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

		The Group				
	Note	Share capital	Statutory reserve	Fair value reserve	Revenue reserves	Total
		$'000	$'000	$'000	$'000	$'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.

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
	$'000	**$'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			–

(The Group and The Bank)

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	2005
	$'000	$'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	2005
	$'000	$'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	**Collective impairment**	**Total**	Individual impairment	Collective impairment	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'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 $'000	Other $'000	Total $'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.