Statement by Directors

for the financial year ended 31 December 2005

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:

(i) 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 2005, 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

(ii) 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

Wee Ee Cheong
Deputy Chairman

Singapore
23 February 2006

Auditors' Report to the Members of Far Eastern Bank Limited

for the financial year ended 31 December 2005

We have audited the accompanying financial statements of Far Eastern Bank Limited (the "Bank") and its subsidiaries (the "Group") as set out on pages 43 to 86 for the financial year ended 31 December 2005. These financial statements are the responsibility of the Bank's directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

(a) 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 Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, 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 of the Group as at 31 December 2005, the results of the Bank and of the Group and changes in equity of the Bank and of the Group and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Bank and by its 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
23 February 2006

Profit and Loss Accounts

for the financial year ended 31 December 2005

		The Group		The Bank	
	Note	**2005**	2004	**2005**	2004
		$'000	$'000	**$'000**	$'000
Interest income	3	**23,939**	16,989	**23,939**	16,989
Less: Interest expense	4	**4,195**	3,247	**4,196**	3,248
Net interest income		**19,744**	13,742	**19,743**	13,741
Dividend income	5	**52**	188	**52**	188
Fee and commission income	6	**1,251**	1,418	**1,251**	1,418
Rental income	7	**2,651**	2,304	**2,651**	2,304
Other operating income	8	**1,433**	1,106	**1,433**	1,106
Income before operating expenses		**25,131**	18,758	**25,130**	18,757
Less:					
Staff costs	9	**1,031**	1,435	**1,031**	1,435
Other operating expenses	10	**8,002**	8,198	**8,001**	8,196
Total operating expenses		**9,033**	9,633	**9,032**	9,631
Operating profit before impairment charges		**16,098**	9,125	**16,098**	9,126
Less: Impairment charges	11	**58**	1,086	**58**	1,086
Profit before tax		**16,040**	8,039	**16,040**	8,040
Less: Tax	12a	**3,230**	1,820	**3,230**	1,820
Profit for the financial year attributable to equity holders of the Bank		**12,810**	6,219	**12,810**	6,220

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

Balance Sheets

as at 31 December 2005

	Note	The Group 2005 $'000	The Group 2004 $'000	The Bank 2005 $'000	The Bank 2004 $'000
Share capital and reserves					
Share capital	13	**100,011**	100,011	**100,011**	100,011
Statutory reserve	14	**51,500**	45,050	**51,500**	45,050
Fair value reserve	15	**105**	–	**105**	–
Revenue reserves	16	**15,115**	11,012	**15,110**	11,007
		166,731	156,073	**166,726**	156,068
Liabilities					
Deposits of non-bank customers	17b	**647,689**	637,172	**647,689**	637,172
Deposits of and amounts owing to fellow subsidiaries		**1,833**	2,463	**1,833**	2,463
Deposits of subsidiaries		**–**	–	**114**	113
Deposits of holding company		**33,135**	21,310	**33,135**	21,310
	17a	**682,657**	660,945	**682,771**	661,058
Bills and drafts payable		**3,756**	2,044	**3,756**	2,044
Tax payables		**3,386**	1,902	**3,386**	1,902
Other liabilities	18	**3,687**	3,162	**3,683**	3,159
		693,486	668,053	**693,596**	668,163
		860,217	824,126	**860,322**	824,231
Off-balance sheet items					
Contingent liabilities	29	**15,573**	17,811	**15,573**	17,811
Financial derivatives	30	**1,936**	2,118	**1,936**	2,118
Commitments	31	**115,286**	137,955	**115,286**	137,955

		The Group		The Bank	
	Note	**2005**	2004	**2005**	2004
		$'000	$'000	**$'000**	$'000
Assets					
Cash and balances with central bank		**13,830**	17,733	**13,830**	17,733
Singapore Government treasury bills and securities	19	**64,792**	82,297	**64,792**	82,297
Placements and balances with banks and agents	20	**13,247**	12,417	**13,247**	12,417
Trade bills	21	**794**	1,399	**794**	1,399
Advances to customers	21	**256,392**	288,203	**256,392**	288,203
Placements with fellow subsidiaries		**248**	236	**248**	236
Placements with and amount owing by holding company		**494,705**	403,703	**494,705**	403,703
Derivative financial assets	30	**25**	–	**25**	–
Investment securities	22	**758**	441	**758**	441
Other assets	23	**3,146**	4,849	**3,146**	4,849
Investment in an associate of holding company	24	**798**	757	**798**	757
Investment in a fellow subsidiary	25	**129**	129	**129**	129
Investment in subsidiaries	26	**–**	–	**105**	105
Fixed assets	27	**10,048**	10,662	**10,048**	10,662
Deferred tax asset	12c	**1,305**	1,300	**1,305**	1,300
		860,217	824,126	**860,322**	824,231

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 2005

		The Group								
		2005					2004			
	Note	**Share capital $'000**	**Statutory reserve $'000**	**Fair value reserve $'000**	**Revenue reserves $'000**	**Total $'000**	Share capital $'000	Statutory reserve $'000	Revenue reserves $'000	Total $'000
Balance at 1 January										
As previously reported		**100,011**	**45,050**	**–**	**11,012**	**156,073**	100,011	41,900	9,543	151,454
Adjustments due to FRS39		**–**	**–**	**1,132**	**(657)**	**475**	–	–	–	–
As restated		**100,011**	**45,050**	**1,132**	**10,355**	**156,548**	100,011	41,900	9,543	151,454
Available-for-sale assets	15									
Net change in fair value		**–**	**–**	**(169)**	**–**	**(169)**	–	–	–	–
Transferred to profit and loss account on disposal/impairment		**–**	**–**	**(858)**	**–**	**(858)**	–	–	–	–
Total losses recognised directly in equity		**–**	**–**	**(1,027)**	**–**	**(1,027)**	–	–	–	–
Net profit for the financial year		**–**	**–**	**–**	**12,810**	**12,810**	–	–	6,219	6,219
Total recognised gains/(losses) for the financial year		**–**	**–**	**(1,027)**	**12,810**	**11,783**	–	–	6,219	6,219
Transfer to statutory reserve	14,16a	**–**	**6,450**	**–**	**(6,450)**	**–**	–	3,150	(3,150)	–
Final dividend	16a	**–**	**–**	**–**	**(1,600)**	**(1,600)**	–	–	(1,600)	(1,600)
Balance at 31 December		**100,011**	**51,500**	**105**	**15,115**	**166,731**	100,011	45,050	11,012	156,073

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

		The Bank								
		2005					2004			
	Note	**Share capital $'000**	**Statutory reserve $'000**	**Fair value reserve $'000**	**Revenue reserves $'000**	**Total $'000**	Share capital $'000	Statutory reserve $'000	Revenue reserves $'000	Total $'000
Balance at 1 January										
As previously reported		**100,011**	**45,050**	**–**	**11,007**	**156,068**	100,011	41,900	9,537	151,448
Adjustments due to FRS39		**–**	**–**	**1,132**	**(657)**	**475**	–	–	–	–
As restated		**100,011**	**45,050**	**1,132**	**10,350**	**156,543**	100,011	41,900	9,537	151,448
Available-for-sale assets	15									
Net change in fair value		**–**	**–**	**(169)**	**–**	**(169)**	–	–	–	–
Transferred to profit and loss account on disposal/impairment		**–**	**–**	**(858)**	**–**	**(858)**	–	–	–	–
Total losses recognised directly in equity		**–**	**–**	**(1,027)**	**–**	**(1,027)**	–	–	–	–
Net profit for the financial year		**–**	**–**	**–**	**12,810**	**12,810**	–	–	6,220	6,220
Total recognised gains/ (losses) for the financial year		**–**	**–**	**(1,027)**	**12,810**	**11,783**	–	–	6,220	6,220
Transfer to statutory reserve	14,16b	**–**	**6,450**	**–**	**(6,450)**	**–**	–	3,150	(3,150)	–
Final dividend	16b	**–**	**–**	**–**	**(1,600)**	**(1,600)**	–	–	(1,600)	(1,600)
Balance at 31 December		**100,011**	**51,500**	**105**	**15,110**	**166,726**	100,011	45,050	11,007	156,068

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 2005

	2005 $'000	2004 $'000
Cash flows from operating activities:		
Profit before tax	**16,040**	8,039
Adjustments for:		
Depreciation of fixed assets	**578**	585
Net loss on disposal of fixed assets	**12**	–
Impairment charges	**58**	1,086
Operating profit before working capital changes	**16,688**	9,710
Changes in working capital:		
Increase in deposits	**10,517**	33,043
Increase/(decrease) in bills and drafts payable	**1,712**	(33)
Increase in other liabilities	**525**	97
Increase in placements and balances with banks and agents	**(830)**	(5,394)
Decrease in trade bills and advances to customers	**31,466**	10,616
Decrease/(increase) in other assets	**447**	(2,690)
Increase in net balance with related companies	**(79,819)**	(24,103)
Cash (used in)/provided by operations	**(19,294)**	21,246
Income tax paid	**(1,613)**	(1,399)
Net cash (used in)/provided by operating activities	**(20,907)**	19,847
Cash flows from investing activities:		
Net cash flow on disposal/(purchase) of fixed assets	**54**	(69)
Net cash provided by/(used in) investing activities	**54**	(69)
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)/increase in cash and cash equivalents for the financial year	**(22,453)**	18,178
Cash and cash equivalents at beginning of the financial year	**101,075***	81,852
Cash and cash equivalents at end of the financial year (Note 32)	**78,622**	100,030

* Restated upon adoption of FRS39.

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 which is incorporated in Singapore and its immediate and ultimate holding company is United Overseas Bank Limited, a company incorporated in Singapore. The Bank is a member of the United Overseas Bank Group.

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 located 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 Singapore Companies Act, Cap. 50, including the modification of 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 ("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) **Changes in accounting policies**

The accounting policies applied by the Group are consistent with those used in the previous financial year except for changes arising from adoption of the following new and revised FRS with effect from 1 January 2005:

New FRS

(i) FRS39 Financial Instruments: Recognition and Measurement

The Group adopted FRS39 on 1 January 2005 and classified and measured its financial assets and financial liabilities in accordance with the standard as described under Note 2g.

2. Summary of significant accounting policies (continued)

(b) **Changes in accounting policies** (continued)

(i) FRS39 Financial Instruments: Recognition and Measurement (continued)

The standard was applied prospectively with opening balances of the financial assets and financial liabilities at 1 January 2005 restated. For available-for-sale assets, differences between the carrying amounts and fair values were taken to fair value reserve. For financial assets and financial liabilities carried at amortised cost, differences between the carrying amounts and amortised costs net of provision for impairment were recognised in retained profits. For financial derivatives not qualified for hedge accounting, differences between the carrying amounts and fair values were recognised in retained profits.

The impact on the financial statements of the Bank and the Group as at 1 January 2005 upon initial adoption of the standard is as follows:

	Increase/(Decrease) The Group and The Bank $'000
Fair value reserve	1,132
Retained profits	(657)
	475
Other liabilities	(164)
	311
Singapore Government treasury bills and securities	1,045
Trade bills and advances to non-bank customers	(821)
Other assets	(283)
Investment securities	370
	311

Revised FRS

(ii) The Group has also adopted the following revised standards mandatory for annual financial periods beginning on or after 1 January 2005 and comparative figures have been restated where applicable:

- FRS1 Presentation of Financial Statements
- FRS8 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS10 Events after the Balance Sheet Date
- FRS16 Property, Plant and Equipment

- FRS17 Leases
- FRS21 The Effects of Changes in Foreign Exchange Rates
- FRS24 Related Party Disclosures
- FRS27 Consolidated and Separate Financial Statements
- FRS28 Investments in Associates
- FRS31 Interests in Joint Ventures
- FRS32 Financial Instruments: Disclosure and Presentation
- FRS33 Earnings Per Share

The adoption of the above revised FRS did not result in any significant change in the accounting policies.

FRS and INT FRS not yet effective

(iii) The Group has not applied the following FRS and INT FRS deemed applicable to the activities of the Group that have been issued but effective after 31 December 2005:

- INT FRS104 Determining whether an arrangement contains a lease
  (effective for annual financial periods beginning on or after 1 January 2006)

  INT FRS104 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement, and whether the arrangement is dependent on the use of a specific asset or assets and conveys a right to use the asset.

- FRS40 Investment Property
  (effective for annual financial periods beginning on or after 1 January 2007)

  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). A lessee may account for an operating lease property as an investment property if it meets the definition of investment property and apply the Fair Value Model to the property. The Group will examine the implication of the standard closely before the measurement model is selected.

2. Summary of significant accounting policies (continued)

(c) **Significant accounting estimates and judgements**

Preparation of the financial statements involved making certain estimates, assumptions concerning the future and judgements. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including 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 as at the balance sheet date. Consistent accounting policies are applied for like transactions and events in similar circumstances.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated 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 at exchange rates approximating those ruling at the transaction dates. Monetary assets and monetary liabilities denominated in foreign currencies are translated at 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 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 accordingly 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. Such designation, once made, is irrevocable.

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

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 investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are 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.

2. Summary of significant accounting policies (continued)

(g) **Financial assets and financial liabilities** (continued)

(i) Classification and measurement (continued)

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 of the asset nor transferred 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.

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.

2. Summary of significant accounting policies (continued)

(g) **Financial assets and financial liabilities** (continued)

(iii) Impairment (continued)

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, including discounted cash flow method, and based on assumptions and data observable in the market.

(h) **Cash, balances and placements**

Cash, balances and placements are classified as loans and receivables.

(i) **Trade bills and advances to customers**

Trade bills and advances to customers are classified as loans and receivables.

(j) **Government and investment securities**

Government and investment securities are classified as available-for-sale.

(k) **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.

(l) **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.

Computer software is included in fixed assets and amortised accordingly. 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 values, useful life and depreciation method are reviewed at each financial year-end.

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

(m) **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.

2. Summary of significant accounting policies (continued)

(m) **Tax** (continued)

(ii) Deferred tax (continued)

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, affects neither the accounting profit nor taxable profit or 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 transaction, affects neither the accounting profit nor taxable profit or 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 asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset 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.

(n) **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.

(o) **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 as and 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.

(p) **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 of $1 each 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.

2. Summary of significant accounting policies (continued)

(p) **Employee benefits** (continued)

(ii) Post employment benefits

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

(q) **Dividends**

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

3. Interest income

	The Group and The Bank	
	2005	2004
	$'000	$'000
Singapore Government treasury bills and securities	**1,181**	1,231
Trade bills and advances to customers	**14,463**	12,696
Placements and balances with banks and agents	**8,295**	3,062
	23,939	16,989
Received/receivable from:		
Holding company	**8,176**	2,993
Third parties	**15,763**	13,996
	23,939	16,989

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

4. Interest expense

	The Group		The Bank	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Non-bank deposits	**4,148**	3,182	**4,149**	3,183
Inter-bank balances	**47**	65	**47**	65
	4,195	3,247	**4,196**	3,248
Paid/payable to:				
Holding company	**47**	64	**47**	64
Subsidiaries	**–**	–	**1**	1
Fellow subsidiaries	**47**	20	**47**	20
Third parties	**4,101**	3,163	**4,101**	3,163
	4,195	3,247	**4,196**	3,248

5. Dividend income

	The Group and The Bank	
	2005	2004
	$'000	$'000
Investment in an unquoted fellow subsidiary	**2**	2
Other quoted investments	**50**	186
	52	188

6. Fee and commission income

	The Group and The Bank	
	2005	2004
	$'000	$'000
Investment-related	**3**	2
Loan and trade-related	**689**	821
Other	**559**	595
	1,251	1,418

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 $1,375,000 (2004: $1,385,000) received from the holding company.

8. Other operating income

	The Group and The Bank	
	2005	2004
	$'000	$'000
Net profit on disposal of investment securities and Singapore Government treasury bills and securities	**447**	47
Net profit on foreign exchange	**323**	279
Net loss on sale of fixed assets	**(12)**	–
Other income	**675**	780
	1,433	1,106

9. Staff costs

	The Group and The Bank	
	2005	2004
	$'000	$'000
Wages and salaries	**885**	1,245
Employer's contribution to the Central Provident Fund	**104**	153
Other staff-related costs	**42**	37
	1,031	1,435
Number of employees at 31 December	**13**	39

10. Other operating expenses

	The Group		The Bank	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Included in other operating expenses are:				
Depreciation of fixed assets	**578**	585	**578**	585
Rental of premises	**3**	119	**3**	119
Maintenance of premises and other assets	**325**	456	**325**	456
Other expenses of premises	**698**	833	**698**	833
Audit fees	**52**	67	**51**	66
Non-audit fees paid/payable to auditors	**2**	13	**2**	13
Management fees payable to holding company	**5,775**	5,250	**5,775**	5,250
Fees payable to directors of the Bank	**63**	63	**63**	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	
	2005	2004
	$'000	$'000
Individual impairment on and net write-offs of trade bills and advances to customers	**129**	1,098
Write-back of impairment on investments	**(41)**	(82)
(Write-back of impairment)/impairment on fixed assets	**(30)**	70
	58	1,086

12. Tax

(a) Tax expense

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

	The Group and The Bank	
	2005	2004
	$'000	$'000
On the profit of the financial year:		
Current tax	**3,261**	1,662
Deferred tax	**(31)**	118
	3,230	1,780
Under provision of tax in respect of prior financial year:		
Current tax	**–**	40
	3,230	1,820

(b) Tax reconciliation

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

	The Group		The Bank	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Profit before tax	**16,040**	8,039	**16,040**	8,040
Tax calculated at a tax rate of 20% (2004: 20%)	**3,208**	1,608	**3,208**	1,608
Effects on:				
Singapore statutory stepped income exemption	**(11)**	(11)	**(11)**	(11)
Income not subject to tax	**(14)**	(17)	**(14)**	(17)
Income taxed at a concessionary rate of 10%	**(60)**	(47)	**(60)**	(47)
Expenses not deductible for tax purposes	**107**	247	**107**	247
Tax expense on profit of the financial year	**3,230**	1,780	**3,230**	1,780

(c) Deferred tax

	The Group and The Bank	
	2005	2004
	$'000	$'000
Deferred tax asset on non-tax deductible collective impairment:		
Balance at 1 January	**1,688**	1,857
Charged to profit and loss accounts due to reduction in income tax rate	**–**	(169)
Balance at 31 December	**1,688**	1,688

	The Group and The Bank			
	2005			2004
Deferred tax liability	**Accelerated tax depreciation**	**Available for sale financial assets**	**Total**	Accelerated tax depreciation/ Total
	$'000	**$'000**	**$'000**	$'000
Balance at 1 January				
As previously reported	**388**	**–**	**388**	439
Adjustments due to FRS39	**–**	**283**	**283**	–
As restated	**388**	**283**	**671**	439
Credited to profit and loss account	**(31)**	**–**	**(31)**	(51)
Credited to equity	**–**	**(257)**	**(257)**	–
Balance at 31 December	**357**	**26**	**383**	388

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. Deferred tax asset and liability after netting are shown in the balance sheets as follows:

	The Group and The Bank	
	2005	2004
	$'000	$'000
Deferred tax asset	**1,688**	1,688
Deferred tax liability	**(383)**	(388)
Deferred tax asset (net) shown in balance sheets	**1,305**	1,300

13. Share capital

	The Group and The Bank	
	2005	2004
	$'000	$'000
Authorised		
200,000,000 ordinary shares of $1 each	**200,000**	200,000
Issued and fully paid		
100,010,566 (2004: 100,010,566) ordinary shares of $1 each	**100,011**	100,011

The holder of the ordinary shares is entitled to receive dividends as and when approved by the Bank. All ordinary shares carry one vote per share without restriction.

14. Statutory reserve

	The Group and The Bank	
	2005	2004
	$'000	$'000
Balance at 1 January	**45,050**	41,900
Transfer from revenue reserves (Note 16)	**6,450**	3,150
Balance at 31 December	**51,500**	45,050

The statutory reserve is maintained in accordance with the provisions of the Singapore Banking Act, Cap. 19. This reserve is non-distributable unless approved by the relevant authority.

15. Fair value reserve

	The Group and The Bank
	2005
	$'000
Balance at 1 January	
As previously reported	**–**
Adjustments due to FRS 39	**1,132**
As restated	**1,132**
Available-for-sale assets	
Net change in fair value	**(169)**
Transferred to profit and loss account on disposal/impairment	**(858)**
Balance at 31 December	**105**

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

16. Revenue reserves

(a) The Group

	2005 General reserve $'000	2005 Retained profits $'000	2005 Total $'000	2004 General reserve $'000	2004 Retained profits $'000	2004 Total $'000
Balance at 1 January						
As previously reported	**9,450**	**1,562**	**11,012**	6,600	2,943	9,543
Adjustments due to FRS39	**–**	**(657)**	**(657)**	–	–	–
As restated	**9,450**	**905**	**10,355**	6,600	2,943	9,543
Net profit for the financial year	**–**	**12,810**	**12,810**	–	6,219	6,219
Transfer to general reserve	**2,550**	**(2,550)**	**–**	2,850	(2,850)	–
Transfer to statutory reserve (Note 14)	**–**	**(6,450)**	**(6,450)**	–	(3,150)	(3,150)
Final dividend in respect of the financial year ended 31 December 2004 (2004: 31 December 2003) of 2 cents (2004: 2 cents) per share paid, net of tax at 20% (2004: 20%)	**–**	**(1,600)**	**(1,600)**	–	(1,600)	(1,600)
Balance at 31 December	**12,000**	**3,115**	**15,115**	9,450	1,562	11,012

(b) The Bank

	2005 General reserve $'000	2005 Retained profits $'000	2005 Total $'000	2004 General reserve $'000	2004 Retained profits $'000	2004 Total $'000
Balance at 1 January						
As previously reported	**9,450**	**1,557**	**11,007**	6,600	2,937	9,537
Adjustments due to FRS39	**–**	**(657)**	**(657)**	–	–	–
As restated	**9,450**	**900**	**10,350**	6,600	2,937	9,537
Net profit for the financial year	**–**	**12,810**	**12,810**	–	6,220	6,220
Transfer to general reserve	**2,550**	**(2,550)**	**–**	2,850	(2,850)	–
Transfer to statutory reserve (Note 14)	**–**	**(6,450)**	**(6,450)**	–	(3,150)	(3,150)
Final dividend in respect of the financial year ended 31 December 2004 (2004: 31 December 2003) of 2 cents (2004: 2 cents) per share paid, net of tax at 20% (2004: 20%)	**–**	**(1,600)**	**(1,600)**	–	(1,600)	(1,600)
Balance at 31 December	**12,000**	**3,110**	**15,110**	9,450	1,557	11,007

16. Revenue reserves (continued)

(c) 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 particular purpose. The revenue reserves of the Group and the Bank are distributable.

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

(a)

	The Group		The Bank	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Analysed by remaining maturity:				
Within 1 year	**654,573**	642,007	**654,687**	642,120
Over 1 year but within 3 years	**6,893**	7,006	**6,893**	7,006
Over 3 years but within 5 years	**21,191**	11,932	**21,191**	11,932
	682,657	660,945	**682,771**	661,058

(b)

	The Group and The Bank	
	2005	2004
	$'000	$'000
Deposits of non-bank customers comprise:		
Fixed deposits	**304,823**	292,362
Current, savings and other deposits	**342,866**	344,810
	647,689	637,172

18. Other liabilities

	The Group		The Bank	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Accrued interest payable	**1,535**	1,154	**1,536**	1,154
Accrued operating expenses	**203**	287	**201**	286
Unclaimed balances	**486**	472	**486**	472
Gold savings accounts	**469**	514	**469**	514
Other	**994**	735	**991**	733
	3,687	3,162	**3,683**	3,159

19. Singapore Government treasury bills and securities

(a)

	The Group and The Bank	
	2005	2004
	$'000	$'000
Available-for-sale	**64,792**	
Not held for trading, at cost adjusted for premium and discount		82,297
Market value at 31 December	**64,792**	83,342

(b) Movements of provision for impairment

	The Group and The Bank	
	2005	2004
	$'000	$'000
At 1 January	**–**	4
Credited to profit and loss accounts	**–**	(4)
At 31 December	**–**	–

20. Placements and balances with banks and agents

	The Group and The Bank	
	2005	2004
	$'000	$'000
Analysed by remaining maturity:		
Within 1 year	**13,247**	12,417

21. Trade bills and advances to customers

(a)

	The Group and The Bank	
	2005	2004
	$'000	$'000
Gross trade bills	**794**	1,399
Gross advances to customers	**269,653**	308,704
Individual impairment	**(1,202)**	(5,112)
Interest-in-suspense	**–**	(3,330)
Collective impairment	**(12,059)**	(12,059)
	256,392	288,203
Total gross trade bills and advances to customers	**270,447**	310,103

(b) Total gross trade bills and advances to customers analysed by remaining maturity

	The Group and The Bank	
	2005	2004
	$'000	$'000
Within 1 year	**92,368**	121,730
Over 1 year but within 3 years	**27,347**	26,568
Over 3 years but within 5 years	**23,606**	25,681
Over 5 years	**127,126**	136,124
	270,447	310,103

(c) Total gross trade bills and advances to customers analysed by industry

	The Group		The Bank	
	2005	**2005**	2004	2004
	$'000	**%**	$'000	%
Manufacturing	**20,256**	**7**	18,302	6
Building and construction	**10,846**	**4**	11,161	4
Housing loans	**99,439**	**37**	116,573	37
General commerce	**67,017**	**25**	81,598	26
Transport, storage and communication	**3,197**	**1**	2,877	1
Non-bank financial institutions	**10,190**	**4**	11,245	4
Professionals and private individuals (excluding housing loans)	**55,567**	**21**	61,932	20
Other	**3,935**	**1**	6,415	2
	270,447	**100**	310,103	100

(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	
	2005	2004
	$'000	$'000
Substandard	**6,855**	15,429
Doubtful	**105**	–
Loss	**857**	6,704
	7,817	22,133

21. Trade bills and advances to customers (continued)

(e) Movements of provision for impairment

	The Group and The Bank							
	2005				2004			
	Individual impairment $'000	**Interest-in-suspense $'000**	**Collective impairment $'000**	**Total $'000**	Individual impairment $'000	Interest-in-suspense $'000	Collective impairment $'000	Total $'000
Balance at 1 January								
As previously reported	**5,112**	**3,848**	**12,059**	**21,019**	4,231	3,237	12,059	19,527
Adjustments due to FRS39	**821**	**(3,848)**	**–**	**(3,027)**	–	–	–	–
As restated	**5,933**	**–**	**12,059**	**17,992**	4,231	3,237	12,059	19,527
Write-off	**(4,189)**	**–**	**–**	**(4,189)**	(137)	(49)	–	(186)
Net charge/(write-back) to profit and loss account	**(542)**	**–**	**–**	**(542)**	1,018	–	–	1,018
Interest suspended	**–**	**–**	**–**	**–**	–	660	–	660
Balance at 31 December	**1,202**	**–**	**12,059**	**13,261**	5,112	3,848	12,059	21,019

22. Investment securities

	The Group and The Bank	
	2005 $'000	2004 $'000
Quoted equity shares		
Available-for-sale	**758**	
At cost		441
Market value at 31 December	**758**	811

23. Other assets

	The Group and The Bank	
	2005	2004
	$'000	$'000
Interest receivable	**2,170**	1,886
Interest-in-suspense	**–**	(518)
	2,170	1,368
Other	**976**	3,481
	3,146	4,849

24. Investment in an associate of holding company

(a)

	The Group and The Bank	
	2005	2004
	$'000	$'000
Unquoted equity shares		
At cost	**1,250**	1,250
Provision for impairment	**(452)**	(493)
	798	757

(b) Movements of provision for impairment

	The Group and The Bank	
	2005	2004
	$'000	$'000
Balance at 1 January	**493**	571
Credited to profit and loss accounts	**(41)**	(78)
Balance at 31 December	**452**	493

25. Investment in a fellow subsidiary

(a)

	The Group and The Bank	
	2005	2004
	$'000	$'000
Unquoted equity shares, at cost	**129**	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	
			2005	2004
			%	%
UOBT (2003) Limited	Dormant	Singapore	**20**	20

26. Investment in subsidiaries

(a)

	The Bank	
	2005	2004
	$'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 subsidiaries	Principal activities	Country of incorporation and place of business	Cost of investment by the Bank	
			2005	2004
			$'000	$'000
FEB Realty Company Pte Ltd	Dormant	Singapore	**100**	100
Far Eastern Bank Nominees Private Limited	Nominee services	Singapore	**5**	5
			105	105

27. Fixed assets

(a)

	The Group and The Bank					
	2005			2004		
	Land and buildings $'000	**Office equipment, computers, fixtures and other assets $'000**	**Total $'000**	Land and buildings $'000	Office equipment, computers, fixtures and other assets $'000	Total $'000
Balance at 1 January						
Cost	**19,803**	**3,839**	**23,642**	19,803	3,799	23,602
Accumulated depreciation	**(8,347)**	**(3,521)**	**(11,868)**	(7,857)	(3,455)	(11,312)
Provision for impairment	**(1,112)**	**–**	**(1,112)**	(1,042)	–	(1,042)
Net book value	**10,344**	**318**	**10,662**	10,904	344	11,248
Movements during the financial year:						
Additions	**–**	**20**	**20**	–	71	71
Disposals	**–**	**(86)**	**(86)**	–	(2)	(2)
Write-back/(impairment charge)	**30**	**–**	**30**	(70)	–	(70)
Depreciation charge	**(491)**	**(87)**	**(578)**	(490)	(95)	(585)
Net book value at 31 December	**9,883**	**165**	**10,048**	10,344	318	10,662
Balance at 31 December						
Cost	**19,803**	**2,940**	**22,743**	19,803	3,839	23,642
Accumulated depreciation	**(8,836)**	**(2,775)**	**(11,611)**	(8,347)	(3,521)	(11,868)
Provision for impairment	**(1,084)**	**–**	**(1,084)**	(1,112)	–	(1,112)
Net book value	**9,883**	**165**	**10,048**	10,344	318	10,662

(b) Based on directors' valuation, the estimated market value of the land and buildings of the Group and the Bank as at 31 December 2005 was $51 million (2004: $48 million). The excess of the estimated market value over the net book value of the land and buildings is not recognised in the financial statements.

(c) Included in the land and buildings of the Group and the Bank are leasehold properties with net book value as at 31 December 2005 amounting to $8.4 million (2004: $8.8 million). The remaining property is freehold.

28. Dividends

The directors have proposed a final dividend in respect of the financial year ended 31 December 2005 of 2 cents per share net of tax at 20%, amounting to a total of $1,600,000. These financial statements do not reflect this proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006. The final dividend in respect of the financial year ended 31 December 2004 was 2 cents per share net of tax at 20% amounting to a total of $1,600,000.

29. Contingent liabilities

	The Group and The Bank	
	2005	2004
	$'000	$'000
Direct credit substitutes	**7,266**	9,349
Transaction-related contingencies	**3,540**	2,683
Trade-related contingencies	**4,767**	5,779
	15,573	17,811

In the normal course of business, the Group and the Bank conduct businesses involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are reimbursable by corresponding obligations of 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 (2004: $341,000) granted to an associate of the holding company.

30. Financial derivatives

The table below shows the Group's and the Bank's financial derivatives at the balance sheet date. The contract/notional amount represents 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					
	2005			2004		
	Contract or underlying principal amount	**Fair value**		Contract or underlying principal amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Foreign exchange contracts						
Forwards	**1,936**	**25**	**–**	2,118	20	31
Less: Financial derivatives accounted for on accrual basis		**–**	**–**		20	31
Financial derivatives measured at fair value		**25**	**–**		–	–

31. Commitments

	The Group and The Bank	
	2005	2004
	$'000	$'000
Undrawn credit facilities	**115,186**	137,855
Other	**100**	100
	115,286	137,955

32. 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	
	2005	2004
	$'000	$'000
Cash and balances with central bank	**13,830**	17,733
Singapore Government treasury bills and securities	**64,792**	82,297
	78,622	100,030

33. 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, which is independent of the business units, performs the role of implementing the risk management policies and procedures. Compliance officers of the UOB Group in the business units ensure that each business unit puts in place the proper control procedures to ensure regulatory and operational compliance. 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 their 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, formulation of credit policies and the review of existing credit facilities.

The Group has in place a disciplined process to regularly monitor, review and report its portfolio risks for the timely recognition of asset impairment, recovery action and the avoidance of undue concentration. These include large credit exposures by obligors, aggregate exposure levels to individual groups and sectors, security types, internal credit ratings, industry exposures, level of non-performing loans, appropriateness of classification, adequacy of provisioning and country risk concentrations.

In respect of other credit risk activities such as money market transactions and financial derivatives, the Group adopts the UOB Group's counterparty risk policies that set out approved counterparties with whom the Group may transact and their respective transaction limits.

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counterparties that permit the Group to offset receivables and payables with such counterparties.

Given the amounts, types and nature of its existing products and businesses, the Group assesses that industry concentration risk arises primarily from the Group's advances to customers and trade bills. Note 21c analyses the Group's total gross trade bills and advances to customers by industry classification as at the balance sheet date.

The Group's financial assets and credit-related contingent liabilities by geographical concentration are mainly in Singapore as at 31 December 2005 and 31 December 2004.

The Group also has potential credit risk exposure to undrawn credit facilities of $115 million (2004: $138 million). These represent unused portions of authorisation to extend credit mainly in the form of loans, guarantees and trade finance products such as letters of credit. However, the amount of exposure is likely to be less than the total undrawn credit facilities since most of these facilities are contingent upon customers maintaining certain credit standards and are cancellable at the option of the Group subject to notice requirements. From past experience, many of these undrawn credit facilities are expected to expire without being drawn upon.

(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.

33. Financial risk management (continued)

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

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 on a daily basis 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 2005		
	Singapore dollars $'000	**Other $'000**	**Total $'000**
Assets			
Cash and balances with central bank	**13,713**	**117**	**13,830**
Singapore Government treasury bills and securities	**64,792**	**–**	**64,792**
Placements and balances with banks, agents and related companies	**485,723**	**22,477**	**508,200**
Trade bills and advances to customers	**248,634**	**8,552**	**257,186**
Fixed assets	**10,048**	**–**	**10,048**
Other	**6,108**	**53**	**6,161**
	829,018	**31,199**	**860,217**
Liabilities			
Deposits of non-bank customers	**634,967**	**12,722**	**647,689**
Deposits and balances of related companies	**18,608**	**16,360**	**34,968**
Bills and drafts payable	**3,756**	**–**	**3,756**
Other	**4,954**	**2,119**	**7,073**
	662,285	**31,201**	**693,486**
Shareholders' funds	**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)**	**–**

	The Group 2004		
	Singapore dollars $'000	Other $'000	Total $'000
Assets			
Cash and balances with central bank	17,666	67	17,733
Singapore Government treasury bills and securities	82,297	–	82,297
Placements and balances with banks, agents and related companies	400,000	16,356	416,356
Trade bills and advances to customers	276,205	13,397	289,602
Fixed assets	10,662	–	10,662
Other	7,435	41	7,476
	794,265	29,861	824,126
Liabilities			
Deposits of non-bank customers	624,911	12,261	637,172
Deposits and balances of related companies	9,037	14,736	23,773
Bills and drafts payable	2,039	5	2,044
Other	4,425	639	5,064
	640,412	27,641	668,053
Shareholders' funds	156,073	–	156,073
	796,485	27,641	824,126
Net on-balance sheet position	(2,220)	2,220	–
Net off-balance sheet position	1,814	(1,814)	–
Net foreign currency gap	(406)	406	–

(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 the differences in the maturities 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.

33. Financial risk management (continued)

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

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.

	The Group 2005									
	Total $'000	Non-interest bearing $'000	Up to 7 days $'000	Over 7 days to 1 month $'000	Over 1 to 3 months $'000	Over 3 to 12 months $'000	Over 1 to 3 years $'000	Over 3 years $'000	Total interest bearing $'000	Effective interest rate %
Assets										
Cash and balances with central bank	13,830	13,830	–	–	–	–	–	–	–	–
Singapore Government treasury bills and securities	64,792	–	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
Trade bills and advances to customers	257,186	2,977	193,518	2,793	13,176	13,678	31,039	5	254,209	4.62
Other	16,209	16,209	–	–	–	–	–	–	–	–
	860,217	33,016	719,713	5,789	38,132	18,646	44,916	5	827,201	–
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	2.66
Other	7,073	7,073	–	–	–	–	–	–	–	–
	693,486	118,677	286,895	30,324	118,226	120,599	6,893	11,872	574,809	–
Shareholders' funds	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	–	(252,392)	432,818	(24,535)	(80,094)	(101,953)	38,023	(11,867)	252,392	–

	The Group 2004										
	Total $'000	Non-interest bearing $'000	Up to 7 days $'000	Over 7 days to 1 month $'000	Over 1 to 3 months $'000	Over 3 to 12 months $'000	Over 1 to 3 years $'000	Over 3 years $'000	Total interest bearing $'000	Effective interest rate %
Assets										
Cash and balances with central bank	17,733	17,733	–	–	–	–	–	–	–	–
Singapore Government treasury bills and securities	82,297	–	–	2,993	4,978	40,893	–	33,433	82,297	1.79
Placements and balances with banks, agents and related companies	416,356	–	19,356	397,000	–	–	–	–	416,356	1.32
Trade bills and advances to customers	289,602	6,762	185,500	8,180	23,896	41,292	23,877	95	282,840	4.36
Other	18,138	18,138	–	–	–	–	–	–	–	–
	824,126	42,633	204,856	408,173	28,874	82,185	23,877	33,528	781,493	–
Liabilities										
Deposits of non-bank customers	637,172	102,169	251,185	37,484	91,258	136,138	7,006	11,932	535,003	0.75
Deposits and balances of related companies, and bills and drafts payable	25,817	7,468	16,060	1,234	1,055	–	–	–	18,349	0.50
Other	5,064	5,064	–	–	–	–	–	–	–	–
	668,053	114,701	267,245	38,718	92,313	136,138	7,006	11,932	553,352	–
Shareholders' funds	156,073	156,073	–	–	–	–	–	–	–	–
	824,126	270,774	267,245	38,718	92,313	136,138	7,006	11,932	553,352	–
Net interest rate sensitivity gap	–	(228,141)	(62,389)	369,455	(63,439)	(53,953)	16,871	21,596	228,141	–

(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 loan draw-downs.

33. Financial risk management (continued)

(d) ***Liquidity risk*** *(continued)*

The Group manages liquidity risk in accordance with a framework of 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 2005							
	Total $'000	**Up to 7 days $'000**	**Over 7 days to 1 month $'000**	**Over 1 to 3 months $'000**	**Over 3 to 12 months $'000**	**Over 1 to 3 years $'000**	**Over 3 years $'000**	**Non-specific maturity $'000**
Assets								
Cash and balances with central bank	**13,830**	**13,830**	**–**	**–**	**–**	**–**	**–**	**–**
Singapore Government treasury bills and securities	**64,792**	**17,995**	**2,996**	**24,956**	**4,968**	**13,877**	**–**	**–**
Placements and balances with banks, agents and related companies	**508,200**	**508,200**	**–**	**–**	**–**	**–**	**–**	**–**
Trade bills and advances to customers	**257,186**	**62,112**	**1,754**	**14,082**	**12,751**	**26,634**	**139,853**	**–**
Other	**16,209**	**591**	**16**	**133**	**118**	**254**	**1,334**	**13,763**
	860,217	**602,728**	**4,766**	**39,171**	**17,837**	**40,765**	**141,187**	**13,763**
Liabilities								
Deposits of non-bank customers	**647,689**	**359,775**	**30,324**	**111,343**	**118,163**	**6,893**	**21,191**	**–**
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	**399,351**	**30,396**	**111,606**	**118,444**	**6,910**	**21,242**	**5,537**
Shareholders' funds	**166,731**	**–**	**–**	**–**	**–**	**–**	**–**	**166,731**
	860,217	**399,351**	**30,396**	**111,606**	**118,444**	**6,910**	**21,242**	**172,268**
Net maturity mismatch	**–**	**203,377**	**(25,630)**	**(72,435)**	**(100,607)**	**33,855**	**119,945**	**(158,505)**

	The Group 2004							
	Total $'000	Up to 7 days $'000	Over 7 days to 1 month $'000	Over 1 to 3 months $'000	Over 3 to 12 months $'000	Over 1 to 3 years $'000	Over 3 years $'000	Non-specific maturity $'000
Assets								
Cash and balances with central bank	17,733	17,733	–	–	–	–	–	–
Singapore Government treasury bills and securities	82,297	–	–	2,993	9,027	36,844	33,433	–
Placements and balances with banks, agents and related companies	416,356	19,356	397,000	–	–	–	–	–
Trade bills and advances to customers	289,602	81,972	4,590	15,563	4,618	861	181,998	–
Other	18,138	534	29	100	27	6	1,190	16,252
	824,126	119,595	401,619	18,656	13,672	37,711	216,621	16,252
Liabilities								
Deposits of non-bank customers	637,172	353,354	37,484	91,258	136,138	7,006	11,932	–
Deposits and balances of related companies, and bills and drafts payable	25,817	23,528	1,234	1,055	–	–	–	–
Other	5,064	640	68	165	247	12	22	3,910
	668,053	377,522	38,786	92,478	136,385	7,018	11,954	3,910
Shareholders' funds	156,073	–	–	–	–	–	–	156,073
	824,126	377,522	38,786	92,478	136,385	7,018	11,954	159,983
Net maturity mismatch	–	(257,927)	362,833	(73,822)	(122,713)	30,693	204,667	(143,731)

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 history shows that such deposits provide a stable source of long-term funding for the Group.

33. Financial risk management (continued)

(d) ***Liquidity risk*** *(continued)*

In addition to the above, the Group is also subjected to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 29 and 31. 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 commitments to pay third parties (such as letters of credit) are reimbursed immediately by customers.

34. 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, trade bills and advances to 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. 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 the values of their net assets.

35. 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.

36. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 23 February 2006.