The UOB Group is committed to maintaining the highest standards of corporate governance. The Board of Directors ("Board") believes that good governance is essential to sustaining the Bank's business performance and safeguarding the interests of the Bank's stakeholders.

UOB's approach to corporate governance is based on the Singapore Code of Corporate Governance 2005 ("Code"), the Banking (Corporate Governance) Regulations 2005 ("Banking Regulations") and the Guidelines On Corporate Governance For Banks, Financial Holding Companies And Direct Insurers issued by the Monetary Authority of Singapore ("MAS Guidelines"). This report describes UOB's corporate governance having regard to the principles in the Code, Banking Regulations and MAS Guidelines.

Board of Directors

Board Role and Responsibility: Among the Board's duties are the following:

- provide entrepreneurial leadership and guidance;
- set long-term strategic objectives;
- oversee senior management's performance;
- approve business plans and annual budgets;
- monitor the financial performance of the Bank and the Group;
- determine the capital/debt structure of the Bank;
- set dividend policy and declare dividends;
- approve major acquisitions and divestments;
- review the Bank's risk management framework;
- set company values and standards; and
- perform succession planning for itself and the Chief Executive Officer ("CEO").

Board Composition and Size: The Code and MAS Guidelines advocate a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently from management and substantial shareholders. The UOB Board has met this requirement as seven out of ten members are independent and non-executive directors.

The Chairman and Deputy Chairman are the only executive directors. The Board members and their status are as follows:

Wee Cho Yaw *(Chairman & CEO)*	Executive & non-independent
Wee Ee Cheong *(Deputy Chairman & President)*	Executive & non-independent
Ngiam Tong Dow	Independent
Professor Cham Tao Soon	Independent
Wong Meng Meng	Independent
Yeo Liat Kok Philip	Independent
Tan Kok Quan	Independent
Professor Lim Pin	Independent
Ng Boon Yew	Independent
Lien Jown Leam Michael	Non-independent

The Board considers its present size and number of committees adequate for effective management and decision-making.

The Nominating Committee ("NC") assists the Board to evaluate the suitability of candidates for appointment to the Board. Before recommending any new appointment, the NC would also consider how the new appointment may contribute to the Board's collective skills, knowledge and experience. Directors are subject to re-election at least once every three years. Those above 70 years of age are subject to annual re-appointment.

Board Competency: The present distinguished members of the Board possess varied skills and experience and thus are able to provide breadth and depth to Board discussions. Their experience and qualifications are described on pages 12 to 15. The NC is of the view that the directors have the requisite skills to discharge their duties.

Board Performance: The NC assists the Board in reviewing the contributions of each director and the effectiveness of the Board as a whole. Directors' contributions are assessed based on factors such as their attendance record, overall preparedness, participation, candour and clarity in communication, strategic insight, financial literacy, business judgment and sense of accountability.

The effectiveness of the Board is assessed based on factors such as the strategic directions provided by the Board, the extent of the Board's oversight of risk management processes, the adequacy of internal control procedures, the Bank's financial performance and the economic value added by the Bank's operations.

Access to Information: All directors receive detailed financial, risk management and operational reports regularly. In addition, directors have direct access to senior management staff if they need clarification or further information.

All directors have access to the company secretary for advice. The company secretary keeps the Board updated on corporate governance, and other legal and regulatory matters. Directors may also seek independent professional advice as they consider appropriate.

When new directors are appointed to the Board, steps are taken to familiarise them with the Bank's business and corporate governance practices. Directors are kept informed of changes in the laws, regulations and best practices in the banking industry. The Bank has a budget available for the training needs of directors.

Name of Director	Number of meetings attended in 2006					
	Board of Directors	Executive Committee	Audit Committee	Nominating Committee	Remuneration Committee	Independent Review Committee*
Wee Cho Yaw	5	11	–	1	1	–
Wee Ee Cheong	5	11	–	–	–	–
Ngiam Tong Dow	5	10	–	1	–	–
Wong Meng Meng	5	–	–	1	–	–
Yeo Liat Kok Philip *(appointed as Exco member w.e.f. 10.2.2006)*	4	6	4	–	1	4
Professor Cham Tao Soon	5	11	5	1	1	4
Tan Kok Quan	3	–	4	–	–	–
Professor Lim Pin	3	–	–	1	1	–
Ng Boon Yew	3	–	5	–	–	3
Lien Jown Leam Michael	4	–	–	–	–	–
No. of Meetings Held in 2006	**5**	**11**	**5**	**1**	**1**	**4**

* The Independent Review Committee has completed its task of reviewing proposals for divestment of the Bank's non-core assets and has been dissolved.

Directors' Independence: The NC reviews the independence of directors annually. The NC considers all but three directors to be independent. The non-independent directors are Mr Wee Cho Yaw and Mr Wee Ee Cheong who are executive directors, and Mr Lien Jown Leam Michael who is connected to a substantial shareholder.

The law firms of Mr Wong Meng Meng and Mr Tan Kok Quan provided legal services to the UOB Group in the past year. The NC considered them as independent directors as their firms' dealings with the Group have not compromised their objectivity and independence in the discharge of their duties as directors.

The NC has reviewed the Code's suggestion for a lead independent director and is of the view that such an appointment is unnecessary. This is because the Bank has in place an effective process to receive and respond to shareholders' concerns.

Board Meetings: The Board meets regularly and whenever circumstances warrant. Directors may participate in meetings via telephonic and/or video conference if they are unable to attend in person. The directors' attendance record is set out above.

Chairman and Chief Executive Officer: The MAS Guidelines and Banking Regulations require the roles of Chairman and CEO to be assumed by separate individuals but an exception is made for incumbents.

Mr Wee Cho Yaw, the incumbent Chairman and CEO of the Bank has held both appointments since 1974. During his long leadership, UOB has grown from a local bank with Group NTA of $152 million in 1974 to a regional bank with Group NTA of $12.5 billion in 2006. UOB's sustained progress under his leadership evidences his ability to perform both roles effectively.

Board Committees

The Board is assisted by four Board Committees. They are the Executive Committee, Nominating Committee, Remuneration Committee and Audit Committee. The composition of these committees is set out in the 'Corporate Information' section on page 11.

Executive Committee ("Exco"): The Exco is chaired by Mr Wee Cho Yaw, the Chairman of the Board and comprises five directors of whom three are independent non-executive directors. The Exco is delegated certain discretionary limits and authority for loans and other credit facilities, treasury and investment activities, and capital expenditure.

The Exco assists the Board in overseeing the Bank's risk profile. Regular reports on the risks encountered in the Bank's business, management's oversight of the risks and the adequacy of the Bank's risk management framework are reviewed by the Committee. The Exco met 11 times in 2006.

Nominating Committee: The NC is chaired by Mr Wong Meng Meng, an independent non-executive director and comprises five directors of whom four are independent. The NC reviews the composition and membership of the Board and Board Committees, and appointments to key executive positions. It assesses the independence and performance of the directors and it meets at least once a year. The NC's membership is reviewed annually.

Remuneration Committee ("RC"): The RC is chaired by Mr Wee Cho Yaw, the chairman of the Board and comprises four directors of whom three are independent. The RC reviews top management's remuneration and directors' fees and also administers the share option scheme for employees. Each committee member abstains from decisions as regards his own remuneration. The RC meets at least once a year.

The Banking Regulations require the chairman of the RC to be independent but make an exception for incumbents. The Board is of the view that Mr Wee Cho Yaw, an executive director who is the incumbent RC chairman, is the best person to chair the RC because of his vast experience.

Remuneration Policy: The Bank remunerates its executive directors and staff at competitive and appropriate levels, commensurate with their performance and contributions. The typical remuneration package comprises fixed and variable components.

Shareholders approve the quantum of directors' fees each year which is shared among directors. Directors with additional duties as chairmen or members of Board Committees receive a larger share of the approved fees.

Disclosure on Remuneration: Directors' fees and remuneration in bands of $250,000 are shown in the Directors' Report on page 63. No share option was granted to any director during the financial year.

There is no immediate family member (as defined in the Singapore Exchange's Listing Manual) of any director in the employ of the Bank whose annual remuneration exceeds $150,000, except for Mr Wee Ee Cheong, the son of Mr Wee Cho Yaw, whose annual remuneration is disclosed in the Directors' Report on page 63.

The Bank refrains from disclosing the remuneration of the top five executives as it believes that doing so is not in its best interest. The Bank has an employee share option scheme, the details of which are found in the Directors' Report on page 63.

Audit Committee ("AC"): The AC is chaired by Professor Cham Tao Soon and comprises four independent non-executive directors. The AC's duties include reviewing the following:

- financial statements, internal and external audit plans and audit reports;
- the system of internal accounting controls;
- scope and results of internal and external audit procedures;
- adequacy of internal audit resources;
- cost effectiveness, independence and objectivity of external auditors;
- significant findings of internal audit investigations; and
- interested person transactions.

The AC reviews the Bank's audited financial statements, the quality of accounting principles applied to such statements and items that might affect the financials. These matters are discussed with management and external auditors. Based on the review and discussion, the AC determines whether the financial statements are fairly presented in line with generally accepted accounting principles in all material aspects.

The AC also reviews the Bank's internal controls and risk management systems with internal and external auditors. The AC is mindful that in establishing internal control systems, the materiality of relevant risks, the probability of loss and the implementation costs of the control measures must be accorded appropriate consideration.

The financial, business and professional relationships between external auditors and the Bank are reviewed by the AC. External auditors give quarterly affirmations of their independence and objectivity. If external auditors provide non-audit services to the Group, the AC will ascertain whether the volume and nature of such services are likely to prejudice the independence and objectivity of the external auditors. The Bank's external auditors are nominated by the AC on an annual basis. The AC has nominated Messrs Ernst & Young for re-appointment as the Bank's auditors for shareholders' approval at the forthcoming annual general meeting.

The results of the AC's review are reported to the Board. The Board derived reasonable assurance from reports submitted to it that the internal control systems, including financial, operational and compliance controls and risk management processes, which are designed to enable the Bank to meet its business objectives while managing the risks involved, are adequate for the Bank's business as presently conducted.

The AC is vested with investigative powers as regards matters within its terms of reference. The AC meets internal auditors and external auditors separately, and among themselves in the absence of management at least once a year.

Senior Management Committees

The Bank's senior management plays an important role in assisting the Board in the discharge of its duties. Senior management performs the following:

- prepares the Bank's annual budget and business plan for the Board's approval;
- executes business strategies;
- implements internal accounting and other control systems;
- monitors compliance with the Bank's risk management framework;
- adopts competitive human resource practices and remuneration policies for achieving the Bank's business strategies;
- monitors the expenses of the Bank; and
- monitors compliance with regulatory requirements.

The Board and the Exco are assisted by various committees comprising the Bank's top management and senior executives. The activities of the Senior Management Committees are described below.

Credit Committee: deals with all credit and country/transfer risk matters, including approval of credit applications, formulation of credit policies, review of existing credit portfolio and assessment of risk profiles.

Asset Liability Committee: formulates, reviews and approves policies, limits and strategies regarding the balance sheet structure and market and liquidity risks arising from trading, investment and banking activities.

Investment Committee: formulates, reviews and approves policies, limits and strategies regarding the investment and management of funds.

Computer Committee: determines and oversees the Bank's investments in information technology as well as the resources committed to the development of the Bank's technology strategy and infrastructure.

Management Committee: prepares business and budget plans, monitors the Bank's financial and operating performance, approves framework and policies for management of the Bank's operational, legal and reputational risks, facilitates bank-wide co-ordination, communication and teamwork.

Management Executive Committee: recommends strategic directions, monitors execution of strategic plans and key performance indicators, allocates resources, oversees management of capital, reviews risk management policies and determines key human resource policies.

Internal Audit

The Bank has a well-established internal audit function ("Group Audit"). Group Audit reports to the AC functionally and to the Chairman and CEO administratively. Group Audit operates within its charter and assists the Board in assessing and reporting on business risks and the internal controls of the Bank.

Group Audit follows the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. It has been accredited with the ISO 9001:2000 Certification in August 2001 by the UK and USA Accreditation Services. This accreditation is re-certified every six months. Group Audit follows strict procedures in reporting its audit findings to management and to the AC. The AC reviews Group Audit's annual audit plan at the beginning of each year and reviews the audit results at its subsequent meetings.

All units, operations, overseas branches and subsidiaries of the Bank are inspected by Group Audit, which prioritises its audit tasks by developing a risk-based audit plan. Allocation of sufficient attention to each area is ensured by adhering to a structured audit risk assessment approach. The AC reviews the plan annually to check that the audit plan remains relevant to the business and risk environment.

Group Audit participates actively in major systems development activities and project committees to advise on risk management and internal control measures. Group Audit also audits various application systems in production, data centres, network security and the Information Technology Sector.

Each of the Group's banking subsidiaries, United Overseas Bank (Malaysia), PT Bank UOB Indonesia, PT Bank UOB Buana, United Overseas Bank (Thai) Public Company, and United Overseas Bank Philippines has its own internal audit unit.

Heads of internal audit from these subsidiaries report to Group Audit and administratively to the local CEO. They also report to their respective local Audit Committees, where applicable. Monthly reports on their audit activities and important issues must be provided to the Chief of Group Audit. The Chief of Group Audit attends the subsidiaries' AC meetings by invitation.

Risk Management
Risk Management is an integral part of the Bank's business strategy for securing the Bank's financial soundness and integrity. The Bank uses a robust risk management framework to identify, measure, monitor and manage risk so that no excessive risk is taken for any given expected return. This framework and its antecedent processes are reviewed by the Exco.

The Risk Management function is independent of the business units it monitors. It implements risk management policies and procedures. The risk management process is described under the section 'Risk Management' on pages 39 to 51.

Group Compliance: is an independent function that safeguards the Group against regulatory and reputational risks. This is done through appropriate policies and procedures for compliance with applicable laws, regulations and professional standards, including those for anti-money laundering and counter terrorist financing.

Related Party Transactions
In May 2006, the Bank and its associated companies, Overseas Union Insurance Limited and Overseas Union Facilities (Pte) Limited entered into:

a) a sale and purchase agreement for the sale of 7,924,098 ordinary shares or approximately 1.0% of the total number of issued shares of UOL Group Limited ("UOL") to C Y Wee & Co Pte Ltd for a total cash consideration of $22.49 million; and

b) a sale and purchase agreement for the sale of 4,542,038 ordinary shares or approximately 2.2% of the total number of issued shares of Haw Par Corporation Limited ("Haw Par") to Wee Investments Private Ltd for a total cash consideration of $26.05 million.

The price for the abovementioned sales was based on the respective volume weighted average price of UOL shares and Haw Par shares over the three trading days immediately preceding the date of the sale and purchase agreements, and was arrived at on a willing-buyer and willing-seller basis.

The purchasers, C Y Wee & Co Pte Ltd and Wee Investments Private Ltd, are companies associated with Mr Wee Cho Yaw, the Chairman and Mr Wee Ee Cheong, the Deputy Chairman of the Bank. The sales constitute interested person transaction within the meaning of Chapter 9 of the Singapore Exchange's Listing Manual. The Bank's AC had reviewed the terms of the sales and was of the view that they were on normal commercial terms and were not prejudicial to the interests of the Bank and its shareholders.

Communication with Shareholders
Apart from sending shareholders the Bank's annual report, the Board also updates shareholders on the Bank's quarterly financial results via Singapore Exchange's SGXNET. All financial results are freely available at the Bank's investor relations webpage at www.uobgroup.com.

Shareholders are given the opportunity to ask relevant questions and express their views at general meetings. A shareholder who is unable to attend any general meeting may appoint up to two proxies to attend and/or vote on his behalf.

Ethical Standards
The Bank subscribes to the Code of Conduct issued by the Association of Banks in Singapore which sets out the standards of good banking practices. The Bank has also issued its own Code of Conduct for staff. The Bank has adopted a Code on Dealings in Securities for directors and officers. In addition, the Bank manages its business according to the core values of integrity, performance excellence, teamwork, trust and respect, to which employees subscribe and are assessed on. The Bank has a whistle-blowing policy for employees to bring any concern, suspected breach or fraud, or activity or behaviour that may not accord with the law, Code of Conduct and the Bank's policies, to the attention of Management, Internal Audit or Group Compliance.

Credit Risk Management

Credit risk is defined as the risk of 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 the single largest risk faced by the Group. It is inherent in the activities of the Group such as loans and lending-related commitments, treasury and capital market operations, and investments. Business units have primary responsibilities for the day-to-day and active management of credit risks.

The Group's Credit Committee is delegated the authority by the Board of Directors to deal with all credit matters, including formulation of credit policies, approval of credit applications and the review of existing credit facilities.

The Credit and Country Risk Management Division within the Risk Management Sector provides independent oversight of credit risks and has the responsibility for the independent reporting and analysis of all elements of credit risk.

Credit risk exposures are managed through a robust framework of credit underwriting, structuring and monitoring processes. 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. Past dues and credit limit excesses are tracked and analysed by business and product lines. Significant trends are reported to the Credit Committee.

Credit Approval Process

To maintain the independence and integrity of the credit approval process, the credit approval function is segregated from credit origination. Credit approval authority is delegated through a risk-based credit discretionary limit (CDL) structure to ensure that the CDLs are tiered according to a borrower's rating. The Group has a very stringent process for the delegation of CDLs based on the experience, seniority and track record of the officer. All officers with the authority to approve credits are guided by credit policies and guidelines, with distinctions made for institutional and individual borrowers. These credit policies and guidelines, which cover key parameters associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance.

There is pervasive use of risk rating in the Group's credit decision process with the development and implementation of an internal credit rating system. This system incorporates both statistical models and expert-judgement scorecards, and is used as part of the credit approval process for non-retail exposures. The system ensures that ratings are assigned to borrowers in a consistent manner and systematically captures the rating history for future model back-testing and validation.

Generally, non-retail borrowers are assigned a Customer Risk Rating (CRR) and a Facility Risk Rating (FRR). CRR is a borrower's standalone credit rating and is derived after a comprehensive assessment of its financial strength, quality of management, business risks and the industry it operates in. The FRR of a borrower incorporates transaction-specific dimensions such as availability and type of collateral, seniority of the exposure and facility structure.

In contrast, consumer exposures are managed on a portfolio basis. The Group uses scorecards and stringent product programmes for credit underwriting purposes.

Credit Risk Concentration

Credit risk concentration occurs when the Group is exposed to borrowers who are engaged in similar activities or are located in the same geographical region, industry or have comparable economic characteristics such that their ability to meet their contractual obligations would be similarly affected by changes in economic, political or other conditions. To address credit risk concentration, the Group has in place policies and procedures to identify, measure, monitor and control these exposures. A rigorous process is established to regularly review and report asset concentrations and portfolio quality so that risks are adequately assessed, properly approved and monitored. These include concentration exposures by countries, obligors, industries and collaterals. Portfolio limits and triggers are in place to ensure that exposures remain within pre-determined boundaries.

Credit Stress Test

To assess the potential losses arising from the impact of plausible 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 potential losses are within the Group's risk tolerance.

Country Risk

Country risk arises where there is a risk that the Group is unable to receive payments from customers as a result of political or economic events in the country. Country risk is defined as the risk in cross-border lending resulting from events in the country. These events include political and social unrests, exchange control, moratoria, currency devaluation, nationalisation and expropriation of assets.

Country risk is managed within an established country risk management framework. The framework includes setting of cross-border limits for each country based on the country's risk rating, economic potential as measured by its GDP, as well as the Group's presence and business strategy in the country. Cross-border exposures are analysed and significant trends reported to the Credit Committee.

Credit Exposure from Foreign Exchange and Derivatives

To manage credit risk arising from derivative activities, master agreements, such as International Swaps and Derivatives Association (ISDA) agreements are established with counterparties. Such agreements allow the Group to cash-settle transactions in the event of counterparty default, resulting in a single net claim against or in favour of the counterparty.

In addition, the Group also establishes bilateral collateral support agreements with selected counterparties. Under such agreements, either party may be required to provide collateral, based on periodic valuations of selected portfolios, when exposure exceeds a pre-defined threshold.

Settlement Risk

Settlement risk arises in transactions which involve an exchange of payments in which the Group must honour its obligation to deliver but risks the non-delivery from its counterparty.

The Group's foreign exchange-related settlement risk has been significantly reduced, relative to the volume of our business, through our membership in the Continuous Linked Settlement (CLS) scheme. This scheme allows transactions to be settled irrevocably on a delivery-versus-payment (DVP) basis.

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 11.3% and 22.7% of total loans and advances respectively.

Total consumer loans, which consist of housing loans and loans to professionals and private individuals (including outstanding credit card balances), accounted for 36.8% and 38.4% of the total loan portfolio as at 31 December 2006 and 31 December 2005 respectively.

Table 1 shows the composition of loans and advances and contingent liabilities to customers as at 31 December.

Classification and Loan Loss Impairment

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

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

Write-off policy

Classified accounts are closely monitored to ensure continued efforts are made to improve the 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 when there is no realisable tangible collateral securing the account, and all feasible avenues of recovery have been exhausted.

Restructured non-performing loans

Loans are restructured to assist a borrower in overcoming financial difficulties where the longer term prospects of the business or project owe still deemed to be viable. A restructured account is categorised as non-performing and placed in the appropriate classified grade depending on the Group'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 upgraded to "Pass" when all payments are current for six months in the case of credit facilities with monthly

Customer loans – Table 1

	Loans and advances			Contingent liabilities		
By industry type (%)	2006	2005	2004	2006	2005	2004
Transport, storage and communication	**5.1**	3.5	3.1	**4.6**	3.0	2.2
Building and construction	**9.9**	10.9	11.0	**17.9**	18.0	16.4
Manufacturing	**11.1**	11.3	11.5	**11.3**	8.6	9.6
Non-bank financial institutions	**16.3**	15.0	15.0	**25.2**	37.6	42.2
General commerce	**14.8**	16.4	16.0	**29.4**	22.7	19.4
Professionals and private individuals	**13.0**	14.6	14.9	**2.1**	1.2	1.8
Housing loans	**23.8**	23.8	23.4	**–**	–	–
Other	**6.0**	4.5	5.1	**9.5**	8.9	8.4
Total (%)	**100.0**	100.0	100.0	**100.0**	100.0	100.0
Total ($ million)	**79,380**	69,846	67,977	**10,063**	11,290	9,818

Restructured non-performing loans – Table 2

$ million	2006 Amount	2006 Individual Impairment	2005 Amount	2005 Individual Impairment	2004 Amount	2004 Individual Impairment	2003 Amount	2003 Individual Impairment
Substandard	**45**	**6**	141	31	223	22	196	31
Doubtful	**1**	**1**	1	1	49	37	–	–
Loss	**3**	**3**	10	10	30	30	35	35
Total	**49**	**10**	152	42	302	89	231	66

repayments or one year for quarterly/semi-annual repayments. For credit facilities with annual or longer repayment bases, the Group would 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.

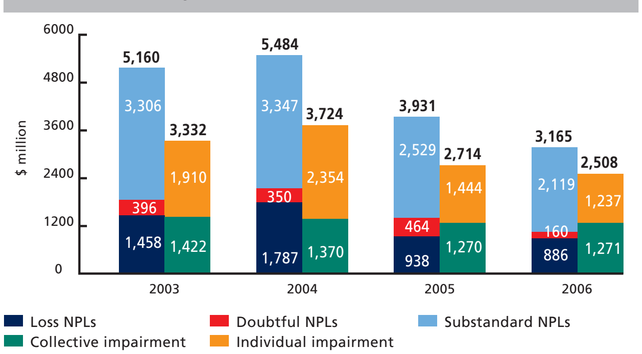
Loans that were classified and restructured during the financial year are shown in Table 2.

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

The Group's NPLs continued to trend downwards. Against 31 December 2005, Group NPLs decreased 19.5% to $3,165 million as at 31 December 2006. Correspondingly, NPL ratio improved to 4.0% as at 31 December 2006 from 5.6% as at 31 December 2005. Of the total NPLs as at 31 December 2006, $2,119 million or 67.0% were in the Substandard category and $1,712 million or 54.1% were secured by collateral.

In line with the lower NPLs, total cumulative impairment decreased 7.6% from 31 December 2005 to $2,508 million as at 31 December 2006. As at 31 December 2006, total cumulative impairment provided coverage of 79.2% against total NPLs and 172.6% against unsecured NPLs.

Non-performing loans and cumulative impairment of the Group



Ratios (%)	2006	2005	2004	2003
NPLs*/Gross customer loans	**4.0**	5.6	8.0	8.1
NPLs+/Gross customer loans and debt securities	**3.0**	4.9	7.2	7.7
NPLs/Total assets	**2.0**	2.7	4.1	4.5
Cumulative impairment/ NPLs	**79.2**	69.0	67.9	64.6
Cumulative impairment/ Unsecured NPLs	**172.6**	159.4	138.6	141.4
Cumulative impairment*/ Gross customer loans	**3.2**	3.9	5.4	5.2
Collective impairment/ Gross customer loans (net of individual impairment* for loans)	**1.6**	1.9	2.1	2.3

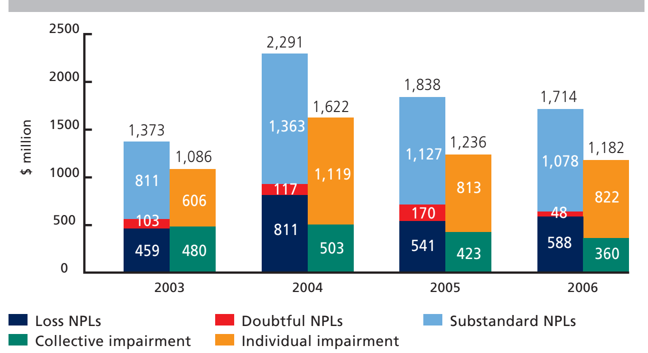
* Excluding debt securities.
\+ Including debt securities.

NPLs and cumulative impairment of the Regional Countries

NPLs of Regional Countries declined to $1,714 million as at 31 December 2006 from $1,838 million as at 31 December 2005, leading to a lower NPL ratio of 9.0% as at 31 December 2006 from 10.6% as at 31 December 2005.

As at 31 December 2006, total cumulative impairment for Regional Countries was $1,182 million, providing coverage of 69.0% for the total NPLs and 142.2% for the unsecured NPLs.

Non-performing loans and cumulative impairment of Regional Countries



Ratios (%)	2006	2005	2004	2003
NPLs*/Gross customer loans	**9.0**	10.6	15.2	14.1
NPLs+/Gross customer loans and debt securities	**8.1**	10.0	14.4	13.7
Cumulative impairment/ NPLs	**69.0**	67.2	70.8	79.1
Cumulative impairment/ Unsecured NPLs	**142.2**	138.3	142.0	160.2
Cumulative impairment*/ Gross customer loans	**6.2**	7.1	10.7	11.1
Collective impairment/ Gross customer loans (net of individual impairment* for loans)	**2.0**	2.6	3.6	5.4
NPLs/Gross exposure to the Regional Countries	**6.7**	6.8	9.7	8.4

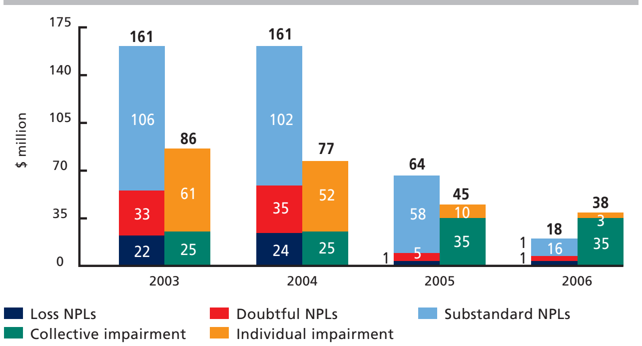
* Excluding debt securities.
\+ Including debt securities.

NPLs and cumulative impairment of Greater China

NPLs of Greater China declined 71.9% from $64 million as at 31 December 2005 to $18 million as at 31 December 2006. NPL ratio for Greater China improved to 0.6% as at 31 December 2006 from 2.7% as at 31 December 2005.

Total cumulative impairment for Greater China totalled $38 million as at 31 December 2006, representing a decline of 15.6% or $7 million compared to $45 million as at 31 December 2005. The cumulative impairment provided coverage of 211.1% for the total NPLs.

Non-performing loans and cumulative impairment of Greater China



Ratios (%)	2006	2005	2004	2003
NPLs*/Gross customer loans	**0.6**	2.7	8.0	8.2
NPLs+/Gross customer loans and debt securities	**0.5**	2.5	7.0	7.4
Cumulative impairment/NPLs	**211.1**	70.3	47.8	53.4
Cumulative impairment*/ Gross customer loans	**1.3**	1.9	3.8	4.4
Collective impairment/ Gross customer loans (net of individual impairment* for loans)	**1.2**	1.5	1.3	1.3
NPLs/Gross exposure to Greater China	**0.2**	0.6	1.5	1.7

* Excluding debt securities.
\+ Including debt securities.

NPLs by region

NPLs of Singapore and the Regional Countries accounted for 42.5% and 54.2% respectively of the total NPLs as at 31 December 2006.

As at 31 December 2006, Singapore NPLs decreased by 31.2% to $1,346 million and Regional NPLs decreased by 6.7% to $1,714 million over 31 December 2005.

$ million	2006	2005	2004	2003
Singapore	**1,346**	1,955	2,949	3,530
Malaysia	**594**	651	873	930
Indonesia	**115**	101	88	119
Philippines	**182**	180	160	184
Thailand	**823**	906	1,170	140
Regional Countries	**1,714**	1,838	2,291	1,373
Greater China	**19**	64	161	161
Other	**86**	74	83	96
Group total	**3,165**	3,931	5,484	5,160

NPLs by industry

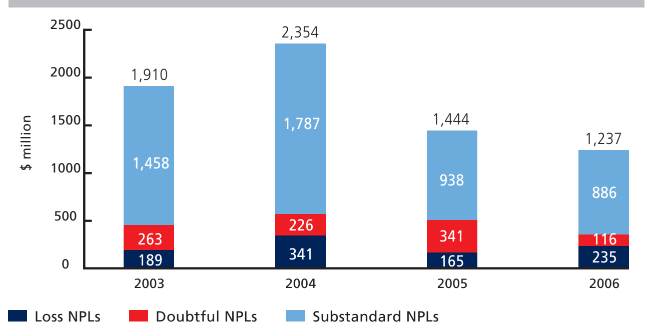
NPL ratios trended lower across all industry sectors compared to 31 December 2005. The decline was largely contributed by professionals and private individuals (-$170 million), building and construction (-$138 million), and non-bank financial institutions sectors (-$130 million).

NPLs by industry as at 31 December are shown in Table 3.

Individual impairment by loan classification

Of the total individual impairment of $1,237 million as at 31 December 2006, 71.6% was for 'Loss' accounts compared to 65.0% as at 31 December 2005.

Individual impairment loss by loan classification



NPLs by industry – Table 3

Industry type	2006 Amount ($ million)	2006 As % of gross customer loans	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
Transport, storage and communication	**70**	**1.7**	79	3.2	119	5.7	105	5.0
Building and construction	**428**	**5.4**	566	7.4	844	11.3	756	10.3
Manufacturing	**786**	**8.9**	834	10.6	1,130	14.5	745	12.7
Non-bank financial institutions	**398**	**3.1**	528	5.1	660	6.5	984	9.5
General commerce	**651**	**5.5**	769	6.7	1,006	9.2	751	8.1
Professionals and private individuals	**408**	**4.0**	578	5.7	897	8.8	926	9.6
Housing loans	**304**	**1.6**	390	2.3	505	3.2	632	4.3
Other	**117**	**2.5**	150	4.8	244	7.1	182	5.7
Sub-total	**3,162**	**4.0**	3,894	5.6	5,405	8.0	5,081	8.1
Debt securities	**3**		37		79		79	
Total	**3,165**		3,931		5,484		5,160	

Individual impairment by region

As at 31 December 2006, Singapore and the Regional Countries accounted for 32.6% and 66.5% respectively of the Group's total individual impairment of $1,237 million, compared to 42.2% for Singapore and 56.3% for the Regional Countries as at 31 December 2005.

$ million	2006	2005	2004	2003
Singapore	**403**	609	1,157	1,200
Malaysia	**159**	207	331	383
Indonesia	**46**	55	68	78
Philippines	**97**	70	80	76
Thailand	**520**	481	640	69
Regional Countries	**822**	813	1,119	606
Greater China	**3**	10	52	61
Other	**9**	12	26	43
Individual impairment for the Group	**1,237**	1,444	2,354	1,910
Collective impairment for the Group	**1,271**	1,270	1,370	1,422
Total	**2,508**	2,714	3,724	3,332

Individual impairment by industry

Individual impairment as at 31 December 2006 was mainly from the manufacturing and general commerce sectors which accounted for 31.7% and 23.5% respectively of the total individual impairment for loans.

$ million	2006	2005	2004	2003
Transport, storage and communication	**41**	31	56	44
Building and construction	**141**	182	337	275
Manufacturing	**392**	410	602	352
Non-bank financial institutions	**117**	151	190	319
General commerce	**290**	332	503	316
Professionals and private individuals	**165**	214	386	360
Housing loans	**29**	49	93	98
Other	**60**	64	139	98
Sub-total	**1,235**	1,433	2,306	1,862
Debt securities	**2**	11	48	48
Total	**1,237**	1,444	2,354	1,910

Ageing of NPLs

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

The full outstanding balance of an account is deemed non-current and aged when there are arrears in interest servicing or principal repayment.

	2006		2005		2004		2003	
Ageing (Days)	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs	Amount ($ million)	% of total NPLs
Current	**270**	**8.5**	286	7.3	548	10.0	670	13.0
≤ 90	**281**	**8.9**	380	9.6	357	6.5	378	7.3
91 to 180	**333**	**10.5**	459	11.7	596	10.9	464	9.0
≥ 181	**2,281**	**72.1**	2,806	71.4	3,983	72.6	3,648	70.7
Total	**3,165**	**100.0**	3,931	100.0	5,484	100.0	5,160	100.0

Collateral types

The majority of the classified loans are secured by properties in Singapore. Properties are valued semi-annually. As at 31 December 2006, 54.1% of total Group NPLs was secured, compared to 56.7% as at 31 December 2005.

	2006		2005		2004		2003	
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	**1,712**	**54.1**	2,228	56.7	2,797	51.0	2,804	54.3
Unsecured	**1,453**	**45.9**	1,703	43.3	2,687	49.0	2,356	45.7
Total	**3,165**	**100.0**	3,931	100.0	5,484	100.0	5,160	100.0

Secured/unsecured NPLs

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
2006					
Singapore	**740**	**3**	**17**	**11**	**771**
Regional Countries	**797**	**60**	**3**	**23**	**883**
Greater China	**14**	**–**	**–**	**–**	**14**
Other	**42**	**–**	**2**	**–**	**44**
Total	**1,593**	**63**	**22**	**34**	**1,712**
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**

Balance Sheet Risk Management

Balance sheet risk management is about managing interest rate, foreign exchange and liquidity risks that arise out of the Group's core banking 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. These are monitored by the Balance Sheet Risk Management Division within the Risk Management Sector, and managed within a framework of approved policies and advisory limits. ALCO's decisions and its risk management reports are reviewed by the Executive Committee of the Board (Exco) and by the Board of Directors. At a tactical level, Global Treasury's Asset Liability Management unit is responsible for the active management of the balance sheet risk in the banking book in accordance with the Group's approved balance sheet risk management policies.

Interest Rate Risk

In the course of its normal core banking 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 repricing, underlying rates 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 decline in earnings. The primary objective in managing balance sheet risk, therefore, is to manage the volatility in Net Interest Income (NII) and Economic Value of Equity (EVE).

Balance sheet interest rate risk exposures are quantified using a combination of dynamic simulation techniques and static analysis tools, such as repricing schedules and sensitivity analysis. These schedules provide indications of the potential impact on interest income through the analysis of the sensitivity of assets and liabilities to changes in interest rates.

A positive interest rate sensitivity gap exists where more interest rate sensitive assets than interest rate sensitive liabilities reprice during a given time period. A positive gap in the shorter tenor benefits 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. A negative gap on the shorter tenor benefits NII when interest rates are falling.

Interest rate sensitivity varies with different repricing periods and currencies. Mismatches in the longer tenors will experience greater change in the price value than similar positions in the shorter tenors for the same rate change.

The table in Note 44(c) to the financial statements represents the Group's interest rate risk sensitivity based on contractual repricing mismatches as at 31 December 2006. The Group had an overall positive interest rate sensitivity gap of $12,397 million, which represents the net difference between interest rate sensitive assets and liabilities. The effect on NII depends on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent of prepayments. The interest rate repricing profile, which includes lending, funding and liquidity activities, typically leads to negative interest rate sensitivity in the shorter term.

Complementing static analysis is the dynamic simulation process. In this process, the Group applies both the earnings and EVE approaches to assess interest rate risk. The potential effects of interest rate changes on NII are estimated by simulating the possible future course of interest rates, expected changes in the Group's business activities over time, as well as the effects of embedded options. Embedded options may be in the form of loan prepayments and deposit prematurity 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, positive and negative tilt scenarios.

EVE is the present value of the Group's assets less the present value of the Group's liabilities. In EVE sensitivity simulations, the present values for the entire Group's 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 spectrum of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly to determine the adequacy of the Group's capital in meeting the impact of extreme interest rate movements on its 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. The results of such stress tests are presented to ALCO, the Exco 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 48 to 49.

Liquidity Risk

Liquidity risk is defined as the risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity risk arises from the general funding of the Group's banking 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 deposit withdrawals and loan disbursements, participation in new investments, and repayment of borrowings. Hence, liquidity is managed in a manner that addresses known as well as unanticipated cash funding needs.

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

The distribution of deposits is actively managed to ensure a balance between cost effectiveness, continued accessibility to funds, and diversification of funding sources. Important factors in assuring liquidity are competitive pricing, proactive management of the Group's 'core deposits' and the maintenance of customers' confidence. 'Core deposits' are generally stable non-bank deposits, such as current accounts, savings accounts and fixed deposits. The Group monitors the stability of its 'core deposits' by analysing their volatility over time. Customer confidence is founded on the Bank's good reputation, the strength of its earnings, and its financial strength and credit rating.

Aligning to the regulatory liquidity risk management framework, liquidity risk is measured and managed on a projected cash flow basis. The Group is monitored under "business as usual", "bank-specific crisis" and "general market crisis" scenarios. Cash flow mismatch limits are established to limit the Group's liquidity exposure. The Group has also employed liquidity early warning indicators and established trigger points to signal possible contingency situations. At the tactical level, Global Treasury's Asset Liability Management unit is responsible for the active managemet of cash flows in accordance with the Group's approved liquidity risk management policies and limits.

Liquidity contingency funding plans are in place to identify potential liquidity crises through early warning indicators; detailing crisis escalation process and the various strategies including funding and communication strategies to be taken to minimise the impact of a liquidity crunch.

Overseas banking branches and subsidiaries are required to comply with their local regulatory liquidity requirements and will be self-sufficient in their local currency funding requirements. The Group's Head Office in Singapore will provide funding to on an exceptional basis. In the event of liquidity crisis when they are unable to source sufficient funds for their operational requirements, Head Office would meet such requirements.

For major foreign currencies, the Group practices pool funding where regional branches and subsidiaries clear their placement and funding requirements with Head Office. This practice improves the efficiency in the Group's deployment of funds.

The table in Note 44(d) to the financial statements presents the maturity mismatch analysis of the Group's near and long-term time bands relating to the cash inflows and outflows based on contractual maturity arising from the Group's 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 deposits are adjusted for behavioural characteristics, the projected net cash outflow in the 'Up to 7 days' time band is significantly reduced as these are adjusted to the longer-term time bands due to the stable nature of such deposits.

Sources of Deposits

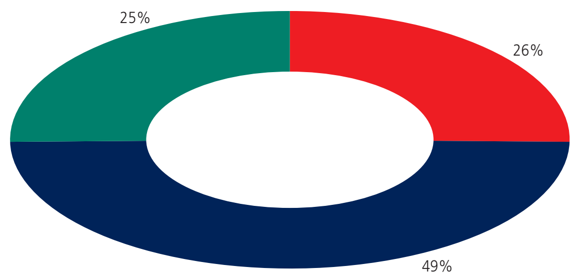
The Group has access to diverse funding sources. Liquidity is provided by a variety of both short and long-term products. The diversity of funding sources enhances funding flexibility, reduces dependency on any one source of funds, and generally reduces the overall cost of funds. In making funding decisions, 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 2006, these deposits amounted to $95,552 million and accounted for 74% of total Group deposits. Bankers' deposits, on the other hand, amounted to $33,448 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 49%, followed by savings and other deposits at 25%. Bankers' deposits are also used by the Group to maintain a presence in the inter-bank money markets.

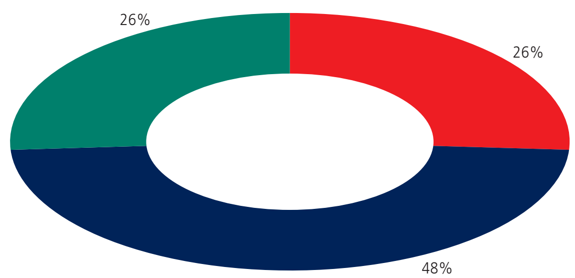
	2006	
Sources of Deposits	$ million	%
Customer deposits		
Fixed deposits	**63,053**	**49**
Savings and other deposits	**32,499**	**25**
	95,552	**74**
Bankers' deposits	**33,448**	**26**
Total deposits	**129,000**	**100**

	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 – 2006



Sources of deposits – 2005



Bankers' deposits
Fixed deposits
Savings and other deposits

Market Risk Management
Market risk arises from changes in interest rates, foreign exchange rates, equity prices and credit spreads, as well as their correlations and implied volatilities. The Group is exposed to trading market risks principally from its client-driven market-making, and product structuring activities, as well as its proprietary trading activities to benefit from market opportunities.

Market risk is governed by the Group ALCO, which provides risk oversight and policy guidance. ALCO, whose authorities are delegated by the Exco, meets twice monthly to review and provide directions related to market risk matters. Market Risk Management, a division of the Risk Management sector, supports the Exco and ALCO with independent assessment of the market risk profile for the Group.

The Group's market risk framework comprises market risk policies and practices, delegation of authority and market risk limits, validation of valuation and risk models and methodologies. This framework also encompasses the new products process to ensure that market risk issues identified are adequately addressed prior to the launch of the new products and services.

The Group adopts a daily Value-at-Risk (VaR) to estimate market risk within a 95% confidence level using the historical simulation method. This methodology is a non-parametric approach that does not make assumptions on the distribution of returns and the correlations between risk classes. The method assumes that possible future changes in market rates, such as interest and foreign exchange rates, may be implied by observed historical market movements. The Group uses historical price changes for the past 260 days to compute the returns of the portfolio. VaR is then estimated from the distribution of these returns based on a 95% confidence interval. The VaR estimates are back tested against profits and losses of the trading book to validate the robustness of the methodology.

To complement the VaR measure, stress and scenario tests are performed on the trading portfolios to identify the Group's vulnerability to event risks. These tests serve to provide early warnings of plausible extreme losses to facilitate proactive management of market risks.

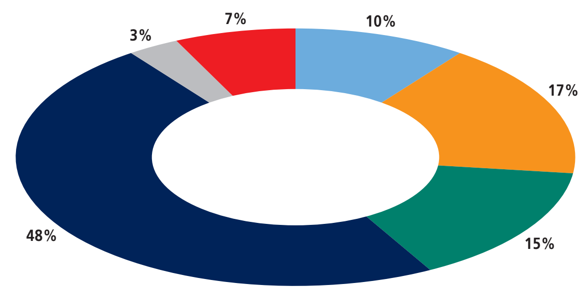
The level of risk limits delegated to business units are balanced with expected returns that commensurate the risks taken.

Value-at-Risk (VaR)
Value at Risk for the Group is the potential loss not exceeded at the 95% confidence level over the next one (1) business day. The level of VaR is dependent on the exposures as well as market prices and volatilities.

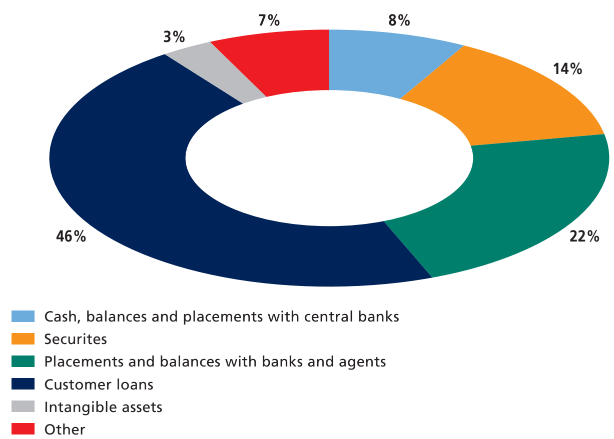
The Group's Daily Diversified VaR, as at 31 December 2006, was $2.10 million and comprised mainly interest rate risk – including credit spread risk (29%), foreign exchange risk (43%) and equity & volatility risk (28%).

The Group's Daily Diversified VaR for 2006, averaging $2.97 million, ranged between $1.60 million and $5.2 million:

Assets mix – 2006



Assets mix – 2005



Group Daily Diversified VaR for 2006

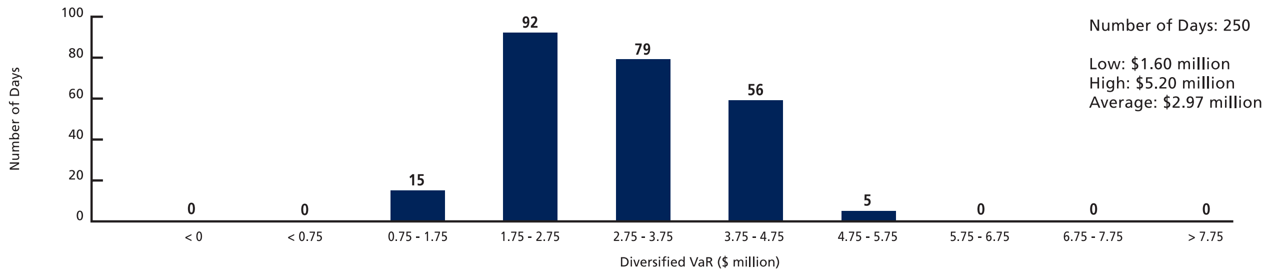
($ Million)	31 Dec 2006	High	Low	Average
Interest rate	**1.15**	**4.43**	**1.09**	**2.50**
Foreign exchange	**1.70**	**2.37**	**0.25**	**0.99**
Equity/volatility	**1.12**	**3.78**	**0.69**	**1.63**
Diversification effect	**(1.87)**	**NM**	**NM**	**(2.15)**
Total VaR	**2.10**	**5.20**	**1.60**	**2.97**

Group Daily Diversified VaR for 2005

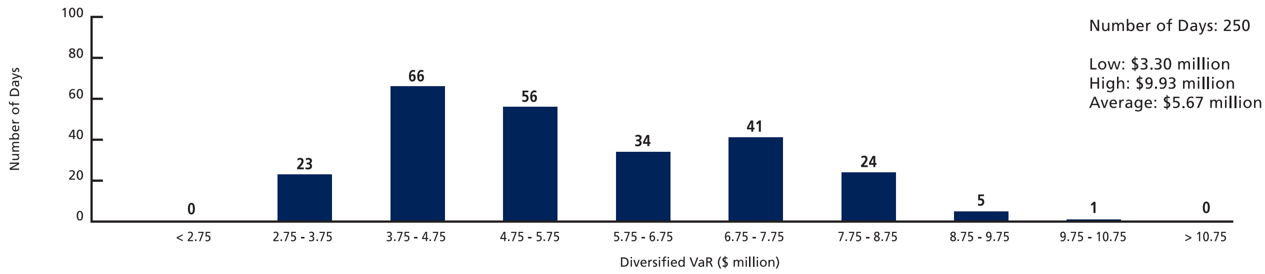
($ Million)	31 Dec 2005	High	Low	Average
Interest rate	3.30	9.79	2.42	4.97
Foreign exchange	2.61	4.62	0.74	2.04
Equity/volatility	1.30	3.44	0.98	1.87
Diversification effect	(2.77)	NM	NM	(3.21)
Total VaR	4.44	9.93	3.30	5.67

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

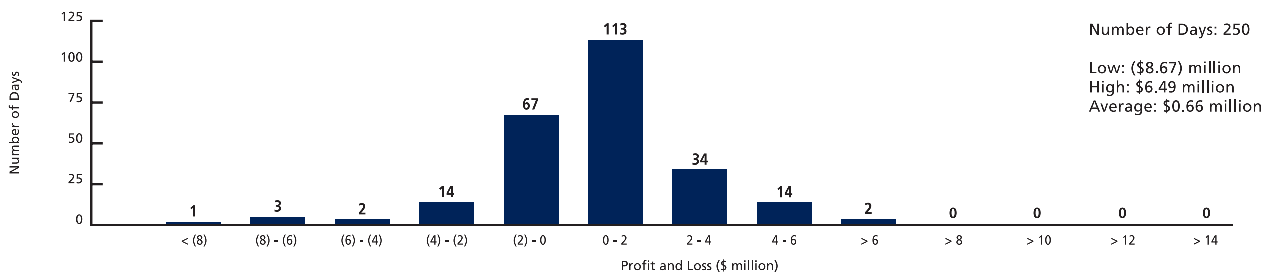
Group Daily Diversified VaR Distribution for 2006



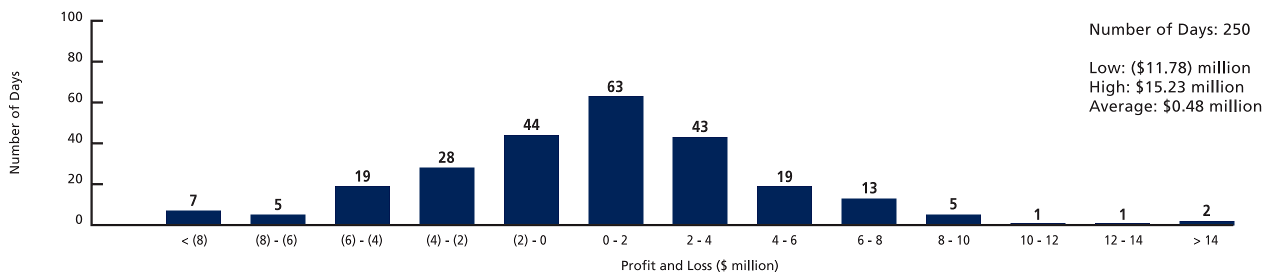
Group Daily Diversified VaR Distribution for 2005



Group Daily Trading Income Distribution for 2006



Group Daily Trading Income Distribution for 2005



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 develop new businesses.

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

The Group's 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.

In providing oversight of the management of the Group's operational risk, the Operational Risk Management, a division of the Risk Management Sector, develops and maintains the Group's operational risk management framework, policies, processes and procedures. Operational Risk Management also supports and guides business units in the implementation of operational risk management programmes.

Operational risk management tools and processes include:

- Operational Risk Profiles (ORPs);
- Operational Risk Self-Assessment (ORSA);
- Operational Risk Action Plan (ORAP);
- Key Operational Risk Indicators (KORIs);
- Analysis of operational risk events/loss data.

The building of ORPs involves identification and assessment of inherent risks as well as the controls to address the identified risks. ORSAs provide the analytical tool to assess the adequacy and effectiveness of such controls in mitigating these risks. Action plans to address any issues identified through the ORSAs are documented and monitored via the ORAP. The ORSA programme consists of a general control environment self-assessment and a risk and control self assessment covering core business processes.

KORIs are statistical data collected and monitored by business and support units on an on-going basis to facilitate the early detection of potential operational control weaknesses. Trend analysis is carried out to identify systemic issues that need to be addressed.

A database of operational risk events and losses has been established to facilitate the possible use of advanced approaches for quantification of operational risks. Additionally, the analysis of operational risk events will strengthen the operational risk management capability of the Group.

The Group's operational risk management framework also incorporates a new product/service programme process. This process aims to ensure that risks associated with the introduction of new products and services are identified, analysed and addressed prior to launch.

Online products and services require extra care and precautionary measures to protect customers' confidentiality and interests. Clear instructions are posted on the Group's website to advise and educate customers on the proper use and safekeeping of their access identification and passwords. To provide an additional layer of security, Two-Factor Authentication (2FA) was implemented in Singapore in December 2006. This improves the verification of online banking customer identity. With 2FA, online banking customers are required to provide a unique one-time password in addition to their username and password upon login.

With the increasing need to outsource internal operations to achieve cost and operational efficiency, the Group's Outsourcing Policy and framework ensures that outsourcing risks are adequately identified and managed prior to the introduction of new arrangements as well as in current arrangements.

Effective Business Continuity Management and Crisis Management strategies and plans have been developed, implemented and tested to mitigate the risk of major business and/or system disruptions. These ensure prompt recovery of critical business functions in the event of such disruptions.

The Group's operational risk management framework includes a Group Insurance Programme that mitigates the risk of high impact operational losses.

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

As part of the Group's ongoing promotion of an effective risk management culture, an operational risk management training programme has been established.

Basel II

Over the last few years, as part of the Group plans to adopt best practice in risk management, substantial investments and significant progress were made in aligning to the requirements of the International Convergence of Capital Measurement and Capital Standards framework (Basel II). This effort included investments in human resources, IT systems, processes, and the development of internal models to estimate risk.

The Group intends to adopt an Internal Rating Based Approach (IRBA) in the management of its credit exposures. To this end, significant changes have been made to the Bank's organisational structure, policies and procedures to ensure that internal risk ratings are integral to the Group's credit decision and management processes.

The Group is working towards adopting an Internal Model Approach (IMA) in the management of its market risk exposure. At the same time, the Group has mapped all its business activities to the business lines defined by Basel II under the Standardised Approach for operational risk.

To complement these initiatives, work is in progress to develop and implement a process to assess the adequacy of the Group's capital to support the risks inherent to its core banking activities.

The Group is committed to continue strengthening and investing in its risk management systems, processes and procedures to adopt best practices in its risk management framework.