FAR EASTERN BANK LIMITED
Annual Report 2014

Far Eastern Bank
遠東銀行

Wait at Terminal 21
Hong Sek Chern

Contents

For more information on FEB, please visit: www.UOBGroup.com

All figures in this Annual Report are in Singapore dollars unless otherwise stated.

Wait at Terminal 21
by Hong Sek Chern
Chinese ink on rice paper

Ms Hong Sek Chern's Wait at Terminal 21 is the design inspiration for the cover of this year's UOB Group Annual Report. The painting received the Gold Award for the Established Artist category in the 2014 UOB Painting of the Year (Singapore) Competition. It is symbolic of the beliefs and actions that can bind people and shape their future.

Ms Hong was inspired by the determination, persistence and resilience of the Thai people and sought to capture these qualities in her painting. She portrayed a democracy movement at Bangkok's Terminal 21 shopping mall, employing her signature style which is a complex interplay of architectural blocks and lines.

The UOB Painting of the Year Competition, now in its 33rd year, promotes awareness and appreciation of art and challenges artists to produce works that inspire audiences across Southeast Asia.

Corporate Information

Board of Directors
Wee Cho Yaw *(Chairman Emeritus and Adviser)*
Hsieh Fu Hua *(Chairman)*
Wee Ee Cheong (*Deputy Chairman and Chief Executive Officer)*
Wong Meng Meng
Franklin Leo Lavin

Secretary
Vivien Chan

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Correspondents
In all principal cities of the world

Five-Year Group Financial Summary

	2010	2011	2012	2013	**2014**
Selected Income Statement Item ($ million)					
Net profit after tax[1]	3.0	3.0	1.4	1.4	**1.9**
Selected Balance Sheet Items ($ million)					
Net customer loans	100.7	97.3	88.0	102.4	**87.8**
Customer deposits	773.6	766.5	821.4	818.4	**791.4**
Total assets	999.6	998.3	1,041.5	1,040.6	**1,012.8**
Shareholders' equity	195.3	197.4	197.1	195.1	**194.9**
Financial Indicators (%)					
Non-performing loans ratio	0.0	0.5	0.8	0.4	**3.3**
Return on average total assets	0.3	0.3	0.1	0.1	**0.2**
Return on average ordinary shareholders' equity	1.6	1.6	0.7	0.7	**1.0**
Capital adequacy ratios[2]					
Common Equity Tier 1 / Tier 1	91.0	87.8	83.2	86.2	**98.6**
Total	91.6	88.4	83.8	86.8	**99.1**
Basic earnings per ordinary share (cents)	3.0	3.0	1.4	1.4	**1.9**

1 Attributable to equity holders of the Bank.

2 With effect from January 2013, the Group adopted the Basel III framework for its capital adequacy ratio computation in accordance with the revised Monetary Authority of Singapore (MAS) Notice 637 and Common Equity Tier 1 is mandated under MAS Notice 637.

Chairman Emeritus' Statement

Global growth in 2014 was lacklustre as divergent strategies from central banks on interest rates, foreign exchange volatility and commodity price swings contributed to increased uncertainty in the global market.

This sluggishness is expected to continue in 2015. In this challenging environment, we will stay the course and continue to practise prudence and be disciplined in managing our business.

I have every confidence that through this approach, we will remain resilient to economic headwinds and continue to serve the needs of our customers.

I would like to thank the management and staff at Far Eastern Bank for their contributions in 2014 and encourage their continued commitment.

Wee Cho Yaw
Chairman Emeritus and Adviser

February 2015

Chairman's Statement

The continued volatility in the global markets, constraints in the supply of labour and lower productivity dampened the Singapore economy in 2014. The country's growth rate slowed to 2.9 per cent, less than the 4.4 per cent achieved in 2013.

The banking industry contended with the fourth consecutive year of low interest rates. As a result, banks continued to compete strongly for deposits and sought new ways to raise income.

Against this challenging backdrop, Far Eastern Bank's net profit after tax increased 32 per cent to $1.9 million. This was due to higher fee income and expenses being maintained close to those of the previous year.

Customer deposits were down by 3.3 per cent to $791.4 million. Customer loans also decreased by $14.6 million to $87.8 million.

Overall, we have maintained a healthy balance sheet, with $102.1 million of funds deployed into investment securities and $128.9 million into government securities to enhance returns.

The Board recommends a first and final dividend of 2 cents per share for the financial year ended 31 December 2014.

I would like to thank the team at Far Eastern Bank for their dedication and hard work, and our customers for their continuing support.

Hsieh Fu Hua
Chairman

February 2015

Board of Directors

Wee Cho Yaw
Chairman Emeritus and Adviser

Dr Wee, 85, was first appointed to the Board on 17 August 1984 and last re-appointed as Director on 23 April 2014. A banker with more than 50 years' experience, Dr Wee was conferred the title of Chairman Emeritus in 2013 after stepping down as Chairman. He is a non-independent and non-executive director.

Dr Wee also acts as Chairman Emeritus and Adviser of United Overseas Bank and its subsidiary United Overseas Bank (Malaysia), and is the President Commissioner of PT Bank UOB Indonesia, Supervisor of United Overseas Bank (China) and Chairman of United Overseas Bank (Thai) Public Company and United Overseas Insurance. His other board chairmanships include Haw Par Corporation, UOL Group and its subsidiary, Pan Pacific Hotels Group, United Industrial Corporation, Marina Centre Holdings and the Wee Foundation. Previously, he chaired the boards of United International Securities and Singapore Land.

Dr Wee was named Businessman of the Year at the Singapore Business Awards in 2001 and 1990. In 2006, he received the inaugural Credit Suisse-Ernst & Young Lifetime Achievement Award for his exceptional achievements in the Singapore business community. *The Asian Banker* presented the Lifetime Achievement Award to him in 2009. Dr Wee is the Pro-Chancellor of the Nanyang Technological University and the Honorary President of the Singapore Chinese Chamber of Commerce & Industry, the Singapore Federation of Chinese Clan Associations and the Singapore Hokkien Huay Kuan. He received Chinese high school education and was conferred Honorary Doctor of Letters degrees by National University of Singapore in 2008 and by the Nanyang Technological University in 2014. For his outstanding contributions in community work, he was bestowed the Distinguished Service Order, Singapore's highest National Day Award, in 2011.

Hsieh Fu Hua
Chairman

Mr Hsieh, 64, was appointed to the Board on 27 March 2012 and last re-elected as Director on 23 April 2014. An independent and non-executive director, he was appointed as Chairman in 2013.

Currently Chairman of United Overseas Bank, Mr Hsieh is also an adviser to PrimePartners Group which he co-founded, a director of GIC and Chairman of Tiger Airways Holdings. He had previously served as Chief Executive Officer and director of Singapore Exchange and as a member of the Temasek Holdings Board.

Active in the community, Mr Hsieh also serves on the boards of several non-profit organisations and chairs The National Art Gallery, National Council of Social Service and Stewardship Asia Centre.

Mr Hsieh holds a Bachelor of Business Administration (Hons) from the University of Singapore.

Wee Ee Cheong
Deputy Chairman and Chief Executive Officer

Mr Wee, 62, was appointed to the Board on 3 January 1990. A non-independent and executive director, he was last re-elected on 24 April 2013.

A career banker with more than 30 years' experience, Mr Wee is a director, the Deputy Chairman and Chief Executive Officer of United Overseas Bank. He also holds directorships in UOB subsidiaries United Overseas Insurance, United Overseas Bank (Malaysia) and United Overseas Bank (Thai) Public Company, and is the Chairman of United Overseas Bank (China) and Vice President Commissioner of PT Bank UOB Indonesia.

Active in industry development, Mr Wee serves as a council member of The Association of Banks in Singapore, a director of The Institute of Banking & Finance (IBF) and Chairman of the IBF Standards Committee. He is a member of the Board of Governors of the Singapore-China Foundation and Visa APCEMEA Senior Client Council and an honorary council member of the Singapore Chinese Chamber of Commerce & Industry. He was previously deputy chairman of the Housing & Development Board and a director of the Port of Singapore Authority, UOL Group, Pan Pacific Hotels Group and United International Securities. In 2013, he was awarded the Public Service Star for his contributions to the financial industry.

A keen art enthusiast, Mr Wee is the Patron of the Nanyang Academy of Fine Arts. He is also a director of the Wee Foundation.

Mr Wee holds a Bachelor of Science (Business Administration) and a Master of Arts (Applied Economics) from American University, Washington, DC.

Board of Directors

Wong Meng Meng

Mr Wong, 66, was appointed to the Board on 24 March 2000. A non-independent and non-executive director, he was last re-elected on 24 April 2013.

He is a director of United Overseas Bank and Chairman of Mapletree Industrial Trust Management.

A lawyer by profession, Mr Wong was among the pioneer batch of Senior Counsel appointed in January 1997. While in active practice, he was widely acknowledged as one of the world's leading lawyers in premier directories including *The International Who's Who of Commercial Litigators*, *The Guide to the World's Leading Experts in Commercial Arbitration*, *Asialaw Leading Lawyers*, *PLC Cross-border Dispute Resolution: Arbitration Handbook*, *The International Who's Who of Construction Lawyers* and *Best Lawyers International: Singapore*.

Retired from WongPartnership LLP, Mr Wong remains as its founder-consultant. He is a member of the Public Guardian Board, and had previously served as the President of The Law Society of Singapore, the Vice President of the Singapore Academy of Law, and member of the Military Court of Appeal and the Advisory Committee of Singapore International Arbitration Centre. In recognition of his contributions to public service in Singapore, he was awarded the Public Service Medal in 2001.

Mr Wong holds a Bachelor of Law (Hons) from the University of Singapore and was admitted to the Singapore Bar in 1972.

Franklin Leo Lavin

Mr Lavin, 57, was appointed to the Board on 27 March 2012. An independent and non-executive director, he was last re-elected on 23 April 2014.

Currently a director of United Overseas Bank, Mr Lavin is Chairman and Chief Executive Officer of Export Now, an e-commerce business which he founded. Mr Lavin also holds directorships in Globe Specialty Metals and Consistel. He was the Chairman of the Steering Committee of the Shanghai 2010 World Expo USA Pavilion. Earlier in his career, Mr Lavin held senior finance and management positions at Citibank and Bank of America.

Mr Lavin has extensive experience in public administration, having served as Under-Secretary for International Trade at the Department of Commerce and as US Ambassador to Singapore during which he helped to negotiate the landmark US-Singapore Free Trade Agreement.

Mr Lavin holds a Bachelor of Science from the School of Foreign Service at Georgetown University, a Master of Science in Chinese language and History from Georgetown University, a Master of Arts in International Relations and International Economics from the School of Advanced International Studies at Johns Hopkins University, and a Master of Business Administration in Finance at Wharton School at the University of Pennsylvania.

Governance

Corporate Governance

Far Eastern Bank (FEB) is committed to upholding good corporate governance and is guided in this regard by the:

- Banking (Corporate Governance) Regulations (Banking Regulations); and
- Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore, which comprise the Code of Corporate Governance for companies listed on the Singapore Exchange and supplementary principles and guidelines issued by the Monetary Authority of Singapore (MAS Guidelines).

Board's Conduct of Affairs

The Board had established three Board Committees, namely, the Nominating Committee (NC), Remuneration Committee (RC) and Executive Committee (EXCO), to perform specific duties. Given the business and size of the Bank, the Board has formed the view that its five members can perform the duties of such committees without the assistance of the NC, RC and EXCO and dissolved the three Board Committees in July 2014. Following the dissolution, all matters pertaining to nomination/appointment, remuneration and business are overseen directly by the Board.

The main responsibilities of the Board include:

- providing strategic direction, and approving business plans and annual budgets;
- monitoring financial performance;
- determining capital structure;
- setting dividend policy and declaring dividends;
- approving major acquisitions and divestments;
- reviewing risk management framework and processes;
- setting company values and standards;
- reviewing directors' fees;
- assessing the performance of the Board and each director;
- reviewing the composition of the Board; and
- performing succession planning.

The approval of the Board is required for material transactions that fall within the scope of the Board's functions. These include business plans and annual budgets, major acquisitions and divestments, dividend payments and other distributions, and the quarterly and full-year financial results.

FEB is a subsidiary of United Overseas Bank Limited (UOB), which manages the Bank's operations and provides the management resources and infrastructure for the Bank's day-to-day business. The audit and board risk management committees of UOB assist the FEB Board to oversee audit and risk management matters respectively.

The Board meets every quarter and holds additional meetings whenever required to deal with urgent business. Directors who are unable to attend a meeting in person may participate via telephone and/or video conference, or communicate their views through another director or the Company Secretary. The 2014 attendance record of directors is set out in the table below.

	Number of meetings attended in 2014			
Name of director	Board of Directors	Nominating Committee[1]	Remuneration Committee[1]	Executive Committee[2]
Wee Cho Yaw	4 / 4	1 / 1	1 / 1	2 / 2
Hsieh Fu Hua	4 / 4	1 / 1	1 / 1	2 / 2
Wee Ee Cheong	4 / 4	–	–	2 / 2
Wong Meng Meng	4 / 4	1 / 1	–	–
Cham Tao Soon (Retired on 23 April 2014)	1 / 1	1 / 1	1 / 1	2 / 2
Franklin Leo Lavin	4 / 4	1 / 1	–	1 / 2
Number of meetings held in 2014	4	1	1	2

1 Dissolved with effect from 31 July 2014.

2 Dissolved with effect from 1 July 2014.

Board Composition

There are five members on the Board whose profiles can be found in the Board of Directors section. A majority of the directors are independent from management and business relationships with the Bank, and two of the five directors are independent. The directors are:

Wee Cho Yaw *(Chairman Emeritus and Adviser)*	Non-executive and non-independent
Hsieh Fu Hua *(Chairman)*	Non-executive and independent
Wee Ee Cheong *(Deputy Chairman and Chief Executive Officer (CEO))*	Executive and non-independent
Wong Meng Meng	Non-executive and non-independent
Franklin Leo Lavin	Non-executive and independent

The Board has assessed that Messrs Wee Cho Yaw, Wee Ee Cheong and Wong Meng Meng are non-independent directors. Messrs Wee Cho Yaw and Wee Ee Cheong are substantial shareholders of UOB, the parent of FEB. Mr Wong Meng Meng, who does not have management and business relationships with the Bank and its related corporations, officers or substantial shareholders, has served on the Board for more than nine years.

The independent directors are Messrs Hsieh Fu Hua and Franklin Leo Lavin. They do not have any management relationship with the Bank and have not served on the Board for nine years or more. Both are not connected to the substantial shareholders of FEB, except for UOB where they serve as independent directors. In the Board's opinion, these directors have acted in FEB's interests and their independent business judgement is not impaired by the annual management fee that FEB pays to UOB.

Having reviewed the directors' profiles, the Board has determined that the directors remain fit and proper and qualified for office, and have the relevant skills, experience and knowledge as a group for discharging the Board's duties. In light of the Bank's size and business, the Board considers the current Board size and composition appropriate.

Chairman Emeritus, Chairman and Chief Executive Officer

Dr Wee Cho Yaw has more than 50 years of experience in banking and provides advice and guidance to the Board and Management in his capacity as Chairman Emeritus and Adviser.

As Chairman, Mr Hsieh Fu Hua provides leadership to the Board, promotes open and constructive board deliberation, ensures that directors receive timely and comprehensive information for them to discharge their duties, and oversees corporate governance matters.

Mr Wee Ee Cheong is the CEO of the Bank and Deputy Chairman of the Board. He is responsible for the Bank's daily operations.

Nomination/Appointment, Remuneration and Business Matters

Following the dissolution of the EXCO, NC and RC in July 2014, the Board oversees all matters pertaining to the business of FEB and the nomination, appointment and remuneration of directors directly. Two UOB board committees assist the Board to oversee audit and risk management matters.

Through discreet searches, the Board identifies candidates for appointment as directors. In its evaluation of a candidate, the Board considers the current Board composition as well as the candidate's personal qualities such as integrity and financial soundness, qualification for office, and ability to commit time and contribute to the Board's performance. New directors receive an induction package which includes the articles of directorship and the terms of reference of the Board.

New and existing directors participate in UOB's continuous development programme to receive appropriate training on a continuing basis. During the year, briefings on risk management as well as developments and trends in the banking and financial industry were organised under the programme. The Board is of the view that the topics covered under the UOB programme met the objective of equipping directors with the relevant skills and knowledge to perform their duties.

The Board assesses its performance based on the management of capital, return achieved on loans and investments, as well as adequacy and effectiveness of internal controls and risk management systems. In the evaluation process, the Board takes into account directors' responses in a self-assessment questionnaire.

It evaluates each director's performance and contribution to the Board's effectiveness according to the director's commitment, attendance record, overall preparedness, participation, candour and clarity in communication, skills and expertise, strategic insight, financial literacy, business judgement and sense of accountability. It also assesses whether the director continues to be a fit and proper person for office. The Board has not set a limit on the number of directorships that a director may hold as directors have different abilities and companies are of different complexities.

After reviewing each director's performance and known commitments, the Board is satisfied that all directors were actively engaged in the discharge of their duties and contributed to the Board's effectiveness in the year under review.

Corporate Governance

The Board considers the performance of each director in its review of the Board composition and re-nomination of directors. Each year, one-third of the directors retire from office by rotation and are eligible for re-election at the annual general meeting (AGM). New directors submit themselves for re-election at the first AGM following their appointment to the Board. Directors who are over 70 years old are subject to annual re-appointment at the AGM.

FEB adopts the remuneration policy and systems implemented in the UOB Group.

The Board reviews directors' fees annually and recommends the fees for approval by shareholders at the AGM. In recommending the level and structure of fees for directors, the Board takes into account the responsibilities of directors and the frequency of meetings. Directors' fees and other remuneration are disclosed in the Directors' Report section.

FEB does not have any employee share-based incentive scheme. No immediate family member of a director or the CEO was in the employ of the Bank and whose remuneration exceeded $50,000 in 2014.

The Board reviews and approves certain credit facilities, treasury and investment activities, and capital expenditure. It also reviews the budget and business plans, monitors the Bank's financial performance and reviews the Bank's capital structure.

Audit Matters

The UOB Audit Committee (UOB AC) assists the Board to oversee FEB's audit matters. It has authority to investigate any matter within its terms of reference. The UOB AC is entitled to the full co-operation of Management and the internal and external auditors in the discharge of its duties.

The UOB AC reviews the Bank's financial statements, the accounting policies and practices applied and any judgement made that may have a significant impact on the financial statements. It reviews the external auditor's audit plan, audit reports and the provision of non-audit services to the Bank. At least annually, the UOB AC meets the external auditor in the absence of the internal auditor and Management. It approves the terms of engagement of the external auditor.

It evaluates the performance of the external auditor before making its recommendation to the Board on the re-appointment of the external auditor. In performing its evaluation, the UOB AC is guided by the *Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors* issued by the Accounting and Corporate Regulatory Authority and the Singapore Exchange, and the *External Audits of Banks* issued by the Basel Committee on Banking Supervision.

Consideration is given to the external auditor's work and non-audit services provided to the Bank, the audit and non-audit fees paid to the external auditor, as well as the feedback received from the internal auditor and Management. The Bank did not pay any non-audit fee to the external auditor for the year under review. Audit fees paid for the year under review are disclosed in the Notes to the Financial Statements section. The external auditor provided quarterly affirmations of its independence to the UOB AC during the year.

Following its evaluation, the UOB AC is satisfied that the external auditor was effective, independent and objective in its audit of FEB. It is also satisfied that the external auditor has the requisite expertise and resources to perform its duties. The UOB AC has nominated Ernst & Young LLP for re-appointment as the external auditor at the Bank's forthcoming AGM.

UOB Group Audit performs the internal audit function for FEB. The UOB AC oversees UOB Group Audit and ensures that the function is adequately resourced to perform its responsibilities. It also reviews the scope and results of audits and monitors the progress of audits. The UOB AC meets UOB Group Audit in the absence of the external auditor and Management at least annually. Having reviewed the relevant factors including the scope of internal audit, results of the audits and the auditees' response to audit findings, the UOB AC is satisfied that UOB Group Audit has carried out its responsibilities effectively and efficiently in relation to the audit of FEB. The Head of UOB Group Audit has confirmed to the UOB AC that UOB Group Audit is adequately resourced.

The UOB AC comprises Messrs Willie Cheng Jue Hiang (chairman), James Koh Cher Siang and Ong Yew Huat, all of whom are independent directors. Through UOB's continuous development programme for directors and quarterly discussions with the external and internal auditors, the UOB AC is kept abreast of changes in accounting standards and developments in corporate governance which may have a direct impact on financial statements.

Risk Management Matters

The UOB Board Risk Management Committee (UOB BRMC) assists the Board to oversee FEB's risk management matters. It oversees the establishment and operation of a robust and independent risk management system to identify, measure, monitor, control and report risks on an enterprise-wide basis. It also ensures that the risk management function is adequately resourced, and reviews and approves risk measurement models and approaches.

The UOB BRMC members are Messrs Wee Cho Yaw (chairman), Hsieh Fu Hua, Wee Ee Cheong and Ong Yew Huat and Mrs Lim Hwee Hua. Except for Mr Wee Ee Cheong, the UOB BRMC members are non-executive directors.

Internal Controls and Risk Management

FEB receives support on internal audit, regulatory compliance and risk management matters from independent UOB functions.

UOB Group Audit, which performs the internal audit function for FEB, adopts the *Standards for the Professional Practice of Internal Auditing* set by the Institute of Internal Auditors. It is also guided by *The Internal Audit Function in Banks* issued by the Basel Committee on Banking Supervision. UOB Group Audit provides independent assessment of the reliability, adequacy and effectiveness of FEB's system of internal controls, risk management and governance processes.

UOB Group Compliance conducts independent checks on FEB's compliance with applicable laws and observance of ethical standards. It also monitors regulatory developments which may have an impact on FEB's operations and provides advisories where appropriate.

UOB Group Risk Management develops and implements risk management frameworks, policies and processes which are adopted by FEB. The Bank's risk management is described in detail in the Risk Management section.

The Board has received assurance from the CEO and the UOB Chief Financial Officer that the system of risk management and internal controls is effective, and that the financial records have been properly maintained and the financial statements give a true and fair view of FEB's operations and finances.

With the concurrence of the UOB AC and UOB BRMC, the Board is of the opinion that the system of risk management and internal controls, including financial, operational, compliance and information technology controls, which was adopted for and applied to FEB was adequate and effective as at 31 December 2014. The Board notes that no system of risk management and internal controls can provide absolute assurance against material error, loss or fraud. The system of risk management and internal controls applied to FEB provides reasonable but not absolute assurance that the Bank will not be adversely affected by any reasonably foreseeable event. The Board has formed the opinion after conducting its review which took into account the work performed by the internal and external auditors, and the reviews performed by the UOB AC and UOB BRMC.

Access to Information

Directors have unfettered access to information and Management. They are provided with timely and comprehensive financial and operational reports to facilitate their informed discussions during meetings. Directors may seek independent professional advice at the Bank's expense in the discharge of their responsibilities.

Directors also have access to the Company Secretary who assists them in the discharge of their duties, advises them on governance matters and facilitates the induction of new directors.

Related Party Transactions

Related party transactions for the financial year under review are disclosed in the Notes to the Financial Statements section.

Shareholder Rights and Communication

The Board has established clear channels for receiving and responding to feedback. Communication with shareholders is mainly achieved through notices, circulars and general meetings. The annual report on FEB's performance and financial position is sent to shareholders at least 14 days before the AGM. It is also available on www.UOBGroup.com. Shareholders may give their views to the Board and Management at general meetings. The Bank issues the notice of a general meeting to shareholders at least 14 days before the meeting. All shareholders are entitled to attend general meetings and may appoint up to two proxies to attend and vote in their place.

Ethical Standards

The Bank has a code of conduct for employees, a specific code on dealing in securities for both directors and employees, and a whistle-blowing policy. The whistle-blowing policy provides for any individual to report in good faith, without fear of reprisal, any suspected wrongdoing to the Head of UOB Group Audit, UOB AC chairman, CEO or Chairman of the Board. All reports received are accorded confidentiality and investigated independently and in a timely manner by UOB Group Audit.

The Bank embraces fair dealing as part of its corporate culture and applies the UOB Group's policies, guidelines and best practices to embed fair dealing principles into its daily operations. Procedures have also been established to handle customer complaints independently, effectively and promptly, and to communicate decisions to customers clearly.

Risk Management

Risk Management Overview

Effective risk management is integral to the Group's business success. The Group's approach to risk management is to ensure that risks are managed within the levels established by the various senior management committees and approved by the Board and/or its committees.

The Group has established a comprehensive framework of policies and procedures to identify, measure, monitor and control risks. These are guided by the Group's Risk Management Principles which advocate:

- delivery of sustainable long-term growth using sound risk management principles and business practices;
- continual improvement of risk discovery capabilities and risk controls; and
- business development based on a prudent, consistent and efficient risk management framework.

Credit Risk

Credit risk is managed in accordance with the Group's credit risk management framework and policies.

The Group Credit Committee (CC) is authorised by the Board of Directors to oversee all credit matters. It maintains oversight of the effectiveness of the Group's country and credit risk management structure including framework, people, processes, information, infrastructure, methodologies and systems.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. These processes, which include monthly reviews of all non-performing and special-mention loans, ensure credit quality and the timely recognition of asset impairment. In addition, credit reviews and audits are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with.

Delinquency Monitoring

The Group monitors closely the delinquency of borrowing accounts as it is a key indicator of credit quality. An account is considered delinquent when payment is not received on the due date. Any delinquent account, including a revolving credit facility (such as an overdraft) with limit excesses, is closely monitored and managed through a disciplined process by officers from business units and the risk management function. Where appropriate, such accounts are also subject to more frequent credit reviews.

Classification and Loan Loss Impairment

The Group classifies its credit portfolios according to the borrower's ability to repay the credit facility from their normal source of income. There is an independent credit review process to ensure the appropriateness of loan grading and classification in accordance with MAS Notice 612.

All borrowing accounts are categorised as 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing accounts are further categorised as 'Substandard', 'Doubtful' or 'Loss' in accordance with MAS Notice 612. Any account which is delinquent (or in excess for a revolving credit facility such as an overdraft) for more than 90 days will be categorised automatically as 'Non-Performing'. In addition, any account that exhibits weaknesses which are likely to jeopardise repayment on existing terms may be categorised as 'Non-Performing'.

Upgrading and declassification of a Non-Performing account to 'Pass' or 'Special Mention' status must be supported by a credit assessment of the repayment capability, cash flows and financial position of the borrower. The Group must also be satisfied that once the account is declassified, the account is unlikely to be classified again in the near future.

A restructured account is categorised as 'Non-Performing' and placed on the appropriate classified grade based on the Group's assessment of the financial condition of the borrower and the ability of the borrower to repay under the restructured terms. A restructured account must comply fully with the restructured terms in accordance with MAS Notice 612 before it can be declassified.

Write-off Policy

A classified account that is not secured by any realisable collateral will be written off either when the prospect of a recovery is considered poor or when all feasible avenues of recovery have been exhausted.

Market Risk

Market risk is governed by the Asset and Liability Committee (ALCO), which meets monthly to review and provide directions on market risk matters. The Market Risk Management Division supports the UOB Board Risk Management Committee (UOB BRMC), the Risk and Capital Committee (RCC) and the ALCO with independent assessment of the market risk profile of the Group.

The Group's market risk framework comprises market risk policies, practices and the control structure with appropriate delegation of authority and market risk limits. Valuation models and risk models are independently validated. In addition, a robust risk architecture as well as a new Product/Service Programme process ensure that identified market risk issues are adequately addressed prior to launch. Management of derivatives risks is continually reviewed and enhanced to ensure that the complexities of the business are appropriately controlled.

Interest Rate Risk in the Banking Book

The ALCO maintains oversight of the effectiveness of the interest rate risk management structure. The Balance Sheet Risk Management Division supports the ALCO in monitoring the interest rate risk profile of the banking book.

The primary objective of interest rate risk management is to protect and enhance capital or economic net worth through adequate, stable and reliable growth in net interest earnings under a broad range of possible economic conditions.

Banking book interest rate risk exposure is quantified on a monthly basis using a combination of static analysis tools and dynamic simulation techniques. Static analysis tools include repricing schedules and sensitivity analysis. They provide indications of the potential impact of interest rate changes on interest income and price value through the analysis of the sensitivity of assets and liabilities to changes in interest rates. Interest rate sensitivity varies with different repricing periods, currencies and embedded options. Mismatches in the longer tenor will experience greater change in the price-value of interest rate positions than similar positions in the shorter tenor.

In the dynamic simulation process, both the earnings and Economic Value of Equity (EVE) approaches are applied to assess interest rate risk. The potential effects of interest rate change on interest income are estimated by simulating the possible future course of interest rates, expected changes in business activities over time, as well as the effects of embedded options. Embedded options may be in the form of loan prepayment and deposit pre-upliftment. Changes in interest rates are simulated using different interest rate scenarios such as changes in the shape of the yield curve, including high and low rates, as well as positive and negative tilt scenarios.

In EVE sensitivity simulations, the present values for repricing cash flows are computed, with the focus on changes in EVE under different interest rate scenarios. This economic perspective measures interest rate risks across the full maturity profile of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating the proactive management of interest rate risks in an environment of rapid financial market changes.

Liquidity Risk

The Group maintains sufficient liquidity to fund its day-to-day operations, to meet deposit withdrawals and loan disbursements, to participate in new investments, and to repay borrowings. Hence, liquidity is managed in a manner to address known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of policies, controls and limits approved by the ALCO. These policies, controls and limits enable the Group to monitor and manage liquidity risk to ensure that sufficient sources of funds are available over a range of market conditions. These include minimising excessive funding concentrations by diversifying the sources and terms of funding as well as maintaining a portfolio of high quality and marketable debt securities.

The Group takes a conservative stance in its liquidity management by continuing to gather core deposits, ensuring that liquidity limits are strictly adhered to and that there are adequate liquid assets to meet cash shortfall.

The distribution of deposits is managed actively to ensure a balance between cost effectiveness, continued accessibility to funds and diversification of funding sources. Important factors in ensuring liquidity are competitive pricing, proactive management of the Group's core deposits and the maintenance of customer confidence.

Liquidity risk is aligned with the regulatory liquidity risk management framework and is measured and managed on a projected cash flow basis. The Group is monitored under business-as-usual and stress scenarios. Cash flow mismatch limits are established to limit the Group's liquidity exposure. The Group also employs liquidity early warning indicators and trigger points to signal possible contingency situations.

Contingency funding plans are in place to identify potential liquidity crises using a series of warning indicators. Crisis escalation processes and various strategies including funding and communication have been developed to minimise the impact of any liquidity crunch.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes reputation, legal and regulatory risks but excludes strategic risk.

The objective is to manage operational risk at appropriate levels relative to the markets in which the businesses operate.

Operational Risk Governance, Framework and Tools

Operational risk is managed through a framework of policies and procedures by which business and support units properly identify, assess, monitor, mitigate and report their risks. The Operational Risk Management Committee meets monthly to provide oversight of operational risk matters across the Group.

The Operational Risk Governance structure adopts the Three Lines of Defence Model. The businesses, as the first line of defence, are responsible for establishing a robust control environment as part of their day-to-day operations. Each business is responsible for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities.

Operational Risk Management Division, as the second line of defence, oversees the management of operational risk. It exercises governance over operational risk through providing relevant frameworks, policies, tools and systems, quality assurance of internal controls as well as operational risk measurement. It also monitors and reports operational risk issues to senior management, the relevant management committees and the Board.

Group Audit acts as the third line of defence by providing an independent and objective assessment on the overall effectiveness of the risk governance framework and internal controls through periodic audit reviews.

A key component of the operational risk management framework is risk identification and control self-assessments. This is achieved through the Group-wide implementation of a set of operational risk tools. Several risk mitigation policies and programmes are in place to maintain a sound operating environment.

The Group has a business continuity and crisis management programme in place to ensure prompt recovery of critical business functions should there be unforeseen events. Senior management provides an annual attestation to the Board on the state of business continuity readiness of the Group.

A technology risk management framework has been established, enabling the Group to manage technology risks in a systematic and consistent manner.

Regulatory risk refers to the risk of non-compliance with laws, regulations, rules, standards and codes of conduct. This risk is identified, monitored and managed through a structured framework of policies, procedures and guidelines maintained by the Group. The framework also manages the risk of breaches and sanctions relating to Anti-Money Laundering and Countering the Financing of Terrorism.

The Group actively manages fraud and bribery risks. Tools and policies, including a whistle-blowing programme, a material risk notification protocol and a fraud risk awareness training programme, have been developed to manage such risks. All employees are guided by a Code of Conduct, which includes anti-bribery and corruption provisions.

Reputation risk is the risk of adverse impact on earnings, liquidity or capital arising from negative stakeholder perception or opinion of the Group’s business practices, activities and financial condition. The Group recognises the impact of reputation risk and a framework has been developed to identify and manage the risk across the Group.

To mitigate operational losses resulting from significant risk events, a Group insurance programme covering crime, fraud, civil liability, property damage, public liability, as well as directors’ and officers’ liability has been put in place.

Far Eastern Bank Limited (Incorporated in Singapore)
31 December 2014

Financial Report

Management Discussion and Analysis

Overview

	2014	2013	+/(-) %
Selected Income Statement Items ($ million)			
Net interest income	**4.5**	4.6	(1.1)
Non-interest income	**7.9**	7.2	10.1
Total income	**12.4**	11.8	5.7
Less: Total expenses	**10.2**	10.2	0.4
Operating profit before write-back of impairment charges	**2.2**	1.6	40.4
Add: Write-back of impairment charges	**0.1**	0.1	26.3
Less: Tax	**0.4**	0.2	70.5
Net profit after tax	**1.9**	1.5	31.5
Selected Balance Sheet Items ($ million)			
Net customer loans	**87.8**	102.4	(14.2)
Customer deposits	**791.4**	818.4	(3.3)
Total assets	**1,012.8**	1,040.6	(2.7)
Shareholders' equity	**194.9**	195.1	(0.1)
Revaluation surplus[1]	**174.5**	174.1	0.3
Key Financial Ratios (%)			
Net interest margin	**0.48**	0.47	
Expense/Income ratio	**82.3**	86.7	
Non-interest income/Total income	**63.4**	60.9	
Non-performing loans ratio[2]	**3.3**	0.4	
Return on average total assets	**0.2**	0.1	
Return on average ordinary shareholders' equity	**1.0**	0.7	
Loan/Deposit ratio[3]	**11.1**	12.5	
Capital adequacy ratios			
Common Equity Tier 1	**98.6**	86.2	
Tier 1	**98.6**	86.2	
Total	**99.1**	86.8	
Basic earnings per share (cents)	**1.9**	1.4	
Net asset value (NAV) per share ($)	**1.95**	1.95	
Revalued NAV[1] per share ($)	**3.70**	3.69	
Final dividend per share (cents)	**2.0**	2.0	

1 Refer to unrealised revaluation surplus on properties which was not incorporated into the financial statements.

2 Refer to non-performing loans as a percentage of gross customer loans.

3 Refer to net customer loans and customer deposits.

Review of Group Performance

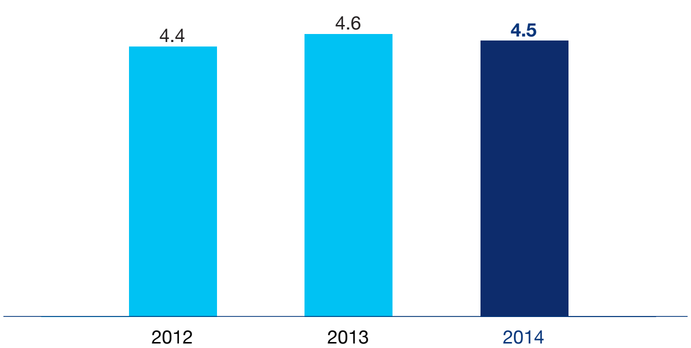
The Group's net profit after tax (NPAT) for 2014 improved 32% to $1.9 million on higher fee and rental income.

Net Interest Income

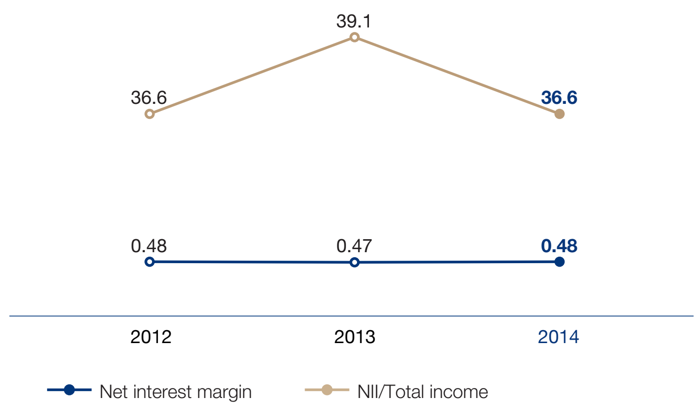
Net interest income was relatively flat at $4.5m in 2014.

Net interest margin rose 1 basis point to 0.48% in 2014.

Net Interest Income **$4.5 million** ▼ **(1.1%)**



Net Interest Income (NII) Ratios **%**



Average Interest Rate and Net Interest Margin

	2014			2013		
	Average balance $'000	**Interest $'000**	**Average interest rate %**	Average balance $'000	Interest $'000	Average interest rate %
Total interest bearing assets	**933,306**	**6,564**	**0.69**	977,348	6,563	0.67
Total interest bearing liabilities	**809,146**	**2,020**	**0.25**	829,102	1,969	0.24
Net interest income		**4,544**			4,594	
Net interest margin[1]			**0.48**			0.47

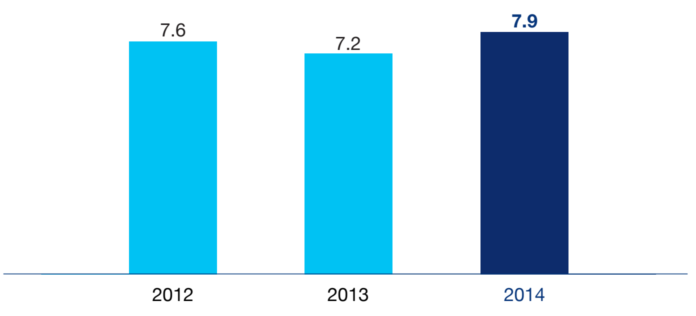
1 Net interest margin represents net interest income as a percentage of total interest bearing assets.

Management Discussion and Analysis

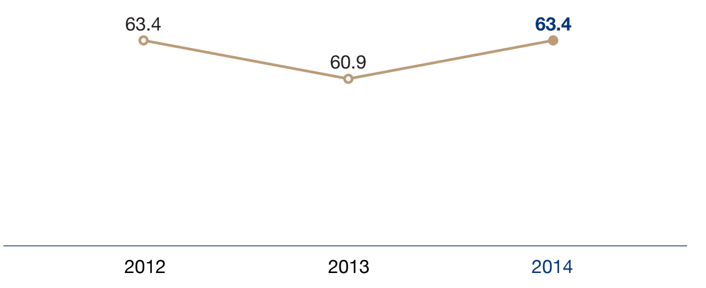
Non-Interest Income

The Group's non-interest income for 2014 accounted for 63.4% of total income. Total non-interest income increased 10.1% to $7.9 million in 2014. The higher non-interest income was largely due to higher trade-related fees and rental income, partially offset by lower gains from the sale of government securities.

Non-Interest Income	$7.9 million	▲	10.1%



Non-Interest Income/Total Income	63.4%	▲	2.5% pt



Composition of Non-Interest Income

	2014 $'000	2013 $'000	+/(-) %
Fee and commission income			
Investment-related	**2**	3	(33.3)
Loan and trade-related	**566**	414	36.7
Service charges and others	**452**	426	6.1
	1,020	843	21.0
Rental income	**5,407**	4,741	14.0
Other operating income			
Net gain from:			
Government securities	**21**	320	(93.4)
Foreign exchange	**310**	226	37.2
Safe deposit box rental	**491**	476	3.2
Others	**636**	555	14.6
	1,458	1,577	(7.5)
Total non-interest income	**7,885**	7,161	10.1

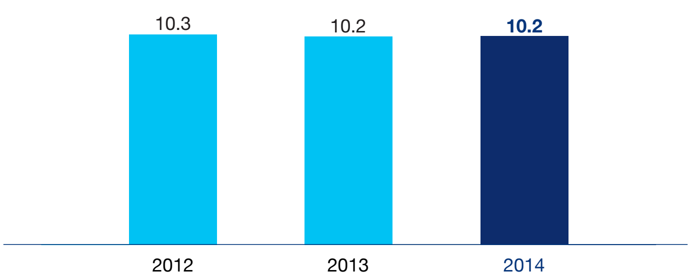
Operating Expenses

Total operating expenses was relatively flat at $10.2 million in 2014.

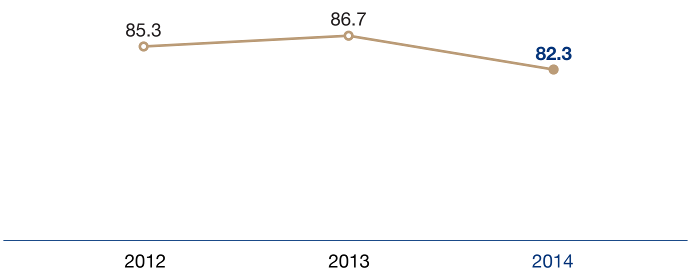
Consequently, the expense-to-income ratio of the Group improved from 86.7% points to 82.3%

	2014	2013	+/(-)
	$'000	$'000	%
Staff costs	**585**	631	(7.3)
Other operating expenses	**9,642**	9,556	0.9
Total operating expenses	**10,227**	10,187	0.4

Total Operating Expenses $10.2 million ▲ 0.4%



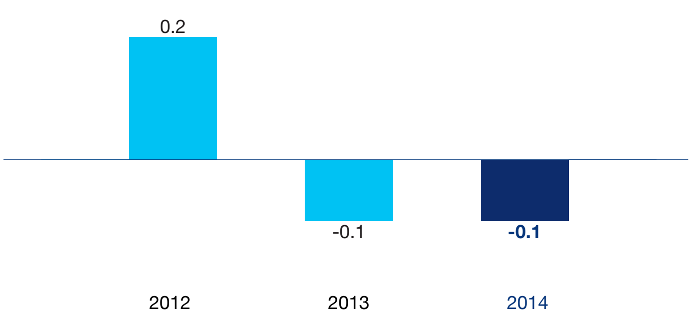
Expenses/Income 82.3% ▼ (4.4% pt)



Impairment Charged to Income Statement

Total write-back of $0.1 million in 2014 mainly on investment in associate.

(Write-back)/Impairment Charged to Income Statement ($0.1) million ▲ 26.3%



	2014	2013	+/(-)
	$'000	$'000	$'000
(Write-back) of impairment on			
Loans	**(8)**	(72)	88.9
Investments	**(62)**	(23)	(>100.0)
Total write-back of impairment charges	**(70)**	(95)	26.3

Management Discussion and Analysis

Overview of Balance Sheet

Total Assets

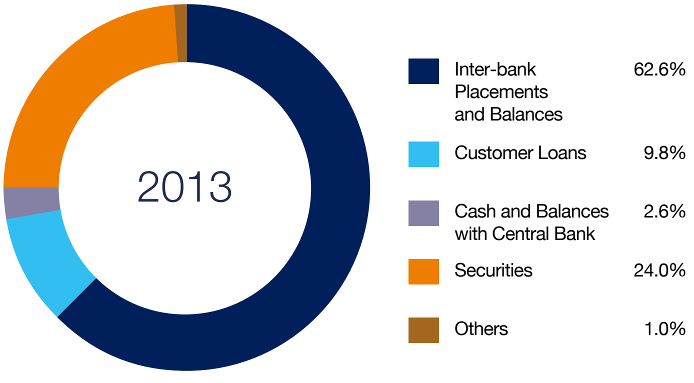
The Group's total assets decreased 2.7% to $1,012.8 million as at 31 December 2014 from $1,040.6 million as at 31 December 2013. The decrease was primarily from securities and customer loans.

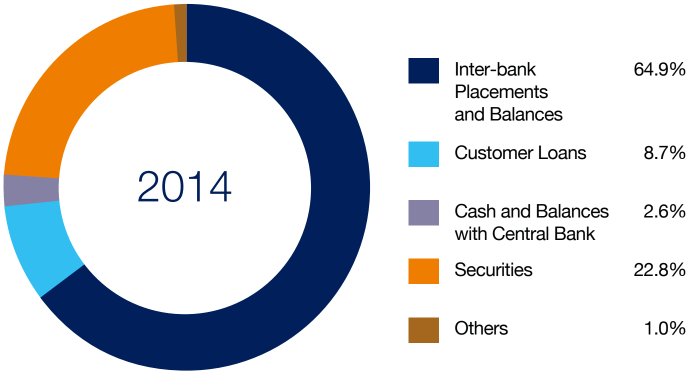
Asset Mix

	2014		2013	
	$'000	**%**	$'000	%
Cash and balances with central bank	**25,890**	**2.6**	26,521	2.6
Securities[1]	**230,957**	**22.8**	250,077	24.0
Inter-bank placements and balances	**657,572**	**64.9**	651,166	62.6
Customer loans	**87,789**	**8.7**	102,363	9.8
Others	**10,542**	**1.0**	10,449	1.0
Total assets	**1,012,750**	**100.0**	1,040,576	100.0

1 Comprising Singapore Government treasury bills, securities and investment securities.

Asset Mix





Securities

Securities held by the Group as at 31 December 2014 were valued at $231 million (2013: $250 million).

	2014		2013	
	$'000	**%**	$'000	%
Singapore Government treasury bills and securities	**128,881**	**55.8**	128,984	51.6
Investment securities	**102,076**	**44.2**	121,093	48.4
Total securities	**230,957**	**100.0**	250,077	100.0

Customer Loans

Net customer loans were lower at $87.8 million as at 31 December 2014 compared with $102.4 million as at 31 December 2013. The decrease of $14.6 million or 14.2% was largely from term loans and trade financing.

Customer Loans Analysed by Product Group

	2014		2013	
	$'000	%	$'000	%
Housing loans	13,205	13.2	9,348	8.2
Term loans	57,941	57.9	68,309	59.6
Trade financing	9,093	9.1	14,279	12.4
Overdrafts	19,887	19.8	22,763	19.8
Total gross customer loans	100,126	100.0	114,699	100.0
Individual impairment	(278)		(277)	
Collective impairment	(12,059)		(12,059)	
Total net customer loans	87,789		102,363	

Gross Customer Loans Analysed by Industry

	2014		2013	
	$'000	%	$'000	%
Transport, storage and communication	**2,095**	**2.1**	1,742	1.6
Building and construction	**529**	**0.5**	629	0.5
Manufacturing	**3,814**	**3.8**	6,805	5.9
Financial institutions	**13,524**	**13.5**	14,729	12.8
General commerce	**22,337**	**22.3**	37,348	32.6
Professionals and private individuals	**35,215**	**35.2**	38,020	33.1
Housing loans	**13,205**	**13.2**	9,348	8.2
Others	**9,407**	**9.4**	6,078	5.3
Total gross customer loans	**100,126**	**100.0**	114,699	100.0

Gross Customer Loans Analysed by Currency

	2014		2013	
	$'000	%	$'000	%
Singapore dollar	**92,458**	**92.3**	104,414	91.0
US dollar	**5,686**	**5.7**	7,504	6.6
Japanese yen	**879**	**0.9**	680	0.6
Others	**1,103**	**1.1**	2,101	1.8
Total gross customer loans	**100,126**	**100.0**	114,699	100.0

Gross Customer Loans Analysed by Maturity

	2014		2013	
	$'000	%	$'000	%
Within 1 year	**42,640**	**42.6**	53,820	46.9
Over 1 year but within 3 years	**13,565**	**13.6**	14,271	12.4
Over 3 years but within 5 years	**9,054**	**9.0**	10,176	8.9
Over 5 years	**34,867**	**34.8**	36,432	31.8
Total gross customer loans	**100,126**	**100.0**	114,699	100.0

Management Discussion and Analysis

Deposits

Total deposits were lower at $814.5 million as at 31 December 2014 compared with $840.3 million as at 31 December 2013. The decrease of $25.8 million or 3.1% was mainly from fixed deposits, partially offset by an increase in savings and holding company's deposits.

Deposits Analysed by Product Group

	2014		2013	
	$'000	**%**	$'000	%
Customer deposits				
Fixed deposits	**221,182**	**27.1**	256,991	30.6
Current, savings and other deposits	**570,200**	**70.0**	561,366	66.8
	791,382	**97.1**	818,357	97.4
Fellow subsidiaries' deposits	**438**	**0.1**	628	0.1
Holding company's deposits	**22,727**	**2.8**	21,334	2.5
Total deposits	**814,547**	**100.0**	840,319	100.0

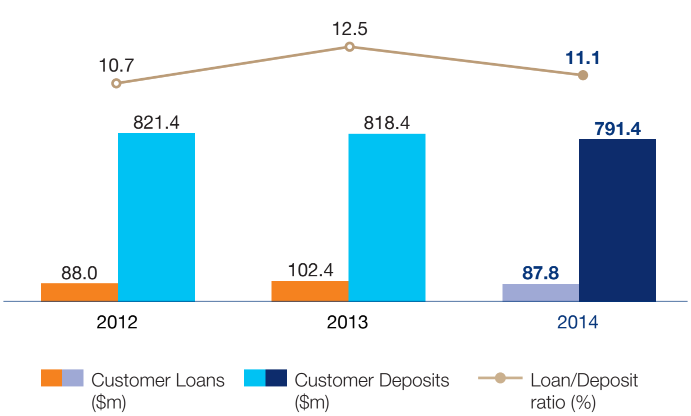
Deposits Analysed by Remaining Maturity

	2014		2013	
	$'000	**%**	$'000	%
Within 1 year	**806,581**	**99.0**	833,445	99.2
Over 1 year but within 3 years	**7,966**	**1.0**	6,874	0.8
Over 3 years but within 5 years	**–**	**–**	–	–
Total deposits	**814,547**	**100.0**	840,319	100.0

Loan/Deposit Ratio

With the decrease in net customer loans of 14.2%, coupled with decrease in customer deposits of 3.3%, the loan-to-deposit ratio declined 1.4% points to 11.1% in 2014.

Loan/Deposit Ratio



Shareholders' Equity

Shareholders' equity as at 31 December 2014 was $194.9 million.

As at 31 December 2014, revaluation surplus of $174.5 million (2013: $174.1 million) on properties was not included in the financial statements.

	2014 $'000	2013 $'000	+/(-) %
Shareholders' equity	**194,886**	195,074	(0.1)
Add: Revaluation surplus	**174,546**	174,076	0.3
Shareholders' equity including revaluation surplus	**369,432**	369,150	0.1
Net asset value (NAV) per share ($)	**1.95**	1.95	–
Revaluation surplus per share ($)	**1.75**	1.74	0.6
Revalued NAV per share ($)	**3.70**	3.69	0.3

Capital Adequacy Ratio

The Group's approach to capital management is to maintain an adequate level of capital to support business growth, taking into consideration regulatory requirements and underlying risks of the Group's business. The Group has met the regulatory capital requirements throughout the financial year.

As at 31 December 2014, the Group's Total CAR was 99.1%, well above the minimum Total CAR of 10% set by MAS.

	2014 $'000	2013 $'000
Share capital	**100,011**	100,011
Disclosed reserves	**94,876**	95,064
Regulatory adjustments	**(1,203)**	(1,277)
Common Equity Tier 1/Tier 1 capital	**193,684**	193,798
Provisions	**986**	1,210
Tier 2 Capital	**986**	1,210
Eligible Total Capital	**194,670**	195,008
Risk-weighted assets	**196,430**	224,779
Capital Adequacy Ratios (%)		
Common Equity Tier 1	**98.6**	86.2
Tier 1	**98.6**	86.2
Total	**99.1**	86.8

Directors' Report

for the financial year ended 31 December 2014

The directors are pleased to present their report to the members together with the audited financial statements of Far Eastern Bank Limited (**Bank**) and its subsidiary (collectively, **Group**) for the financial year ended 31 December 2014.

Directors

The directors of the Bank in office at the date of this report are:

Wee Cho Yaw (*Chairman Emeritus and Adviser*)
Hsieh Fu Hua (*Chairman*)
Wee Ee Cheong (*Deputy Chairman and Chief Executive Officer*)
Wong Meng Meng
Franklin Leo Lavin

Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Bank to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Directors' Interests in Shares or Debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, interests in shares of the Bank or related corporations as stated below:

	Direct interest		**Deemed interest**	
	At 31.12.2014	At 1.1.2014	**At 31.12.2014**	At 1.1.2014
United Overseas Bank Limited				
Ordinary shares				
Wee Cho Yaw	**19,301,917**	18,820,027	**270,070,084**	263,395,874
Hsieh Fu Hua	**–**	–	**25,000**	25,000
Wee Ee Cheong	**3,125,918**	3,047,878	**161,463,970**	157,432,871
4.90% non-cumulative non-convertible perpetual capital securities				
Wee Cho Yaw	**–**	–	**–**	$7,000,000
Wee Ee Cheong	**–**	–	**–**	$7,000,000
United Overseas Insurance Limited				
Ordinary shares				
Wee Cho Yaw	**38,100**	38,100	**–**	–

Directors' Contractual Benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Directors' Remuneration

The basic fee for service on the Board and additional fees for membership of Board Committees of the Bank are based on the following annual fee structure:

Fee Structure	Chairman $	Member $
Basic Fee	10,000	5,000
Executive Committee	–	2,500
Nominating Committee	2,500	1,250
Remuneration Committee	2,500	1,250

Details of the total fees and other remuneration paid/payable to the directors of the Bank for the financial year ended 31 December 2014 are as follows:

	Directors' fees $	Salary $	Bonus $	Benefit-in-kind and others $	Total $
Wee Cho Yaw	8,750	–	–	–	8,750
Hsieh Fu Hua	15,000	–	–	–	15,000
Wee Ee Cheong	–	–	–	–	–
Cham Tao Soon (*retired on 23 April 2014*)	5,000	–	–	–	5,000
Wong Meng Meng	7,500	–	–	–	7,500
Franklin Leo Lavin	8,750	–	–	–	8,750

Auditor

Ernst & Young LLP has expressed its willingness to accept reappointment as auditor.

On behalf of the Board of Directors,

Hsieh Fu Hua
Chairman

Wee Ee Cheong
Deputy Chairman and Chief Executive Officer

Singapore
12 February 2015

Statement by Directors

for the financial year ended 31 December 2014

We, Hsieh Fu Hua and Wee Ee Cheong, being two of the directors of Far Eastern Bank Limited, do hereby state that, in the opinion of the directors:

(a) the accompanying balance sheets, income statements, statements of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up 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 2014, the results of the business and changes in equity of the Bank and the Group and cash flows of the Group for the financial year then ended; and

(b) 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 Board of Directors,

Hsieh Fu Hua
Chairman

Wee Ee Cheong
Deputy Chairman and Chief Executive Officer

Singapore
12 February 2015

Independent Auditor’s Report

for the financial year ended 31 December 2014

Independent Auditor’s Report to the Members of Far Eastern Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Far Eastern Bank Limited (the Bank) and its subsidiary (collectively, the Group) set out on pages 30 to 67, which comprise the balance sheets of the Bank and Group as at 31 December 2014, the income statements, the statements of comprehensive income, and the statements of changes in equity of the Bank and Group and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor’s Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Group and the financial statements of the Bank are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore, so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2014, of the results and changes in equity of the Group and of the Bank and cash flows of the Group for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records 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.

ERNST & YOUNG LLP
Public Accountants and Chartered Accountants

Singapore
12 February 2015

Income Statements

for the financial year ended 31 December 2014

	Note	The Group and The Bank	
		2014	2013
		$'000	$'000
Interest income	3	**6,564**	6,563
Less: Interest expense	4	**2,020**	1,969
Net interest income		**4,544**	4,594
Fee and commission income	5	**1,020**	843
Rental income	6	**5,407**	4,741
Other operating income	7	**1,458**	1,577
Non-interest income		**7,885**	7,161
Total operating income		**12,429**	11,755
Less: Staff costs	8	**585**	631
Other operating expenses	9	**9,642**	9,556
Total operating expenses		**10,227**	10,187
Operating profit before write-back of impairment charges		**2,202**	1,568
Add: Write-back of impairment charges	10	**70**	95
Profit before tax		**2,272**	1,663
Less: Tax	11	**375**	220
Profit for the financial year attributable to equity holders of the Bank		**1,897**	1,443

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2014

	Note	The Group and The Bank	
		2014	2013
		$'000	$'000
Profit for the financial year		**1,897**	1,443
Change in available-for-sale reserve			
Change in fair value		**(84)**	(1,477)
Transfer to income statement on disposal/impairment		**(19)**	(320)
Tax relating to available-for-sale reserve		**18**	305
Other comprehensive income for the financial year, net of tax	14	**(85)**	(1,492)
Total comprehensive income for the financial year, net of tax		**1,812**	(49)

The accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

as at 31 December 2014

	Note	The Group		The Bank	
		2014	2013	**2014**	2013
		$'000	$'000	**$'000**	$'000
Equity					
Share capital	12	**100,011**	100,011	**100,011**	100,011
Retained earnings	13	**14,667**	14,770	**14,663**	14,766
Other reserves	14	**80,208**	80,293	**80,208**	80,293
Total equity		**194,886**	195,074	**194,882**	195,070
Liabilities					
Deposits and balances of:					
Non-bank customers	16	**791,382**	818,357	**791,382**	818,357
Fellow subsidiaries		**438**	628	**438**	628
Subsidiary		**–**	–	**12**	12
Holding company		**22,727**	21,334	**22,727**	21,334
		814,547	840,319	**814,559**	840,331
Bills and drafts payable		**586**	2,802	**586**	2,802
Derivative financial liabilities	28	**17**	5	**17**	5
Other liabilities	17	**2,218**	1,990	**2,215**	1,987
Tax payable		**496**	386	**496**	386
Total liabilities		**817,864**	845,502	**817,873**	845,511
Total equity and liabilities		**1,012,750**	1,040,576	**1,012,755**	1,040,581
Assets					
Cash, balances and placements with central bank	30	**25,890**	26,521	**25,890**	26,521
Singapore Government treasury bills and securities	18	**128,881**	128,984	**128,881**	128,984
Placements and balances with banks	19	**8,122**	7,992	**8,122**	7,992
Loans to non-bank customers	20	**87,789**	102,363	**87,789**	102,363
Placements with fellow subsidiaries		**258**	282	**258**	282
Placements with and amount owing by holding company		**649,192**	642,892	**649,192**	642,892
Derivative financial assets	28	**–**	1	**–**	1
Investment securities	21	**102,076**	121,093	**102,076**	121,093
Other assets	22	**1,863**	1,505	**1,863**	1,505
Deferred tax assets	11	**1,254**	1,234	**1,254**	1,234
Investment in a fellow associate	23	**1,099**	1,037	**1,099**	1,037
Investment in a subsidiary	24	**–**	–	**5**	5
Investment properties	25	**5,826**	6,266	**5,826**	6,266
Fixed assets	26	**500**	406	**500**	406
Total assets		**1,012,750**	1,040,576	**1,012,755**	1,040,581
Off-balance sheet items					
Contingent liabilities	27	**17,363**	16,636	**17,363**	16,636
Financial derivatives	28	**647**	1,030	**647**	1,030
Commitments	29	**80,703**	83,053	**80,703**	83,053

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2014

	The Group			
	Share capital $'000	**Retained earnings $'000**	**Other reserves $'000**	**Total equity $'000**
2014				
Balance at 1 January	**100,011**	**14,770**	**80,293**	**195,074**
Profit for the financial year	**–**	**1,897**	**–**	**1,897**
Other comprehensive income for the financial year	**–**	**–**	**(85)**	**(85)**
Total comprehensive income for the financial year	**–**	**1,897**	**(85)**	**1,812**
Dividends	**–**	**(2,000)**	**–**	**(2,000)**
Balance at 31 December	**100,011**	**14,667**	**80,208**	**194,886**
2013				
Balance at 1 January	100,011	15,327	81,785	197,123
Profit for the financial year	–	1,443	–	1, 443
Other comprehensive income for the financial year	–	–	(1,492)	(1,492)
Total comprehensive income for the financial year	–	1,443	(1,492)	(49)
Dividends	–	(2,000)	–	(2,000)
Balance at 31 December	100,011	14,770	80,293	195,074
Note	12	13	14	

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2014

	The Bank			
	Share capital $'000	**Retained earnings $'000**	**Other reserves $'000**	**Total equity $'000**
2014				
Balance at 1 January	**100,011**	**14,766**	**80,293**	**195,070**
Profit for the financial year	**–**	**1,897**	**–**	**1,897**
Other comprehensive income for the financial year	**–**	**–**	**(85)**	**(85)**
Total comprehensive income for the financial year	**–**	**1,897**	**(85)**	**1,812**
Dividends	**–**	**(2,000)**	**–**	**(2,000)**
Balance at 31 December	**100,011**	**14,663**	**80,208**	**194,882**
2013				
Balance at 1 January	100,011	15,323	81,785	197,119
Profit for the financial year	–	1,443	–	1,443
Other comprehensive income for the financial year	–	–	(1,492)	(1,492)
Total comprehensive income for the financial year	–	1,443	(1,492)	(49)
Dividends	–	(2,000)	–	(2,000)
Balance at 31 December	100,011	14,766	80,293	195,070
Note	12	13	14	

The accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the financial year ended 31 December 2014

	2014 $'000	2013 $'000
Cash flows from operating activities		
Operating profit before write-back of impairment charges	**2,202**	1,568
Adjustments for:		
Depreciation of assets	**519**	491
Operating profit before working capital changes	**2,721**	2,059
Increase/(decrease) in working capital:		
Deposit and balances of non-bank customers	**(26,975)**	(3,007)
Bills and drafts payable	**(2,216)**	1,909
Other liabilities	**240**	117
Investment securities	**19,017**	(38,468)
Amount owing by intercompany	**(5,073)**	45,073
Placement and balances with banks	**(130)**	463
Loans to non-bank customers	**14,574**	(14,413)
Other assets	**(625)**	(1,994)
Cash generated from/(used in) operations	**1,533**	(8,261)
Income tax paid	**(267)**	(339)
Net cash provided/(used in) by operating activities	**1,266**	(8,600)
Cash flows from financing activities		
Dividends paid on ordinary shares	**(2,000)**	(2,000)
Net cash used in financing activities	**(2,000)**	(2,000)
Net (decrease) in cash and cash equivalents	**(734)**	(10,600)
Cash and cash equivalents at beginning of the financial year	**155,505**	166,105
Cash and cash equivalents at end of the financial year (Note 30)	**154,771**	155,505

The accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2014

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. Corporate Information

Far Eastern Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Singapore. The Bank is a member of the United Overseas Bank Group and its immediate and ultimate holding company is United Overseas Bank Limited, a company incorporated in Singapore. The registered office of the Bank is at 80 Raffles Place, UOB Plaza, Singapore 048624.

The Bank is principally engaged in the business of banking in all its aspects. The principal activity of its subsidiary is set out in Note 24b to the financial statements.

2. Summary of Significant Accounting Policies

(a) Basis of preparation

The financial statements of the Bank and its subsidiary (collectively, the Group) have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Singapore Companies Act, with modification to FRS39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning, as provided in Monetary Authority of Singapore (MAS) Notice 612 Credit Files, Grading and Provisioning.

The financial statements have been prepared under the historical cost convention except as otherwise stated in Notes 2d to 2e and are presented to the nearest thousand in Singapore dollars unless otherwise indicated.

(b) Changes in accounting policies

The Group adopted the following new/revised FRS during the financial year. The adoption of these FRS did not have any significant effect on the financial statements of the Group.

- FRS27 Separate Financial Statements
- FRS28 Investments in Associates and Joint Ventures
- FRS110 Consolidated Financial Statements
- FRS111 Joint Arrangements
- FRS112 Disclosure of Interests in Other Entities
- Amendments to FRS32 – Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS36 – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS39 – Novation of Derivatives and Continuation of Hedge Accounting

Other than the above changes, the accounting policies applied by the Group in the financial year were consistent with those adopted in the previous financial year.

Future changes in accounting policies

The following new/revised FRS that are in issue will apply to the Group for the financial years as indicated:

Effective for financial year beginning on or after 1 January 2015

- Amendments to FRS19 – Defined Benefit Plans: Employee Contributions

Effective for financial year beginning on or after 1 January 2016

- Amendments to FRS16 and FRS38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRS27 – Equity Method in Separate Financial Statements
- Amendments to FRS110 and FRS28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to FRS111 – Accounting for Acquisitions of Interests in Joint Operations

Effective for financial year beginning on or after 1 January 2017

- FRS115 – Revenue from Contracts with Customers

Effective for financial year beginning on or after 1 January 2018

- FRS109 – Financial Instruments

2. Summary of Significant Accounting Policies (continued)

(b) Changes in accounting policies (continued)

Future changes in accounting policies (continued)
The above pronouncements are not expected to have a significant impact on the Group's financial statements when adopted with the exception of FRS109 which is under review and assessment.

(c) Interests in other entities

(i) Subsidiaries
Subsidiaries are entities over which the Group has control. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Acquisition of subsidiaries is accounted for using the acquisition method. Consideration for the acquisition includes fair value of the assets transferred, liabilities incurred, equity interests issued, contingent consideration and existing equity interest in the acquiree. Identifiable assets acquired and liabilities and contingent liabilities assumed are, with limited exceptions, measured at fair values at the acquisition date. Non-controlling interests are measured at fair value or the proportionate share of the acquiree's net identifiable assets at the acquisition date, determined on a case by case basis. Acquisition-related costs are expensed off when incurred.

Subsidiaries are consolidated from the date the Group obtains control until the date such control ceases. Intra-company transactions and balances are eliminated. Adjustments are made to align the accounting policies of the subsidiaries to those of the Group. The portion of profit or loss and net assets of subsidiaries belonging to the non-controlling interests is disclosed separately in the consolidated financial statements. Gain or loss arising from changes of the Bank's interest in subsidiaries is recognised in the income statement if they result in loss of control in the subsidiaries, otherwise, in equity.

In the Bank's separate financial statements, investment in a subsidiary is stated at cost less allowance for impairment, if any, determined on an individual basis.

(ii) Fellow associates
Associates are entities in which the Group has significant influence but not control or joint control.

The Group's investment in a fellow associate is stated at cost less allowance for impairment, if any, determined on an individual basis.

(d) Financial assets and financial liabilities

(i) Classification
Financial assets and financial liabilities are classified as follows:

At fair value through profit or loss
Financial instruments are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition.

Financial instruments are classified as held for trading if they are acquired for short-term profit taking.

Financial instruments are designated as fair value through profit or loss if they meet the following criteria:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities on a different basis;
- the assets and liabilities are managed on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative that would otherwise require bifurcation.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

2. Summary of Significant Accounting Policies (continued)

(d) Financial assets and financial liabilities (continued)

(i) Classification (continued)

Available-for-sale
Non-derivative financial assets that are not classified into any of the preceding categories and are available for sale are classified in this category.

Non-trading liabilities
Non-derivative financial liabilities that are not held for active trading or designated as fair value through profit or loss are classified as non-trading liabilities.

(ii) Measurement

Initial measurement
Financial instruments are recognised initially at their fair value which is generally the transaction price. Directly attributable transaction costs are included as part of the initial cost for financial instruments that are not measured at fair value through profit or loss.

Subsequent measurement
Financial instruments classified as held for trading and designated as fair value through profit or loss are measured at fair value with fair value changes recognised in the income statement.

Available-for-sale assets are measured at fair value with fair value changes taken to the fair value reserve, and subsequently to the income statement upon disposal or impairment of the assets.

All other financial instruments are measured at amortised cost using the effective interest method less allowance for impairment.

Interest and dividend on all non-derivative financial instruments are recognised as such accordingly.

Fair value determination
Fair values of financial assets and financial liabilities with active markets are determined based on the market bid and ask prices respectively at the balance sheet date. For financial instruments with no active markets, fair values are established using valuation techniques such as making reference to recent transactions or other comparable financial instruments, discounted cash flow method and option pricing models. Valuation inputs include spot and forward prices, volatilities, correlations and credit spreads.

(iii) Recognition and derecognition

Financial instruments are recognised when the Group becomes a party to the contractual provision of the instruments. All regular way purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised on the settlement date.

Financial instruments are derecognised when the contractual rights to cash flows and risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the accumulated gain or loss that has been recognised in equity are taken to the income statement.

(iv) Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet if there is a current, unconditional and legally enforceable right and intention to settle them simultaneously or on a net basis.

2. **Summary of Significant Accounting Policies (continued)**

(d) Financial assets and financial liabilities (continued)

(v) Impairment

Individual impairment
Financial assets, other than those measured at fair value through profit or loss, are subject to impairment review at each balance sheet date. Impairment loss is recognised when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped based on similar credit risks and assessed on a portfolio basis.

For financial assets carried at amortised cost, impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The loss is recognised in the income statement.

For available-for-sale assets, impairment loss is determined as the difference between the assets' cost and the current fair value, less any impairment loss previously recognised in the income statement. The loss is transferred from the fair value reserve to the income statement. For available-for-sale equity instruments, subsequent recovery of the impairment loss is written back to the fair value reserve.

Financial assets are written off when all avenues of recovery have been exhausted.

Collective impairment
Collective impairment is made for estimated losses inherent in but not currently identifiable to the individual financial assets. The allowance is made based on management's experience and judgement and taking into account country and portfolio risks. A minimum of 1% of credit exposure net of collateral and individual impairment is maintained by the Group in accordance with the transitional provision set out in MAS Notice 612.

(e) Financial derivatives
Financial derivatives are recognised initially, and measured subsequently, at fair value. Derivatives with positive and negative fair values are presented under assets and liabilities in the balance sheet respectively. Fair value changes of derivatives are recognised in the income statement unless they are designated as hedging instruments.

Financial derivatives embedded in non-derivative host contracts are bifurcated and accounted for separately if their economic characteristics and risks are not closely related to those of the host contracts and the combined contracts are not carried at fair value through profit or loss.

(f) Investment properties and fixed assets
Investment properties and fixed assets are stated at cost less accumulated depreciation and allowance for impairment.

Investment properties are properties held for rental income and/or capital appreciation while owner-occupied properties are those for office use.

Freehold land and leasehold land exceeding 99 years tenure are not depreciated. Other leasehold land is depreciated on a straight-line basis over the lease period. Buildings are depreciated on a straight-line basis over 50 years or the lease period, whichever is shorter. Other fixed assets are depreciated on a straight-line basis over their expected useful lives of five to ten years. The expected useful life, depreciation method and residual value of investment properties and fixed assets are reviewed annually.

Investment properties and fixed assets are reviewed for impairment when events or changes in circumstances indicate that their recoverable amounts, being the higher of fair value less cost to sell and value in use, may be below their carrying amounts.

Notes to the Financial Statements

for the financial year ended 31 December 2014

2. Summary of Significant Accounting Policies (continued)

(f) Investment properties and fixed assets (continued)

Investment properties and fixed assets are derecognised upon disposal and the resulting gain or loss is recognised in the income statement.

(g) Foreign currencies

On initial recognition, transactions in foreign currencies are recorded in the respective functional currencies of the Bank and its subsidiary at the exchange rate ruling at the transaction date. Subsequent to initial recognition, monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at balance sheet date are recognised in the income statement.

(h) Tax

(i) Current tax

Current tax is measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and tax law applied are those that are enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is provided on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax is measured at the tax rate that is expected to apply when the assets are realised or the liabilities are settled, based on the tax rate and tax law that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not provided for temporary differences arising from initial recognition of goodwill or an asset or liability that does not affect accounting or taxable profit, and taxable temporary differences related to investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Where gains and losses are recognised directly in equity, the related deferred tax is also taken to equity.

(iii) Offsetting

Current and deferred tax assets are offset with current and deferred tax liabilities respectively if (a) there is a legally enforceable right and intention to settle them simultaneously or on a net basis, (b) they are of the same tax reporting entity or group and (c) they relate to the same tax authority.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources to settle the obligation is probable and can be reliably estimated. At each balance sheet date, provisions are reviewed and adjusted to reflect the current best estimate. When an outflow of resources to settle the obligation is no longer probable, the provision is reversed.

(j) Commitments

Undrawn credit facilities (both revocable and irrevocable) are recorded under commitments and the amount is adjusted for subsequent drawdowns.

2. Summary of Significant Accounting Policies (continued)

(k) Contingent liabilities

Contracts on financial and performance guarantees, letters of credit and acceptances are recorded under contingent liabilities. These liabilities are recognised initially at their fair value which is generally the fees received. The fees are amortised over the period committed. Subsequent to initial recognition, the liabilities are measured at the higher of their carrying amount and the estimated expenditure required to settle the obligations.

(l) Revenue recognition

Interest income is recognised using the effective interest method.

Dividend income is recognised when the right to receive it is established.

Fee and commission income is recognised when services are rendered. For services that are provided over a period of time, fee and commission income is recognised over the service period.

Rental income is recognised on a time proportion basis.

(m) Employee compensation/benefits

Base pay, cash bonuses, allowances, commissions and defined contributions under regulations are recognised in the income statement when incurred. Leave entitlements are recognised when they accrue to employees based on contractual terms of employment.

(n) Dividend payment

Dividends are accounted for as an appropriation of retained earnings. Interim dividends on ordinary shares are recorded when declared payable while final dividends on ordinary shares are recognised upon approval of equity holders.

(o) Significant accounting estimates and judgements

Preparation of the financial statements in conformity with the FRS requires certain accounting estimates and judgements to be made. Areas where such estimates and judgements could have significant effects on the financial statements are as follows:

- Individual impairment of financial assets – assessment of the timing and amount of future cash flows and collateral value and determination of prolonged decline in market prices.
- Collective impairment of financial assets – assessment of country, industry and other portfolio risk, historical loss experience and economic indicators.
- Fair valuation of financial instruments – selection of valuation models and data inputs for financial instruments with no active markets.
- Provision of income taxes – interpretation of tax regulations on certain transactions and computations.

As the estimates and judgements are made based on the information available at the time the financial statements are prepared, the ultimate results could differ from those disclosed in the statements due to subsequent changes in the information.

3. Interest Income

	The Group and The Bank	
	2014	2013
	$'000	$'000
Loans to non-bank customers	**3,168**	3,307
Placements and balances with banks	**1,887**	1,739
Singapore Government treasury bills and securities	**1,509**	1,517
	6,564	6,563
Received/receivable from:		
Holding company	**1,885**	1,734
Third parties	**4,679**	4,829
	6,564	6,563

4. Interest Expense

	The Group and The Bank	
	2014	2013
	$'000	$'000
Deposits of non-bank customers	**2,020**	1,967
Deposits of banks	**–**	2
	2,020	1,969
Paid/payable to:		
Third parties	**2,020**	1,969

5. Fee and Commission Income

	The Group and The Bank	
	2014	2013
	$'000	$'000
Investment-related	**2**	3
Loan and trade-related	**566**	414
Service charges and others	**452**	426
	1,020	843

6. Rental Income

Rental income represents income from the tenanted areas of the buildings owned by the Bank. Included in the rental income for the financial year was income of $4,045,000 (2013: $3,048,000) received from the holding company.

7. Other Operating Income

	The Group and The Bank	
	2014	2013
	$'000	$'000
Net gain on disposal of Singapore Government treasury bills and securities	**21**	320
Net gain on foreign exchange	**310**	226
Safe deposit box rental	**491**	476
Other income	**636**	555
	1,458	1,577

8. Staff Costs

	The Group and The Bank	
	2014	2013
	$'000	$'000
Salaries, bonus and allowances	**488**	510
Employer's contribution to the Central Provident Fund	**59**	66
Other staff-related costs	**38**	55
	585	631
Number of employees at 31 December	**10**	9

9. Other Operating Expenses

	The Group and The Bank	
	2014	2013
	$'000	$'000
Included in other operating expenses are:		
Depreciation of assets	**519**	491
Maintenance of premises and other assets	**397**	380
Other expenses of premises	**1,117**	1,106
Audit fees paid/payable to auditors of the Bank	**94**	86
Management fees payable to holding company	**7,097**	7,097
Fees payable to directors of the Bank	**45**	55
Of which:		
Expenses on investment properties that generate rental income	**1,782**	1,748

10. Write-back of Impairment Charge on Loans and Other Assets

	The Group and The Bank	
	2014	2013
	$'000	$'000
Write-back of impairment on:		
Loans	**8**	72
Investments	**62**	23
	70	95
Included in the impairment charges are the following:		
Bad debts written off	**1**	15

11. Tax

(a) Tax expense

Tax charge to the income statements comprises the following:

	The Group and The Bank	
	2014	2013
	$'000	$'000
On profit of the financial year		
Current tax	**377**	221
Deferred tax	**(2)**	(1)
	375	220

11. Tax (continued)

(b) Tax reconciliation

Tax charge on profit for the financial year differs from the theoretical amount computed using Singapore corporate tax rate due to the following factors:

	The Group and The Bank	
	2014	2013
	$'000	$'000
Profit before tax	**2,272**	1,663
Prima facie tax calculated at tax rate of 17% (2013: 17%)	**386**	283
Effect of:		
Singapore statutory stepped income exemption	**(26)**	(26)
Income taxed at concessionary rates	**(14)**	(11)
Income not subject to tax	**(41)**	(34)
Expenses not deductible for tax	**70**	8
Tax expense on profit of the financial year	**375**	220

(c) Deferred tax

Deferred tax comprises the following:

	The Group and The Bank	
	2014	2013
	$'000	$'000
Deferred tax liabilities on:		
Unrealised loss on available-for-sale assets	**(60)**	(42)
Accelerated tax depreciation	**240**	242
	180	200
Amount offset against deferred tax assets	**(180)**	(200)
	–	–
Deferred tax assets on:		
Allowance for impairment	**1,434**	1,434
Amount offset against deferred tax liabilities	**(180)**	(200)
	1,254	1,234
Net deferred tax assets	**1,254**	1,234

11. Tax (continued)

(c) Deferred tax (continued)

Movements in the deferred tax during the financial year are as follows:

	The Group and The Bank	
	2014	2013
	$'000	$'000
Balance at 1 January	**1,234**	928
Credit to income statement	**2**	1
Credit to equity	**18**	305
Balance at 31 December	**1,254**	1,234

12. Share Capital

	The Group and The Bank	
	2014	2013
	$'000	$'000
Issued and fully paid		
100,010,566 (2013: 100,010,566) ordinary shares	**100,011**	100,011

The ordinary shares have no par value and were fully paid. The holders of ordinary shares have unrestricted rights to dividends, return of capital and voting.

13. Retained Earnings

(a)

	The Group		The Bank	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Balance at 1 January	**14,770**	15,327	**14,766**	15,323
Profit for the financial year attributable to equity holders of the Bank	**1,897**	1,443	**1,897**	1,443
Dividends				
Final dividend of 2 cents one-tier tax-exempt (2013: 2 cents one-tier tax-exempt) per share paid in respect of prior financial year	**(2,000)**	(2,000)	**(2,000)**	(2,000)
Balance at 31 December	**14,667**	14,770	**14,663**	14,766

(b) The retained earnings are distributable reserves.

(c) In respect of the financial year ended 31 December 2014, the directors have proposed a final one-tier tax-exempt dividend of 2 cents per ordinary share amounting to $2,000,211. The proposed dividend will be accounted for in Year 2015 financial statements upon approval of the equity holders of the Bank.

14. Other Reserves

(a)

	The Group and The Bank			
	Fair value reserve $'000	**Statutory reserve $'000**	**General reserve $'000**	**Total $'000**
2014				
Balance at 1 January	**(207)**	**54,900**	**25,600**	**80,293**
Other comprehensive income for the financial year attributable to equity holders of the Bank	**(85)**	**–**	**–**	**(85)**
Balance at 31 December	**(292)**	**54,900**	**25,600**	**80,208**
2013				
Balance at 1 January	1,285	54,900	25,600	81,785
Other comprehensive income for the financial year attributable to equity holders of the Bank	(1,492)	–	–	(1,492)
Balance at 31 December	(207)	54,900	25,600	80,293

(b) Fair value reserve contains cumulative fair value changes of outstanding available-for-sale assets.

(c) Statutory reserve is maintained in accordance with the provisions of applicable laws and regulations. This reserve is non-distributable unless otherwise approved by the relevant authorities.

Under the Banking (Reserve Fund) (Transitional Provision) Regulations 2007, the Bank may distribute or utilise its statutory reserve provided that the amount distributed or utilised for each financial year does not exceed 20% of the reserve as at 30 March 2007.

(d) General reserve has not been earmarked for any specific purpose.

15. Classification of Financial Assets and Financial Liabilities

(a)

	The Group			
	Held for trading $'000	Available-for-sale $'000	Loans and receivables/ amortised cost $'000	Total $'000
2014				
Cash, balances and placements with central bank	–	–	25,890	25,890
Singapore Government treasury bills and securities[1]	–	128,881	–	128,881
Placements and balances with banks	–	–	8,122	8,122
Loans to non-bank customers	–	–	87,789	87,789
Placements with and amount owing by related companies	–	–	649,450	649,450
Investment securities[1]	–	102,076	–	102,076
Other assets	–	–	1,833	1,833
Total financial assets	–	230,957	773,084	1,004,041
Non-financial assets				8,709
Total assets				1,012,750
Deposits and balances of non-bank customers and related companies[2]	–	–	814,547	814,547
Bills and drafts payable	–	–	586	586
Derivative financial liabilities	17	–	–	17
Other liabilities	–	–	2,184	2,184
Total financial liabilities	17	–	817,317	817,334
Non-financial liabilities				530
Total liabilities				817,864

1 Includes Singapore Government treasury bills and securities of $124.9 million (2013: $123.8 million) and debt securities of $102.1 million (2013: $121.1 million) which were purchased from United Overseas Bank Limited at market prices.

2 Deposits and balances of non-bank customers and related companies under the Bank consist of current account balance of $12,000 (2013: $12,000) maintained by a subsidiary.

15. Classification of Financial Assets and Financial Liabilities (continued)

(a) (continued)

	The Group			
	Held for trading $'000	Available-for-sale $'000	Loans and receivables/ amortised cost $'000	Total $'000
2013				
Cash, balances and placements with central bank	–	–	26,521	26,521
Singapore Government treasury bills and securities[1]	–	128,984	–	128,984
Placements and balances with banks	–	–	7,992	7,992
Loans to non-bank customers	–	–	102,363	102,363
Placements with and amount owing by related companies	–	–	643,174	643,174
Derivative financial assets	1	–	–	1
Investment securities[1]	–	121,093	–	121,093
Other assets	–	–	1,463	1,463
Total financial assets	1	250,077	781,513	1,031,591
Non-financial assets				8,985
Total assets				1,040,576
Deposits and balances of non-bank customers and related companies[2]	–	–	840,319	840,319
Bills and drafts payable	–	–	2,802	2,802
Derivative financial liabilities	5	–	–	5
Other liabilities	–	–	1,960	1,960
Total financial liabilities	5	–	845,081	845,086
Non-financial liabilities				416
Total liabilities				845,502

1 Includes Singapore Government treasury bills and securities of $124.9 million (2013: $123.8 million) and debt securities of $102.1 million (2013: $121.1 million) which were purchased from United Overseas Bank Limited at market prices.

2 Deposits and balances of non-bank customers and related companies under the Bank consist of current account balance of $12,000 (2013: $12,000) maintained by a subsidiary.

15. Classification of Financial Assets and Financial Liabilities (continued)

(b) Fair values of the financial instruments

The valuation process adopted by the Group is governed by the valuation, market data and reserves policies. These policies set the methodologies and controls for the valuation of financial assets and liabilities where mark-to-market or mark-to-model is required. The valuation process incorporating the market rates, the methodologies and models, including the analysis of the valuation are regularly reviewed by Group Market Risk Control (MRC) within Group Risk Management. Further independent assurances are provided by internal auditors.

The rates and parameters utilised for valuation purposes are independently verified by the MRC. The market rates and parameters verification involves checks against available market providers or sources. These are applicable to products or instruments with liquid market or those traded within an exchange. Where market prices are not liquid, MRC will utilise additional techniques such as historical estimation or available proxy market rates and parameters to provide an additional layer of reasonableness checks. Where products or instruments are complex, the Group utilises approved valuation models. All valuation models are independently validated by Group Risk Analytics Division (RAD) within Group Risk Management. The model validation provides the assurance of conceptual soundness of models used including the model inputs and outputs under normal market conditions and stressed market conditions.

For financial instruments carried at cost or amortised cost, their fair values are assessed as follows:

- For cash, balances, placements and deposits of central banks, banks and subsidiaries, deposits of non-bank customers with short-term or no stated maturity, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts.
- For loans and deposits of non-bank customers, and investment debt securities, fair values are estimated based on independent broker quotes or using discounted cash flow method.

(c) The Group classified financial instruments carried at fair value by level of the following fair value measurement hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical financial instruments
- Level 2 – Inputs other than quoted prices that are observable either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

	The Group					
	2014			2013		
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000
Singapore Government treasury bills and securities	**128,881**	**–**	**–**	128,984	–	–
Investment securities	**102,076**	**–**	**–**	121,093	–	–
Derivative financial assets	**–**	**–**	**–**	–	1	–
	230,957	**–**	**–**	250,077	1	–
Total financial assets carried at fair value			**230,957**			250,078
Derivative financial liabilities	**–**	**17**	**–**	–	5	–
	–	**17**	**–**	–	5	–
Total financial liabilities carried at fair value			**17**			5

Notes to the Financial Statements

for the financial year ended 31 December 2014

16. Deposits and Balances of Non-Bank Customers

	The Group and The Bank	
	2014	2013
	$'000	$'000
Fixed deposits	**221,182**	256,991
Current, savings and other deposits[1]	**570,200**	561,366
	791,382	818,357

1 Current, savings and other deposits consist of balance of $92,000 (2013: $59,000) maintained by a related company.

17. Other Liabilities

	The Group		The Bank	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Accrued interest payable	**843**	708	**843**	708
Accrued operating expenses	**231**	256	**231**	256
Unclaimed balances	**950**	922	**950**	922
Others	**194**	104	**191**	101
	2,218	1,990	**2,215**	1,987

18. Singapore Government Treasury Bills and Securities

	The Group and The Bank	
	2014	2013
	$'000	$'000
Available-for-sale	**128,881**	128,984

19. Placements and Balances with Banks

	The Group and The Bank	
	2014	2013
	$'000	$'000
Analysed by remaining maturity:		
Within 1 year	**8,122**	7,992

20. Loans to Non-Bank Customers

(a)

	The Group and The Bank	
	2014	2013
	$'000	$'000
Loans to non-bank customers (gross)[1]	**100,126**	114,699
Individual impairment	**(278)**	(277)
Collective impairment	**(12,059)**	(12,059)
Loans to non-bank customers (net)	**87,789**	102,363
Comprising:		
Trade bills	**179**	–
Advances to customers	**87,610**	102,363
	87,789	102,363

1 Loans to non-bank customers are predominantly based in Singapore.

(b) Gross loans to non-bank customers analysed by industry

	The Group and The Bank	
	2014	2013
	$'000	$'000
Transport, storage and communication	**2,095**	1,742
Building and construction	**529**	629
Manufacturing	**3,814**	6,805
Financial institutions	**13,524**	14,729
General commerce	**22,337**	37,348
Professionals and private individuals	**35,215**	38,020
Housing loans	**13,205**	9,348
Others	**9,407**	6,078
	100,126	114,699

(c) Movements of allowance for impairment on loans

	The Group and The Bank					
	2014			2013		
	Individual impairment $'000	**Collective impairment $'000**	**Total $'000**	Individual impairment $'000	Collective impairment $'000	Total $'000
Balance at 1 January	**277**	**12,059**	**12,336**	356	12,059	12,415
Net charge/(write-back) to income statement	**1**	**–**	**1**	(79)	–	(79)
Balance at 31 December	**278**	**12,059**	**12,337**	277	12,059	12,336

Notes to the Financial Statements

for the financial year ended 31 December 2014

21. Investment Securities

	The Group and The Bank	
	2014	2013
	$'000	$'000
Quoted debt securities	**102,076**	119,070
Unquoted debt securities	**–**	2,023
Investment securities	**102,076**	121,093

22. Other Assets

	The Group and The Bank	
	2014	2013
	$'000	$'000
Interest receivable	**1,080**	1,292
Others	**783**	213
	1,863	1,505

23. Investment in a Fellow Associate

(a) Unquoted equity shares

	The Group and The Bank	
	2014	2013
	$'000	$'000
At cost	**1,250**	1,250
Allowance for impairment	**(151)**	(213)
	1,099	1,037

(b) Movements of allowance for impairment

	The Group and The Bank	
	2014	2013
	$'000	$'000
Balance at 1 January	**213**	236
Write-back to income statement	**(62)**	(23)
Balance at 31 December	**151**	213

24. Investment in a Subsidiary

(a)

	The Bank	
	2014	2013
	$'000	$'000
Unquoted equity shares, at cost	**5**	5

(b) The details of the wholly-owned subsidiary of the Bank are as follows:

Name of subsidiary	Principal activity	Country of incorporation and place of business	Cost of investment by the Bank 2014 $'000	Cost of investment by the Bank 2013 $'000
Far Eastern Bank Nominees Private Limited	Nominee services (Dormant)	Singapore	**5**	5

25. Investment Properties

	The Group and The Bank	
	2014	2013
	$'000	$'000
Balance at 1 January	**6,266**	6,715
Depreciation charge	**(444)**	(444)
Reclassification	**4**	(5)
Balance at 31 December	**5,826**	6,266
Represented by:		
Cost	**17,896**	17,880
Accumulated depreciation	**(12,070)**	(11,614)
Net carrying amount	**5,826**	6,266
Freehold property	**2,318**	2,347
Leasehold property	**3,508**	3,919
	5,826	6,266
Market value of properties at 31 December	**170,345**	170,169

The valuation was performed by internal valuers with professional qualifications and experience, taking into account market prices and rentals of comparable properties using market comparison approach or using a combination of comparable sales and investment approach. These properties are classified under Level 2 of the fair value hierarchy as the valuation is derived primarily from market data.

26. Fixed Assets

	The Group and The Bank					
	2014			2013		
	Owner-occupied properties $'000	**Others $'000**	**Total $'000**	Owner-occupied properties $'000	Others $'000	Total $'000
Balance at 1 January	**246**	**160**	**406**	267	110	377
Additions	**–**	**173**	**173**	–	71	71
Depreciation charge	**(26)**	**(49)**	**(75)**	(26)	(21)	(47)
Reclassification	**(4)**	**–**	**(4)**	5	–	5
Balance at 31 December	**216**	**284**	**500**	246	160	406
Represented by:						
Cost	**901**	**2,733**	**3,634**	917	2,690	3,607
Accumulated depreciation	**(685)**	**(2,449)**	**(3,134)**	(671)	(2,530)	(3,201)
Net carrying amount	**216**	**284**	**500**	246	160	406
Leasehold property	**216**			246		
Market value of properties at 31 December	**10,243**			10,419		

The valuation was performed by internal valuers with professional qualifications and experience, taking into account market prices and rentals of comparable properties using market comparison approach or using a combination of comparable sales and investment approach. These properties are classified under Level 2 of the fair value hierarchy as the valuation is derived primarily from market data.

Others comprise mainly computer equipment, application software and furniture and fittings.

27. Contingent Liabilities

In the normal course of business, the Bank and the Group conduct businesses involving acceptances, guarantees, performance bonds and indemnities. The bulk of these liabilities are backed by the corresponding obligations of the customers. No assets of the Bank and the Group were pledged as security for these contingent liabilities at the balance sheet date. Exposures for these contingent liabilities are all in Singapore.

	The Group and The Bank	
	2014	2013
	$'000	$'000
Direct credit substitutes	**12,240**	10,238
Transaction-related contingencies	**4,944**	5,802
Trade-related contingencies	**179**	596
	17,363	16,636

28. Financial Derivatives

Financial derivatives, such as forwards, swaps, futures and options, are instruments whose values change in response to the change in prices of the underlying instruments.

In the normal course of business, the Bank and the Group transact in customised derivatives to meet specific needs of their customers. The Bank and the Group also transact in these derivatives for proprietary trading purposes, as well as to manage their assets, liabilities and structural positions. Risks associated with the use of derivatives and policies for managing these risks are set out in Note 31.

The table below shows the Bank's and the Group's financial derivatives and their fair values at the balance sheet date. These amounts do not necessarily represent future cash flows and amounts at risk of the derivatives.

	The Group and The Bank					
	2014			2013		
	Contract/ notional amount $'000	**Positive fair value $'000**	**Negative fair value $'000**	Contract/ notional amount $'000	Positive fair value $'000	Negative fair value $'000
Foreign exchange contracts						
Forwards	**647**	**–**	**17**	1,030	1	5

29. Commitments

	The Group and The Bank	
	2014	2013
	$'000	$'000
Undrawn credit facilities[1]	**80,703**	83,053

1 Exposure of undrawn credit facilities are predominantly in Singapore.

30. Cash and Cash Equivalents

Cash equivalents are highly liquid assets that are subject to an insignificant risk of changes in value and are readily convertible into known amount of cash. Cash and cash equivalents in the consolidated cash flow statement comprise the following:

	The Group and The Bank	
	2014	2013
	$'000	$'000
Cash, balances and placements with central bank		
Cash on hand	**695**	955
Balances with central bank		
Restricted balances	**23,647**	24,181
Non-restricted balances	**1,548**	1,385
Singapore Government treasury bills and securities	**128,881**	128,984
	154,771	155,505

31. Financial Risk Management

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk, equity risk and liquidity risk.

The Group's financial risks are centrally managed by the various specialist committees within the delegated authority by the Board of Directors. These various specialist committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by the UOB Board Risk Management Committee.

The UOB Group Risk Management Sector assumes the independent oversight of risks undertaken by the Group, and takes the lead in the formulation and approval of risk policies, controls and processes. This is further enhanced by the periodic risk assessment audit carried out by the UOB Group Audit.

The main financial risks that the Group is exposed to and how they are being managed are set out below:

(a) Credit risk

Credit risk is defined as the risk of loss arising from any failure by a borrower or a counterparty to fulfil its financial obligations as and when they fall due.

The Group Credit Committee is delegated the authority by the Board of Directors to oversee all credit matters. It maintains oversight on the effectiveness of the Group's credit and country risk management structure including framework, people, processes, information, infrastructure, methodologies and systems.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all non-performing and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked and analysed by business and product lines.

31. Financial Risk Management (continued)

(a) Credit risk (continued)

(i) Credit exposure

The Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held, other credit enhancements and netting arrangements, is shown in the table below:

	The Group	
	2014	2013
	$'000	$'000
Balances and placements with central bank	**25,195**	25,566
Singapore Government treasury bills and securities	**128,881**	128,984
Placements and balances with banks	**8,122**	7,992
Loans to non-bank customers	**87,789**	102,363
Derivative financial assets	**–**	1
Investment securities	**102,076**	121,093
Others	**1,084**	1,289
	353,147	387,288
Contingent liabilities	**17,363**	16,636
Commitments	**80,703**	83,053
	451,213	486,977

As a fundamental credit principle, the Group generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Group are cash, marketable securities, real estate, equipment, inventory and receivables. Policies and processes are in place to monitor collateral concentration.

In extending credit facilities to small and medium enterprises, personal guarantees are often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

Corporate guarantees are often obtained when the borrower's credit worthiness is not sufficient to justify an extension of credit.

For internal risk management, agreements such as International Swaps and Derivatives Association Master Agreements and Credit Support Annex have been established with active counterparties to manage counterparty credit risk arising from foreign exchange and derivative activities. The agreements allow the Group to settle all outstanding transactions in the event of counterparty default, resulting in a single net claim against or in favour of the counterparty.

31. Financial Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit quality of gross loans and debt securities

Gross loans are graded in accordance with MAS Notice 612 as follows:

	The Group	
	2014	2013
	$'000	$'000
Pass	**96,865**	114,229
Special mention	**–**	4
Substandard	**3,023**	146
Doubtful	**–**	320
Loss	**238**	–
	100,126	114,699

Credit quality of Government treasury bills and securities and debt securities

The table below presents an analysis of Government treasury bills and securities and debt securities that are neither past due nor impaired for the Group by rating agency designation as at 31 December:

	The Group			
	2014		2013	
	Singapore Government treasury bills and securities $'000	**Debt securities $'000**	Singapore Government treasury bills and securities $'000	Debt securities $'000
External rating:				
Investment grade (AAA to BBB-)	**128,881**	**30,105**	128,984	32,635
Non-investment grade (BB+ to C)	**–**	**–**	–	–
Unrated	**–**	**71,971**	–	88,458
	128,881	**102,076**	128,984	121,093

(iii) Ageing analysis of past due but not impaired and non-performing assets

	The Group			
	2014		2013	
	Past due but not impaired loans $'000	**Non-performing assets $'000**	Past due but not impaired loans $'000	Non-performing assets $'000
Current	**–**	**–**	–	524
Within 90 days	**2,300**	**266**	1,592	–
Over 90 to 180 days	**–**	**–**	–	–
Over 180 days	**–**	**3,034**	–	–
	2,300	**3,300**	1,592	524

31. Financial Risk Management (continued)

(a) Credit risk (continued)

(iv) Past due but not impaired and non-performing assets analysed by industry

	The Group					
	2014			2013		
	Past due but not impaired loans $'000	**Non-performing assets $'000**	**Individual impairment $'000**	Past due but not impaired loans $'000	Non-performing assets $'000	Individual impairment $'000
General commerce	**1,861**	**2,634**	**278**	152	524	277
Professionals and private individuals	**–**	**666**	**–**	1,440	–	–
Others	**439**	**–**	**–**	–	–	–
	2,300	**3,300**	**278**	1,592	524	277

(v) Security coverage of non-performing assets

	The Group	
	2014 $'000	2013 $'000
Non-performing assets secured by:		
Properties	**2,983**	–
Marketable securities, fixed deposits and others	**39**	146
Unsecured non-performing assets	**278**	378
	3,300	524

31. Financial Risk Management (continued)

(b) Foreign exchange risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

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. Foreign exchange risk is managed at Group level, hedged through foreign exchange spot contracts and foreign exchange derivatives.

Foreign exchange risk is managed through policies and risk limits approved by the Asset and Liability Committee (ALCO).

The following table sets out the Group's assets, liabilities and financial derivatives by currency as at the balance sheet date. The off-balance sheet gap represents the net contract or notional amount of derivatives which is used principally to reduce the Group's exposure to foreign exchange risk.

	The Group		
	Singapore dollars $'000	Others $'000	Total $'000
2014			
Cash, balances and placements with central bank	25,890	–	25,890
Singapore Government treasury bills and securities	128,881	–	128,881
Placements and balances with banks and related companies	630,500	27,072	657,572
Loans to non-bank customers	80,121	7,668	87,789
Investment securities	102,076	–	102,076
Others	10,528	14	10,542
Total assets	977,996	34,754	1,012,750
Deposits and balances of non-bank customers	768,264	23,118	791,382
Deposits and balances of related companies, and bills and drafts payable	11,552	12,199	23,751
Derivative financial liabilities	17	–	17
Others	2,581	133	2,714
Total liabilities	782,414	35,450	817,864
Net on-balance sheet open position	195,582	(696)	
Net off-balance sheet open position	14	(14)	
Net open position	195,596	(710)	

31. Financial Risk Management (continued)

(b) Foreign exchange risk (continued)

	The Group		
	Singapore dollars $'000	Others $'000	Total $'000
2013			
Cash, balances and placements with central bank	26,516	5	26,521
Singapore Government treasury bills and securities	128,984	–	128,984
Placements and balances with banks and related companies	631,000	20,166	651,166
Loans to non-bank customers	92,078	10,285	102,363
Derivative financial assets	1	–	1
Investment securities	121,093	–	121,093
Others	10,418	30	10,448
Total assets	1,010,090	30,486	1,040,576
Deposits and balances of non-bank customers	800,880	17,477	818,357
Deposits and balances of related companies, and bills and drafts payable	12,241	12,523	24,764
Derivative financial liabilities	5	–	5
Others	2,243	133	2,376
Total liabilities	815,369	30,133	845,502
Net on-balance sheet open position	194,721	353	
Net off-balance sheet open position	(624)	624	
Net open position	194,097	977	

As the foreign currency exposure is insignificant, the effects arising from the foreign exchange rate change against SGD will not have material effect on its net financial liability/asset position.

31. Financial Risk Management (continued)

(c) Banking book interest rate risk

Interest rate risk is the impact to earnings and economic value of the Group due to fluctuations in interest rates. Interest rate exposure arises from differences in the maturity 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 Group's policies as approved by the ALCO.

The economic value of equity (EVE) sensitivity at 100 and 200 basis points parallel interest rate shocks were negative $0.8 million and negative $1.6 million (2013: negative $2.1 million and negative $4.1 million) respectively, computed based on the worst case of upward and downward parallel shifts of each yield curve. EVE is the present value of assets less present value of liabilities of the Group. The repricing profile of loans is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers. Loan prepayment is estimated based on past statistics and trends where possible and material. Behavioural assumptions based on historical trends are applied where appropriate, for deposits that do not have maturity dates.

(d) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due, such as upon maturity of deposits and draw-down of loans.

The Group manages liquidity risk in accordance with the liquidity framework approved by the ALCO. This framework comprises policies, controls and limits. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan. The Group is also required by the respective local regulators 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 main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets.

31. Financial Risk Management (continued)

(d) Liquidity risk (continued)

(i) The following table shows the cashflow analysis of the Group's assets and liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioural patterns such as prepayment of loans. In particular, the Group has a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but historically a stable source of long-term funding for the Group.

	The Group							
	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	No specific maturity $'000	Total $'000
2014								
Cash, balances and placements with central bank	2,236	220	–	–	–	–	23,434	25,890
Singapore Government treasury bills and securities	–	–	125,000	45	4,023	–	(119)	128,949
Placements and balances with banks and related companies	107,573	100,091	450,501	–	–	–	–	658,165
Loans to non-bank customers	581	3,958	9,295	7,258	14,698	63,104	2,973	101,867
Investment securities	–	–	387	41,445	62,637	–	1,076	105,545
Others	–	–	–	–	–	124	9,316	9,440
Total assets	110,390	104,269	585,183	48,748	81,358	63,228	36,680	1,029,856
Deposits and balances of non-bank customers	570,827	79,255	19,803	114,280	8,086	707	–	792,958
Deposits and balances of related companies, and bills and drafts payable	23,751	–	–	–	–	–	–	23,751
Derivative financial liabilities	–	–	–	–	–	–	17	17
Others	956	–	35	–	–	–	882	1,873
Total liabilities	595,534	79,255	19,838	114,280	8,086	707	899	818,599
Total equity	–	–	–	–	–	–	194,886	194,886
Net on-balance sheet position	(485,144)	25,014	565,345	(65,532)	73,272	62,521	(159,105)	
Net off-balance sheet position	(905)	–	–	–	–	–	–	
Net maturity mismatch	(486,049)	25,014	565,345	(65,532)	73,272	62,521	(159,105)	

31. Financial Risk Management (continued)

(d) Liquidity risk (continued)

(i) (continued)

	The Group							
	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	No specific maturity $'000	Total $'000
2013								
Cash, balances and placements with central bank	2,335	(237)	–	–	–	–	24,423	26,521
Singapore Government treasury bills and securities	–	–	124,000	3,023	2,034	–	(17)	129,040
Placements and balances with banks and related companies	101,166	100,154	350,281	100,085	–	–	–	651,686
Loans to non-bank customers	1,626	5,164	12,842	9,630	16,043	72,071	179	117,555
Derivative financial assets	–	–	–	–	–	–	1	1
Investment securities	–	–	385	19,773	89,289	15,180	3,093	127,720
Others	–	–	–	–	–	123	9,040	9,163
Total assets	105,127	105,081	487,508	132,511	107,366	87,374	36,719	1,061,686
Deposits and balances of non-bank customers	562,970	39,331	122,992	86,702	6,922	666	–	819,583
Deposits and balances of related companies, and bills and drafts payable	24,764	–	–	–	–	–	–	24,764
Derivative financial liabilities	–	–	–	–	–	–	5	5
Others	938	–	30	–	–	–	699	1,667
Total liabilities	588,672	39,331	123,022	86,702	6,922	666	704	846,019
Total equity	–	–	–	–	–	–	195,074	195,074
Net on-balance sheet position	(483,545)	65,750	364,486	45,809	100,444	86,708	(159,059)	
Net off-balance sheet position	(619)	(2)	–	–	–	–	–	
Net maturity mismatch	(484,164)	65,748	364,486	45,809	100,444	86,708	(159,059)	

31. Financial Risk Management (continued)

(d) Liquidity risk (continued)

(i) (continued)

The Group is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 27 and 29. These have been incorporated in the net off-balance sheet position for the year ended 31 December 2014 and 2013. The total outstanding contractual amounts of these items 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 contingent liabilities (such as letters of credit) are reimbursable by customers. The behavioural adjustments based on historical trends are disclosed in Note 31d(ii).

(ii) The following table shows the cashflow analysis of the Group's assets and liabilities for a one-year period with behavioural adjustments on significant balance sheet items on an undiscounted basis. The maturity profile for loans and deposits that do not have maturity dates, and fixed deposits that are frequently rolled over, is estimated based on past statistics and historical trends.

	The Group			
	Up to 7 days $'000	**Over 7 days to 1 month $'000**	**Over 1 to 3 months $'000**	**Over 3 to 12 months $'000**
2014				
Cash, balances and placements with central bank	**2,236**	**220**	**–**	**–**
Singapore Government treasury bills and securities	**–**	**–**	**125,000**	**45**
Placements and balances with banks and related companies	**107,573**	**100,091**	**450,501**	**–**
Loans to non-bank customers	**1,739**	**5,633**	**10,181**	**10,535**
Derivative financial assets	**–**	**–**	**–**	**–**
Investment securities	**–**	**–**	**387**	**41,445**
Others	**–**	**124**	**–**	**–**
Total assets	**111,548**	**106,068**	**586,069**	**52,025**
Deposits and balances of non-bank customers[1]	**30,711**	**36,830**	**–**	**–**
Deposits and balances of related companies, and bills and drafts payable	**23,634**	**117**	**–**	**–**
Derivative financial liabilities	**–**	**–**	**–**	**–**
Others	**5**	**–**	**35**	**–**
Total liabilities	**54,350**	**36,947**	**35**	**–**
Net on-balance sheet position	**57,198**	**69,121**	**586,034**	**52,025**
Net off-balance sheet position	**(252)**	**(581)**	**(9)**	**–**
Net maturity mismatch	**56,946**	**68,540**	**586,025**	**52,025**

1 Excludes interest cashflows which are negligible within the time horizon against which the Group manages its liquidity risk.

31. Financial Risk Management (continued)

(d) Liquidity risk (continued)

(ii) (continued)

	The Group			
	Up to 7 days $'000	Over 7 days to 1 month $'000	Over 1 to 3 months $'000	Over 3 to 12 months $'000
2013				
Cash, balances and placements with central bank	2,335	(237)	–	–
Singapore Government treasury bills and securities	–	–	124,000	3,023
Placements and balances with banks and related companies	101,166	100,154	350,281	100,085
Loans to non-bank customers	3,107	6,898	13,179	10,863
Derivative financial assets	–	–	–	–
Investment securities	–	–	385	19,773
Others	–	123	–	–
Total assets	106,608	106,938	487,845	133,744
Deposits and balances of non-bank customers[1]	33,000	41,022	–	–
Deposits and balances of related companies, and bills and drafts payable	24,204	560	–	–
Derivative financial liabilities	–	–	–	–
Others	16	–	30	–
Total liabilities	57,220	41,582	30	–
Net on-balance sheet position	49,388	65,356	487,815	133,744
Net off-balance sheet position	(82)	(316)	(141)	–
Net maturity mismatch	49,306	65,040	487,674	133,744

1 Excludes interest cashflows which are negligible within the time horizon against which the Group manages its liquidity risk.

32. Capital Management

The Group's approach to capital management is to maintain an adequate level of capital to support business growth, taking into consideration regulatory requirements and underlying risks of the Group's business. The Group has met the regulatory capital requirements throughout the financial year.

The Group is subject to the Basel III capital adequacy standards required by the MAS. The Group's Common Equity Tier 1 / Tier 1 Capital comprises mainly share capital and disclosed reserves, while Tier 2 capital comprises excess of accounting provisions over Basel expected loss. Risk-weighted assets include both on-balance sheet and off-balance sheet exposures adjusted for credit, market and operational risks.

	The Group	
	2014	2013
	$'000	$'000
Share capital	**100,011**	100,011
Disclosed reserves	**94,876**	95,064
Regulatory adjustments	**(1,203)**	(1,277)
Common Equity Tier 1/Tier 1 Capital	**193,684**	193,798
Provisions	**986**	1,210
Tier 2 Capital	**986**	1,210
Eligible Total Capital	**194,670**	195,008
Risk-weighted assets	**196,430**	224,779
Capital Adequacy Ratios (%)		
Common Equity Tier 1	**98.6**	86.2
Tier 1	**98.6**	86.2
Total	**99.1**	86.8

33. Related Party Transactions

All related party transactions of the Group were done in the ordinary course of business and have been disclosed in the relevant notes to the financial statements.

34. Authorisation of Financial Statements

The financial statements were authorised for issue by the Board of Directors on 12 February 2015.

Investor Reference

Notice of Annual General Meeting

Far Eastern Bank Limited

(Incorporated in the Republic of Singapore)
Company Registration No. 195800116D

Notice is hereby given that the **56th Annual General Meeting** of members of the Company will be held at the Penthouse of United Overseas Bank Limited, 80 Raffles Place, 61st Storey, UOB Plaza 1, Singapore 048624 on Thursday, 23 April 2015, at 10.30 am to transact the following business:

AS ORDINARY BUSINESS

Resolution 1	To receive Financial Statements, Directors' Report and Auditor's Report for the year ended 31 December 2014.
Resolution 2	To declare a first and final one-tier tax-exempt dividend of 2 cents per share for the year ended 31 December 2014.
Resolution 3	To approve Directors' fees of $45,000 for 2014 (2013: $55,000).
Resolution 4	To re-appoint Ernst & Young LLP as Auditor of the Company and authorise the Directors to fix its remuneration.
Resolution 5	To re-elect Mr Wee Ee Cheong, who is retiring by rotation.
Resolution 6	To re-appoint Dr Wee Cho Yaw under Section 153(6) of the Companies Act, Cap 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting.

Notes to Resolution

Resolution 2 is to approve a first and final dividend. The Transfer Books and Register of Members will be closed from 7 April 2015 to 8 April 2015, both dates inclusive, for the preparation of dividend warrants. Registrable transfers received up to 5.00 pm on 6 April 2015 will be entitled to the dividend. If approved, the first and final dividend will be paid on 28 April 2015.

Resolution 5 is to re-elect Mr Wee Ee Cheong, a non-independent executive director.

BY ORDER OF THE BOARD

Vivien Chan
Secretary

Singapore
31 March 2015

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2 To be effective, the instrument appointing a proxy must be deposited at 80 Raffles Place, #04-20, UOB Plaza 2, Singapore 048624 (Attention: The Company Secretary) not less than 48 hours before the time set for holding the meeting.

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Proxy Form

Number of Shares

Far Eastern Bank 遠東銀行

FAR EASTERN BANK LIMITED
(Incorporated in the Republic of Singapore)
Company Registration No. 195800116D

I/We ____________________(Name), NRIC/Passport No. ____________________

of ____(Address)

being a member/members of Far Eastern Bank Limited (the **Company**), hereby appoint

		Proportion of Shareholdings	
Name			
NRIC/Passport No.		**No. of Shares**	**%**
Address			

and/or *

		Proportion of Shareholdings	
Name			
NRIC/Passport No.		**No. of Shares**	**%**
Address			

** Please delete as appropriate.*

or failing him/her, the **Chairman of the Meeting** as my/our proxy, to attend and vote for me/us on my/our behalf at the **56th Annual General Meeting** of members of the Company, to be held at the Penthouse of United Overseas Bank Limited, 80 Raffles Place, 61st Storey, UOB Plaza 1, Singapore 048624 on Thursday, 23 April 2015 at 10.30 am and at any adjournment thereof.

(Please indicate with an "X" in the space provided how you wish your proxy to vote. In the absence of specific directions, the proxy will vote as the proxy deems fit.)

No.	Ordinary Resolutions	For	Against
Resolution 1	Financial Statements, Directors' Report and Auditor's Report		
Resolution 2	Final Dividend		
Resolution 3	Directors' Fees		
Resolution 4	Auditor and its remuneration		
Resolution 5	Re-election (Mr Wee Ee Cheong)		
Resolution 6	Re-appointment (Dr Wee Cho Yaw)		

By submitting this form, I/we represent and warrant that the consent of the named proxy(ies)/representative(s) has been obtained for the collection, use and disclosure of his/her personal data for the purpose of processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the said meeting, and in order for the Company (or its agents) to comply with any applicable laws, regulations and/or guidelines.

Dated this ______ day of ______________ 2015.

____
Signature(s) or Common Seal of Shareholder(s)

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:

1. To be effective, this proxy form must be deposited at 80 Raffles Place, #04-20, UOB Plaza 2, Singapore 048624 (Attention: The Company Secretary), not less than 48 hours before the time set for holding the Meeting. A proxy need not be a member of the Company.
2. If the member is a corporation, this proxy form must be executed under its common seal or the hand of its duly authorised officer or attorney.
3. Any alteration made in this form should be initialled by the person who signs it.

1st fold

2nd fold

Far Eastern Bank
遠東銀行

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PERMIT NO. 07399

The Company Secretary
Far Eastern Bank Limited
80 Raffles Place, #04-20, UOB Plaza 2
Singapore 048624

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Fold and glue overleaf. Do not staple.

Far Eastern Bank
遠東銀行

Far Eastern Bank Limited
Company Registration No.: 195800116D

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www.UOBGroup.com