Delivering Value. Driving Growth.

Annual Report
2006

UNITED BEHIND YOU

FAR EASTERN BANK LIMITED
(A SUBSIDIARY OF UNITED OVERSEAS BANK LIMITED)

FAR EASTERN BANK LIMITED

(INCORPORATED IN SINGAPORE)

AND ITS SUBSIDIARIES

CONTENTS

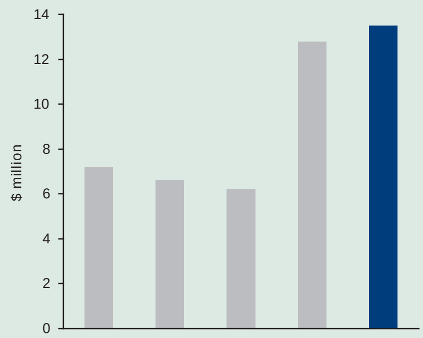
All figures in this Annual Report are in Singapore dollars unless otherwise specified.

Financial Highlights (Consolidated)

Net profit after tax

2006: $13.5 million + 5.1%

2005: $12.8 million

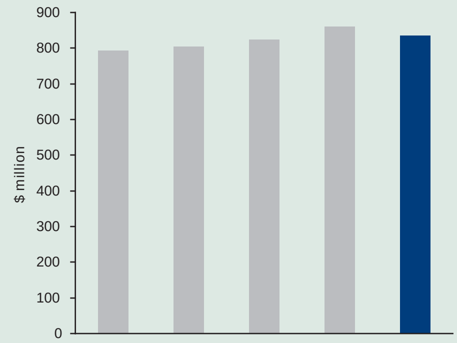


	2002	2003	2004	2005	2006
$'m	7.2	6.6	6.2	12.8	13.5

Total assets

2006: $835.6 million - 2.9%

2005: $860.2 million

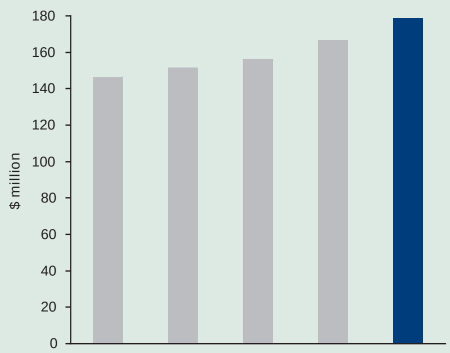


	2002	2003	2004	2005	2006
$'m	792.6	802.9	824.1	860.2	835.6

Shareholders' equity

2006: $178.8 million + 7.2%

2005: $166.7 million

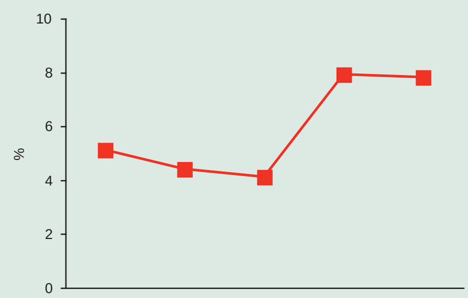


	2002	2003	2004	2005	2006
$'m	146.4	151.5	156.1	166.7	178.8

Return on average shareholders' equity

2006: 7.8% - 0.1% point

2005: 7.9%

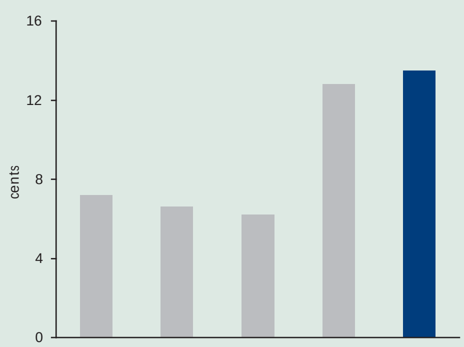


	2002	2003	2004	2005	2006
%	5.1	4.4	4.1	7.9	7.8

Earnings per share

2006: 13.5 cents + 5.5%

2005: 12.8 cents

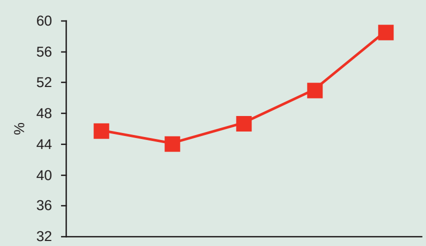


	2002	2003	2004	2005	2006
¢	7.2	6.6	6.2	12.8	13.5

Capital adequacy ratio^

2006: 58.5% +7.6% points

2005: 50.9%



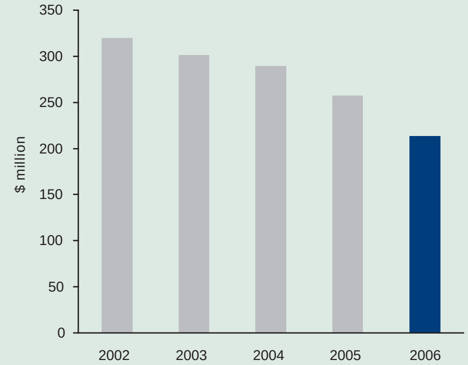
	2002	2003	2004	2005	2006
%	45.7	44.0	46.6	50.9	58.5

^ Computed based on BIS guidelines for 2002 and MAS capital framework for 2003 and onwards .

Customer loans

2006: $213.0 million ■ - 17.2%

2005: $257.2 million

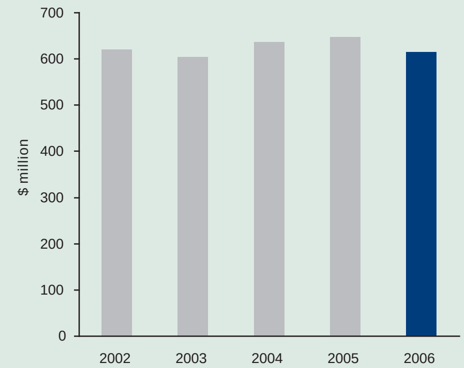


	2002	2003	2004	2005	2006
$'m	319.3	301.2	289.6	257.2	213.0

Customer deposits

2006: $615.3 million ■ - 5.0%

2005: $647.7 million



	2002	2003	2004	2005	2006
$'m	620.6	604.1	637.2	647.7	615.3

Total non-performing loans (NPLs)

NPLs

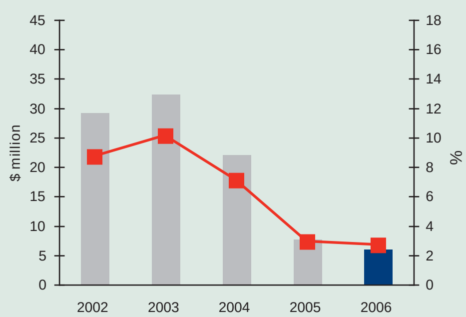
2006: $6.0 million ■ - 23.3%

2005: $7.8 million

NPLs as a % of gross non-bank loans

2006: 2.7% ■ - 0.2% point

2005: 2.9%



	2002	2003	2004	2005	2006
$'m	29.2	32.4	22.1	7.8	6.0
%	8.7	10.1	7.1	2.9	2.7

NPLs   NPLs as a % of gross non-bank loans

Total cumulative impairment

Individual impairment

2006: $0.4 million ■ - 65.3%

2005: $1.2 million

Collective impairment

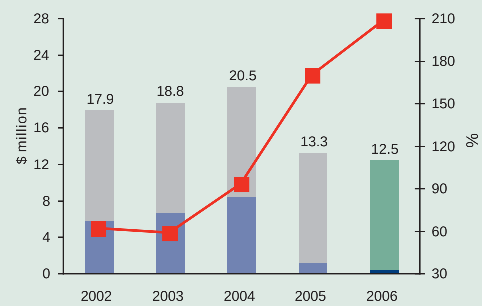
2006: $12.1 million ■

2005: $12.1 million

Total cumulative impairment as a % of total NPLs

2006: 208.1% ■ + 38.5% points

2005: 169.6%



	2002	2003	2004	2005	2006
$'m (Individual impairment)	5.8	6.7	8.4	1.2	0.4
$'m (Collective impairment)	12.1	12.1	12.1	12.1	12.1
%	61.2	58.2	92.6	169.6	208.1

Individual impairment   Collective impairment   Cumulative impairment as a % of total NPLs

Wee Cho Yaw
Chairman & Chief Executive Officer

The Singapore economy continued its upward trend in 2007. GDP growth improved from 6.4% the year before to 7.7%. The growth was stimulated by strong exports, a rising stock market and surge in the property market. The FEB Group, however, continued to be constrained by its small capital base.

The Group's after tax profit improved by 5% to $13.5 million in 2006 (2005: $12.8 million). Return on equity decreased from 7.9% to 7.8%.

Although net interest income improved by 8%, from $19.7 million to $21.4 million, total loans outstanding at the end of the year fell to $213 million (2005: $257 million). Deposits also dropped from $648 million to $615 million. Nevertheless, total income grew by 8% to $27.1 million (2005: $25.1 million). This was partially offset by impairment charges, which rose from $58,000 in 2005 to $1.2 million in 2006.

Total assets of the Group fell by 3% to $836 million (2005: $860 million). While shareholders' equity improved by 7% to $179 million (2005: $167 million), return on assets remained at 1.6%.

The Board proposes to transfer $6 million to reserves and to recommend a first and final dividend of 2 cents per share less 18% income tax for the financial year ended 31 December 2006. Total dividend payout would amount to $1.6 million.

With almost full employment and a buoyant property market, Singapore is expected to maintain its growth momentum in 2007. Official estimates indicate a GDP growth of 4.5% to 6.5%, underpinned by a positive outlook for the Asian economies.

The banking sector, however, will continue to see intense competition for business as well as professional talents. While management will continue to exert every effort to meet these challenges, the Group will continue to operate at a distinct disadvantage because of its small capital base.

Mr Lee Chin Chuan, who has been a Director since 1978, will not be standing for re-election this year. On behalf of the Board, I would like to record our deep appreciation for his long years of service and contributions to the Bank.

In conclusion, I would like to thank my fellow directors for their wise counsel, and management and staff members for their contributions during the past year.

Corporate Information

BOARD OF DIRECTORS

Mr Wee Cho Yaw
Chairman & Chief Executive Officer

Mr Wee Ee Cheong
Mr Lee Chin Chuan
Mr Ong Chu Meng
Mr Wong Meng Meng
Mr Philip Yeo Liat Kok
Prof Cham Tao Soon
Mr Ngiam Tong Dow

EXECUTIVE COMMITTEE

Mr Wee Cho Yaw
Chairman

Mr Wee Ee Cheong
Mr Ngiam Tong Dow
Prof Cham Tao Soon
Mr Philip Yeo Liat Kok

NOMINATING COMMITTEE

Mr Wong Meng Meng
Chairman

Mr Wee Cho Yaw
Mr Philip Yeo Liat Kok
Prof Cham Tao Soon
Mr Ngiam Tong Dow
Mr Wee Ee Cheong
(alternate to Mr Wee Cho Yaw)

REMUNERATION COMMITTEE

Mr Wee Cho Yaw
Chairman

Mr Philip Yeo Liat Kok
Prof Cham Tao Soon

SECRETARY

Mrs Vivien Chan

SHARE TRANSFER OFFICE

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4th Storey UOB Plaza 1
Singapore 048624
Telephone: (65) 6439 3104
Facsimile: (65) 6536 7712

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Singapore 048583

REGISTERED OFFICE

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UOB Plaza
Singapore 048624
Company Registration No.: 195800116D
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Facsimile: (65) 6534 2334
SWIFT: UOVBSGSG
Website: www.uobgroup.com

BRANCH NETWORK

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Facsimile: (65) 6224 2263
Telex: RS 23029 FEBANK

CORRESPONDENTS

In all principal cities of the world

Board of Directors

Brief Curriculum Vitae Of Directors

Mr Wee Cho Yaw

Chairman & Chief Executive Officer

Age 78. A career banker with more than 40 years of experience. Received Chinese high school education. Chairman & CEO of United Overseas Bank since 1974.

Appointed to the Board on 17 August 1984. Last re-appointed as a Director on 27 April 2006. Chairman and CEO of Far Eastern Bank since 1984. Chairman of the Executive Committee, Remuneration Committee and member of the Nominating Committee. Chairman of United Overseas Insurance, United Overseas Bank (Malaysia), PT Bank UOB Indonesia *(President Commissioner)*, PT Bank UOB Buana *(President Commissioner)* and United Overseas Bank (Thai) Public Company. Chairman of United International Securities, Haw Par Corporation, UOL Group, Hotel Plaza, United Industrial Corporation, and Singapore Land and its subsidiary, Marina Centre Holdings. Former Chairman of Overseas Union Enterprise.

Honorary President of Singapore Chinese Chamber of Commerce & Industry and Pro-Chancellor of Nanyang Technological University.

Received Businessman Of The Year award at the Singapore Business Awards in 2001 and 1990 as well as the inaugural Credit Suisse - Ernst & Young Lifetime Achievment Award for his outstanding achievements in the Singapore business community.

Mr Wee Ee Cheong

Deputy Chairman & President

Age 54. Deputy Chairman & President of United Overseas Bank (UOB) since 2000.

Appointed as Executive Director on 3 January 1990. Last re-elected as a Director on 27 May 1998. Member of the Bank's Executive Committee.

Director of several UOB subsidiaries and affiliates, including United Overseas Insurance, United Overseas Bank (Malaysia), United Overseas Bank (Thai) Public Company and United International Securities.

Director of Visa International (Asia Pacific) and the Institute of Banking & Finance. Chairman of the Association of Banks in Singapore and ASEAN Banking Council. Council member of the Singapore Chinese Chamber of Commerce & Industry as well as member of the Board of Governors of the Singapore-China Foundation and the Advisory Board of the INSEAD East Asia Council.

Has served as Deputy Chairman of Housing & Development Board and Director of Port of Singapore Authority. Former Director of UOL Group and Hotel Plaza.

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

Mr Lee Chin Chuan

Age 75. Advisor to Hotel Royal Limited.

Appointed to the Board on 1 July 1978. Last re-appointed as a Director on 27 April 2006. An independent and non-executive Director. Honorary Patron of Real Estate Developers Association of Singapore. Honorary Council Member of Singapore Chinese Chamber of Commerce & Industry. Managing Director of Aik Siew Tong Ltd and Melodies Ltd.

Mr Ong Chu Meng

Age 74. Chairman and Managing Director of Ong Lock Cho & Brothers Pte Ltd, Patrick View Development Pte Ltd and Mengna & Co. Pte Ltd.

Appointed to the Board on 28 June 1976. Last re-appointed as a Director on 27 April 2006. An independent and non-executive Director. Council Member of The Association of Nanyang University Graduates, Singa Sino Friendship Association and Ee Hoe Hean Club.

Mr Wong Meng Meng

Age 58. Founder-Consultant of Wong Partnership. Notary Public and Senior Counsel, Supreme Court of Singapore.

Appointed to the Board on 24 March 2000. Last re-elected as a Director on 27 April 2005. An independent and non-executive Director. Chairman of the Bank's Nominating Committee. Director of Mapletree Logistics Trust Management Ltd. Honorary Legal Advisor to the Real Estate Developers' Association of Singapore. Former Director of Hi-P International Limited.

Holds a Bachelor of Law (Honours) from the University of Singapore. Member of the Beijing Arbitration Commission's Panel of Arbitrators, International Arbitration Institute (Paris) and Competition Appeal Board. Accredited Arbitrator of the Singapore Mediation Centre.

Mr Yeo Liat Kok Philip

Age 60. Chairman of the Agency for Science, Technology & Research (A*STAR) until 31 March 2007. From 1 April 2007, Special Advisor for Economic Development in the Prime Minister's Office, Senior Advisor for Science & Technology to the Minister for Trade and Industry, and Chairman of Standards, Productivity and Innovation for Growth (SPRING). Recognised for his contributions to Singapore's economic development and his pioneering role in the promotion and development of the country's information technology, semiconductor, chemical and pharmaceutical industries. Brings to the Bank wide government and private sector experience over a 35-year career.

Appointed to the Board on 26 May 2000. Last re-elected as a Director on 29 April 2004. An independent and non-executive Director. Member of the Bank's Executive, Nominating and Remuneration Committees. Chairman of Accuron Technologies Limited, an aerospace and precision engineering company based in Singapore and Chairman of MTIC Holdings Pte Ltd.

Holds a Bachelor of Applied Science (Industrial Engineering), an Honorary Doctorate of Engineering from the University of Toronto, an Honorary Doctorate of Medicine from the Karolinska Institutet, Sweden, a Master of Science (Systems Engineering) from the University of Singapore and a Master of Business Administration from Harvard University, USA.

Prof Cham Tao Soon

Age 67. University Distinguished Professor of Nanyang Technological University (NTU). Held the post of President of NTU from 1981 to 2002.

Appointed to the Board on 6 April 2001. Last re-elected as a Director on 27 April 2006. An independent and non-executive Director. Member of the Bank's Executive, Nominating and Remuneration Committees. Chairman of NatSteel, Singapore Symphonia Company, Singapore-China Foundation and MFS Technology Limited. Deputy Chairman of Singapore Press Holdings and Director of WBL Corporation. Board Member of Land Transport Authority and Singapore International Foundation. A Member of the Council of Presidential Advisers and Chancellor of SIM University. Former Director of Adroit Innovations, Keppel Corporation, TPA Strategic Holdings and Robinson & Company.

Prof Cham Tao Soon (cont'd)

Holds a Bachelor of Engineering (Civil, Honours) from the University of Malaya, a Bachelor of Science (Mathematics, Honours) from the University of London and a Doctor of Philosophy (Fluid Mechanics) from the University of Cambridge, UK. Fellow of the Institution of Engineers, Singapore and Institution of Mechanical Engineers, UK.

Mr Ngiam Tong Dow

Age 69. Chairman of Surbana Corporation Pte Ltd. Served as Chairman of Housing & Development Board from 1998 to 2003. Has a distinguished public service career, having held the post of Permanent Secretary in the Prime Minister's Office, Ministries of Finance, Trade & Industry, National Development, and Communications.

Appointed to the Board on 3 February 2005. Last re-elected as a Director on 27 April 2005. An independent and non-executive Director. Member of the Bank's Executive and Nominating Committees. Director of Singapore Press Holdings and Yeo Hiap Seng. Has served as Chairman of Central Provident Fund Board, Development Bank of Singapore, Economic Development Board and Telecommunication Authority of Singapore, and as Deputy Chairman of the Board of Commissioners of Currency, Singapore.

Holds a Bachelor of Arts (Economics, Honours) from the University of Malaya, Singapore, and a Master of Public Administration from Harvard University, USA.

Corporate Governance

The Bank is committed to maintaining the highest standards in corporate governance. The Bank's approach to corporate governance is based on the Banking (Corporate Governance) Regulations ("Banking Regulations 2005") and the Guidelines On Corporate Governance For Banks, Financial Holding Companies and Direct Insurers issued by the Monetary Authority of Singapore ("MAS Guidelines on Corporate Governance").

This statement describes the Company's corporate governance policies and practices.

Board's Conduct of its Affairs

The Board provides entrepreneurial leadership and strategic direction for the Company. The Board also:-

- reviews and approves business plans and budgets;
- monitors financial performance;
- determines capital structure;
- sets dividend policy/declares dividends;
- approves major acquisitions and divestments;
- reviews the risk management framework;
- sets company values and standards; and
- performs succession planning for itself and the CEO

The Board has formed three board committees to assist in the effective discharge of specific responsibilities. They are the Executive Committee, the Nominating Committee and the Remuneration Committee. The membership and duties and responsibilities of these committees are set out in the subsequent pages of this report.

Board Composition & Independence

The Board consists of eight members, two of whom are executive and non-independent directors and six are non-executive and independent directors. The names of the Board members are:-

Wee Cho Yaw *(Chairman)*	Executive & non-independent
Wee Ee Cheong *(Deputy Chairman)*	Executive & non-independent
Lee Chin Chuan	Independent
Ong Chu Meng	Independent
Wong Meng Meng	Independent
Philip Yeo Liat Kok	Independent
Prof Cham Tao Soon	Independent
Ngiam Tong Dow	Independent

Mr Wong Meng Meng is a partner of a law firm and a director of a law joint venture that provided legal services to the United Overseas Bank ("UOB") Group in 2006. The Nominating Committee is of the view that Mr Wong Meng Meng could be considered as an independent director as he is able to maintain his objectivity and independence at all times in the discharge of his duties.

The Board considers that the current board size of eight members is adequate for effective management and decision-making.

Corporate Governance

Board Competency

The Nominating Committee has assessed the specific qualities and skills of the directors and is of the view that they possess the necessary skills for the Bank's business. Detailed information on the directors' experience and qualifications can be found on pages 6 to 8.

Directors have the opportunity to attend training courses and seminars. A budget is set aside yearly for directors' training needs. New directors are given guidance on the duties and responsibilities of directors and relevant regulatory requirements.

The directors may also request for independent professional advice to be obtained in the discharge of their duties.

Board Meetings

The Board holds four scheduled meetings a year. Additional meetings may be held to deal with specific matters in between scheduled meetings where necessary. The directors' attendance record is set out on page 13.

Prior to Board and Board Committee meetings, the directors are provided with financial and operational reports to enable them to discharge their board duties. The financial reports provide detailed information on the Bank's performance against budgeted and actual results and explanations of any material variance. Directors may request additional information or seek clarification on any matter concerning the Bank from management to whom they have direct access.

All directors have access to advice from the Company Secretary. The Secretary keeps the Board informed of relevant laws and regulations and updated on corporate governance matters.

Chairman and Chief Executive Officer ("CEO")

The Chairman provides leadership to the Board and ensures that board meetings are conducted regularly. The CEO is responsible for the day-to-day running of the Bank and ensures that the Board's decisions and strategies are carried out effectively. Mr Wee Cho Yaw is both the Chairman and CEO of the Bank since 1984. He has been able to execute the responsibilities of both these roles effectively. The Banking Regulations 2005 makes an exception for an incumbent to hold the position of chairman and CEO concurrently.

Board Committees

The three board committees which assist the Board in the discharge of specific functions are:-

The Executive Committee ("Exco") is delegated certain discretionary limits and authority for granting loans and other credit facilities, capital expenditure and budgeting. The Exco assists the Board in reviewing the Bank's annual budget and business plans drawn up by senior management. The Exco also oversees the risk profile of the Bank. The Exco meets monthly to receive management reports on these matters.

The members of the Exco are:

Wee Cho Yaw *(Chairman)*	Executive & Non-independent
Wee Ee Cheong	Executive & Non-independent
Ngiam Tong Dow	Independent
Prof Cham Tao Soon	Independent
Philip Yeo Liat Kok	Independent

The Nominating Committee ("NC") reviews nominations of directors for appointment to the Board and Board Committees and also to the key positions of CEO, President and Chief Financial Officer. Each year, the NC assesses the independence and performance of the directors and the Board. The assessment of directors' performance are based on a set of criteria, including the directors' attendance record, overall preparedness, participation, candour, and clarity in communication, maintenance of expertise relevant to the Group, strategic insight, financial literacy, business judgement and sense of accountability. The NC meets at least once a year and the membership of the NC is reviewed each year.

The NC reviews nominations for appointment of directors based on a set of eligibility criteria. Nominated candidates are assessed by the Board against a range of criteria including background, experience, professional skills, personal qualities and their availability to commit themselves to the Board's activities.

The NC is chaired by Mr Wong Meng Meng, an independent director. The NC comprises three directors, the majority of whom are independent. They are:-

Wong Meng Meng *(Chairman)*	Independent
Wee Cho Yaw	Non-independent
Philip Yeo Liat Kok	Independent
Prof Cham Tao Soon	Independent
Ngiam Tong Dow	Independent
Wee Ee Cheong *(Alternate to Wee Cho Yaw)*	Non-Independent

The Remuneration Committee ("RC") reviews and recommends the amount of directors' fee, allowances and remuneration of the executive directors. The Board recommends directors' fees as a lump sum for shareholders' approval at every Annual General Meeting. The sum is divided among the directors with those having additional responsibilities as chairman or members of Board Committees receiving a higher portion of the approved fees. Details of the total fees and other remuneration of the directors are set out in the Directors' Report on page 40.

The Bank is a subsidiary of UOB. The network, infrastructure and management expertise of the UOB Group are made available to the Bank whose operations are managed by UOB in return for an annual management fee. The senior management functions of the Bank are performed by the senior management of UOB whose salaries are paid by UOB. Hence, the requirements to disclose the salaries of the Bank's top five executives do not apply to the Bank as it does not have senior executives of its own. There is no immediate family member of a director in the employ of the Bank whose annual remuneration exceeds $150,000/-.

The MAS Guidelines on Corporate Governance recommend that the chairman of a remuneration committee should be an independent and non-executive director. Similarly, the Banking Regulations 2005 also requires the chairman of the RC to be independent but makes an exception for incumbents. The Board is of the view that Mr Wee Cho Yaw, the incumbent RC Chairman, is the best person to chair the RC.

The members of the RC are:-

Wee Cho Yaw *(Chairman)*	Non independent
Philip Yeo Liat Kok	Independent
Prof Cham Tao Soon	Independent

The RC meets at least once a year.

Corporate Governance

UOB Audit Committee

The UOB Audit Committee ("UOB AC") performs for the Bank all the functions of an audit committee. The UOB AC reviews the financial statements, the internal and external audit plans and audit reports, the external auditors' evaluation of the system of internal accounting controls, the scope and results of the internal and external audit procedures, the adequacy of internal audit resources and the cost effectiveness, independence and objectivity of the external auditors. Annually, the UOB AC nominates the external auditors. The UOB AC has nominated Messrs Ernst & Young for re-appointment as the Bank's auditors for shareholders' approval at the forthcoming Annual General Meeting.

The UOB AC reviews with the internal and external auditors their evaluation of the Bank's internal control systems and risk management processes, and reports the results of its review 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.

Internal Audit

The internal audit function of the Bank is performed by Group Internal Audit of UOB, its parent bank ("Group Audit"). Group Audit reviews all the Bank's units and operations. Group Audit prioritises its audits according to its assessment of risks. Group Audit's responsibilities include, but are not limited to, the audit of operations, lending practices, financial controls, management directives, regulatory compliance, information technologies and the risk management processes of the Bank.

Risk Management

The Board has the overall responsibility for determining the type and level of business risks that the Bank undertakes. Risks are identified, measured, monitored and managed within a robust risk management framework and returns must be commensurate with the risks taken. The key risks which the Bank manages are credit and country risk, balance sheet risk, liquidity risk, market risk and operational risk.

The Bank's Exco oversees the risk profile of the Bank. As part of UOB's management of the Bank, various committees comprising top management and senior executives of UOB such as the Credit Committee, Asset Liability Committee, Investment Committee, Computer Committee, Management Committee and Management Executive Committee have been delegated the authority to formulate, review and approve policies and limits on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these committees are reviewed by the Bank's Exco. UOB Group Risk Management and Group Compliance, which are independent of the business units, perform the respective roles of implementing risk management policies and ensuring compliance by the business units with all applicable laws and regulatory standards.

Communication with shareholders

Information and notices, including the Bank's annual report, for shareholders are either published in the press or sent to shareholders. Shareholders are given the opportunity to raise relevant questions and communicate their views at shareholders' meetings.

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 practice. 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.

Directors' Attendance for 2006

	Number of Meetings Attended in 2006			
Name of Director	Board of Directors	Executive Committee	Nominating Committee	Remuneration Committee
Wee Cho Yaw	4	11	1	1
Wee Ee Cheong	4	11	-	-
Lee Chin Chuan	4	-	-	-
Ong Chu Meng	2	-	-	-
Wong Meng Meng	3	-	1	-
Philip Yeo Liat Kok (appointed as Exco member on 10.2.2006)	4	6	1	1
Prof Cham Tao Soon (appointed as Exco member on 10.2.2006)	4	10	1	1
Ngiam Tong Dow	4	10	1	-
Number of Meetings Held in 2006	4	11	1	1

Group Financial Review

Review of financial performance

Overview of balance sheet

Note

- Certain figures in this report may not add up to the relevant totals due to rounding.

- Certain comparative figures has been restated to conform with the current year's presentation.

Review of financial performance

Highlights and performance indicators

	2006	2005		Variance (%)
Summarised profit and loss ($ million)				
Net interest income (NII)	21.4	19.7	+	8.4
Non-interest income (Non-NII)	5.7	5.4	+	5.5
Total income	27.1	25.1	+	7.8
Less: Total expenses	9.4	9.0	+	3.5
Operating profit before impairment charges	17.7	16.1	+	10.2
Less: Impairment charges	1.2	0.1		NM
Less: Tax	3.0	3.2	–	5.6
Net profit after tax	13.5	12.8	+	5.1
Key indicators				
Income mix (%):				
NII/Total income	79.0	78.6	+	0.4% point
Non-NII/Total income	21.0	21.4	–	0.4% point
	100.0	100.0		–
Return on average shareholders' equity (ROE) (%)	7.8	7.9	–	0.1% point
Basic earnings per share (EPS) (cents)	13.5	12.8	+	5.5
Return on average total assets (ROA) (%)	1.6	1.6		–
Net interest margin (%)	2.79	2.59	+	0.20% point
Expense/Income ratio (%)	34.5	35.9	–	1.4% points
Final dividend per share (cents)	2.0	2.0		–
Other indicators				
Customer loans (net) ($ million)	213.0	257.2	–	17.2
Customer deposits ($ million)	615.3	647.7	–	5.0
Loans/Deposits ratio+ (%)	34.6	39.7	–	5.1% points
Non-performing loans (NPLs) ($ million)	6.0	7.8	–	23.3
Cumulative impairment ($ million)	12.5	13.3	–	5.9
NPLs/Gross customer loans (%)	2.7	2.9	–	0.2% point
Cumulative impairment/NPLs (%)	208.1	169.6	+	38.5% points
Total assets ($ million)	835.6	860.2	–	2.9
Shareholders' equity ($ million)	178.8	166.7	+	7.2
Revaluation surplus* ($ million)	57.8	41.1	+	40.6
Net asset value (NAV) per share ($)	1.79	1.67	+	7.2
Revalued NAV per share ($)	2.37	2.08	+	13.9
Capital adequacy ratio (%)	58.5	50.9	+	7.6% points

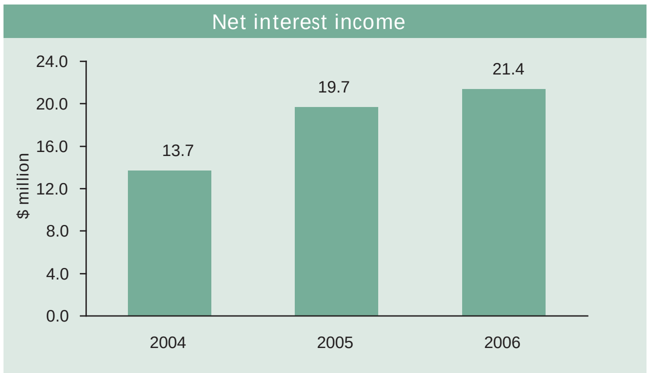
+ "Loans" refer to net customer loans while "Deposits" refer to customer deposits.
** Refer to unrealised revaluation surplus on properties which was not incorporated into the financial statements.*
NM denotes "not meaningful".

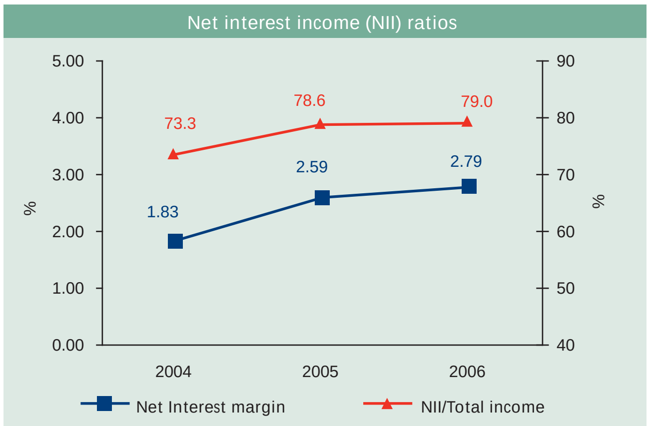
Group Financial Review

Review of Group performance

The Group recorded a net profit after tax (NPAT) of $13.5 million for the financial year ended 31 December 2006, representing an increase of 5.1% over the $12.8 million recorded for the financial year ended 31 December 2005. The increase in NPAT was mainly attributed to higher net interest income and profit on disposal of fixed assets, partially offset by higher impairment charges and operating expenses.

Net interest income





Net interest income for the Group increased 8.4% to $21.4 million in 2006 from $19.7 million in 2005. Net interest income continued to be the major contributor of total income, accounting for 79.0% (2005: 78.6%) of total income.

The increase in net interest income was mainly from inter-bank money market activities, partially offset by lower contributions from loans.

Net interest margin rose 20 basis points to 2.79% in 2006 from 2.59% in 2005.

Average interest rates and margin

	2006			2005		
	Average balance $'000	Interest $'000	Average interest rate %	Average balance $'000	Interest $'000	Average interest rate %
Total interest bearing assets	766,405	28,141	3.67	763,726	23,939	3.13
Total interest bearing liabilities	610,139	6,740	1.10	616,007	4,195	0.68
Net interest income		21,401			19,744	
Net interest margin +			2.79			2.59

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

Non-interest income

The Group's non-interest income for 2006 accounted for 21.0% of total income. Total non-interest income increased by 5.5% to $5.7 million in 2006 from $5.4 million in 2005. The increase was mainly due to profit on disposal of fixed assets, partly offset by loss on Singapore Government securities and lower rental income.

Composition of non-interest income

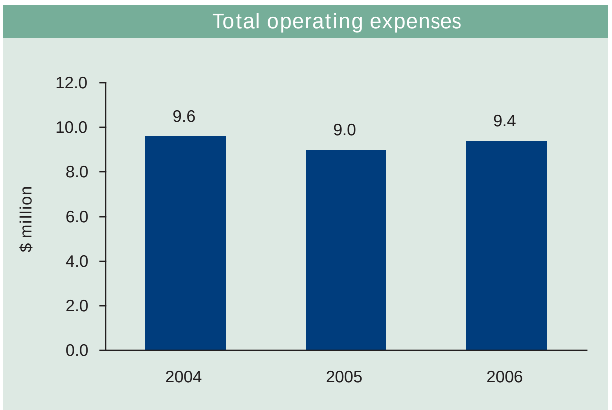
	2006 $'000	2005 $'000	Variance %
Fee and commission income			
Investment-related	192	3	NM
Loan-related and trade-related	535	689	(22.4)
Other	484	559	(13.4)
	1,211	1,251	(3.2)
Dividend and rental income	2,587	2,703	(4.3)
Other operating income			
Net profit/(loss) from:			
Government securities	(40)	447	(108.9)
Foreign exchange	289	323	(10.5)
Disposal of fixed assets	948	(12)	NM
Other	689	675	2.1
	1,886	1,433	31.6
Total non-interest income	5,684	5,387	5.5

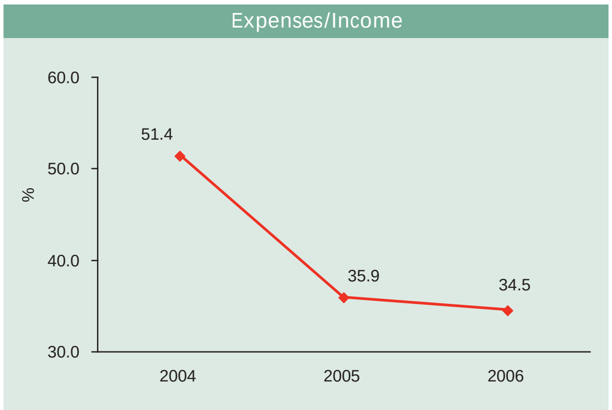
Operating expenses

Total operating expenses increased to $9.4 million in 2006 from $9.0 million in 2005, mainly due to higher management fees payable to holding company, partially offset by lower staff costs.

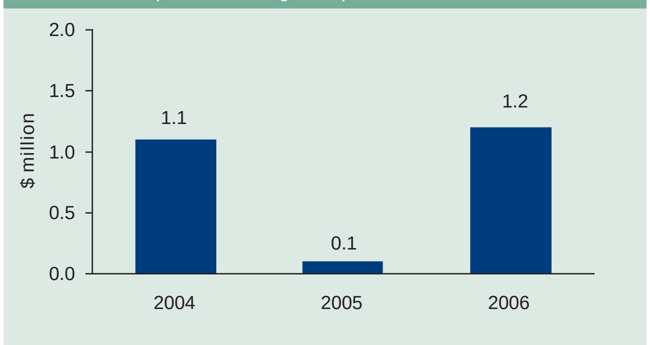
With the increase in total income outpacing the increase in total expenses, the expense-to-income ratio of the Group improved 1.4% points to 34.5% in 2006 from 35.9% in 2005.

	2006 $'000	2005 $'000	Variance %
Staff costs	597	1,031	(42.1)
Other operating expenses	8,755	8,002	9.4
Total operating expenses	9,352	9,033	3.5





Impairment charged to profit and loss account



Impairment charged to profit and loss account

Total impairment charges was $1.2 million in 2006 as compared to $0.1 million in 2005 mainly due to higher impairment charges on loans.

	2006 $'000	2005 $'000	Variance %
Individual impairment on			
Loans	1,343	129	941.1
Investments	(18)	(41)	56.1
Properties and other fixed assets	(104)	(30)	(246.7)
Total impairment charges	1,221	58	NM

Overview of balance sheet

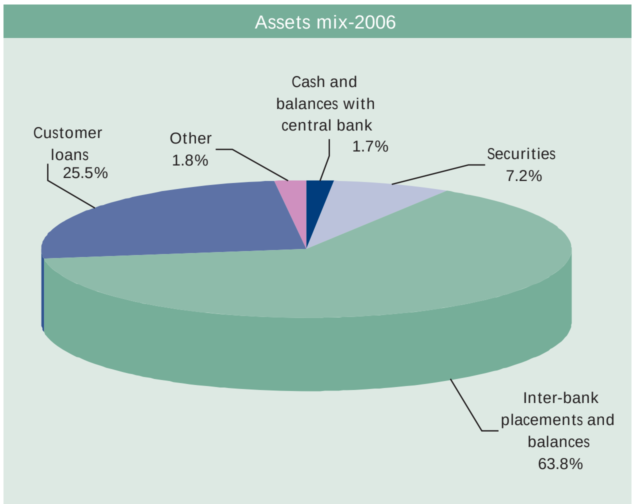
Total assets

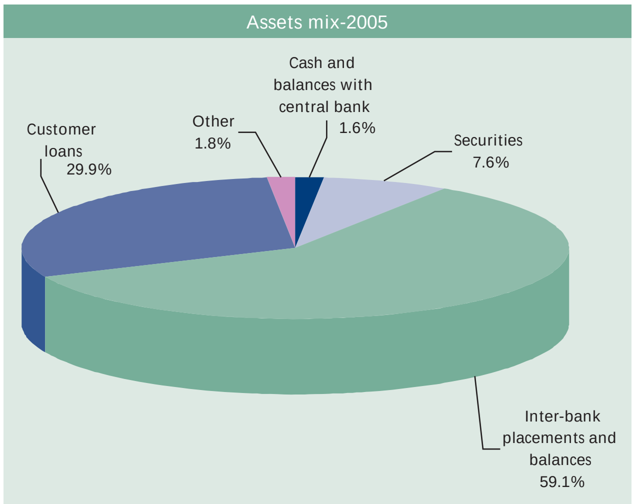
Group total assets decreased 2.9% to $835.6 million as at 31 December 2006 from $860.2 million as at 31 December 2005. The decrease was primarily from customer loans, partially offset by increase in inter-bank placements and balances.

Assets mix

	2006		2005	
	$'000	%	$'000	%
Cash and balances with central bank	14,076	1.7	13,830	1.6
Securities*	59,908	7.2	65,550	7.6
Inter-bank placements and balances	533,293	63.8	508,200	59.1
Customer loans	212,994	25.5	257,186	29.9
Other	15,365	1.8	15,451	1.8
Total assets	835,636	100.0	860,217	100.0

** Comprising Singapore Government treasury bills and securities and investment securities.*





Securities

Securities held by the Group as at 31 December 2006 were $59.9 million (2005: $65.6 million), comprising mainly Singapore Government treasury bills and securities.

	2006		2005	
	$'000	%	$'000	%
Singapore Government treasury bills and securities	59,154	98.7	64,792	98.8
Quoted equity shares	754	1.3	758	1.2
Total securities	59,908	100.0	65,550	100.0

Customer loans

Net loans and advances to customers were lower at $213.0 million as at 31 December 2006 compared to $257.2 million as at 31 December 2005. The decrease by $44.2 million or 17.2% was mainly from housing loans, overdrafts and term loans.

Customer loans analysed by product group

	2006		2005	
	$'000	%	$'000	%
Housing loans	75,469	33.5	99,439	36.8
Term loans	87,475	38.8	95,586	35.3
Trade financing	13,623	6.0	16,317	6.0
Overdrafts	48,903	21.7	59,105	21.9
Total gross customer loans	225,470	100.0	270,447	100.0
Individual impairment	(417)		(1,202)	
Collective impairment	(12,059)		(12,059)	
Total net customer loans	212,994		257,186	

Gross customer loans analysed by industry

	2006		2005	
	$'000	%	$'000	%
Manufacturing	16,945	7.5	20,256	7.5
Building and construction	8,710	3.9	10,846	4.0
Housing loans	75,469	33.5	99,439	36.8
General commerce	56,074	24.9	67,017	24.8
Transport, storage and communication	2,778	1.2	3,197	1.2
Non-bank financial institutions	9,289	4.1	10,190	3.8
Professionals and private individuals (excluding housing loans)	52,153	23.1	55,567	20.5
Other	4,052	1.8	3,935	1.4
Total gross customer loans	225,470	100.0	270,447	100.0

Gross customer loans analysed by currency and fixed/variable rates

	2006			2005		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Singapore dollar	49,811	168,424	218,235	52,143	209,674	261,817
US dollar	4,152	97	4,249	5,600	301	5,901
Japanese yen	1,026	–	1,026	1,844	–	1,844
Other	1,960	–	1,960	885	–	885
Total gross customer loans	56,949	168,521	225,470	60,472	209,975	270,447

Gross customer loans analysed by remaining maturity

	2006		2005	
	$'000	%	$'000	%
Within 1 year	76,410	33.9	92,368	34.2
Over 1 year but within 3 years	22,747	10.1	27,347	10.1
Over 3 years but within 5 years	21,671	9.6	23,606	8.7
Over 5 years	104,642	46.4	127,126	47.0
Total gross customer loans	225,470	100.0	270,447	100.0

Deposits

Total deposits decreased by 5.4% or $37.0 million to $645.7 million as at 31 December 2006 from $682.7 million as at 31 December 2005, mainly attributed to lower fixed deposits, partially offset by higher savings and other deposits.

Deposits analysed by product group

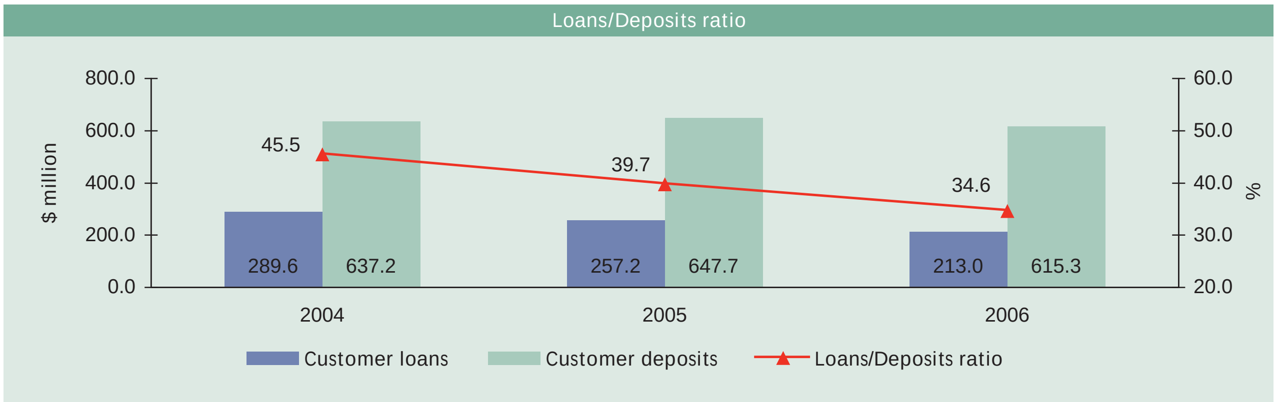
	2006		2005	
	$'000	%	$'000	%
Customer deposits				
Fixed deposits	258,705	40.1	304,823	44.7
Savings and other deposits	356,618	55.2	342,866	50.2
	615,323	95.3	647,689	94.9
Fellow subsidiaries' deposits	1,988	0.3	1,833	0.3
Holding company's deposits	28,376	4.4	33,135	4.8
Total deposits	645,687	100.0	682,657	100.0

Deposits analysed by remaining maturity

	2006		2005	
	$'000	%	$'000	%
Within 1 year	610,074	94.5	654,573	95.9
Over 1 year but within 3 years	16,689	2.6	6,893	1.0
Over 3 years but within 5 years	12,146	1.9	21,191	3.1
Over 5 years	6,778	1.0	-	-
Total deposits	645,687	100.0	682,657	100.0

Loans/Deposits ratio

With the decrease in net customer loans of 17.2% outpacing the decrease in customer deposits of 5.0%, the loans-to-deposits ratio declined 5.1% points to 34.6% in 2006 from 39.7% in 2005.



Shareholders' equity

Shareholders' equity as at 31 December 2006 was $178.8 million, representing a 7.2% increase over the $166.7 million as at 31 December 2005.

As at 31 December 2006, revaluation surplus of $57.8 million (2005: $41.1 million) on properties was not included in the financial statements.

	2006 $'000	2005 $'000	Variance %
Shareholders' equity	178,755	166,731	7.2
Add: Revaluation surplus	57,752	41,068	40.6
Shareholders' equity including revaluation surplus	236,507	207,799	13.8
Net asset value (NAV) per share ($)	1.79	1.67	7.2
Revaluation surplus per share ($)	0.58	0.41	41.5
Revalued NAV per share ($)	2.37	2.08	13.9

Capital adequacy ratios

The Capital Adequacy Ratios ("CAR") of the Group were computed in accordance with the capital framework set by the Monetary Authority of Singapore ("MAS").

As at 31 December 2006, the Group's total CAR was 58.5%, well above the minimum total CAR of 10% set by MAS. Compared to the total CAR of 50.9% as at 31 December 2005, it had increased 7.6% points attributed mainly to net profit for the financial year and lower risk-weighted assets.

	2006	2005
	$'000	$'000
Tier 1 Capital		
Share capital	100,011	100,011
Disclosed reserves	77,172	66,617
	177,183	166,628
Upper Tier 2 Capital		
Cumulative collective impairment	3,870	4,200
Revaluation surplus on equity securities	141	143
	4,011	4,343
Total capital	181,194	170,971
Risk-weighted assets (including market risk)	309,615	336,033
Capital adequacy ratios		
Tier 1 capital	57.2%	49.6%
Total capital	58.5%	50.9%

Risk Management

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, minimize 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 35.1% and 67.8% 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 it 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 & private individuals accounted for 56.6% of FEB Group's exposure as at 31 December 2006.

The composition of loans and advances and contingent liabilities (including non-performing loans) to customers as at 31 December were as follows:

By industry type (%)	Loans & advances		Contingent liabilities		Non-performing Loans	
	2006	2005	2006	2005	2006	2005
Manufacturing	7.5	7.5	4.0	3.8	–	–
Building and construction	3.9	4	12.0	12.6	–	–
Housing Loans	33.5	36.8	–	–	26.3	18.6
General Commerce	24.9	24.8	35.6	37.9	6.2	50.8
Transport, storage and communication	1.2	1.2	12.5	10.3	–	–
Non-bank financial institutions	4.1	3.8	26.6	24.2	7.0	22.6
Professionals and private individuals	23.1	20.5	6.0	7.7	59.6	8.0
Others	1.8	1.4	3.3	3.5	0.9	–
Total (%)	100.0	100	100.0	100.0	100.0	100.0
Total gross loans (S$ million)	225.5	270.4	15.2	15.6	6.0	7.8

Classification and impairment charges on loans

The Bank 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 MAS Notice 612 (March 2005).

Write-off and charge-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.

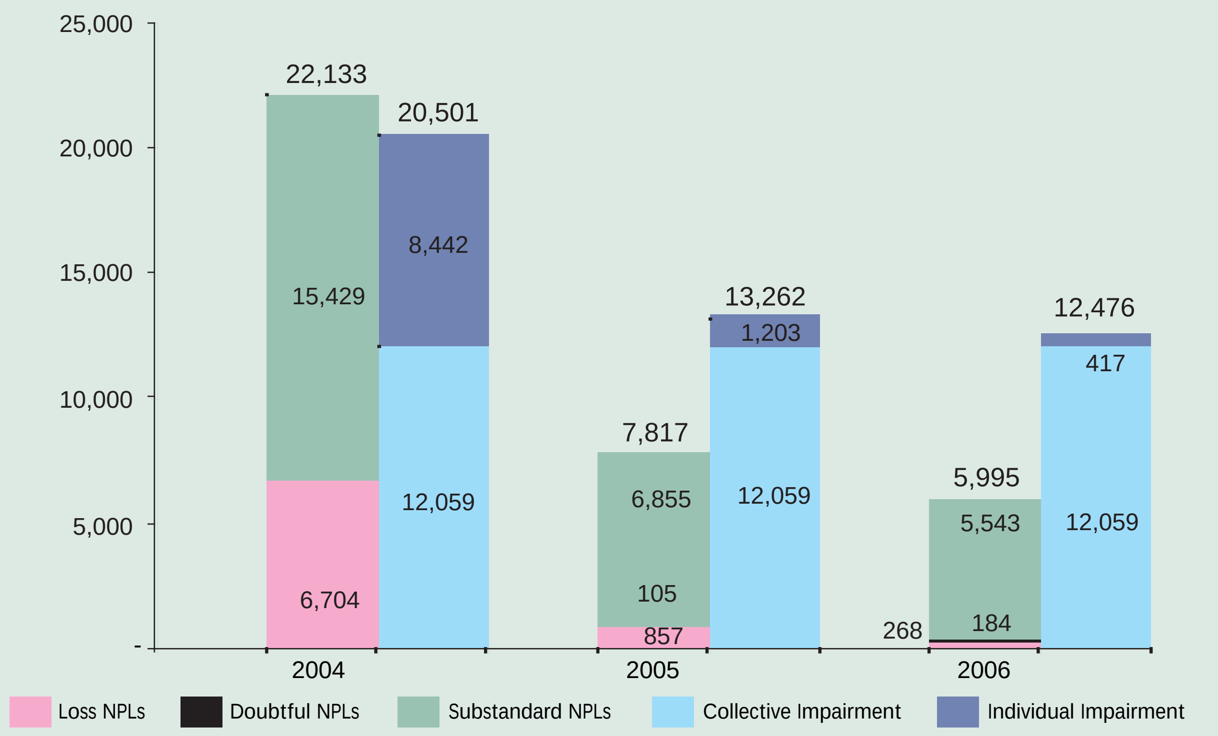
Non-performing loans (NPLs) and cumulative impairment of the Bank

The Bank's non-performing loans (NPLs) decreased by $1.8 million or 23.3% to $6.0 million as at 31 December 2006, compared to $7.8 million as at 31 December 2005. Correspondingly, NPLs as a percentage of gross customer loans improved to 2.7% as at 31 December 2006, from 2.9% as at 31 December 2005

Individual impairment declined by $0.8 million or 65.3% to $0.4 million as at 31 December 2006, compared to $1.2 million as at 31 December 2005. Collective impairment remained unchanged at $12.1 million or 96.7% of the total cumulative impairment as at 31 December 2006. The cumulative impairment provided 208.1% cover against the Bank's NPLs.

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

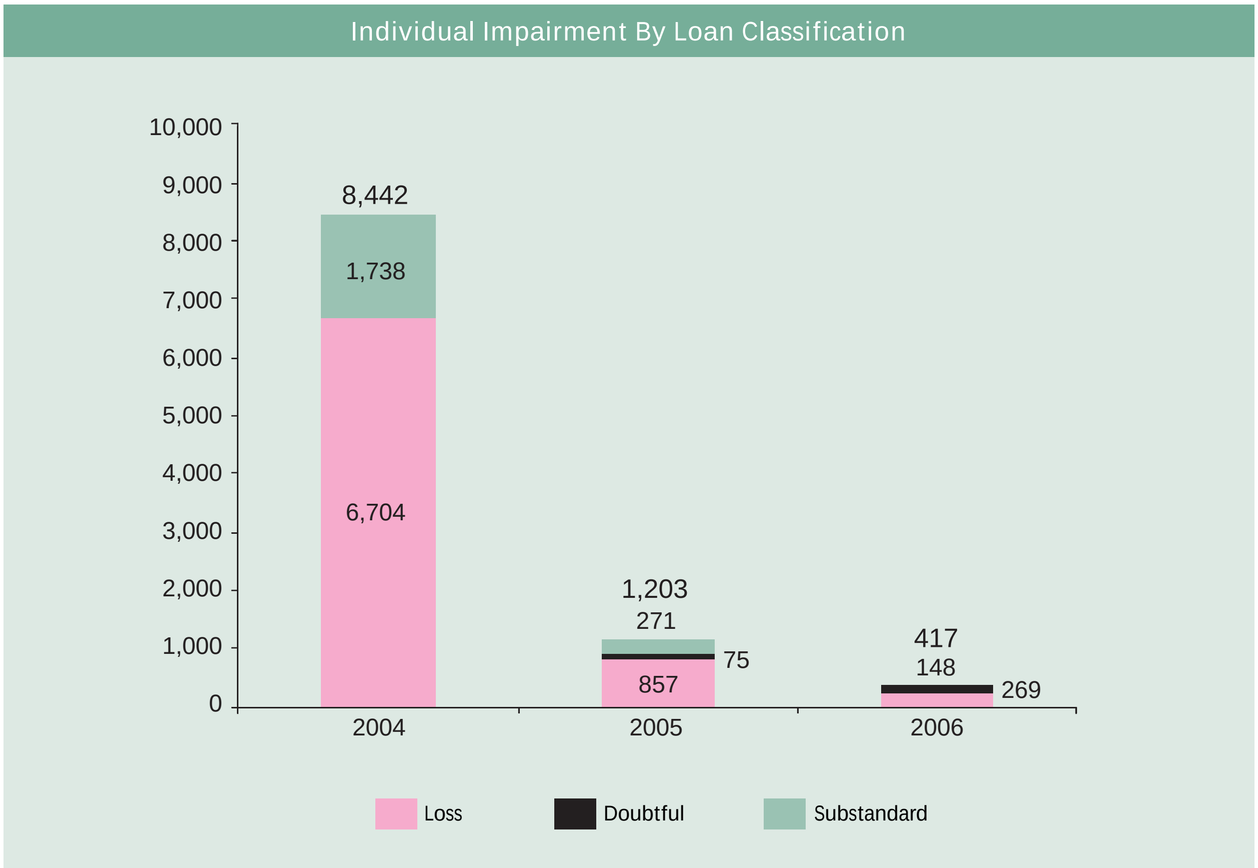
Non-performing loans and cumulative impairment



Ratios (%)	2006	2005	2004
NPLs /Gross customer loans	2.7	2.9	7.1
NPLs/Total assets	0.7	0.9	2.7
Cumulative impairment/NPLs	208.1	169.7	92.6
Cumulative impairment/Unsecured NPLs	2,760.2	388.0	300.8
Cumulative impairment/Gross customer loans	5.5	4.9	6.6
Collective impairment/Gross customer loans (net of Individual impairment for loans)	5.5	4.5	4.0

Individual impairment by loan classification

As at 31 December 2006, about 64.5% of individual impairment made for expected loan losses is for 'Loss' accounts. The individual impairment for each classified loan grade is shown in the following chart:



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. The ageing of NPLs at 31 December was as follows:

Ageing (Days)	2006		2005	
	Amount ($'000)	% Of Total NPLs	Amount ($'000)	% Of Total NPLs
Current	3,440	57.4	2,081	26.6
≤ 90	1,629	27.2	904	11.6
91 to 180	590	9.8	570	7.3
≥ 181	336	5.6	4,262	54.5
Total	5,995	100.0	7,817	100.0

Collateral Types

The majority of the classified loans are secured by properties. Properties are valued semi-annually. As at 31 December 2006, 92.5% of NPLs was secured by collateral, compared to 56.3% as at 31 December 2005.

The secured NPLs of the Bank by collateral type were as follows:

	2006	2005
	$'000	$'000
Property	4,224	4,398
Stocks & Shares	1,319	–
Total	5,543	4,398

Balance Sheet Risk Management

Balance sheet risk management is about managing interest rate 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 the 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 and the Board of Directors. At a tactical level, Global Treasury's Asset Liability Management unit 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.

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 exposure is quantified using a combination of dynamic simulation modeling 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 currency. Mismatches in the longer tenor will experience greater change in the price value of interest rate positions than similar position in the shorter tenor for prevailing rate change.

The table in Note 32(c) of Notes to the Financial Statements represents the Bank's interest rate risk sensitivity based on contractual repricing mismatches as at 31 December 2006. The Bank had an overall positive interest rate sensitivity gap of $265.1 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 the 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 effect of embedded options. Embedded options may be in the form of loan prepayments and deposit premature 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 risk across the full maturity profile of the balance sheet, including off-balance sheet items.

Stress testing is also performed regularly to determine the adequacy of 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 Executive Committee and the Board of Directors.

Liquidity Risk Management

Liquidity risk is defined as the risk to the bank's earnings or capital 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 to address 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 minimizing excessive funding concentrations by diversifying sources and term of funding as well as maintaining a portfolio of high quality and marketable debt securities.

The distribution of deposits is managed actively to ensure a balance between cost effectiveness, continued accessibility to funds, and diversification of funding sources. Important factors in 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 analyzing 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 effectively managing the overall liquidity cash flows in accordance with the Group's approved liquidity risk management policies and limits.

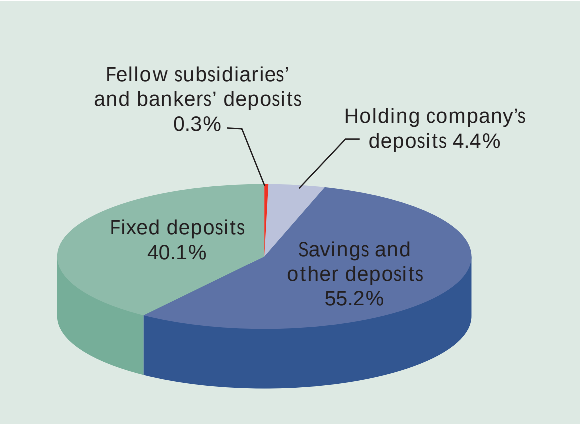
Liquidity contingency funding plans are in place to identify a liquidity crisis through early warning indicators; detailing crisis escalation process and the various strategies including funding and communication strategies to be taken to minimize the impact of a liquidity crunch.

The table in Note 32 (d) of Notes to the Financial Statements presents the maturity mismatch analysis of the Bank's near and long-term time bands relating to the cash inflows and outflows based on contractual classifications arising from the Bank's activities. The projected net cash inflow in the 'Up to 7 Days' time band of $73.5 million.

Sources of deposits

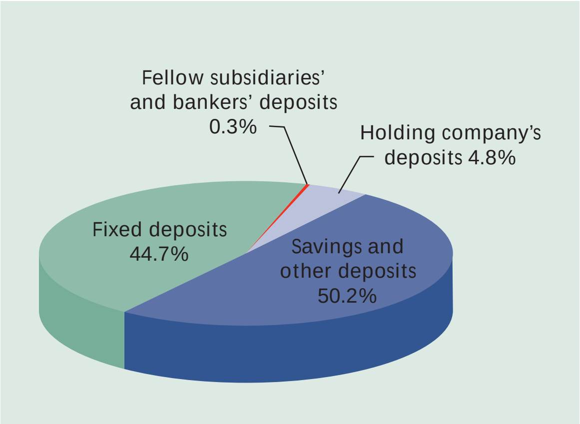
The Group has access to diverse funding sources. Liquidity is provided by a variety of both short-and long-term products. The diversity of funding sources enhances funding flexibility, reduces dependency on any one source of funds, and generally reduces the overall cost of funds. In making funding decisions, 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 Bank's overall funding base in the year under review. As at 31 December 2006, these deposits amounted to $615.3 million and accounted for 95.3% of total Bank deposits. Fellow subsidiaries', bankers' and holding company's deposits on the other hand, amounted to only $30.4 million and formed the remaining 4.7% of total Bank deposits. In terms of deposits' mix, savings and other deposits comprised the majority of the funding base at 55.2% followed by fixed deposits at 40.1%.



Sources of deposits – 2006

	$'000	%
Customer deposits		
Fixed deposits	258,705	40.1
Savings and other deposits	356,618	55.2
Fellow subsidiaries' and bankers' deposits	1,988	0.3
Holding company's deposits	28,376	4.4
Total Deposits	645,687	100.0



Sources of deposits – 2005

	$'000	%
Customer deposits		
Fixed deposits	304,823	44.7
Savings and other deposits	342,866	50.2
Fellow subsidiaries' and bankers' deposits	1,833	0.3
Holding company's deposits	33,135	4.8
Total Deposits	682,657	100.0

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, 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.

Directors' Report

for the financial year ended 31 December 2006

The directors are pleased to present their report to the members together with the audited financial statements of Far Eastern Bank Limited (the "Bank") and its subsidiaries (the "Group") for the financial year ended 31 December 2006.

Directors

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

Mr Wee Cho Yaw	*(Chairman & Chief Executive Officer)*
Mr Wee Ee Cheong	*(Deputy Chairman & President)*
Mr Lee Chin Chuan	
Mr Ong Chu Meng	
Mr Wong Meng Meng	
Mr Yeo Liat Kok Philip	
Prof. Cham Tao Soon	
Mr Ngiam Tong Dow	

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose object was to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than those issued in connection with the UOB 1999 Share Option Scheme as set out in this report.

Directors' interests in shares or debentures

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

	Direct interest		Deemed interest	
	At 31.12.2006	At 1.1.2006	At 31.12.2006	At 1.1.2006
Ordinary shares				
The Bank				
Mr Lee Chin Chuan	538,178	538,178	–	4,561,671
Mr Ong Chu Meng	302,185	302,185	2,020,453	2,020,453
United Overseas Bank Limited				
Mr Wee Cho Yaw	16,390,248	16,390,248	245,208,142	245,208,142
Mr Wee Ee Cheong	2,794,899	2,794,899	146,085,251	146,085,251
Mr Lee Chin Chuan	–	–	–	83,727
Prof. Cham Tao Soon	–	–	9,775	6,520
Mr Ngiam Tong Dow	–	–	8,600	8,600
United Overseas Insurance Limited				
Mr Wee Cho Yaw	25,400	25,400	–	–

(b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share options of related corporations.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except that certain directors received remuneration from related corporations in their capacity as directors and/or executives of those corporations.

Directors' Report

for the financial year ended 31 December 2006

Directors' fees and other remuneration

Details of the total fees and other remuneration paid/payable by the Group to the directors of the Bank for the financial year ended 31 December 2006 are as follows:

	Directors' fees %	Base or fixed salary %	Variable performance bonus %	Benefit-in-kind and others %	Total %
Below $250,000					
Mr Wee Cho Yaw	100.0	–	–	–	100.0
Mr Wee Ee Cheong	100.0	–	–	–	100.0
Mr Lee Chin Chuan	100.0	–	–	–	100.0
Mr Ong Chu Meng	100.0	–	–	–	100.0
Mr Wong Meng Meng	100.0	–	–	–	100.0
Mr Yeo Liat Kok Philip	100.0	–	–	–	100.0
Prof. Cham Tao Soon	100.0	–	–	–	100.0
Mr Ngiam Tong Dow	100.0	–	–	–	100.0

Share options

There were no options granted by the Bank or any of its subsidiaries during the financial year to subscribe for unissued shares of the Bank or its subsidiaries.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Bank or its subsidiaries.

There were no unissued shares under option in respect of the Bank or its subsidiaries as at 31 December 2006.

Auditors

Messrs Ernst & Young have expressed their willingness to accept reappointment as auditors.

On behalf of the Board of Directors,

Wee Cho Yaw
Chairman & Chief Executive Officer

Wee Ee Cheong
Deputy Chairman & President

Singapore
28 February 2007

Statement by Directors

for the financial year ended 31 December 2006

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

(a) the accompanying profit and loss accounts, balance sheets, statement of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2006, the results of the business and changes in equity of the Bank and the Group and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Wee Cho Yaw
Chairman & Chief Executive Officer

Wee Ee Cheong
Deputy Chairman & President

Singapore
28 February 2007

Auditors' Report to the Members of Far Eastern Bank Limited

for the financial year ended 31 December 2006

We have audited the accompanying financial statements of Far Eastern Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 43 to 79, which comprise the balance sheets of the Bank and the Group as at 31 December 2006, the profit and loss accounts and the statements of changes in equity of the Bank and the Group, and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards ("FRS"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion,

(i) the financial statements of the Bank and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and FRS, including the modification of the requirements of FRS39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore, so as to give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2006, the results of the Bank and of the Group, the changes in equity of the Bank and the changes in equity and cash flows of the Group for the year ended on that date; and

(ii) the accounting and other records required by the Act to be kept by the Bank and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
28 February 2007

Profit and Loss Accounts

for the financial year ended 31 December 2006

		The Group		The Bank	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Interest income	3	28,141	23,939	28,141	23,939
Less: Interest expense	4	6,740	4,195	6,741	4,196
Net interest income		21,401	19,744	21,400	19,743
Dividend income	5	44	52	44	52
Fee and commission income	6	1,211	1,251	1,211	1,251
Rental income	7	2,543	2,651	2,543	2,651
Other operating income	8	1,886	1,433	1,886	1,433
Non-interest income		5,684	5,387	5,684	5,387
Total operating income		27,085	25,131	27,084	25,130
Less:					
Staff costs	9	597	1,031	597	1,031
Other operating expenses	10	8,755	8,002	8,754	8,001
Total operating expenses		9,352	9,033	9,351	9,032
Operating profit before impairment charges		17,733	16,098	17,733	16,098
Less: Impairment charges	11	1,221	58	1,221	58
Profit before tax		16,512	16,040	16,512	16,040
Less: Tax	12a	3,050	3,230	3,050	3,230
Profit for the financial year attributable to equity holders of the Bank		13,462	12,810	13,462	12,810

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

Balance Sheets

As at 31 December 2006

		The Group		The Bank	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Equity					
Share capital	13	100,011	100,011	100,011	100,011
Statutory reserve	14	54,900	51,500	54,900	51,500
Fair value reserve	15	267	105	267	105
Revenue reserves	16	23,577	15,115	23,572	15,110
		178,755	166,731	178,750	166,726
Liabilities					
Deposits of non-bank customers	17b	615,323	647,689	615,323	647,689
Deposits of fellow subsidiaries		1,988	1,833	1,988	1,833
Deposits of subsidiaries		–	–	114	114
Deposits of and amounts owing to holding company		28,376	33,135	28,376	33,135
	17a	645,687	682,657	645,801	682,771
Bills and drafts payable		3,148	3,756	3,148	3,756
Derivative financial liabilities	29	1	–	1	–
Tax payable		3,161	3,386	3,161	3,386
Other liabilities	18	4,884	3,687	4,880	3,683
		656,881	693,486	656,991	693,596
		835,636	860,217	835,741	860,322
Off-balance sheet items					
Contingent liabilities	28	15,156	15,573	15,156	15,573
Financial derivatives	29	1,592	1,936	1,592	1,936
Commitments	30	115,911	115,286	115,911	115,286

	Note	The Group 2006 $'000	The Group 2005 $'000	The Bank 2006 $'000	The Bank 2005 $'000
Assets					
Cash and balances with central bank		14,076	13,830	14,076	13,830
Singapore Government treasury bills and securities	19	59,154	64,792	59,154	64,792
Placements and balances with banks and agents	20	14,180	13,247	14,180	13,247
Loans to non-bank customers	21	212,994	257,186	212,994	257,186
Placements with fellow subsidiaries		54	248	54	248
Placements with and amounts owing by holding company		519,059	494,705	519,059	494,705
Derivative financial assets	29	19	25	19	25
Investment securities	22	754	758	754	758
Other assets	23	4,266	3,146	4,266	3,146
Investment in a fellow associate	24	816	798	816	798
Investment in a fellow subsidiary	25	–	129	–	129
Investment in subsidiaries	26	–	–	105	105
Fixed assets	27	8,987	10,048	8,987	10,048
Deferred tax assets	12c	1,277	1,305	1,277	1,305
		835,636	860,217	835,741	860,322

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

Statements of Changes in Equity

for the financial year ended 31 December 2006

	Note	The Group Share capital $'000	 Statutory reserve $'000	 Fair value reserve $'000	 Revenue reserves $'000	 Total $'000
2006						
Balance at 1 January 2006		100,011	51,500	105	15,115	166,731
Change in available-for-sale reserve	15	–	–	162	–	162
Total gains recognised directly in equity		–	–	162	–	162
Net profit for the financial year		–	–	–	13,462	13,462
Total gains recognised for the financial year		–	–	162	13,462	13,624
Transfer to statutory reserve	14,16a	–	3,400	–	(3,400)	–
Final dividend	16a	–	–	–	(1,600)	(1,600)
Balance at 31 December 2006		100,011	54,900	267	23,577	178,755
2005						
Balance at 1 January 2005		100,011	45,050	1,132	10,355	156,548
Change in available-for-sale reserve	15	–	–	(1,027)	–	(1,027)
Total losses recognised directly in equity		–	–	(1,027)	–	(1,027)
Net profit for the financial year		–	–	–	12,810	12,810
Total gains/(losses) recognised for the financial year		–	–	(1,027)	12,810	11,783
Transfer to statutory reserve	14,16a	–	6,450	–	(6,450)	–
Final dividend	16a	–	–	–	(1,600)	(1,600)
Balance at 31 December 2005		100,011	51,500	105	15,115	166,731

	Note	Share capital $'000	Statutory reserve $'000	Fair value reserve $'000	Revenue reserves $'000	Total $'000
		The Bank				
2006						
Balance at 1 January 2006		100,011	51,500	105	15,110	166,726
Change in available-for-sale reserve	15	–	–	162	–	162
Total gains recognised directly in equity		–	–	162	–	162
Net profit for the financial year		–	–	–	13,462	13,462
Total gains recognised for the financial year		–	–	162	13,462	13,624
Transfer to statutory reserve	14,16a	–	3,400	–	(3,400)	–
Final dividend	16a	–	–	–	(1,600)	(1,600)
Balance at 31 December 2006		100,011	54,900	267	23,572	178,750
2005						
Balance at 1 January 2005		100,011	45,050	1,132	10,350	156,543
Change in available-for-sale reserve	15	–	–	(1,027)	–	(1,027)
Total losses recognised directly in equity		–	–	(1,027)	–	(1,027)
Net profit for the financial year		–	–	–	12,810	12,810
Total gains/(losses) recognised for the financial year		–	–	(1,027)	12,810	11,783
Transfer to statutory reserve	14,16a	–	6,450	–	(6,450)	–
Final dividend	16a	–	–	–	(1,600)	(1,600)
Balance at 31 December 2005		100,011	51,500	105	15,110	166,726

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

Consolidated Cash Flow Statement

for the financial year ended 31 December 2006

	2006	2005
	$'000	$'000
Cash flows from operating activities :		
Operating profit before impairment charges	17,733	16,098
Adjustments for :		
Depreciation of fixed assets	554	578
Net (profit)/loss on disposal of fixed assets	(948)	12
Operating profit before working capital changes	17,339	16,688
Changes in working capital :		
(Decrease)/increase in deposits	(32,366)	10,517
(Decrease)/increase in bills and drafts payable	(608)	1,712
Increase in other liabilities	1,198	525
Increase in placements and balances with banks and agents	(933)	(830)
Decrease in loans to non-bank customers	42,849	31,466
(Increase)/decrease in other assets	(778)	447
Increase in net balance with related companies	(28,764)	(79,819)
Cash used in operations	(2,063)	(19,294)
Income tax paid	(3,288)	(1,613)
Net cash used in operating activities	(5,351)	(20,907)
Cash flows from investing activities :		
Proceeds from disposal of fixed assets	1,559	54
Net cash provided by investing activities	1,559	54
Cash flows from financing activities :		
Dividend paid by the Bank	(1,600)	(1,600)
Net cash used in financing activities	(1,600)	(1,600)
Net decrease in cash and cash equivalents for the financial year	(5,392)	(22,453)
Cash and cash equivalents at beginning of the financial year	78,622	101,075
Cash and cash equivalents at end of the financial year (Note 31)	73,230	78,622

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

Notes to the Financial Statements

for the financial year ended 31 December 2006

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

1. Corporate information

Far Eastern Bank Limited (the "Bank") is a limited liability company incorporated in Singapore. The Bank is a member of the United Overseas Bank Group and its immediate and ultimate holding company is United Overseas Bank Limited, a company incorporated in Singapore.

The Bank is principally engaged in the business of banking in all its aspects. The principal activities of its subsidiaries are set out in Note 26 to the financial statements.

The registered office of the Bank is at 80 Raffles Place, UOB Plaza, Singapore 048624.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements of the Bank and its subsidiaries (the "Group") have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act, Cap. 50, with modification to FRS39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning, as provided in Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore ("MAS").

The financial statements have been prepared under the historical cost convention, modified by the revaluation of available-for-sale financial assets and financial derivatives.

The financial statements are presented in Singapore Dollars.

(b) Change in accounting policies

The accounting policies applied by the Group in the financial year were consistent with those adopted in the previous financial year.

The following accounting standards in issue were adopted by the Group on 1 January 2007.

(i) FRS1 Presentation of Financial Statements (revised)
The revised FRS1 requires additional disclosures to enable users of the financial statements to evaluate the entity's objectives, policies and processes of capital management.

(ii) FRS107 Financial Instruments: Disclosures
FRS107 requires disclosure of qualitative and quantitative information on the various types of risks exposed to the entity from the holding of financial instruments.

(iii) FRS40 Investment Property
FRS40 permits an entity to measure its properties either at fair value with fair value changes taken to the profit and loss account (Fair Value Model), or at cost less accumulated depreciation and provision for impairment (Cost Model). The Group has adopted the Cost Model for measuring its investment properties.

The adoption of the above FRS is not expected to have any significant impact on the financial statements of the Group.

2. Summary of significant accounting policies (cont'd)

(c) Significant accounting estimates and judgements

Certain estimates, judgements and assumptions concerning the future are made in the preparation of the financial statements. They affect the accounting policies applied, financials reported and disclosures made. They are assessed on an on-going basis based on experience and expectations of future events that are believed to be reasonable under the circumstances.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the same accounting period. Accounting policies are consistently applied by the Group.

Subsidiaries are consolidated from the date the Group obtains control, until the date such control ceases. Inter-company transactions and balances are eliminated.

(e) Investment in subsidiaries

A subsidiary is an entity over which the Group has the power to govern its financial and operating policies. The Group generally has such power when it directly or indirectly holds more than 50% of the issued share capital, or controls more than half the voting power or the composition of the board of directors.

Investment in subsidiaries is stated at cost less provision for impairment, if any, determined on an individual basis.

(f) Foreign currencies

Transactions in foreign currencies are recorded, on initial recognition, in the respective functional currencies of the Bank and its subsidiaries at exchange rates approximating those ruling at the transaction dates. Monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at balance sheet date are recognised in the profit and loss account.

(g) Financial assets and financial liabilities

(i) Classification and measurement

Financial assets and liabilities within the scope of FRS39 are classified and measured as follows:

Financial assets/liabilities at fair value through profit and loss

- Held for trading
  Financial assets and financial liabilities are classified as held for trading if they are acquired for short-term profit taking. Financial derivatives are classified as held for trading unless they are designated as hedging instruments in accordance with FRS39. Gains or losses on held for trading financial assets and financial liabilities are recognised in the profit and loss account.

- Designated as fair value through profit and loss
  These are financial assets and financial liabilities designated at inception to be measured at fair value through profit and loss account where the following criteria are met:

  - the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
  - the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
  - The financial instrument contains an embedded derivative, except where such derivative does not significantly modify the cash flows of the instrument.

Financial assets and financial liabilities at fair value through profit and loss are recognised initially at fair value with transaction costs taken to the profit and loss account, and are subsequently remeasured at fair value.

2. Summary of significant accounting policies (cont'd)

(g) Financial assets and financial liabilities (cont'd)

(i) Classification and measurement (cont'd)

Held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets till maturity. Such assets are initially recognised at fair value plus directly attributable transaction costs, and are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the assets are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments and not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair value plus directly attributable transaction costs, and are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale

Non-derivative financial assets that are not classified into any of the preceding categories or are designated to be available for sale are classified in this category. At initial recognition, the financial assets are recognised at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with gains or losses recognised in the fair value reserve until the assets are derecognised, or determined to be impaired, at which time the cumulative gains or losses previously reported in equity are transferred to the profit and loss account.

Non-trading liabilities

Non-derivative financial liabilities not held for active trading or designated as fair value through profit and loss are initially recognised at fair value plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the liabilities are derecognised, as well as through the amortisation process.

(ii) Recognition and derecognition

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

A financial asset or, where applicable, a part of a financial asset or group of similar financial assets is derecognised where:

- the contractual rights to the cash flows from the asset have expired;
- the Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows and has neither transferred nor retained substantially all the risks and rewards or control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

On the derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised in equity is recognised in the profit and loss account.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of original liability and the recognition of a new liability, and the difference in the carrying amounts of the new and original liabilities is recognised in the profit and loss account.

(iii) Impairment

Financial assets, other than those measured at fair value through profit and loss account are subject to impairment review at each balance sheet date. In general, an impairment loss is recognised when there is objective evidence that the carrying amount of an asset is below its recoverable amount.

2. Summary of significant accounting policies (cont'd)

(g) Financial assets and financial liabilities (cont'd)

(iii) Impairment (cont'd)

Assets carried at amortised costs
In determining the impairment loss on loans and receivables or held-to-maturity investments which are carried at amortised costs, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the profit and loss account.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped based on similar credit risks and assessed on a portfolio basis. The resulting impairment losses are referred to as individual impairment in the financial statements.

Collective impairment is made for estimated losses inherent in but not currently identifiable to the individual financial assets in accordance with the transitional arrangement set out in MAS Notice 612.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value as its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has occurred, the amount of the loss which is taken to the profit and loss account is measured as the difference between the carrying amount of the asset and present value of its estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent period.

Available-for-sale financial assets
If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. Reversal of impairment losses in respect of equity instruments classified as available-for-sale is recognised through equity. Reversal of impairment losses on debt instruments is recognised in the profit and loss account if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

(iv) Fair value measurement

The fair values of the financial assets and financial liabilities that are quoted in active markets are determined by their bid and asked prices respectively at the valuation date without any deduction for transaction costs. An active market is where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and the price information is from actual and regularly occurring market transactions on an arm's length basis.

Where the markets for certain financial instruments are not active, fair values are established using valuation techniques commonly used by market participants, and based on assumptions and data observable in the market.

(h) Financial derivatives

Financial derivatives are initially recognised at fair value on the contracted date and are subsequently remeasured at fair value. Financial derivatives with positive and negative fair values are carried as assets and liabilities respectively in the balance sheet.

Derivatives embedded in the financial instruments are accounted for separately as derivatives if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

(i) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and provision for impairment.

Fixed assets, other than land and buildings, are depreciated on a straight-line basis over 5 or 10 years. Freehold land and leasehold land exceeding 99 years tenure are not depreciated. Other leasehold land is depreciated on a straight-line basis over the period of the lease. Buildings are depreciated on a straight-line basis over 50 years or the lease period, whichever is shorter. The residual value, useful life and depreciation method of fixed assets are reviewed at each financial year-end.

Computer software is recognised as intangible assets if it is identifiable, probable of generating future economic benefits and its availability/accessibility is controlled by the Group.

The carrying amounts of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the amounts may not be recoverable.

2. Summary of significant accounting policies (cont'd)

(j) Tax

(i) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is provided using the liability method on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax assets are recognised for all deductible temporary differences, and carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction does not affect the accounting profit, taxable profit or tax loss; and

- in respect of deductible temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction does not affect the accounting profit, taxable profit or tax loss; and

- in respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are offset against deferred tax liabilities if a legally enforceable right to set off current tax assets against current tax liabilities exists and the deferred taxes relate to the same taxable entity and taxation authority.

Deferred tax relating to items recognised directly in equity is recognised in equity.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(l) Revenue recognition

(i) Interest income is recognised on a time proportion basis using the effective interest method.

(ii) Dividend income from subsidiaries is recognised when it is declared, while that from other investments is recognised when it is received.

(iii) Fee and commission income is recognised when services are rendered. Where a fee is charged in lieu of interest, such fee is amortised over the same period as the related interest income is recognised using the effective interest method.

(iv) Rental income is recognised on a time proportion basis.

(m) Employee benefits

(i) Equity compensation benefits

The Group qualifies for an equity compensation plan referred to as the UOB 1999 Share Option Scheme. Under the scheme, options to subscribe for ordinary shares in the holding company may be granted to employees in the corporate grade of Vice President (or equivalent rank) and above and selected employees below the corporate grade of Vice President (or equivalent rank) of the Group, and to directors and controlling equity holders, subject to certain conditions.

The cost of the options is the fair value at the option grant date and is recognised as an expense in the profit and loss account over the one year vesting period.

(ii) Post employment benefits

The Group contributes to social security schemes, including the Central Provident Fund which is a defined contribution scheme. Such contributions are expensed off to the profit and loss account as part of staff costs in the period when the related service is performed.

2. Summary of significant accounting policies (cont'd)

(n) Dividends

Dividends on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

(o) Comparatives

Comparative figures in the financial statements are adjusted to conform to the current year's presentation, where appropriate.

3. Interest income

	The Group and The Bank	
	2006	2005
	$'000	$'000
Singapore Government treasury bills and securities	1,883	1,181
Loans to non-bank customers	12,551	14,463
Placements and balances with banks and agents	13,707	8,295
	28,141	23,939
Received/receivable from :		
Holding company	13,578	8,176
Third parties	14,563	15,763
	28,141	23,939

Included in the total interest income was interest of $193,000 (2005: $420,000) accrued on impaired financial assets by the Group and the Bank.

4. Interest expense

	The Group		The Bank	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deposits of non-bank customers	6,656	4,148	6,657	4,149
Deposits of banks and agents	84	47	84	47
	6,740	4,195	6,741	4,196
Paid/payable to :				
Holding company	83	47	83	47
Subsidiaries	–	–	1	1
Fellow subsidiaries	51	47	51	47
Third parties	6,606	4,101	6,606	4,101
	6,740	4,195	6,741	4,196

5. Dividend income

	The Group and The Bank	
	2006	2005
	$'000	$'000
Investment in an unquoted fellow subsidiary	1	2
Other quoted investments	43	50
	44	52

6. Fee and commission income

	The Group and The Bank	
	2006	2005
	$'000	$'000
Investment-related	192	3
Loan and trade-related	535	689
Other	484	559
	1,211	1,251

7. Rental income

Rental income represents income from the tenanted areas of the buildings owned by the Bank. Included in the rental income for the financial year was income of $1,390,000 (2005: $1,375,000) received from the holding company.

8. Other operating income

	The Group and The Bank	
	2006	2005
	$'000	$'000
Net (loss)/profit on disposal of Singapore Government treasury bills and securities	(40)	447
Net profit on foreign exchange	289	323
Net profit/(loss) on disposal of fixed assets	948	(12)
Other income	689	675
	1,886	1,433

9. Staff costs

	The Group and The Bank	
	2006	2005
	$'000	$'000
Wages and salaries	517	885
Employer's contribution to the Central Provident Fund	66	104
Other staff-related costs	14	42
	597	1,031
Number of employees at 31 December	18	13

10. Other operating expenses

	The Group		The Bank	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Included in other operating expenses are:				
Depreciation of fixed assets	554	578	554	578
Rental of premises	1	3	1	3
Maintenance of premises and other assets	333	325	333	325
Other expenses of premises	579	698	579	698
Audit fees	61	52	60	51
Non-audit fees paid/payable to auditors	–	2	–	2
Management fees payable to holding company	6,762	5,775	6,762	5,775
Fees payable to directors of the Bank	65	63	65	63

11. Impairment charges

Impairment charged/(credited) to the profit and loss accounts during the financial year are as follows:

	The Group and The Bank	
	2006	2005
	$'000	$'000
Individual impairment on/net write-off of loans to non-bank customers	1,343	129
Write-back of impairment on investments	(18)	(41)
Write-back of impairment on fixed assets	(104)	(30)
	1,221	58

12. Tax

(a) Tax expense

The tax charge to the profit and loss accounts comprises the following:

	The Group and The Bank	
	2006	2005
	$'000	$'000
On the profit of the financial year		
Current tax	3,090	3,261
Deferred tax	(13)	(31)
	3,077	3,230
Overprovision of tax in respect of prior financial year		
Current tax	(27)	–
	3,050	3,230

12. Tax (cont'd)

(b) Tax reconciliation

The tax charge on the results of the Group and the Bank for the financial year differs from the theoretical amount computed by applying the Singapore statutory income tax rate to the profit before tax due to the following:

	The Group and The Bank	
	2006	2005
	$'000	$'000
Profit before tax	16,512	16,040
Tax calculated at a tax rate of 20% (2005: 20%)	3,302	3,208
Effects on :		
Singapore statutory stepped income exemption	(11)	(11)
Income not subject to tax	(248)	(14)
Income taxed at a concessionary rate of 10%	(95)	(60)
Expenses not deductible for tax purposes	129	107
Tax expense on profit of the financial year	3,077	3,230

(c) Deferred tax

Movements in the deferred tax assets/liabilities of the Group and the Bank during the financial year are as follows:

	The Group and The Bank	
	2006	2005
	$'000	$'000
Deferred tax assets on non-tax deductible collective impairment		
Balance at 1 January and 31 December	1,688	1,688
Amount netted against deferred tax liabilities	(411)	(383)
Net balance at 31 December	1,277	1,305

	The Group and The Bank		
Deferred tax liabilities	Accelerated tax depreciation	Available-for-sale financial assets	Total
	$'000	$'000	$'000
2006			
Balance at 1 January	357	26	383
Credited to profit and loss account	(13)	–	(13)
Charged to equity	–	41	41
Balance at 31 December	344	67	411
Amount netted against deferred tax assets			(411)
Net balance at 31 December			–

Deferred tax liabilities	Accelerated tax depreciation	Available-for-sale financial assets	Total
	The Group and The Bank		
	$'000	$'000	$'000
2005			
Balance at 1 January	388	283	671
Credited to profit and loss account	(31)	–	(31)
Credited to equity	–	(257)	(257)
Balance at 31 December	357	26	383
Amount netted against deferred tax assets			(383)
Net balance at 31 December			–

13. Share capital

	The Group and The Bank	
	2006	2005
	$'000	$'000
Issued and fully paid		
100,010,566 (2005: 100,010,566) ordinary shares	100,011	100,011

The holders of the ordinary shares are entitled to receive dividends declared by the Bank. All ordinary shares carry one vote per share with no restrictions.

14. Statutory reserve

	The Group and The Bank	
	2006	2005
	$'000	$'000
Balance at 1 January	51,500	45,050
Transfer from retained profits (Note 16a)	3,400	6,450
Balance at 31 December	54,900	51,500

The statutory reserve is maintained in accordance with the provisions of applicable laws and regulations. This reserve is non-distributable unless approved by the relevant authority.

15. Fair value reserve

	The Group and The Bank	
	2006	2005
	$'000	$'000
Balance at 1 January	105	1,132
Available-for-sale assets		
Net change in fair value	31	(169)
Transferred to profit and loss account on disposal/impairment	131	(858)
Balance at 31 December	267	105

The fair value reserve of the Group and the Bank represents the cumulative fair value changes on outstanding available-for-sale assets.

16. Revenue reserves

(a)

	2006			2005		
	General reserve	Retained profits	Total	General reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000
The Group						
Balance at 1 January	12,000	3,115	15,115	9,450	905	10,355
Net profit for the financial year	–	13,462	13,462	–	12,810	12,810
Transfer to general reserve	2,600	(2,600)	–	2,550	(2,550)	–
Transfer to statutory reserve (Note 14)	–	(3,400)	(3,400)	–	(6,450)	(6,450)
Final dividend in respect of the financial year ended 31 December 2005 (2005: 31 December 2004) of 2 cents (2005: 2 cents) per share net of tax at 20% (2005: 20%)	–	(1,600)	(1,600)	–	(1,600)	(1,600)
Balance at 31 December	14,600	8,977	23,577	12,000	3,115	15,115

	2006			2005		
	General reserve	Retained profits	Total	General reserve	Retained profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000
The Bank						
Balance at 1 January	12,000	3,110	15,110	9,450	900	10,350
Net profit for the financial year	–	13,462	13,462	–	12,810	12,810
Transfer to general reserve	2,600	(2,600)	–	2,550	(2,550)	–
Transfer to statutory reserve (Note 14)	–	(3,400)	(3,400)	–	(6,450)	(6,450)
Final dividend in respect of the financial year ended 31 December 2005 (2005: 31 December 2004) of 2 cents (2005: 2 cents) per share net of tax at 20% (2005: 20%)	–	(1,600)	(1,600)	–	(1,600)	(1,600)
Balance at 31 December	14,600	8,972	23,572	12,000	3,110	15,110

(b) In each financial year, a certain amount of retained profits is transferred to the general reserve of the Group and the Bank. The general reserve has not been earmarked for any specific purpose. The revenue reserves of the Group and the Bank are distributable.

(c) In respect of the financial year ended 31 December 2006, the directors have proposed a final dividend of 2 cents per share net of tax at 18% amounting to $1,640,000 (2005: 2 cents per share net of tax at 20% amounting to $1,600,000). The proposed dividend will be accounted for as an appropriation of retained profits for the financial year ending 31 December 2007.

17. Deposits of and amounts owing to non-bank customers, fellow subsidiaries, subsidiaries and holding company

(a)

	The Group		The Bank	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Analysed by remaining maturity:				
Within 1 year	610,074	654,573	610,188	654,687
Over 1 year but within 3 years	16,689	6,893	16,689	6,893
Over 3 years but within 5 years	12,146	21,191	12,146	21,191
Over 5 years	6,778	–	6,778	–
	645,687	682,657	645,801	682,771

(b)

	The Group and The Bank	
	2006	2005
	$'000	$'000
Deposits of non-bank customers comprise:		
Fixed deposits	258,705	304,823
Current, savings and other deposits	356,618	342,866
	615,323	647,689

18. Other liabilities

	The Group		The Bank	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Accrued interest payable	2,139	1,535	2,139	1,536
Accrued operating expenses	192	203	192	201
Unclaimed balances	752	486	752	486
Gold savings accounts	528	469	528	469
Other	1,273	994	1,269	991
	4,884	3,687	4,880	3,683

19. Singapore Government treasury bills and securities

	The Group and The Bank	
	2006	2005
	$'000	$'000
Available-for-sale	59,154	64,792

20. Placements and balances with banks and agents

	The Group and The Bank	
	2006	2005
	$'000	$'000
Analysed by remaining maturity:		
Within 1 year	14,180	13,247

21. Loans to non-bank customers

(a)

	The Group and The Bank	
	2006	2005
	$'000	$'000
Loans to non-bank customers (gross)	225,470	270,447
Individual impairment	(417)	(1,202)
Collective impairment	(12,059)	(12,059)
Loans to non-bank customers (net)	212,994	257,186
Comprising:		
Trade bills	1,383	794
Advances to customers	211,611	256,392
	212,994	257,186

(b) Total gross loans to non-bank customers analysed by remaining maturity

	The Group and The Bank	
	2006	2005
	$'000	$'000
Within 1 year	76,410	92,368
Over 1 year but within 3 years	22,747	27,347
Over 3 years but within 5 years	21,671	23,606
Over 5 years	104,642	127,126
	225,470	270,447

(c) Total gross loans to non-bank customers analysed by industry

	The Group and The Bank 2006 $'000	2005 $'000
Manufacturing	16,945	20,256
Building and construction	8,710	10,846
Housing loans	75,469	99,439
General commerce	56,074	67,017
Transport, storage and communication	2,778	3,197
Non-bank financial institutions	9,289	10,190
Professionals and private individuals (excluding housing loans)	52,153	55,567
Other	4,052	3,935
	225,470	270,447

(d) Non-performing loans

Non-performing loans are graded as Substandard, Doubtful and Loss in accordance with MAS Notice 612. Provision for impairment is made where the carrying amount of the loans is less than their recoverable amount.

	The Group and The Bank 2006 $'000	2005 $'000
Substandard	5,543	6,855
Doubtful	184	105
Loss	268	857
	5,995	7,817

(e) Movements of provision for impairment

	The Group and The Bank 2006			2005		
	Individual impairment $'000	Collective impairment $'000	Total $'000	Individual impairment $'000	Collective impairment $'000	Total $'000
Balance at 1 January	1,202	12,059	13,261	5,933	12,059	17,992
Currency translation adjustments	(3)	–	(3)	(1)	–	(1)
Write-off	(746)	–	(746)	(4,189)	–	(4,189)
Net write-back to profit and loss account	(36)	–	(36)	(541)	–	(541)
Balance at 31 December	417	12,059	12,476	1,202	12,059	13,261

22. Investment securities

	The Group and The Bank	
	2006	2005
	$'000	$'000
Quoted equity shares		
Available-for-sale	754	758

23. Other assets

	The Group and The Bank	
	2006	2005
	$'000	$'000
Interest receivable	2,869	2,170
Other	1,397	976
	4,266	3,146

24. Investment in a fellow associate

(a)

	The Group and The Bank	
	2006	2005
	$'000	$'000
Unquoted equity shares		
At cost	1,250	1,250
Provision for impairment	(434)	(452)
	816	798

(b) Movements of provision for impairment

	The Group and The Bank	
	2006	2005
	$'000	$'000
Balance at 1 January	452	493
Write-back to profit and loss accounts	(18)	(41)
Balance at 31 December	434	452

25. Investment in a fellow subsidiary

(a)

	The Group and The Bank	
	2006	2005
	$'000	$'000
Unquoted equity shares, at cost	–	129

(b) The details of the fellow subsidiary are as follows:

Name of fellow subsidiary	Principal activities	Country of incorporation and place of business	Percentage of paid-up capital held by the Bank	
			2006	2005
			%	%
UOBT (2003) Limited *(under voluntary liquidation)*	Trustee/ Investment Management	Singapore	20	20

26. Investment in subsidiaries

(a)

	The Bank	
	2006	2005
	$'000	$'000
Unquoted equity shares, at cost	105	105

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

Name of subsidiary	Principal activities	Country of incorporation and place of business	Cost of investment by the Bank	
			2006	2005
			$'000	$'000
FEB Realty Company Pte Ltd *(Dormant)*	Property	Singapore	100	100
Far Eastern Bank Nominees Private Limited	Nominee services	Singapore	5	5
			105	105

27. Fixed assets

	The Group and The Bank					
	2006			2005		
	Land and building	Other fixed assets	Total	Land and building	Other fixed assets	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
Balance at 1 January	19,803	2,940	22,743	19,803	3,839	23,642
Additions	–	85	85	–	24	24
Disposals	(1,006)	(221)	(1,227)	–	(923)	(923)
Balance at 31 December	18,797	2,804	21,601	19,803	2,940	22,743
Accumulated Depreciation						
Balance at 1 January	8,836	2,775	11,611	8,345	3,521	11,866
Depreciation charge	477	77	554	491	87	578
Disposals	(318)	(213)	(531)	–	(833)	(833)
Balance at 31 December	8,995	2,639	11,634	8,836	2,775	11,611
Provision for impairment						
Balance at 1 January	1,084	–	1,084	1,114	–	1,114
Write-back to profit and loss accounts	(104)	–	(104)	(30)	–	(30)
Balance at 31 December	980	–	980	1,084	–	1,084
Net book value	8,822	165	8,987	9,883	165	10,048
Comprising :						
Leasehold properties	7,248			8,383		
Freehold properties	1,574			1,500		
	8,822			9,883		
Market value of properties at 31 December based on directors' valuation	66,574			50,950		

28. Contingent liabilities

	The Group and The Bank	
	2006	2005
	$'000	$'000
Direct credit substitutes	7,499	7,266
Transaction-related contingencies	3,322	3,540
Trade-related contingencies	4,335	4,767
	15,156	15,573

In the normal course of business, the Group and the Bank conduct businesses involving acceptances, guarantees, performance bonds and indemnities. The bulk of these liabilities are backed by corresponding obligations from the customers. No assets of the Group and the Bank have been pledged as security for these contingent liabilities.

Included in the transaction-related contingencies as at 31 December 2005 were performance guarantees of $356,000 granted to a fellow associate.

29. Financial derivatives

The table below shows the Group's and the Bank's financial derivatives at the balance sheet date. The contract/notional amount reflects the volume of the outstanding transactions while the positive/negative fair value indicates the fair value of the financial derivatives at the balance sheet date. These amounts do not necessarily represent future cash flows and amounts at risk of the derivatives.

	The Group and The Bank					
	2006			2005		
	Contract/ notional amount	Positive fair value	Negative fair value	Contract/ notional amount	Positive fair value	Negative fair value
	$'000	$'000	$'000	$'000	$'000	$'000
Foreign exchange contracts						
Forwards	1,592	19	1	1,936	25	–

30. Commitments

	The Group and The Bank	
	2006	2005
	$'000	$'000
Undrawn credit facilities	115,911	115,186
Other	–	100
	115,911	115,286

31. Cash and cash equivalents

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

	The Group	
	2006	2005
	$'000	$'000
Cash and balances with central bank	14,076	13,830
Singapore Government treasury bills and securities	59,154	64,792
	73,230	78,622

32. Financial risk management

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

Managing financial risks is an integral part of the Group's business. As a subsidiary of the UOB Group, financial risks are centrally managed by the various specialist committees of the UOB Group under delegated authority from the Board of Directors. These specialist committees formulate, review and approve policies and limits on monitoring and managing risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to review by the Executive Committee.

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

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

(a) ***Credit risk***

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

The Credit Committee, under delegated authority from the Board of Directors, deals with all credit as well as country/transfer risk matters, including approval of credit applications and the periodic review of existing credit facilities.

Exposure to credit risk is managed through a robust credit structuring, underwriting and monitoring process to ensure credit quality, timely recognition of asset impairment and recovery action, as well as the avoidance of undue concentration. Group-wide credit risk policies and guidelines are in place to ensure a consistent credit risk management framework is applied throughout the organisation.

To address the risks arising from credit concentration, the Group has in place various 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. Note 21c analyses the Group's gross loans to non-bank customers by industry classification as at the balance sheet date.

(b) ***Foreign exchange risk***

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

The Group does not engage in a significant amount of foreign exchange position-taking or proprietary business. Its foreign exchange exposures arise mainly from its customer facilitation business. The Group utilises mainly foreign currency forwards to hedge its foreign exchange exposures.

Foreign exchange risk is managed through risk limits and policies approved by the Asset Liability Committee. These limits and policies, such as exposure by currency and total overnight and intra-day positions, are independently monitored by Middle Office of the UOB Group.

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

	The Group 2006		
	Singapore dollars	Other	Total
	$'000	$'000	$'000
Assets			
Cash and balances with central bank	14,061	15	14,076
Securities	59,908	–	59,908
Placements and balances with banks, agents and related companies	505,549	27,744	533,293
Loans to non-bank customers	205,759	7,235	212,994
Other	15,325	40	15,365
	800,602	35,034	835,636
Liabilities			
Deposits of non-bank customers	600,618	14,705	615,323
Deposits and balances of related companies, and bills and drafts payable	15,266	18,246	33,512
Other	5,963	2,083	8,046
	621,847	35,034	656,881
Equity	178,755	–	178,755
	800,602	35,034	835,636
Net on-balance sheet position	–	–	–
Net off-balance sheet position	1,122	(1,122)	–
Net foreign currency gap	1,122	(1,122)	–

32. Financial risk management (cont'd)

(b) ***Foreign exchange risk*** *(cont'd)*

	The Group 2005		
	Singapore dollars	Other	Total
	$'000	$'000	$'000
Assets			
Cash and balances with central bank	13,713	117	13,830
Securities	65,550	–	65,550
Placements and balances with banks, agents and related companies	485,723	22,477	508,200
Loans to non-bank customers	248,634	8,552	257,186
Other	15,398	53	15,451
	829,018	31,199	860,217
Liabilities			
Deposits of non-bank customers	634,967	12,722	647,689
Deposits and balances of related companies, and bills and drafts payable	22,364	16,360	38,724
Other	4,954	2,119	7,073
	662,285	31,201	693,486
Equity	166,731	–	166,731
	829,016	31,201	860,217
Net on-balance sheet position	2	(2)	–
Net off-balance sheet position	1,416	(1,416)	–
Net foreign currency gap	1,418	(1,418)	–

(c) ***Interest rate risk***

Interest rate risk is the risk to earnings and economic value of the Group caused by fluctuations in interest rates.

Interest rates exposure arises from differences in the maturity and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the UOB Group's policies as approved by the Asset Liability Committee.

The table below shows the interest rate sensitivity gap by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual dates due to prepayments of loans and early withdrawal of deposits.

	The Group 2006									
	Total	Non-interest bearing	Up to 7 days	Over 7 days to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 3 years	Over 3 years	Total interest bearing	Effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Assets										
Cash and balances with central bank	14,076	14,076	–	–	–	–	–	–	–	–
Securities	59,908	908	–	2,000	11,000	19,000	27,000	–	59,000	3.09
Placements and balances with banks, agents and related companies	533,293	–	413,293	120,000	–	–	–	–	533,293	3.03
Loans to non-bank customers	212,994	5,578	86,230	65,649	9,702	32,276	13,554	5	207,416	5.07
Other	15,365	15,365	–	–	–	–	–	–	–	–
	835,636	35,927	499,523	187,649	20,702	51,276	40,554	5	799,709	–
Liabilities										
Deposits of non-bank customers	615,323	111,068	255,405	56,012	61,904	108,208	16,946	5,780	504,255	1.66
Deposits and balances of related companies, and bills and drafts payable	33,512	3,148	30,364	–	–	–	–	–	30,364	1.45
Other	8,046	8,046	–	–	–	–	–	–	–	–
	656,881	122,262	285,769	56,012	61,904	108,208	16,946	5,780	534,619	–
Equity	178,755	178,755	–	–	–	–	–	–	–	–
	835,636	301,017	285,769	56,012	61,904	108,208	16,946	5,780	534,619	–
Net interest rate sensitivity gap	–	(265,090)	213,754	131,637	(41,202)	(56,932)	23,608	(5,775)	265,090	–

32. Financial risk management (cont'd)

(c) ***Interest rate risk*** *(cont'd)*

			The Group 2005							
	Total	Non-interest bearing	Up to 7 days	Over 7 days to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 3 years	Over 3 years	Total interest bearing	Effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Assets										
Cash and balances with central bank	13,830	13,830	–	–	–	–	–	–	–	–
Securities	65,550	758	17,995	2,996	24,956	4,968	13,877	–	64,792	2.58
Placements and balances with banks, agents and related companies	508,200	–	508,200	–	–	–	–	–	508,200	2.56
Loans to non-bank customers	257,186	6,615	189,690	2,802	13,217	13,720	31,137	5	250,571	4.62
Other	15,451	15,451	–	–	–	–	–	–	–	–
	860,217	36,654	715,885	5,798	38,173	18,688	45,014	5	823,563	–
Liabilities										
Deposits of non-bank customers	647,689	107,848	251,927	30,324	118,226	120,599	6,893	11,872	539,841	1.22
Deposits and balances of related companies, and bills and drafts payable	38,724	3,756	34,968	–	–	–	–	–	34,968	1.42
Other	7,073	7,073	–	–	–	–	–	–	–	–
	693,486	118,677	286,895	30,324	118,226	120,599	6,893	11,872	574,809	–
Equity	166,731	166,731	–	–	–	–	–	–	–	–
	860,217	285,408	286,895	30,324	118,226	120,599	6,893	11,872	574,809	–
Net interest rate sensitivity gap	–	(248,754)	428,990	(24,526)	(80,053)	(101,911)	38,121	(11,867)	248,754	–

(d) ***Liquidity risk***

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

The Group manages liquidity risk in accordance with the liquidity framework, comprising liquidity policies, controls and limits approved by the Asset Liability Committee. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan. The Group is also required by the respective local regulators to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements.

The following table shows the maturity analysis of the Group's assets and liabilities based on contractual terms:

	The Group 2006							
	Total	Up to 7 days	Over 7 days to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 3 years	Over 3 years	Non-specific maturity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and balances with central bank	14,076	14,076	–	–	–	–	–	–
Securities	59,908	–	2,000	11,000	19,000	27,000	–	908
Placements and balances with banks, agents and related companies	533,293	413,293	120,000	–	–	–	–	–
Loans to non-bank customers	212,994	46,158	3,209	7,655	13,899	22,241	114,254	5,578
Other	15,365	650	43	108	182	314	1,614	12,454
	835,636	474,177	125,252	18,763	33,081	49,555	115,868	18,940
Liabilities								
Deposits of non-bank customers	615,323	365,885	56,012	58,233	100,081	15,600	18,924	588
Deposits and balances of related companies, and bills and drafts payable	33,512	33,512	–	–	–	–	–	–
Other	8,046	1,273	195	203	348	54	66	5,907
	656,881	400,670	56,207	58,436	100,429	15,654	18,990	6,495
Equity	178,755	–	–	–	–	–	–	178,755
	835,636	400,670	56,207	58,436	100,429	15,654	18,990	185,250
Net maturity mismatch	–	73,507	69,045	(39,673)	(67,348)	33,901	96,878	(166,310)

32. Financial risk management (cont'd)

(d) ***Liquidity risk*** *(cont'd)*

	The Group 2005							
	Total	Up to 7 days	Over 7 days to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 3 years	Over 3 years	Non-specific maturity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Cash and balances with central bank	13,830	13,830	–	–	–	–	–	–
Securities	65,550	17,995	2,996	24,956	4,968	13,877	–	758
Placements and balances with banks, agents and related companies	508,200	508,200	–	–	–	–	–	–
Loans to non-bank customers	257,186	54,884	1,759	14,126	12,790	26,718	140,294	6,615
Other	15,451	591	16	133	118	254	1,334	13,005
	860,217	595,500	4,771	39,215	17,876	40,849	141,628	20,378
Liabilities								
Deposits of non-bank customers	647,689	359,206	30,324	111,343	118,163	6,893	21,191	569
Deposits and balances of related companies, and bills and drafts payable	38,724	38,724	–	–	–	–	–	–
Other	7,073	852	72	263	281	17	51	5,537
	693,486	398,782	30,396	111,606	118,444	6,910	21,242	6,106
Equity	166,731	–	–	–	–	–	–	166,731
	860,217	398,782	30,396	111,606	118,444	6,910	21,242	172,837
Net maturity mismatch	–	196,718	(25,625)	(72,391)	(100,568)	33,939	120,386	(152,459)

The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group has a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but historically a stable source of long-term funding for the Group.

In addition to the above, the Group is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 28 and 30. The total outstanding contractual amounts do not represent future cash requirements since the Group expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

33. Fair values of financial instruments

Fair values of government and investment securities and financial derivatives are determined based on prices quoted in the market or by the brokers/issuers.

Fair values of cash, balances and placements, loans to non-bank customers, deposits and bills and drafts payable measured at amortised costs are deemed approximation of their carrying amounts due to their short-term nature or frequent repricing.

Fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of FRS32 Financial Instruments: Disclosure and Presentation. These include fixed assets, long-term relationships with customers, franchise and other intangibles, which are integral to the full assessment of the Group's and the Bank's financial positions and net asset value.

34. Related party transactions

Related party transactions entered into by the Group are in the ordinary course of its business and have been disclosed in the relevant notes to the financial statements.

35. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 28 February 2007.

Notice Of Annual General Meeting

Notice is hereby given that the Forty-Eighth Annual General Meeting of members of the Company will be held at the Penthouse of United Overseas Bank Limited, 80 Raffles Place, 61st Storey UOB Plaza 1, Singapore 048624 on Friday, 27 April, 2007 at 11.30 a.m. to transact the following business:

As Ordinary Business

Resolution 1 To receive Financial Statements, the Directors' Report and Auditors' Report for the year ended 31 December, 2006

Resolution 2 To declare a first and final dividend of 2 cents per share less 18% income tax for the year ended 31 December, 2006

Resolution 3 To approve Directors' fees of $65,000 for 2006 (2005: $63,125)

Resolution 4 To re-appoint Messrs Ernst & Young as Auditors of the Company and authorise the Directors to fix their remuneration.

To re-elect the following Directors:

Resolution 5 Mr Wee Ee Cheong

Resolution 6 Mr Philip Yeo Liat Kok

To pass the following resolution under Section 153(6) of the Companies Act, Cap. 50:

"THAT pursuant to Section 153(6) of the Companies Act, Cap.50, Mr ______________________ be and is hereby re-appointed as a Director of the Company to hold such office until the next Annual General Meeting of the Company."

in respect of:-

Resolution 7 Mr Wee Cho Yaw

Resolution 8 Mr Ong Chu Meng

As Special Business

To consider and, if thought fit, pass the following ordinary resolution:

Resolution 9 "THAT pursuant to Section 161 of the Companies Act, Cap. 50, approval be and is hereby given to the Directors to issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution shall not exceed 10 per cent of the issued share capital of the Company for the time being."

Note to Resolution 9

Resolution 9 is to enable the Directors to issue shares in the Company (other than on a bonus or rights issue) up to an amount not exceeding 10 per cent of the issued share capital of the Company for the time being. This approval will expire at the conclusion of the next Annual General Meeting. The Directors would only issue shares under this resolution where they consider it appropriate and in the interest of the Company to do so.

BY ORDER OF THE BOARD

Ms Vivien Chan
Secretary

Singapore, 2 April, 2007

Notes

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

(2) To be effective, the instrument appointing a proxy must be deposited at 80 Raffles Place, 4th Storey UOB Plaza 1, Singapore 048624 (Attention: The Company Secretary) not less than 48 hours before the time set for holding the Meeting.

Proxy Form

Number of Shares Held

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

I/We ____ (Name)

of ____ (Address)

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

Name		Proportion of shareholdings	
NRIC/Passport No		No. of shares	%
Address			

and/or *

Name		Proportion of shareholdings	
NRIC/Passport No		No. of shares	%
Address			

* *Please delete as appropriate.*

or failing him/her, the Chairman of the Meeting as my/our proxy, to attend and vote for me/us on my/our behalf at the Forty-Eighth Annual General Meeting of members of the Company, to be held at the Penthouse of United Oveseas Bank Limited, 80 Raffles Place, 61st Storey, UOB Plaza 1, Singapore 048624 on Friday, 27 April, 2007 and at any adjournment thereof.

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

		For	Against
Resolution 1	Financial Statements, Directors’ Report & Auditors’ Report		
Resolution 2	First and Final Dividend		
Resolution 3	Directors’ Fees		
Resolution 4	Auditors & their remuneration		
Resolution 5	Re-election (Mr Wee Ee Cheong)		
Resolution 6	Re-election (Mr Philip Yeo Liat Kok)		
Resolution 7	Re-appointment (Mr Wee Cho Yaw)		
Resolution 8	Re-appointment (Mr Ong Chu Meng)		
Resolution 9	Authority to issue shares (General)		

Dated this _______day of______________2007.

____
Signature(s) or Common Seal of Shareholder(s)
IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:

1. To be effective, this proxy form must be deposited at 80 Raffles Place, 4th Storey, UOB Plaza 1, Singapore 048624 (Attention: The Company Secretary), not less than 48 hours before the time set for holding the Meeting. A proxy need not be a member of the Company.

2. If the member is a corporation, this proxy form must be executed under its common seal or the hand of its duly authorised officer or attorney.

3. Any alteration made in this form should be initialed by the person who signs it.

1st FOLD

2nd FOLD

FEB

Postage will be paid by addressee. For posting in Singapore only.

BUSINESS REPLY SERVICE
PERMIT NO. 07399

The Company Secretary
80 Raffles Place, 4th Storey, UOB Plaza 1
Singapore 048624

FOLD AND GLUE OVERLEAF. DO NOT STAPLE.