Credit Risk Management

Credit risk is defined as the potential loss arising from any failure by a borrower or a counterparty to fulfill its financial obligations, as and when they fall due. Credit risk is inherent in lending, trade financing, investment, treasury activities and other credit-related activities undertaken by the Group.

The Credit Committee, comprising the CEO and other senior and experienced officers of the bank, under delegated authority from the Board of Directors, oversees all credit, country and concentration risk matters. These include the monitoring and review of portfolio risk concentrations, approval of country and counterparty limits as well as the formulation of credit policies. The decisions of the Credit Committee and its credit risk management reports are reviewed by the Executive Committee and the Board of Directors.

To maintain independence and integrity of credit decision-making, the Group has established a Group Credit Unit to segregate the credit approval function from loan origination. Credit approval authority is delegated within an established credit discretionary limit (CDL) structure that is risk-sensitive to ensure that the CDL is tiered according to the borrower's rating. The Bank has in place a very stringent process for the delegation of CDL based on the experience, seniority, product/business sector and track record of the officer. All officers with the authority to approve credits are guided by credit policies and guidelines with distinction made for institutional and individual borrowers. These credit policies and guidelines, which cover key risk parameters associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance.

An internal credit rating system, which incorporates both statistical models and expert-judgement scorecards, has been developed, implemented and used as part of the credit approval process. Statistical models were built for portfolios with sufficient default data, and expert judgement scorecards were developed for low default portfolios.

Generally, a borrower is assigned a Customer Risk Rating (CRR) and a Facility Risk Rating (FRR). The CRR is a borrower's standalone credit rating and is derived after a comprehensive assessment of its financial condition, the quality of its management, business risks and the industry it operates in. The FRR incorporates transaction-specific dimensions such as availability and types of collateral, seniority of the exposures, facility structures, etc.

Consumer exposures are managed on a portfolio basis. The Bank has scorecards and stringent product programs for credit underwriting purposes.

For the timely recognition of asset impairment, recovery action and the avoidance of undue concentration, a disciplined process is in place to regularly monitor, review and report the Group's portfolio risks. These include large credit exposures by obligor groups, sectors, security types, internal credit ratings, industries, countries as well as level of non-performing loans, appropriateness of classification and adequacy of provisioning.

Risk concentrations by industry are monitored closely to avoid undue concentration in any particular industry. Industry risk refers to the likelihood of groups of customers being adversely affected by economic developments impacting a particular industry in which such customers operate. Exposure concentrations and non-performing loans by industry type are analysed and significant trends reported to the Credit Committee as well as to the Executive Committee and the Board of Directors.

In particular, exposures arising from property-related loans are closely monitored to ensure compliance with regulatory and internal guidelines. The trends of such property-related loans are closely monitored by top borrowing groups, business sectors and geographical locations.

UOB Group has in place a rigorous monitoring process that includes monthly reviews of all non-performing and special mention loans. In addition, credit reviews and audits are performed regularly to proactively manage any delinquencies, minimise undesirable concentrations, maximise recoveries, and check that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked by business lines and product types, and significant trends are analysed and reported regularly to the Credit Committee and the Executive Committee.

To assess the resultant potential losses arising from the impact of possible adverse events on the Group's credit portfolio, credit stress tests are periodically conducted. The extent of the plausible credit impairments is analysed to determine if the potential losses are within the Group's risk tolerance.

In line with the Bank's drive to adopt best practices in risk management, the Bank has intensified its preparations for the New Basel Capital Accord. The Bank is targeting to adopt the Internal Rating Based Approach for Credit Risk and the Standardised Approach for Operational Risk.

The Bank remains committed and will continue to strengthen and invest in its risk management systems, processes and practices.

Customer loans

Loans and advances are made to customers in various industry segments and business lines. The top 20 obligor group borrowers and top 100 group borrowers made up 12.8% and 22.4% of total loans and advances respectively.

Obligor groups are defined in accordance with Notice to Banks, MAS 623, to comply with Section 29 (1)(a) of the Banking Act. Where the parent company is a borrower, exposures to the parent company and companies that has 20% or more shareholding or power to control are aggregated into a single obligor group.

Total consumer loans, which consist of housing loans and loans to professionals and private individuals (including credit card balances outstanding), accounted for 38.4% and 38.3% of the total loan portfolio as at 31 December 2005 and 31 December 2004 respectively.

The composition of loans and advances and contingent liabilities to customers as at 31 December was as follows:

	Loans and advances			Contingent liabilities		
By industry type(%)	2005	2004	2003	2005	2004	2003
Transport, storage and communication	**3.5**	3.1	3.4	**3.0**	2.2	1.9
Building and construction	**11.5**	11.0	11.7	**18.0**	16.4	17.2
Manufacturing	**11.3**	11.5	9.4	**8.6**	9.6	8.4
Non-bank financial institutions	**14.4**	15.0	16.6	**37.6**	42.2	46.3
General commerce	**16.4**	16.0	14.8	**22.7**	19.4	17.2
Professionals and private individuals	**14.6**	14.9	15.4	**1.2**	1.8	2.6
Housing loans	**23.8**	23.4	23.6	**–**	–	–
Other	**4.5**	5.1	5.1	**8.9**	8.4	6.4
Total (%)	**100.0**	100.0	100.0	**100.0**	100.0	100.0
Total ($ million)	**69,846**	67,977	62,581	**11,290**	9,818	8,544

Classification and loan loss impairment

The Group classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with Notice to Banks, MAS 612 (March 2005).

The Group has, since January 2005, largely adopted the methodology of Financial Reporting Standard (FRS) 39 for loan loss impairment. Under the new methodology of FRS 39, individual impairment losses are calculated based on the net present values of expected future cash flows and tangible collaterals.

UOB Group's practice is to make impairment for its overseas operations based on local regulatory requirements for local reporting purposes, and then, where necessary, to make additional impairment to comply with UOB Group's impairment policy and MAS regulations.

Loan interest

The classification of a loan as non-performing does not disqualify the Group of its entitlement to interest income. It merely registers the uncertainty faced by the Group in the collection of such interest income. The Group has adopted the approach that once a loan is classified as non-performing, interest will be suspended and will cease to accrue, irrespective of whether any collateral would be adequate to cover such payments.

Write-off and charge-off policy

Classified accounts are closely monitored to ensure continued efforts are made to improve UOB Group's position and reduce its exposure. Where appropriate, such loans are transferred to in-house recovery specialists to maximise recovery prospects. A classified account is written off if it is deemed uncollectable and where there is no realisable tangible collateral securing the account and all feasible avenues of recovery have been exhausted.

Rescheduled and restructured accounts

An account is described as "rescheduled" where repayment terms have been modified, but the principal terms and conditions of the orginal contract have not changed significantly. Rescheduling alleviates temporary cash-flow difficulties experienced by a borrower and is expected to be short term and unlikely to recur. The full amount of the debt remains repayable and no loss of principal or interest is expected.

Where an account is "restructured," the original terms and conditions of the facility are modified significantly to assist the borrower to overcome financial difficulties where the longer term prospect of the business or project is still deemed to be viable. Restructuring may involve a change in credit facility type, repayment schedule including moratorium or extension of interest and/or principal payments and reduction of accrued interest including forgiveness of interest and/or reduction in interest rate charged. A restructured account is graded as non-performing and shall be placed on the appropriate classified grade depending on the bank's assessment of the financial condition of the borrower and the ability of the borrower to repay based on the restructured terms. A restructured account can only be classified "Pass" when all payments are current for six months or one year in the case of credit facilities with monthly repayment or quarterly/semi-annually repayment respectively. For credit facility with annual or longer repayment basis, the Bank shall only upgrade that credit facility if the borrower has complied fully with the restructured terms and demonstrated the ability to repay after the end of one repayment period.

Loans that were classified and restructured during the financial year were as follows:

	2005		2004		2003		2002	
$ million	Amount	Individual Impairment	Amount	Individual Impairment	Amount	Individual Impairment	Amount	Individual Impairment
Substandard	**141**	**31**	223	22	196	31	292	9
Doubtful	**1**	**1**	49	37	–	–	29	13
Loss	**10**	**10**	30	30	35	35	37	36
Total	**152**	**42**	302	89	231	66	358	58

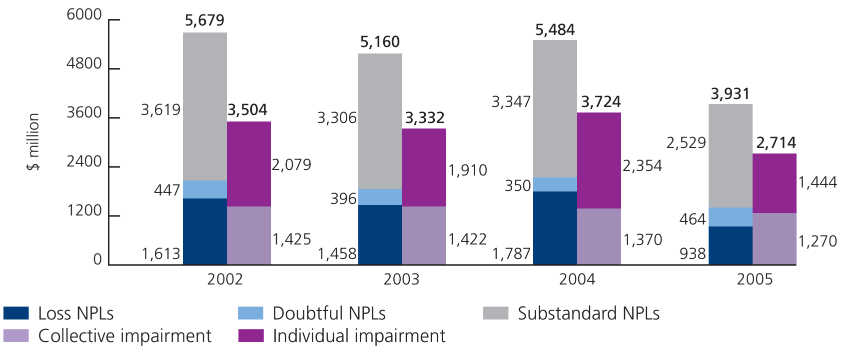
Non-performing loans (NPLs) and cumulative impairment of the Group

NPLs declined by $1,553 million or 28.3% to $3,931 million as at 31 December 2005, compared to $5,484 million as at 31 December 2004. NPL ratio was 5.6% as at 31 December 2005. Of the total NPLs, $2,529 million or 64.3% was in the Substandard category and $2,228 million or 56.7% was secured by collateral.

Total cumulative impairment was $2,714 million as at 31 December 2005, representing a decrease of 27.1% from $3,724 million as at 31 December 2004. The total cumulative impairment cover against total NPLs as at 31 December 2005 rose to 69.0%, compared to 67.9% as at 31 December 2004. Cover of total cumulative impairment on unsecured NPLs rose to 159.4% as at 31 December 2005, from 138.6% as at 31 December 2004.

NPLs by loan classification and cumulative impairment as at 31 December were as follows:

Non-performing loans and cumulative impairment of the Group



Ratios (%)	2005	2004	2003	2002
NPLs*/Gross customer loans	**5.6**	8.0	8.1	9.0
NPLs+/Gross customer loans and debt securities	**4.9**	7.2	7.7	8.7
NPLs/Total assets	**2.7**	4.1	4.5	5.3
Cumulative impairment/NPLs	**69.0**	67.9	64.6	61.7
Cumulative impairment/Doubtful & Loss NPLs	**193.6**	174.3	179.7	170.1
Cumulative impairment/Unsecured NPLs	**159.4**	138.6	141.4	138.3
Cumulative impairment*/Gross customer loans	**3.9**	5.4	5.2	5.5
Collective impairment/Gross customer loans (net of individual impairment* for loans)	**1.9**	2.1	2.3	2.4

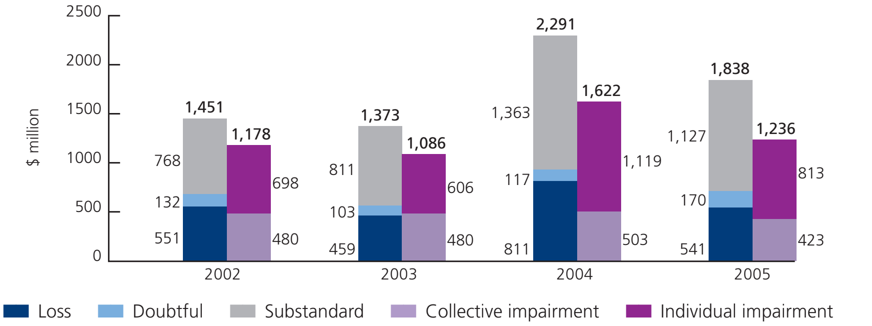
* Excluding debt securities.
\+ Including debt securities.

NPLs and cumulative impairment of the Regional Countries

NPLs of the Regional Countries decreased by 19.8% to $1,838 million as at 31 December 2005 from $2,291 million as at 31 December 2004.

Total cumulative impairment for the Regional Countries was $1,236 million as at 31 December 2005. This was 23.8% or $386 million lower than the provisions of $1,622 million as at 31 December 2004. The cumulative impairment represented 67.2% of total NPLs and 173.8% of Doubtful and Loss NPLs in the Regional Countries.

Non-performing loans and cumulative impairment of the Regional Countries



Ratios (%)	2005	2004	2003	2002
NPLs*/Gross customer loans	**10.6**	15.2	14.1	17.0
NPLs+/Gross customer loans and debt securities	**10.0**	14.4	13.7	16.8
Cumulative impairment/NPLs	**67.2**	70.8	79.1	81.2
Cumulative impairment/Doubtful & Loss NPLs	**173.8**	174.8	193.2	172.5
Cumulative impairment/Unsecured NPLs	**138.3**	142.0	160.2	160.3
Cumulative impairment*/Gross customer loans	**7.1**	10.7	11.1	13.8
Collective impairment/Gross customer loans (net of individual impairment* for loans)	**2.6**	3.6	5.4	6.2
NPLs/Gross exposure to the Regional Countries	**5.7**	8.3	7.3	9.9

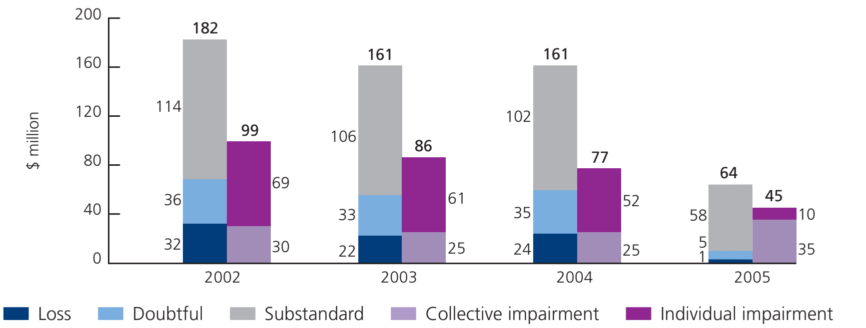
* Excluding debt securities.
\+ Including debt securities.

NPLs and cumulative impairment of Greater China

NPLs of Greater China decreased by 60.2% to $64 million as at 31 December 2005 from $161 million as at 31 December 2004. NPL ratio for Greater China improved by 5.3% points to 2.7% as at 31 December 2005 from 8.0% as at 31 December 2004.

Total cumulative impairment for Greater China totalled $45 million as at 31 December 2005, representing a decline of 41.6% or $32 million compared to $77 million as at 31 December 2004. The cumulative impairment provided coverage of 70.3% for the total NPLs and 750.0% for the Doubtful and Loss NPLs.

Non-performing loans and cumulative impairment of Greater China



Ratios (%)	2005	2004	2003	2002
NPLs*/Gross customer loans	**2.7**	8.0	8.2	7.3
NPLs +/Gross customer loans and debt securities	**2.5**	7.0	7.4	6.1
Cumulative impairment/NPLs	**70.3**	47.8	53.4	54.4
Cumulative impairment/Doubtful & Loss NPLs	**750.0**	130.5	156.4	145.6
Cumulative impairment*/Gross customer loans	**1.9**	3.8	4.4	4.0
Collective impairment/Gross customer loans (net of individual impairment* for loans)	**1.5**	1.3	1.3	1.2
NPLs/Gross exposure to Greater China	**0.6**	1.5	1.7	2.4

* Excluding debt securities.
\+ Including debt securities.

NPLs by region

By geographical region, Singapore accounted for $1,955 million or 49.7% of the total NPLs as at 31 December 2005. This represented a decline of $994 million or 33.7% from $2,949 million as at 31 December 2004.

As at 31 December 2005, NPLs of the Regional Countries were $1,838 million and constituted 46.8% of the total NPLs as at 31 December 2005.

$ million	2005	2004	2003	2002
Singapore	**1,955**	2,949	3,530	3,935
Malaysia	**651**	873	930	943
Indonesia	**101**	88	119	156
Philippines	**180**	160	184	208
Thailand	**906**	1,170	140	144
Regional Countries	**1,838**	2,291	1,373	1,451
Greater China	**64**	161	161	182
Other	**74**	83	96	111
Group total	**3,931**	5,484	5,160	5,679

NPLs by industry

The decline in NPLs as at 31 December 2005 from 31 December 2004 was largely contributed by lower NPLs in the professionals and private individuals (-$319 million), manufacturing (-$296 million) and building & construction sectors (-$278 million).

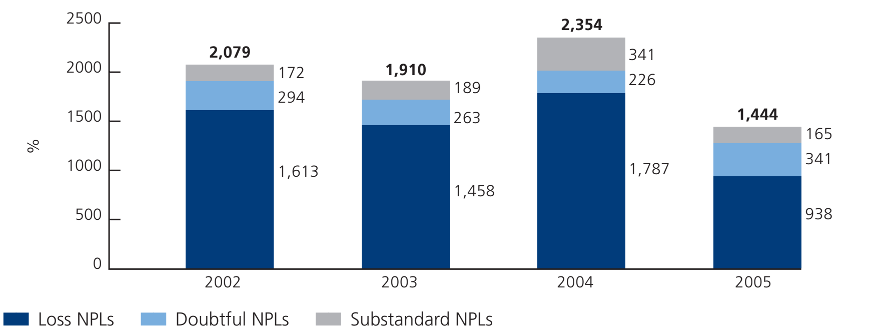
NPLs by industry as at 31 December were as follows:

Industry type	2005 Amount ($ million)	2005 As % of gross customer loans	2004 Amount ($ million)	2004 As % of gross customer loans	2003 Amount ($ million)	2003 As % of gross customer loans	2002 Amount ($ million)	2002 As % of gross customer loans
Transport, storage and communication	**79**	**3.2**	119	5.7	105	5.0	124	6.0
Building and construction	**566**	**7.1**	844	11.3	756	10.3	843	9.2
Manufacturing	**834**	**10.6**	1,130	14.5	745	12.7	874	16.2
Non-bank financial institutions	**528**	**5.2**	660	6.5	984	9.5	1,029	9.5
General commerce	**769**	**6.7**	1,006	9.2	751	8.1	769	12.4
Professionals and private individuals	**578**	**5.7**	897	8.8	926	9.6	1,014	10.9
Housing loans	**390**	**2.3**	505	3.2	632	4.3	668	4.8
Other	**150**	**4.8**	244	7.1	182	5.7	294	5.3
Sub-Total	**3,894**	**5.6**	5,405	8.0	5,081	8.1	5,615	9.0
Debt securities	**37**		79		79		64	
Total	**3,931**		5,484		5,160		5,679	

Individual impairment by loan classification

Of the total individual impairment of $1,444 million as at 31 December 2005, 65.0% was for 'Loss' accounts compared to 75.9% as at 31 December 2004. The individual impairment for each classified loan grade as at 31 December is shown in the following chart:

Individual impairment by loan classification



Individual impairment by region

As at 31 December 2005, Singapore and the Regional Countries accounted for 42.2% and 56.3% respectively of the Group's total individual impairment of $1,444 million, compared to 49.2% for Singapore and 47.5% for the Regional Countries as at 31 December 2004.

$ million	2005	2004	2003	2002
Singapore	**609**	1,157	1,200	1,271
Malaysia	**207**	331	383	428
Indonesia	**55**	68	78	111
Philippines	**70**	80	76	72
Thailand	**481**	640	69	87
Regional Countries	**813**	1,119	606	698
Greater China	**10**	52	61	69
Other	**12**	26	43	41
Individual impairment for the Group	**1,444**	2,354	1,910	2,079
Collective impairment for the Group	**1,270**	1,370	1,422	1,425
Total	**2,714**	3,724	3,332	3,504

Individual impairment by industry

As at 31 December 2005, approximately 51.8% of total individual impairment was for NPLs in the manufacturing and general commerce sectors. Individual impairment for manufacturing accounted for 28.6% of the total individual impairment for loans as at 31 December 2005, this was 2.5% points higher compared to 26.1% as at 31 December 2004.

$ million	2005	2004	2003	2002
Transport, storage and communication	**31**	56	44	35
Building and construction	**182**	337	275	369
Manufacturing	**410**	602	352	398
Non-bank financial institutions	**151**	190	319	309
General commerce	**332**	503	316	309
Professionals and private individuals	**214**	386	360	329
Housing loans	**49**	93	98	143
Other	**64**	139	98	138
Sub-total	**1,433**	2,306	1,862	2,030
Debt securities	**11**	48	48	49
Total	**1,444**	2,354	1,910	2,079

Ageing of NPLs

The full outstanding balance of an account is deemed non-current and aged when there are arrears in interest servicing or principal repayment. The ageing of NPLs as at 31 December was as follows:

	2005		2004		2003		2002	
Ageing (Days)	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs
Current	**286**	**7.3**	548	10.0	670	13.0	774	13.6
≤ 90	**380**	**9.6**	357	6.5	378	7.3	473	8.3
91 to 180	**459**	**11.7**	596	10.9	464	9.0	789	13.9
≥ 181	**2,806**	**71.4**	3,983	72.6	3,648	70.7	3,643	64.2
Total	**3,931**	**100.0**	5,484	100.0	5,160	100.0	5,679	100.0

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

Collateral types

The majority of the classified loans is secured by properties in Singapore. Properties securing classified loans are revalued semi-annually. As at 31 December 2005, 56.7% of total Group NPLs was secured, compared to 51.0% as at 31 December 2004.

Secured/unsecured NPLs

	2005		2004		2003		2002	
Ageing (Days)	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs
Group NPLs								
Secured	**2,228**	**56.7**	2,797	51.0	2,804	54.3	3,146	55.4
Unsecured	**1,703**	**43.3**	2,687	49.0	2,356	45.7	2,533	44.6
Total	**3,931**	**100.0**	5,484	100.0	5,160	100.0	5,679	100.0

The secured NPLs of the Group by collateral type and based on country of risk as at 31 December were as follows:

$ million	Properties	Marketable securities	Cash and deposits	Other	Total
2005					
Singapore	**1,139**	**13**	**16**	**12**	**1,180**
Regional Countries	**841**	**47**	**6**	**50**	**944**
Greater China	**42**	**–**	**–**	**–**	**42**
Other	**61**	**1**	**–**	**–**	**62**
Total	**2,083**	**61**	**22**	**62**	**2,228**
2004					
Singapore	1,442	21	19	36	1,518
Regional Countries	1,008	84	15	42	1,149
Greater China	84	–	–	–	84
Other	45	1	–	–	46
Total	**2,579**	**106**	**34**	**78**	**2,797**
2003					
Singapore	1,883	51	16	78	2,028
Regional Countries	579	66	9	41	695
Greater China	44	1	2	–	47
Other	30	3	–	1	34
Total	**2,536**	**121**	**27**	**120**	**2,804**
2002					
Singapore	2,067	86	36	135	2,324
Regional Countries	569	102	2	43	716
Greater China	61	2	–	–	63
Other	43	–	–	–	43
Total	**2,740**	**190**	**38**	**178**	**3,146**

Country risk

Country risk arises where there is the risk that UOB Group will not be able to obtain payment from customers as a result of actions taken by foreign governments, even though the creditworthiness of UOB Group customers might not be impaired. In monitoring cross-border exposure, UOB Group excludes local activities that are funded within the country of operation.

UOB Group's country and cross-border exposures are monitored and managed through a system of country and cross-border limits, to avoid concentration of transfer, economic and political risks. Based on its rating, a country limit is set for each country. These limits are regularly reviewed, country exposures are analysed and significant trends are reported to the Credit Committee on a regular basis.

Exposure by country of operations

The Group's total direct net exposure to the countries (outside Singapore) in which it has a presence amounted to $54.8 billion or 37.8% of Group assets as at 31 December 2005, compared to $49.1 billion or 36.4% of Group assets as at 31 December 2004. Exposure reported below (excluding contingent liabilities) is categorised into loans and advances to customers (banks & non-banks), balances due from government and investments.

Exposure to countries outside Singapore (where UOB Group has a presence)

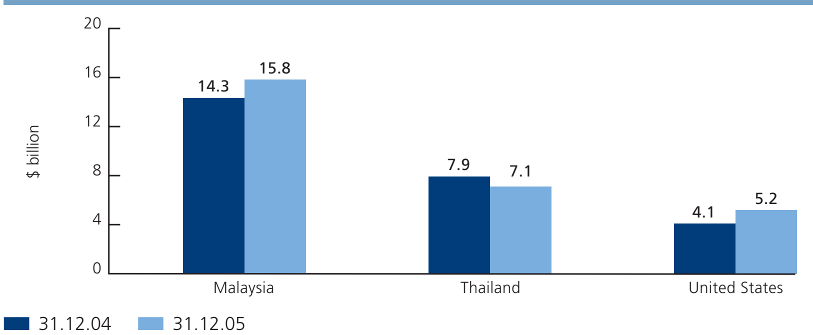
	Loans to						Net exposure		
$ million	Non-bank	Bank	Government	Investments	Total	Less: Loans to/ investments in subsidiaries & branches	Total	% of Group assets	Contingent liabilities
Malaysia									
31-Dec-05	**7,584**	**6,099**	**3,274**	**1,210**	**18,167**	**2,363**	**15,804**	**10.9**	**1,117**
31-Dec-04	7,051	5,014	3,377	1,009	16,451	2,137	14,314	10.6	1,066
31-Dec-03	6,624	4,307	3,353	742	15,026	2,296	12,730	11.2	1,067
Indonesia									
31-Dec-05	**2,519**	**319**	**716**	**747**	**4,301**	**598**	**3,703**	**2.5**	**310**
31-Dec-04	448	127	234	260	1,069	109	960	0.7	240
31-Dec-03	491	48	165	79	783	50	733	0.7	132
Philippines									
31-Dec-05	**202**	**29**	**44**	**2**	**277**	**29**	**248**	**0.2**	**24**
31-Dec-04	197	59	217	2	475	50	425	0.3	46
31-Dec-03	241	53	221	12	527	41	486	0.4	60
Thailand									
31-Dec-05	**6,455**	**213**	**473**	**2,296**	**9,437**	**2,326**	**7,111**	**4.9**	**918**
31-Dec-04	6,565	165	1,094	1,694	9,518	1,580	7,938	5.9	993
31-Dec-03	1,642	112	527	240	2,521	156	2,365	2.1	332
Total Regional Countries									
31-Dec-05	**16,760**	**6,660**	**4,507**	**4,255**	**32,182**	**5,316**	**26,866**	**18.5**	**2,369**
31-Dec-04	14,261	5,365	4,922	2,965	27,513	3,876	23,637	17.5	2,345
31-Dec-03	8,998	4,520	4,266	1,073	18,857	2,543	16,314	14.4	1,591
Greater China									
31-Dec-05	**2,392**	**5,971**	**1,396**	**679**	**10,438**	**1,750**	**8,688**	**6.0**	**723**
31-Dec-04	2,017	7,007	1,384	439	10,847	3,907	6,940	5.1	571
31-Dec-03	1,968	5,943	1,038	352	9,301	3,340	5,961	5.2	639
OECD									
31-Dec-05	**4,397**	**9,645**	**1,861**	**4,386**	**20,289**	**1,473**	**18,816**	**13.0**	**1,210**
31-Dec-04	4,915	8,580	3,017	2,697	19,209	943	18,266	13.6	1,015
31-Dec-03	5,535	6,180	3,655	1,338	16,708	2,076	14,632	12.9	1,084
Other									
31-Dec-05	**299**	**182**	**47**	**–**	**528**	**103**	**425**	**0.3**	**134**
31-Dec-04	195	121	19	5	340	68	272	0.2	74
31-Dec-03	166	53	17	1	237	12	225	0.2	65
Grand Total									
31-Dec-05	**23,848**	**22,458**	**7,811**	**9,320**	**63,437**	**8,642**	**54,795**	**37.8**	**4,436**
31-Dec-04	21,388	21,073	9,342	6,106	57,909	8,794	49,115	36.4	4,005
31-Dec-03	16,667	16,696	8,976	2,764	45,103	7,971	37,132	32.7	3,379

The Group's investments rose by 52.6% or $3.2 billion to $9.3 billion as at 31 December 2005 mainly due to increased investments in debt instruments and equity investments in P.T. Bank Buana Indonesia and UOBT.

	2005			2004		
$ million	Dealing	Non-dealing	Investments	Dealing	Non-dealing	Investments
Malaysia	**256**	**954**	**1,210**	213	796	1,009
Indonesia	**58**	**689**	**747**	–	260	260
Philippines	**1**	**1**	**2**	1	1	2
Thailand	**4**	**2,292**	**2,296**	4	1,690	1,694
Regional Countries	**319**	**3,936**	**4,255**	218	2,747	2,965
Greater China	**34**	**645**	**679**	27	412	439
Other OECD	**90**	**4,296**	**4,386**	52	2,645	2,697
Other	**–**	**–**	**–**	4	1	5
Total	**443**	**8,877**	**9,320**	301	5,805	6,106

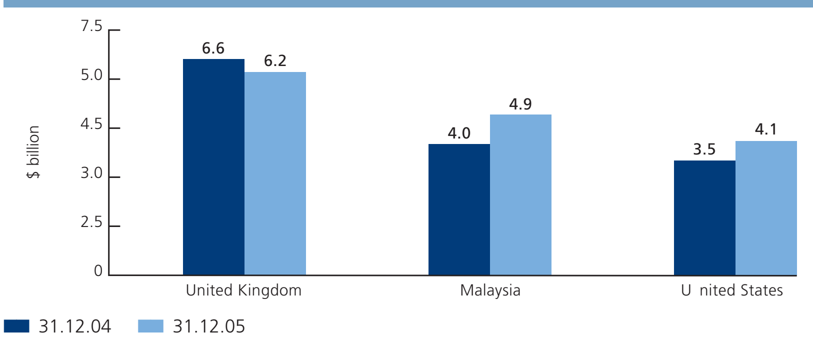
As at 31 December 2005, the Group's largest country exposures were to Malaysia, Thailand, and the United States.

Top three direct exposure by country of operations



As at 31 December 2005, the Group's largest direct cross border exposures were to United Kingdom, Malaysia and the United States.

Top three direct cross-border exposure by country



Cross-border exposure to countries outside Singapore (where UOB Group has a presence)

	Loans to						
$ million	Non-Banks	Banks	Government	Investments	Intra-Group	Total	% of Group Total Assets
Malaysia							
31-Dec-05	**159**	**1,501**	**39**	**659**	**2,494**	**4,852**	**3.3**
31-Dec-04	180	1,027	33	603	2,206	4,049	3.0
31-Dec-03	192	826	34	465	2,230	3,747	3.3
Indonesia							
31-Dec-05	**477**	**224**	**55**	**673**	**126**	**1,555**	**1.1**
31-Dec-04	199	63	5	260	139	666	0.5
31-Dec-03	227	47	–	80	82	436	0.4
Philippines							
31-Dec-05	**–**	**–**	**–**	**1**	**31**	**32**	**–**
31-Dec-04	–	4	–	2	52	58	–
31-Dec-03	–	4	15	12	42	73	0.1
Thailand							
31-Dec-05	**42**	**134**	**–**	**1,855**	**108**	**2,139**	**1.5**
31-Dec-04	95	104	–	1,451	76	1,726	1.3
31-Dec-03	100	91	–	232	49	472	0.4
Total Regional Countries							
31-Dec-05	**678**	**1,859**	**94**	**3,188**	**2,759**	**8,578**	**5.9**
31-Dec-04	474	1,198	38	2,316	2,473	6,499	4.8
31-Dec-03	519	968	49	789	2,403	4,728	4.2
Greater China							
31-Dec-05	**476**	**4,122**	**–**	**534**	**1,951**	**7,083**	**4.9**
31-Dec-04	656	3,482	–	195	4,015	8,348	6.2
31-Dec-03	577	2,824	–	111	3,553	7,065	6.2
Other OECD							
31-Dec-05	**221**	**9,631**	**–**	**4,234**	**1,817**	**15,903**	**11.0**
31-Dec-04	929	9,710	238	2,399	1,503	14,779	11.0
31-Dec-03	872	6,299	7	1,063	2,544	10,785	9.5
Other							
31-Dec-05	**16**	**11**	**26**	**–**	**150**	**203**	**0.1**
31-Dec-04	–	6	–	5	116	127	0.1
31-Dec-03	–	10	–	1	110	121	0.1
Grand Total							
31-Dec-05	**1,391**	**15,623**	**120**	**7,956**	**6,677**	**31,767**	**21.9**
31-Dec-04	2,059	14,396	276	4,915	8,107	29,753	22.1
31-Dec-03	1,968	10,101	56	1,964	8,610	22,699	20.0

Balance Sheet Risk Management

Balance sheet risk management is about managing interest rate, foreign exchange and liquidity risks that arise out of the business activities.

The Asset Liability Committee (ALCO), under delegated authority from the Board of Directors, approves policies, strategies and limits in relation to the management of structural balance sheet risk exposures. This risk is monitored and managed within a framework of approved policies and advisory limits by Risk Management sector – Balance Sheet Risk Management and is reported monthly to ALCO. The decisions of ALCO and its monthly risk management reports are reviewed by the Executive Committee of the Board and by the Board of Directors. On a tactical level, Global Treasury – Asset Liability Management is responsible for the effective management of the balance sheet risk in the banking book in accordance with the Group's approved balance sheet risk management policies.

In carrying out its business activities, the Group strives to meet customers' demands and preferences for products with various interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of assets and liabilities. As interest rates and yield curves change over time, the size and nature of these mismatches may result in a loss in earnings. In managing balance sheet risk, the primary objective, therefore, is to manage the volatility in Net Interest Income (NII) and Economic Value of Equity (EVE).

The balance sheet interest rate risk exposure is quantified using a combination of dynamic simulation modelling techniques and static analysis tools, such as maturity/repricing schedules. The schedules provide a static indication of the potential impact on interest earnings through gap analysis of the mismatches of interest rate sensitive assets, liabilities and off-balance sheet items by time bands, according to their maturity (for fixed rate items) or the remaining period to their next repricing (for floating rate items).

In general, repricing mismatches will expose the Bank to interest rate risk. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities reprice during a given time period. This tends to benefit NII when interest rates are rising. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. This tends to benefit NII when interest rates are falling. Interest rate sensitivity may also vary during repricing periods and among the currencies in which the Group has positions. The table in Note 45(c) to the financial statements represents the Group's interest rate risk sensitivity based on repricing mismatches as at 31 December 2005. The Group had an overall positive interest rate sensitivity gap of $8,796 million, which represents the net difference in the interest rate sensitive assets and liabilities across the time periods. The actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent to which repayments are made earlier or later than the contracted dates. The interest rate repricing profile, which includes lending, funding and liquidity activities, typically leads to a negative interest rate sensitivity gap in the shorter term.

Complementing the static analysis is the dynamic simulation modelling process. In this process, the Group applies both the earnings and EVE approaches to measuring interest rate risk. The potential effects of changes in interest rates on NII are estimated by simulating the future course of interest rates, expected changes in the Group's business activities over time, as well as the effect of embedded options in the form of loans subject to prepayment and of deposits subject to preupliftment. The changes in interest rates are simulated using different interest rate scenarios depicting changes in the shape of the yield curve, including high and low rates, positive and negative tilt scenarios and implied forward interest rates.

EVE is simply the present value of the Group's assets less the present value of the Group's liabilities, currently held by the Group. In EVE sensitivity simulation modelling, the present values for all the Group's cash flows are computed, with the focus on changes in EVE under various interest rate environments. This economic perspective measures interest rate risk across the entire time spectrum of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly on balance sheet risk to determine the sensitivity of the Group's capital to the impact of more extreme interest rate movements. This stress testing is conducted to assess that even under more extreme market movements, for example, the Asian crisis, the Group's capital will not deteriorate beyond its approved risk tolerance. Such tests are also performed to provide early warning of potential worst-case losses so as to facilitate proactive management of these risks in the rapidly changing financial markets. The results of such stress testing are presented to ALCO, the Executive Committee of the Board and the Board of Directors.

The risks arising from the trading book, for example, interest rates, foreign exchange rates and equity prices, are managed and controlled under the market risk framework that is discussed under the section 'Market Risk Management' on pages 47 to 49.

Liquidity Risk Management

Liquidity risk is defined as the potential loss arising from the Group's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Group's activities and in the management of its assets and liabilities, including off-balance sheet items. The Group maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of liquidity policies, controls and limits approved by ALCO. These policies, controls and limits ensure that the Group maintains well-diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The distribution of sources and maturities of deposits is managed actively in order to ensure cost-effective and continued access to funds and to avoid a concentration of funding needs from any one source. Important factors in assuring liquidity are competitive pricing in interest rates and the maintenance of customers' confidence. Such confidence is founded on the Group's good reputation, the strength of its earnings, and its strong financial position and credit rating.

The management of liquidity risk is carried out throughout the year by a combination of cash flow management, maintenance of high-quality marketable securities and other short-term investments that can be readily converted to cash, diversification of the funding base, and proactive management of the Group's 'core deposits'. 'Core deposits' is a major source of liquidity for the Group. These 'core deposits' are generally stable non-bank deposits, like current accounts, savings accounts and fixed deposits. The Group monitors the stability of its 'core deposits' by analysing their volatility over time.

In accordance with the regulatory liquidity risk management framework, liquidity risk is measured and managed on a projected cash flow basis. The Group is required to monitor liquidity under 'business as usual', 'bank-specific crisis' and 'general market crisis' scenarios. Liquidity cash flow mismatch limits have been established to limit the Group's liquidity exposure. The Group has also identified certain early warning indicators and established the trigger points for possible contingency situations. These early warning indicators are monitored closely so that immediate action can be taken. On a tactical daily liquidity management level, Global Treasury – Asset Liability Management is responsible for effectively managing the overall liquidity cash flows in accordance with the Group's approved liquidity risk management policies and limits.

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior management and representatives from all relevant units will direct the business units to take certain specified actions to create liquidity and continuous funding for the Group's operations.

Overseas banking branches and subsidiaries must comply with their local regulatory requirements with regards to liquidity and will operate on being self-sufficient in funding capabilities, whenever possible. However, the Group's Head Office in Singapore will provide funding to them on an exceptional basis, for instance, during a stressed liquidity crisis when they are unable to borrow sufficient funds for their operational needs or when it is cheaper to fund through Head Office.

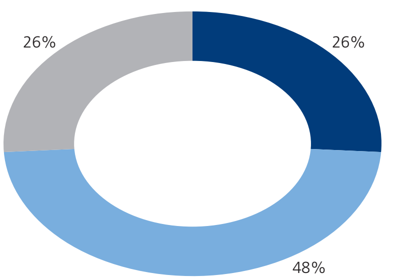
The table in Note 45(d) to the financial statements shows the maturity mismatch analysis of the Group's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Up to 7 days' time band comprises mainly customers' current accounts and savings accounts that are repayable on demand. However, when these customer deposits are adjusted for behavioural characteristics, the projected net cash outflow in the 'Up to 7 days' time band is very much reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

Sources of Deposits

The Group has access to diverse funding sources. Liquidity is provided by a variety of both short-term and long-term instruments. The diversity of funding sources enhances funding flexibility, limits dependence on any one source of funds, and generally lowers the overall cost of funds. In making funding decisions, management considers market conditions, prevailing interest rates, liquidity needs, and the desired maturity profile of the Group's liabilities.

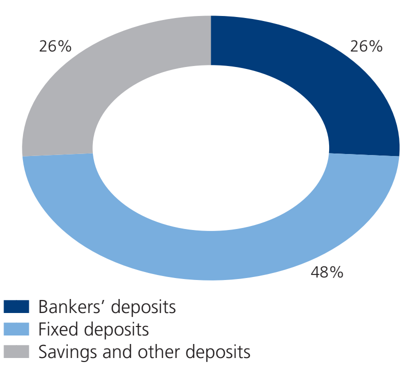
Non-bank customers' fixed deposits, savings and other deposits continued to form a significant part of the Group's overall funding base in the year under review. As at 31 December 2005, these customer deposits amounted to $85,503 million and accounted for 74% of total Group deposits. Bankers' deposits, on the other hand, amounted to $29,456 million and formed the remaining 26% of total Group deposits. In terms of deposit mix, fixed deposits comprised the majority of the funding base at 48%, followed by savings and other deposits at 27%. Bankers' deposits are also used by the Group to capitalise on money market opportunities and to maintain a presence in the inter-bank money markets.

Sources of deposits – 2005



	2005	
Sources of Deposits	$ million	%
Customer deposits		
Fixed deposits	**54,947**	**48**
Savings and other deposits	**30,556**	**26**
	85,503	**74**
Bankers' deposits	**29,456**	**26**
Total deposits	**114,958**	**100**

Sources of deposits – 2004



	2004	
Sources of Deposits	$ million	%
Customer deposits		
Fixed deposits	50,933	48
Savings and other deposits	28,086	26
	79,019	74
Bankers' deposits	28,194	26
Total deposits	107,213	100

Market Risk Management

Market risk arises from changes in market rates, namely interest rates, foreign exchange rates, equity prices and credit spreads, as well as their correlations and implied volatilities. UOB Group is exposed to trading market risks principally from market making, structuring and packaging products for clients, as well as to benefit from market opportunities.

Market risk is governed by the Group Asset & Liability Committee (ALCO), which provides risk oversight and guidance on policy setting. ALCO, whose authorities are delegated by the Executive Committee (EXCO) of the Board of Directors, meets twice monthly to review and give direction on market risk matters. Market Risk Management, a division of the Risk Management sector, support the EXCO and ALCO with independent assessment of the market risk profile for the UOB Group.

The market risk framework at UOB Group comprises market risk policies and practices, including delegation of authority and market risk limits; validation of valuation, risk models and methodologies; and new products and services process where risk issues are identified prior to the launch of the new products and services.

UOB Group adopts daily Value-at-Risk (VaR) to estimate market risk within a 95% confidence level using the historical simulation method. The historical simulation methodology is a non-parametric approach that does not make assumptions on the distribution of returns. The method assumes that actual observed historical changes in market rates, such as interest and foreign exchange rates, reflect future possible changes. UOB uses historical price changes for the past 260 days to compute the returns of the portfolio and a VaR figure is then obtained from the actual distribution of these returns of the portfolio based on a 95 percentile. The VaR figures are back tested against profit and loss of the trading book to validate its robustness.

To complement VaR measure, stress and scenario tests are performed on the trading portfolios to monitor the Group's vulnerability to event risk. These tests serve to provide early warning of extreme losses to facilitate proactive management of these risks. Other more granular risk limits include notional, Greeks and loss limits.

The risks undertaken by business units are measured against corresponding rewards to ensure that returns commensurate the risks taken. The Group uses a risk-reward measure of Earnings-at-Risk (EaR) as a benchmark in the setting of risk limits against prospective earnings.

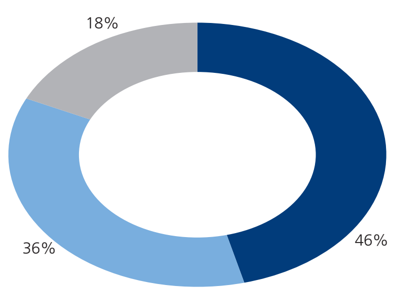
Value-at-Risk (VaR)

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

The Group's Daily Diversified VaR, as at 31 December 2005, was $4.44 million and comprised mainly interest rate risk – including credit spread risk (46%), foreign exchange risk (36%) and equity / volatility risk (18%).

The Group's Daily Diversified VaR for 2005, averaging $5.67 million, ranged between a low of $3.30 million and a high of $9.93 million:

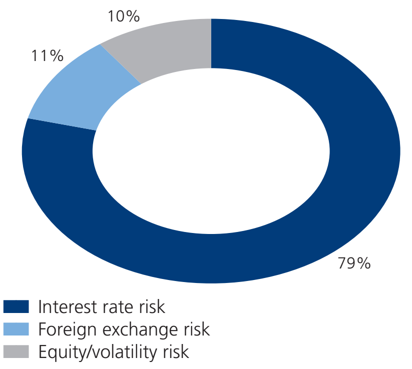
Group Daily Diversified VaR – 2005



Group Daily Diversified VaR for 2005

($ Million)	31 Dec 2005	High	Low	Average
Interest rate	**3.30**	**9.79**	**2.42**	**4.97**
Foreign exchange	**2.61**	**4.62**	**0.74**	**2.04**
Equity/volatility	**1.30**	**3.44**	**0.98**	**1.87**
Diversification effect	**(2.77)**	**NM**	**NM**	**(3.21)**
Total VaR	**4.44**	**9.93**	**3.30**	**5.67**

Group Daily Diversified VaR – 2004



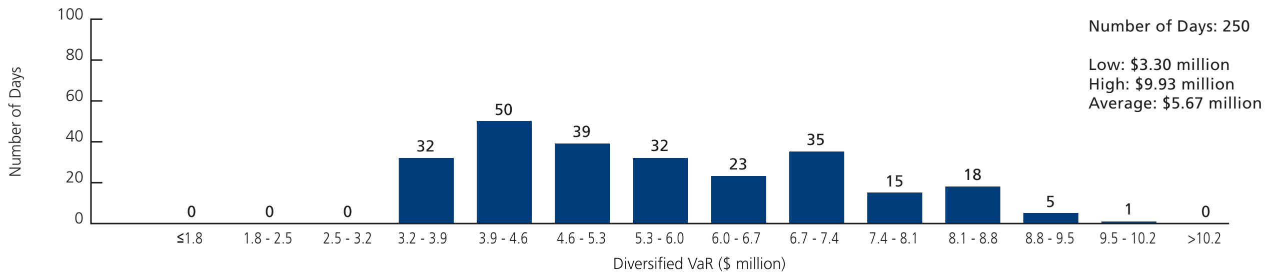
Group Daily Diversified VaR for 2004

($ Million)	31 Dec 2004	High	Low	Average
Interest rate	7.97	9.55	0.39	3.48
Foreign exchange	1.09	3.34	0.52	1.38
Equity/volatility	1.00	4.16	0.41	1.58
Diversification effect	(2.39)	NM	NM	(2.03)
Total VaR	7.71*	10.02	2.07	4.39*

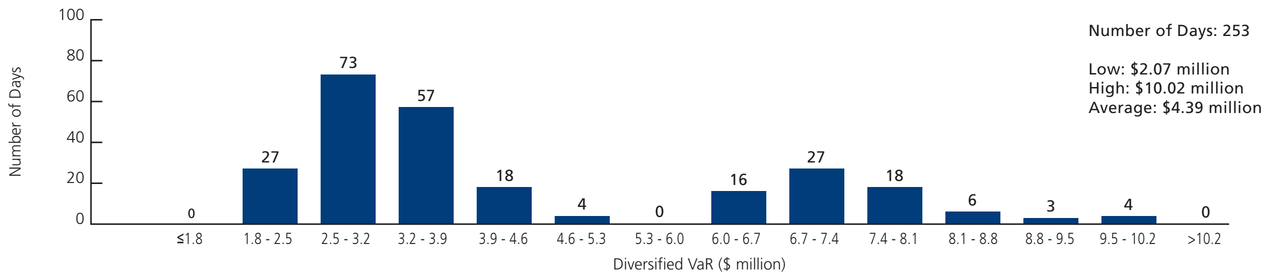
NM denotes 'Not Meaningful' to compute diversification effect because the high and low may occur on different days for different risk types.

* Due to rounding

Group Daily Diversified VaR Distribution for 2005

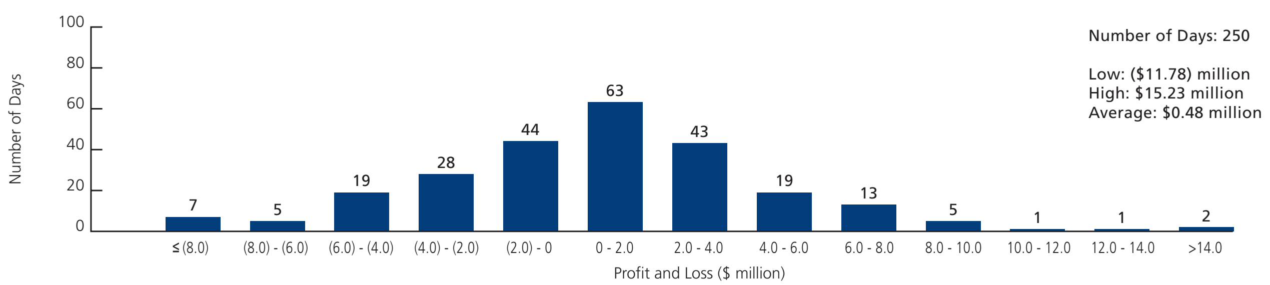


Group Daily Diversified VaR Distribution for 2004

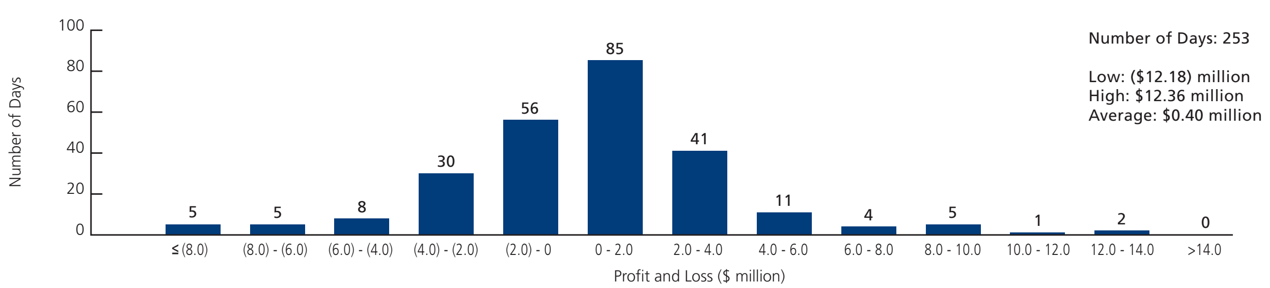


The Group's daily trading income for 2005, averaging $0.48 million, ranged between a low of $(11.78) million and a high of $15.23 million:

Group Daily Trading Income Distribution for 2005



Group Daily Trading Income Distribution for 2004



Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Group's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures by which operational risks inherent in the Group's business are identified, assessed/measured, monitored, controlled/mitigated and reported to the UOB Group Management Committee, the Executive Committee of the Board and the Board of Directors.

The UOB Group Management Committee under its delegated authority from the Board of Directors, oversees the establishment of a sound operational risk management framework and monitors the operational risk profile of the Group.

The Group has an independent Operational Risk Management Division to develop and maintain the operational risk management framework, policies, and techniques; support and guide business units in the implementation of operational risk management programs; and provide oversight over the management of operational risk in the Group.

The framework of techniques and procedures encompasses the following:
- building of Operational Risk Profiles (ORPs);
- conduct of Operational Risk Self Assessment (ORSA);
- development of an Operational Risk Action Plan (ORAP);
- monitoring of Key Operational Risk Indicators (KORIs);
- collection and analysis of operational risk events/loss data;
- monitoring and reporting of operational risk issues.

The building of ORPs involves risk identification, the assessment of inherent or absolute risks, as well as the identification of controls to address the identified operational risks. As part of the continual assessment, ORSA provides the business/support heads with an analytical tool to assess the adequacy of controls over these risks and to identify control deficiencies at an early stage so that timely action can be taken. Where actions need to be taken, these are documented in the form of an ORAP for monitoring and reporting to management. The ORSA programme consists of a control self assessment covering the general control environment, and a process-based risk & control self assessment for core business processes.

KORIs are statistical data collected and monitored by business and support units on an on-going basis for the early detection of potential areas of operational control weakness. Trend analysis is carried out to determine whether there are systemic issues to be addressed.

A database for collection of operational risk events and losses has been established to enable the future use of advanced approaches for quantification of operational risks. Additionally, the analysis of operational risk events and sharing of lessons learnt help to further strengthen the operational risk management capability of the business units.

Included in the overall framework of operational risk is the new product/service programme process. This process aims to ensure that risks associated with each new product/service are identified, analysed and managed before launch.

For the implementation of all online products and services, extra care and precautionary measures are taken to address and protect customers' confidentiality and interests. Clear instructions are also posted on the Group's website to advise and educate customers on the proper use and safekeeping of their access identification and passwords.

In line with the increasing need to outsource internal operations in order to achieve cost efficiency, a Group Outsourcing Policy has been established to ensure that outsourcing risks are identified and managed prior to entering into the arrangements as well as on an ongoing basis.

The Group has developed effective Business Continuity Management and Crisis Management strategies and plans to mitigate the potential impact of major business and/or system disruptions.

In addition, risk transfer mechanisms, such as effective use of insurance to mitigate the risk of high impact loss events also form part of the operational risk management framework.

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts. This is managed through consultation with the Group's legal counsel and external counsel to ensure that legal advice is appropriately taken where necessary.

As part of our ongoing promotion of an operational risk management culture, an operational risk management training programme has been established and will be implemented progressively in the Bank Group.

As part of preparations to comply with Basel II, the Group has mapped all its business activities to the eight Business Lines as defined by the Basel Committee on Banking Supervision.