Group's interest rate risk sensitivity based on repricing mismatches as at 31 December 2000. 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. Similarly, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. As at 31 December 2000, the Group had an overall positive interest rate sensitivity gap of $5,415 million, excluding non-interest sensitive items. This being a static position, the actual effect on net interest income will depend on a number of factors, including variations in interest rates within the repricing periods, among currencies, and the extent to which repayments are made earlier or later than the contracted dates.

Interest Rate Sensitivity Analysis

(In $ million)	Total	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	Non-Interest Bearing
Assets								
Cash and balances with central banks	1,715	–	–	–	–	–	–	1,715
Singapore government treasury bills and securities	3,224	221	169	1,119	755	476	484	–
Other government treasury bills and securities	2,117	–	21	457	1,355	77	174	33
Dealing securities	557	31	27	62	162	25	67	183
Placements and balances with banks and agents	23,609	1,594	9,027	7,126	5,443	230	8	181
Loans, advances and trade bills to non-bank customers	30,045	12,817	6,174	4,050	4,535	1,982	469	18
Other assets	5,057	52	102	57	70	–	2	4,774
Total assets	66,324	14,715	15,520	12,871	12,320	2,790	1,204	6,904
Liabilities								
Deposits of customers	43,406	10,394	14,284	8,498	7,076	263	7	2,884
Deposits and balances of banks and agents	13,431	3,222	4,674	2,863	2,442	3	–	227
Other liabilities	2,510	246	9	16	8	–	–	2,231
Total liabilities	59,347	13,862	18,967	11,377	9,526	266	7	5,342
Shareholders' funds and minority interests	6,977	–	–	–	–	–	–	6,977
Total liabilities and shareholders' funds	66,324	13,862	18,967	11,377	9,526	266	7	12,319
Net off-balance sheet items	–	–	(130)	(105)	420	(205)	20	–
Interest rate sensitivity gap	–	853	(3,577)	1,389	3,214	2,319	1,217	(5,415)
Cumulative interest rate sensitivity gap	–	853	(2,724)	(1,335)	1,879	4,198	5,415	–

In the dynamic simulation modelling process, the potential effects of changes in interest rates on earnings are estimated by simulating the future course of interest rates, expected changes in the Group's business activity 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.

Stress and scenario tests depicting shifts and tilts in yield curves are also performed regularly on the banking book. Such tests are 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. For the year 2000, on average and based on dynamic simulation modelling, the potential unfavourable interest rate risk of the banking book was less than 0.8% of shareholders' funds and below the approved limit structure of 1.0%.

The risks arising from the trading book in interest rates, foreign exchange rates and equity prices are managed and controlled under the market risk framework that is discussed under the section 'Market Risk Management' on pages 56 to 57.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is defined as the potential loss arising from the Group's inability to meet its own contractual obligations when due. 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.

Liquidity risk is managed in accordance with a framework of liquidity policies, controls and limits approved by the Bank's Asset Liability Committee (ALCO). These policies, controls and limits ensure that the Group maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. These activities are 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' are generally stable non-bank deposits, like current accounts, savings accounts and fixed deposits. The Group monitors the stability of its 'core deposits' by analysing their volatility over time.

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 at any one time or from any one source. Important factors in assuring liquidity are competitive interest rates and the maintenance of customers' confidence. Such confidence is based on the Group's good reputation, the strength of its earnings, and its strong financial position and credit rating.

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 due to adverse changes in the market place.

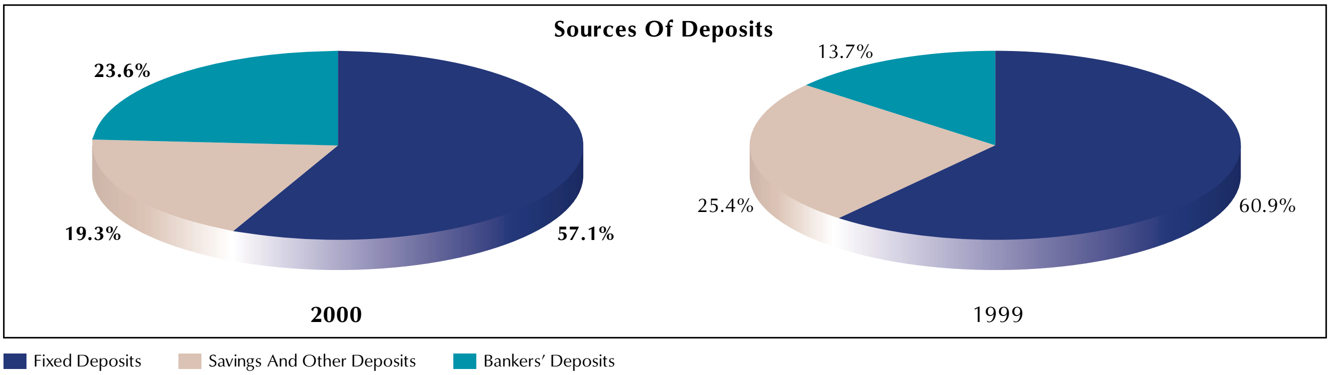
The following table shows the maturity mismatch analysis of the Bank's nearer-term and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities and including off-balance sheet transactions. The projected net cash outflow in the 'Up To 7 Days' time band 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 'Up To 7 Days' time band is reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

Maturity Mismatch Analysis (Contractual)

(In $ million)	Total	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
Assets (Inflows)							
Cash and balances with central banks	1,715	1,364	29	8	6	–	308
Singapore government treasury bills and securities	3,224	221	169	1,119	755	476	484
Other government treasury bills and securities	2,117	34	21	457	1,355	77	173
Dealing securities	557	557	–	–	–	–	–
Placements and balances with banks and agents	23,609	1,669	9,027	7,126	5,443	341	3
Loans, advances and trade bills to non-bank customers	30,045	8,068	2,820	3,534	3,799	2,093	9,731
Other assets	5,057	1,829	910	515	277	40	1,486
Total assets	66,324	13,742	12,976	12,759	11,635	3,027	12,185
Liabilities (Outflows)							
Deposits of customers, banks and agents	56,837	16,714	10,573	18,899	10,343	178	130
Other liabilities	2,510	103	212	451	171	25	1,548
Total liabilities	59,347	16,817	10,785	19,350	10,514	203	1,678
Shareholders' funds and minority interests	6,977	–	–	–	–	–	6,977
Total liabilities and shareholders' funds	66,324	16,817	10,785	19,350	10,514	203	8,655
Net maturity mismatch	–	(3,075)	2,191	(6,591)	1,121	2,824	3,530
Net off-balance sheet items	–	69	(55)	128	(142)	–	–
Net maturity mismatch (with off-balance sheet items)	–	(3,006)	2,136	(6,463)	979	2,824	3,530

Sources Of Deposits

Non-bank customers' fixed deposits, savings and other deposits continued to form a significant part of the Group's overall funding base. These customer deposits increased by $2,678 million to reach $43,406 million in 2000 and accounted for 76.4% of total Group deposits during the year under review. In particular, the increase in customer deposits was attributable to an increase of $3,700 million in fixed deposits, partially offset by a $1,022 million decrease in savings and other deposits. Bankers' deposits rose, capitalising on opportunities in the inter-bank money market.



Sources Of Deposits

	2000 $ million	2000 %	1999 $ million	1999 %
Customer deposits				
Fixed deposits	**32,421**	**57.1**	28,721	60.9
Savings and other deposits	**10,985**	**19.3**	12,007	25.4
	43,406	**76.4**	40,728	86.3
Bankers' deposits	**13,431**	**23.6**	6,479	13.7
Total deposits	**56,837**	**100.0**	47,207	100.0

MARKET RISK MANAGEMENT

Market risk is defined as the potential loss arising from changes in market prices, namely, foreign exchange rates, interest rates, equity prices and option volatility rates.

The Group is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of market risk management policies and risk control procedures, as well as risk and loss limits. All risk and loss limits are reviewed and approved by the Bank's Asset Liability Committee (ALCO) annually. ALCO also reviews and approves new limits or changes to the existing limits as and when these are required.

There is no single risk statistic that can reflect all aspects of market risk. The most common measures are Value-at-Risk (VaR) and stress testing. These risk measures, taken together, provide a more comprehensive view of market risk exposure than any one of them individually. VaR is a measure of the dollar amount of potential loss from adverse market movements under a normal market environment. Statistical models of risk measurement, such as VaR, provide an objective and independent assessment of how much risk is being taken. They also allow consistent and comparable measurement of risk across financial products and portfolios.

Market risk is computed using VaR methodologies, namely, variance-covariance and historical simulation models based on the past 260 days of market data within a 95% confidence level and assuming a one-day trading horizon.

The variance-covariance methodology is a parametric approach that assumes that returns are normally distributed. Under this methodology, a matrix of historical volatilities and correlations is computed from the past 260 days' market data. VaR is then computed by applying these volatilities and correlations to the current portfolio valued at current price levels.

The historical simulation methodology is a non-parametric approach that does not make any underlying assumption about the distribution of returns. The method assumes that actual observed historical changes in market rates, such as foreign exchange and interest rates, reflect future possible changes. It uses historical price changes for the past 260 days to compute the returns of the portfolio and a VaR figure is then obtained from the actual distribution of these returns of the portfolio.

The VaR calculations are performed for all material trading and investment portfolios and all material market risk-related asset/liability activities.

However, there are certain limitations in the VaR methodologies just mentioned. They do not reflect the extent of potential losses that may occur beyond the 95% confidence level or that may occur for positions that could not be liquidated within the one-day trading horizon. In addition, historical data may not accurately reflect price changes that are likely to occur in the future and all VaR methodologies are dependent on the quality of available market data. Hence, to evaluate the reasonableness of the VaR model, it is required to calculate the statistical confidence intervals around the daily VaR estimates and conduct daily 'backtesting' of VaR against actual financial results. The Bank is in the process of performing backtests on its daily VaR computations.

To overcome the limitations of VaR as well as to complement VaR, stress and scenario tests are performed on the trading and investment portfolios. This will serve to provide early warning of potential worst case losses so as to facilitate proactive management of these risks in the rapidly changing financial markets. While VaR estimates the Group's exposure to unlikely events in normal markets, stress testing discloses the risk under plausible events in abnormal markets. Portfolio stress testing is integral to the market risk management process and, together with VaR, are important components in the package of risk measurement and control tools.

The Group's corporate stress tests are built around changes in market rates and prices that result from pre-specified economic scenarios, including historical and hypothetical market events.

Some examples of stress tests that are performed include daily VaR based on 99% confidence intervals, as well as worst case VaR based on the worst price change experienced within the past 260 days and historical events, for instance, the 1997 Asian crisis.

As with VaR, stress test calculations are performed for all material trading and investment portfolios and all material market risk-related asset/liability activities.

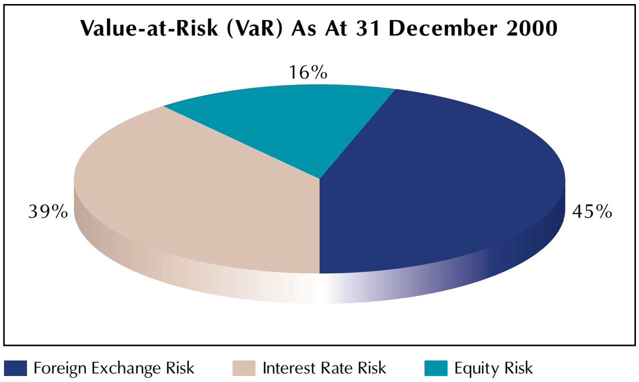
The risks taken by the Group are measured against related rewards to ensure that returns commensurate with the risks taken. A risk-reward measure of Earnings-at-Risk (EaR) is used as a standard measurement of the risks against related rewards across different products and business types. EaR is used as a benchmark in the setting of risk limits against prospective earnings.

Value-at-Risk (VaR)

The risk taken by the Group, as reflected by the level of VaR, is dependent on the level of exposure taken by the Group and the level of market prices for the relevant period that is used in the computation of VaR.

The Group's daily VaR, as at 31 December 2000, was \$6.9 million and comprised mainly foreign exchange risk (45%), interest rate risk (39%), and equity risk (16%).

The Group's daily VaR for 2000, averaging \$8.7 million, ranged between a low of \$4.3 million and a high of \$16.1 million:



% Of Total VaR	31 December 2000	High	Low	Average
Foreign exchange	45	28	34	34
Interest rate	39	31	35	35
Equity	16	41	31	31
Total VaR (%)	100	100	100	100
Total VaR ($ million)	6.9	16.1	4.3	8.7

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 potential loss arising from major failure of computer systems and disasters, for example, a major fire. Potential loss includes financial loss or other damage, 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 Bank's Management Committee (MC) under its delegated authority from the Board of Directors. The decisions of the MC and its monthly risk management report are reviewed by the Bank's Executive Committee.

The 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 structure for monitoring and reporting operational risk issues.

The methodology provides the tool for the profiling of significant operational risks that are encountered at the business/support unit level. The business/support units 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, assessment of inherent or absolute risks, identification and classification of management controls, evaluation and testing of management controls, and assessment of residual risks.

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 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 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 seeks to ensure that the risks associated with each new product/service are identified, analysed and managed.

For the implementation of all online products and services, extra care and precautionary measures are taken to address and protect customers' confidentiality and interests. In addition, clear instructions are posted on the Group's website that advise and educate customers on the proper use and safekeeping of their access identification and passwords. The Group also continuously reviews and improves its risk management framework to ensure that sound risk management principles and security practices are in place at all times.

As part of the Group's comprehensive operational risk framework, an enhanced group-wide Business Contingency Plan is being developed. 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 which are beyond the control of the Group will be scrutinised for insurability.

Part of operational risk is legal risk. This 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 the effective use and consultation of the Group's internal and external counsel to ensure that legal advice is appropriately taken within established guidelines.

The Compliance functions and the Group's Internal Audit play a key role in monitoring the adherence by business and operation units to the Group Operational Risk Policy. Effective mid-2000, all Compliance functions reported directly to the Group's Risk Management and Compliance Sector, thus providing these functions with the necessary independence to monitor and carry out compliance checks on the business operations.