

# Group Financial Review

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Certain figures in this section may not add up to the relevant totals due to rounding. Certain comparative figures have been restated to conform with the current year's presentation.



## Review of Financial Performance

## Highlights and performance indicators

	2005	2004	Variance (%)	
Key Indicators				
Net interest income (NII) (\$ million)	2,348	2,155	+	8.9
Non-interest income (Non NII) (\$ million)	1,414	1,104	+	28.1
Total income (\$ million)	3,761	3,259	+	15.4
Total expenses (\$ million)	1,424	1,227	+	16.1
Operating profit before amortisation and impairment charges (\$ million)	2,337	2,032	+	15.0
Net profit after tax ^				
Including intangible assets (\$ million)	1,709	1,452	+	17.7
Excluding intangible assets (\$ million)	1,769	1,665	+	6.2
Income mix				
NII/Total income (%)	62.4	66.1	–	3.7 % points
Non NII/Total income (%)	37.6	33.9	+	3.7 % points
	100.0	100.0		–
Profit contribution (before tax and intangible assets)				
Onshore (including ACU) (%)	77.6	78.8	–	1.2 % points
Offshore (%)	22.4	21.2	+	1.2 % points
	100.0	100.0		–
Return on average shareholders' equity # (ROE)				
Including intangible assets (%)	12.4	10.8	+	1.6 % points
Excluding intangible assets (%)	12.9	12.4	+	0.5 % point
Basic earnings per share				
Including intangible assets (cents)	111.2	92.6	+	20.1
Excluding intangible assets (cents)	115.1	106.3	+	8.3
Return on average assets (ROA)				
Including intangible assets (%)	1.25	1.19	+	0.06 % point
Excluding intangible assets (%)	1.29	1.36	–	0.07 % point
NII/Average interest bearing assets (%)	1.99	2.10	–	0.11 % point
Expense/Income ratio (%)	37.9	37.6	+	0.3 % point
Dividend per share				
Interim (cents)	20.0	20.0		–
Special dividend in specie (cents)	28.5	–		NM
Final (cents)	40.0	40.0		–

^ Net profit after tax refers to profit attributable to equity holders of the Bank.

# Shareholders' equity refers to equity attributable to equity holders of the Bank.

"NM" denotes not meaningful.

## Group Financial Review

### Highlights and performance indicators

	2005	2004	Variance (%)	
<b>Other indicators</b>				
Customer loans (net)^ (\$ million)	<b>67,142</b>	64,300	+	4.4
Customer deposits (\$ million)	<b>85,503</b>	79,019	+	8.2
Loans/Deposits ratio* (%)	<b>78.5</b>	81.4	–	2.9 % points
Non-performing loans (NPLs) (\$ million)	<b>3,931</b>	5,484	–	28.3
Cumulative impairment (\$ million)	<b>2,714</b>	3,724	–	27.1
NPL ratio+ (%)	<b>5.6</b>	8.0	–	2.4 % points
Cumulative impairment/NPLs (%)	<b>69.0</b>	67.9	+	1.1 % points
Total assets (\$ million)	<b>145,073</b>	134,879	+	7.6
Shareholders' equity (\$ million)	<b>14,929</b>	13,439	+	11.1
Unrealised revaluation surplus# (\$ million)	<b>1,564</b>	1,562	+	0.1
Net asset value (NAV) per share (\$)	<b>9.71</b>	8.75	+	11.0
Revalued NAV per share (\$)	<b>10.73</b>	9.77	+	9.8
Net tangible asset backing per share (\$)	<b>6.92</b>	6.14	+	12.7
Capital adequacy ratios				
Tier 1 capital (%)	<b>11.0</b>	11.0		–
Total capital (%)	<b>16.1</b>	15.6	+	0.5 % point
Manpower (number)	<b>18,816</b>	13,574	+	5,242 no.

^ Including amount pledged under repurchase agreements.

\* "Loans" refer to net customer loans while "Deposits" refer to customer deposits.

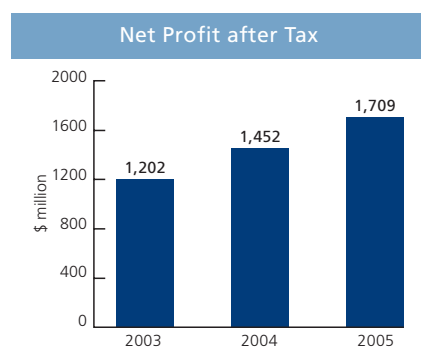
+ NPL ratio represents NPLs (excluding debt securities) as a percentage of gross customer loans.

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

### Review of Group performance

The Group's results should be read in the following perspective:

- Full year results of Bank of Asia Public Company Limited ("BOA")<sup>1</sup> and its subsidiaries were included for 2005 as opposed to only 5 months for 2004.
- Full year results of PT Bank Buana Indonesia Tbk. ("Bank Buana")<sup>2</sup> were included for 2005 (10 months as an associate and 2 months as a subsidiary) as opposed to only 7 months as an associate for 2004.



The Group recorded a net profit of \$1,709 million for 2005, representing an increase of \$257 million or 17.7% over the \$1,452 million registered in 2004. The increase was mainly due to higher fee and commission income, higher net interest income, discontinuation of goodwill amortisation, and higher other operating income. These were partly offset by lower share of profit of associates, higher operating expenses, and write-off of goodwill in respect of United Overseas Bank Philippines.

Share of pre-tax profit of associates decreased 67.5% to \$100 million for 2005 compared to the \$307 million for 2004. The decrease was mainly due to the cessation of equity accounting for United Overseas Land Limited ("UOL") with effect from 1 January 2005, coupled with an exceptional gain recorded by UOL in 2004 from the divestment of its holdings in UOB shares.

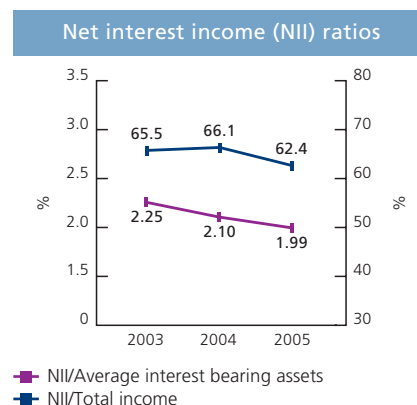
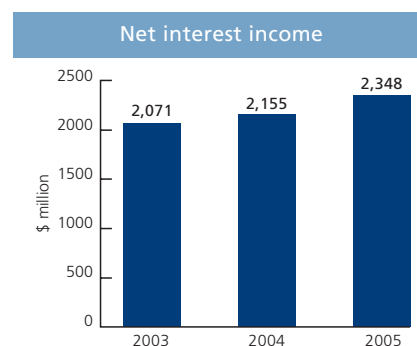
1 BOA was acquired by the Bank as a subsidiary on 27 July 2004. It merged with another subsidiary of the Bank, UOB Radanasin Bank Public Company Limited on 28 November 2005 and the enlarged entity was renamed as United Overseas Bank (Thai) Public Company Limited ("UOBT").

2 On 31 May 2004, the Bank's wholly-owned subsidiary, UOB International Investment Private Limited ("UOBII") acquired 23% stake in Bank Buana. On 14 October 2005, an additional 30% stake was acquired, making Bank Buana a subsidiary of the Group. On 19 December 2005, following the close of the tender offer for the remaining shares not held by UOBII, a further 8.1% interest was acquired, resulting in UOBII holding a total stake of 61.1% in Bank Buana.

### Net interest income

Net interest income of the Group increased 8.9% to \$2,348 million for 2005 compared to \$2,155 million for 2004. The growth was mainly from increased average loan volume contributed by the acquisition of BOA and improved loan yields. These were partially offset by the increase in average cost of funds. Net interest income continued to be the major contributor of total income, accounting for 62.4% (2004: 66.1%) of total income.

Average interest margin was lower at 1.99% for 2005 as compared to 2.10% a year ago. The decrease was mainly due to higher cost of funds in a rising interest rate environment and a flat yield curve, partially offset by improved loan yields.



### Average interest rates and margin

	2005			2004		
	Average balance \$ million	Interest \$ million	Average interest rate %	Average balance \$ million	Interest \$ million	Average interest rate %
<b>Assets</b>						
Interest bearing						
Customer loans	64,039	3,123	4.88	60,907	2,570	4.22
Inter-bank balances/balances with central banks	35,601	1,140	3.20	26,739	631	2.36
Securities	18,436	619	3.36	14,951	461	3.08
Total interest bearing assets	118,076	4,882	4.13	102,597	3,661	3.57
<b>Liabilities</b>						
Interest bearing						
Customer deposits	82,542	1,407	1.70	74,764	907	1.21
Inter-bank balances/other	33,632	1,128	3.35	27,216	599	2.20
Total interest bearing liabilities	116,174	2,534	2.18	101,980	1,506	1.48
Net interest income		2,348			2,155	
Average interest margin*			1.99			2.10

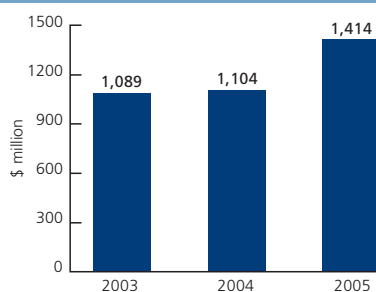
\* Average interest margin represents net interest income as a percentage of total interest bearing assets.

## Group Financial Review

### Analysis of changes in net interest income

	2005			2004		
	Volume change \$ million	Rate change \$ million	Net change \$ million	Volume change \$ million	Rate change \$ million	Net change \$ million
<b>Interest income</b>						
Customer loans	132	420	552	88	(51)	37
Inter-bank balances/balances with central banks	209	300	509	117	104	221
Securities	107	52	159	73	36	109
<b>Total interest income</b>	<b>448</b>	<b>772</b>	<b>1,220</b>	<b>278</b>	<b>89</b>	<b>367</b>
<b>Interest expense</b>						
Customer deposits	94	405	499	79	32	111
Inter-bank balances/other	141	388	529	127	45	172
<b>Total interest expense</b>	<b>235</b>	<b>793</b>	<b>1,028</b>	<b>206</b>	<b>77</b>	<b>283</b>

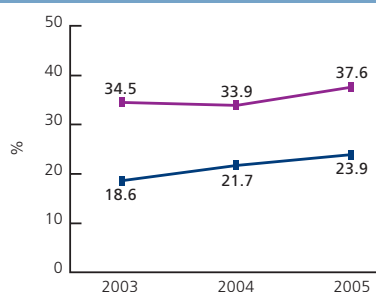
#### Non-interest income



#### Non-interest income

Non-interest income of the Group increased 28.1% to \$1,414 million for 2005 compared to \$1,104 million for 2004. The growth was primarily from higher fee and commission income mainly from investment-related and fund management activities, and net gain on trading securities, government securities and derivatives as against losses for 2004. These were partially offset by lower gains on investment securities. The Group's non-interest income for 2005 accounted for 37.6% of total income, up 3.7% points from 33.9% for 2004.

#### Non-interest income ratios



■ Fee & commission income/Total income  
■ Non-interest income/Total income

## Composition of non-interest income

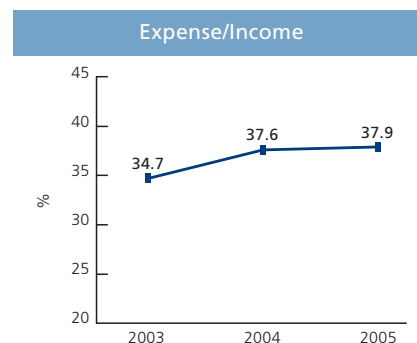
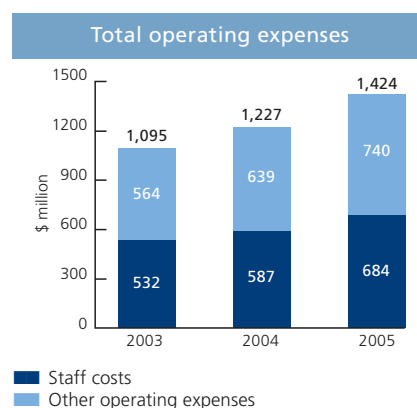
	2005 \$ million	2004 \$ million	Variance %
Fee and commission income			
Credit card	121	109	11.4
Fund management	151	111	36.0
Futures broking	21	32	(35.6)
Investment-related	251	131	91.8
Loan-related	126	114	10.6
Service charges	62	52	17.7
Trade-related	145	138	5.1
Other	22	18	24.6
	900	706	27.4
Dividend and rental income	123	108	14.8
Other operating income			
Net gain/(loss) from:			
Foreign exchange	130	126	3.0
Trading securities, government securities and derivatives	45	(34)	NM
Investment securities	54	82	(34.3)
Disposal of assets held for sale	23	–	NM
Other income	140	116	20.1
	391	290	34.5
<b>Total non-interest income</b>	<b>1,414</b>	<b>1,104</b>	<b>28.1</b>

"NM" denotes not meaningful.

## Operating expenses

Total operating expenses increased 16.1% to \$1,424 million for 2005 compared to \$1,227 million for 2004, attributed mainly to the acquisition of BOA. Consequently, the expense-to-income ratio of the Group increased to 37.9% for 2005 from 37.6% for 2004.

Staff costs increased 16.4% to \$684 million for 2005 compared to \$587 million for 2004, largely from wages and salaries due to a higher headcount. Other operating expenses increased 15.8% to \$740 million for 2005 from \$639 million for 2004. The increase was mainly from depreciation of fixed assets, rental and maintenance charges, advertising expenses and professional fees.



	2005 \$ million	2004 \$ million	Variance %
Staff costs	<b>684</b>	587	16.4
Other operating expenses	<b>740</b>	639	15.8
Total operating expenses*	<b>1,424</b>	1,227	16.1
* Total operating expenses included:			
IT-related expenses	<b>222</b>	188	18.4
IT-related expenses/Total operating expenses (%)	<b>15.6</b>	15.3	0.3% point

### Other impairment charges

Other impairment charges of \$174 million for 2005 was 16.9% lower than the \$209 million for 2004. The decrease was mainly due to lower impairment charges on investment securities and loans, partially offset by lower write-back of collective impairment.

	2005 \$ million	2004 \$ million	Variance %
Individual impairment on loans			
Singapore	<b>99</b>	172	(42.2)
Regional Countries ^	<b>119</b>	65	83.6
Greater China +	<b>(5)</b>	(5)	–
Other	<b>2</b>	4	(39.8)
	<b>215</b>	235	(8.3)
Individual impairment on other assets and provision for contingent liabilities	<b>15</b>	76	(80.8)
Collective impairment	<b>(56)</b>	(102)	44.8
Total other impairment charges	<b>174</b>	209	(16.9)

^ Regional Countries comprise Malaysia, Indonesia, the Philippines and Thailand.

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

## Overview of Balance Sheet

### Total assets

Total assets as at 31 December 2005 were \$145,073 million, representing a growth of 7.6% over the \$134,879 million as at 31 December 2004, mainly attributed to higher placements and balances with banks and agents, customer loans and securities.

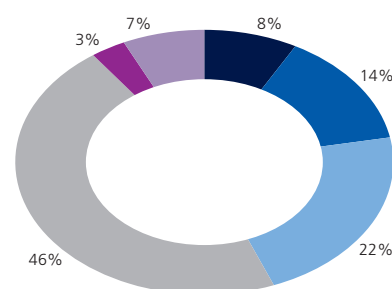
### Assets mix

	2005		2004	
	\$ million	%	\$ million	%
Cash, balances and placements with central banks	11,925	8.2	11,653	8.6
Securities <sup>*</sup>	20,332	14.0	18,795	13.9
Placements and balances with banks and agents <sup>^</sup>	31,346	21.6	26,726	19.8
Customer loans <sup>^</sup>	67,142	46.3	64,300	47.7
Intangible assets	4,270	3.0	3,876	2.9
Other	10,058	6.9	9,529	7.1
<b>Total assets</b>	<b>145,073</b>	<b>100.0</b>	<b>134,879</b>	<b>100.0</b>

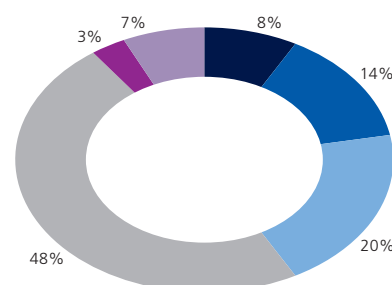
\* Comprising Singapore and other government treasury bills and securities, trading and investment securities.

<sup>^</sup> Including amount pledged under repurchase agreements.

Assets mix –2005



Assets mix –2004



■ Cash, balances and placements with central banks  
■ Securities  
■ Placements and balances with banks and agents  
■ Customer loans  
■ Intangible assets  
■ Other

### Securities

Total securities as at 31 December 2005 amounted to \$20,332 million, representing an increase of 8.2% over the \$18,795 million as at 31 December 2004. The growth was mainly from increased holdings in debt securities issued by banks.

### Total securities

	2005	2004	Variance
	\$ million	\$ million	%
Trading securities	1,592	2,469	(35.5)
Non-trading securities	18,956	16,587	14.3
Provision for impairment	(216)	(260)	(16.8)
	18,740	16,326	14.8
<b>Total securities (net)</b>	<b>20,332</b>	<b>18,795</b>	<b>8.2</b>



### Non-trading securities analysed by issuer type

	2005		2004	
	\$ million	%	\$ million	%
Government	<b>8,618</b>	<b>45.5</b>	7,720	46.5
Public sector	<b>49</b>	<b>0.2</b>	51	0.3
Bank	<b>5,327</b>	<b>28.1</b>	3,605	21.7
Corporate	<b>4,620</b>	<b>24.4</b>	4,955	29.9
Other	<b>343</b>	<b>1.8</b>	256	1.6
Non-trading securities (gross)	<b>18,956</b>	<b>100.0</b>	16,587	100.0

### Non-trading securities analysed by industry

	2005		2004	
	\$ million	%	\$ million	%
Transport, storage and communication	<b>561</b>	<b>3.0</b>	395	2.4
Building and construction	<b>760</b>	<b>4.0</b>	434	2.6
Manufacturing	<b>431</b>	<b>2.3</b>	588	3.6
Financial institutions	<b>6,795</b>	<b>35.8</b>	5,133	30.9
General commerce	<b>173</b>	<b>0.9</b>	800	4.8
Government	<b>8,618</b>	<b>45.5</b>	7,720	46.5
Other	<b>1,619</b>	<b>8.5</b>	1,517	9.2
Non-trading securities (gross)	<b>18,956</b>	<b>100.0</b>	16,587	100.0

### Customer loans

Net loans and advances to customers increased \$2,842 million or 4.4% to \$67,142 million as at 31 December 2005 from the \$64,300 million as at 31 December 2004.

### Customer loans analysed by product group

	2005		2004	
	\$ million	%	\$ million	%
Housing loans	<b>16,632</b>	<b>23.8</b>	15,875	23.4
Term loans	<b>39,658</b>	<b>56.8</b>	38,371	56.4
Trade financing	<b>4,808</b>	<b>6.9</b>	4,503	6.6
Overdrafts	<b>8,747</b>	<b>12.5</b>	9,228	13.6
Total gross customer loans	<b>69,846</b>	<b>100.0</b>	67,977	100.0
Individual impairment	<b>(1,433)</b>		(2,306)	
Collective impairment	<b>(1,270)</b>		(1,370)	
Total net customer loans	<b>67,142</b>		64,300	

*Gross customer loans analysed by industry*

	2005		2004	
	\$ million	%	\$ million	%
Transport, storage and communication	2,447	3.5	2,104	3.1
Building and construction	8,010	11.5	7,477	11.0
Manufacturing	7,870	11.3	7,796	11.5
Non-bank financial institutions	10,061	14.4	10,205	15.0
General commerce	11,483	16.4	10,908	16.0
Professionals and private individuals	10,209	14.6	10,155	14.9
Housing loans	16,632	23.8	15,875	23.4
Other	3,133	4.5	3,457	5.1
Total gross customer loans	69,846	100.0	67,977	100.0

*Gross customer loans analysed by currency and fixed/variable rates*

	2005		2004	
	\$ million	%	\$ million	%
<b>Fixed rate</b>				
Singapore dollar	6,236	8.9	8,146	12.0
US dollar	1,988	2.9	1,529	2.2
Malaysian ringgit	255	0.4	255	0.4
Hong Kong dollar	21	–	47	0.1
Thai baht	3,191	4.6	2,652	3.9
Other	761	1.1	524	0.8
Total fixed rate gross customer loans	12,452	17.9	13,153	19.4
<b>Variable rate</b>				
Singapore dollar	33,442	47.9	32,103	47.2
US dollar	7,816	11.2	7,241	10.7
Malaysian ringgit	6,789	9.7	6,318	9.3
Hong Kong dollar	977	1.4	848	1.2
Thai baht	3,035	4.3	3,822	5.6
Other	5,334	7.6	4,492	6.6
Total variable rate gross customer loans	57,393	82.1	54,824	80.6
Total gross customer loans	69,846	100.0	67,977	100.0

### Gross customer loans analysed by remaining maturity

	2005		2004	
	\$ million	%	\$ million	%
Within 1 year	<b>34,235</b>	<b>49.0</b>	33,566	49.4
Over 1 year but within 3 years	<b>8,572</b>	<b>12.3</b>	9,293	13.7
Over 3 years but within 5 years	<b>6,788</b>	<b>9.7</b>	5,898	8.6
Over 5 years	<b>20,250</b>	<b>29.0</b>	19,220	28.3
Total gross customer loans	<b>69,846</b>	<b>100.0</b>	67,977	100.0

### Deposits

Total deposits of \$114,958 million as at 31 December 2005 increased 7.2% over the \$107,213 million as at 31 December 2004, contributed mainly by higher customer deposits.

As at 31 December 2005, customer deposits accounted for 74.4% of total deposits.

### Deposits analysed by product group

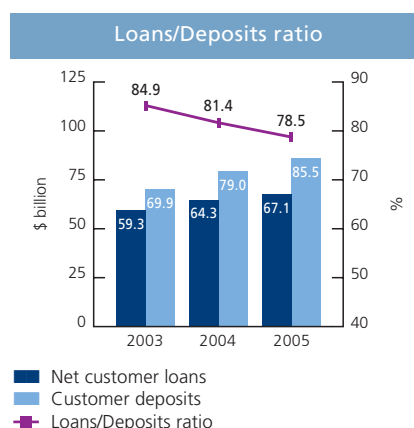
	2005		2004	
	\$ million	%	\$ million	%
Banker deposits	<b>29,456</b>	<b>25.6</b>	28,194	26.3
Customer deposits				
Fixed rate deposits	<b>54,947</b>	<b>47.8</b>	50,933	47.5
Current, savings and other deposits	<b>30,556</b>	<b>26.6</b>	28,086	26.2
	<b>85,503</b>	<b>74.4</b>	79,019	73.7
Total deposits	<b>114,958</b>	<b>100.0</b>	107,213	100.0

### Deposits analysed by remaining maturity

	2005		2004	
	\$ million	%	\$ million	%
Within 1 year	<b>111,985</b>	<b>97.4</b>	104,729	97.7
Over 1 year but within 3 years	<b>1,117</b>	<b>1.0</b>	1,412	1.3
Over 3 years but within 5 years	<b>816</b>	<b>0.7</b>	903	0.8
Over 5 years	<b>1,041</b>	<b>0.9</b>	169	0.2
Total deposits	<b>114,958</b>	<b>100.0</b>	107,213	100.0

### Loans/Deposits ratio

With the 8.2% increase in customer deposits outpacing the 4.4% increase in net customer loans, the loans-to-deposits ratio decreased 2.9% points to 78.5% as at 31 December 2005.



### Shareholders' equity

Shareholders' equity as at 31 December 2005 was \$14,929 million, representing an increase of 11.1% over the \$13,439 million as at 31 December 2004, mainly from the issuance of US\$500 million SPV-A preference shares and profit for the financial year.

As at 31 December 2005, the Group's unrealised revaluation surplus on properties and securities was \$1,564 million which was not incorporated into the financial statements.

	2005 \$ million	2004 \$ million	Variance %
Shareholders' equity	<b>14,929</b>	13,439	11.1
Add: Unrealised revaluation surplus			
Properties	<b>1,212</b>	1,098	10.4
Securities	<b>352</b>	464	(24.1)
	<b>1,564</b>	1,562	0.1
Shareholders' equity including revaluation surplus	<b>16,493</b>	15,001	9.9
Net Asset Value (NAV) per share (\$)	<b>9.71</b>	8.75	11.0
Revaluation surplus per share (\$)	<b>1.02</b>	1.02	—
Revalued NAV per share (\$)	<b>10.73</b>	9.77	9.8

## Capital Adequacy Ratios

The Group's capital management policy is to maintain a strong capital position to support its growth, both organically and through acquisitions.

As at 31 December 2005, the Group's total Capital Adequacy Ratio ("CAR") of 16.1% was 6.1% points above the minimum of 10% set by Monetary Authority of Singapore ("MAS"). It was 0.5% point higher than the total CAR of 15.6% as at 31 December 2004, mainly attributed to profit for the financial year and the issuance of the US\$500 million SPV-A preference shares which qualifies for tier 1 capital, partly offset by higher risk-weighted assets as a result of the consolidation of Bank Buana and increase in placements with banks and financial derivatives.

The Group's tier 1 CAR of 11.0% as at 31 December 2005 was the same as that as at 31 December 2004, and 4.0% points higher than the minimum of 7% set by MAS.

	2005 \$ million	2004 \$ million
<b>Capital</b>		
Tier 1 Capital		
Share capital	1,538	1,536
Subsidiary preference shares	832	–
Disclosed reserves/other	12,393	11,910
Deduction of intangible assets	(4,284)	(4,008)
	10,479	9,438
Upper Tier 2 Capital		
Cumulative collective impairment/other	1,171	1,079
Subordinated notes	5,486	5,550
	6,657	6,629
Deductions from Tier 1 and Upper Tier 2 Capital	(1,816)	(2,623)
Total capital	15,320	13,444
<b>Risk-weighted assets</b> (including market risk)	95,285	85,966
<b>Capital adequacy ratios</b>		
Tier 1 capital	11.0%	11.0%
Total capital	16.1%	15.6%