Directors' Report
For the financial year ended 31 December 2006

The directors present their report to the members together with the audited consolidated financial statements of the Group and the income statement, balance sheet and statement of changes in equity of the Bank for the financial year ended 31 December 2006.

Directors

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

Cheong Choong Kong	Chairman
Michael Wong Pakshong	Vice Chairman
Bobby Chin Yoke Choong	
David Philbrick Conner	Chief Executive Officer
Giam Chin Toon	
Lee Seng Wee	
Lee Tih Shih	
Nasruddin Bin Bahari	
Neo Boon Siong	
Pramukti Surjaudaja	
Tsao Yuan, also known as Lee Tsao Yuan	
David Wong Cheong Fook	
Wong Nang Jang	
Patrick Yeoh Khwai Hoh	

Mr David Philbrick Conner, Mr Giam Chin Toon, Dr Tsao Yuan and Col (Ret) David Wong Cheong Fook retire by rotation under Articles 95 and 96 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

Mr Lee Seng Wee and Mr Michael Wong Pakshong retire pursuant to section 153 of the Companies Act, Cap. 50. Resolutions will be proposed for their re-appointment under section 153(6) of the said Act to hold office until the next annual general meeting of the Bank.

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose object is to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than as disclosed in this report.

Directors' interests in shares or debentures

(a) According to the register of directors' shareholdings, the directors holding office at the end of the financial year had interests in the share capital of the Bank and its related corporations, as follows:

	Holdings registered in the name of directors or in which directors have a direct interest		Holdings in which directors are deemed to have an interest	
	At 31.12.2006	At 1.1.2006	**At 31.12.2006**	At 1.1.2006
BANK				
Ordinary shares				
Cheong Choong Kong	**88,471**	74,214	**76,522** (1)	62,507 (2)
Michael Wong Pakshong	**127,198**	122,398	**59,998** (5)	59,998 (5)
Bobby Chin Yoke Choong	**–**	–	**40,000** (5)	40,000 (5)
David Conner	**573,919**	491,200	**285,145** (3)	265,067 (4)
Giam Chin Toon	**4,800**	–	–	–
Lee Seng Wee	**6,644,394**	6,639,594	**3,901,094** (5)	3,901,094 (5)
Lee Tih Shih	**2,353,152**	2,348,352	**–**	–
Nasruddin Bin Bahari	**9,600**	4,800	**–**	–
Neo Boon Siong	**4,800**	–	**–**	–
Tsao Yuan	**9,600**	4,800	**936** (5)	936 (5)
David Wong Cheong Fook	**16,800**	12,000	**–**	–
Wong Nang Jang	**344,946**	319,266	**145,322** (5)	145,322 (5)
Patrick Yeoh Khwai Hoh	**9,600**	4,800	**–**	–
4.2% Non-Cumulative Non-Convertible Class G Preference Shares				
Cheong Choong Kong	**15,000**	15,000	**–**	–
Michael Wong Pakshong	**22,000**	22,000	**–**	–
Bobby Chin Yoke Choong	**–**	–	**8,227** (5)	8,227 (5)
David Conner	**50,000**	50,000	**–**	–
Lee Seng Wee	**800,000**	800,000	**600,000** (5)	600,000 (5)
Lee Tih Shih	**240,000**	240,000	**–**	–
Tsao Yuan	**–**	–	**7,000** (5)	7,000 (5)
Wong Nang Jang	**38,216**	38,216	**21,372** (5)	21,372 (5)
Great Eastern Holdings Limited				
Ordinary shares				
Michael Wong Pakshong	**–**	75,160	**–**	36,000 (5)

(1) Comprises deemed interest of 9,600 ordinary shares held by spouse and 66,922 ordinary shares under the OCBC Deferred Share Plan.

(2) Comprises deemed interest of 9,600 ordinary shares held by spouse; 38,650 ordinary shares under the OCBC Deferred Share Plan; and acquisition rights of 14,257 ordinary shares under the OCBC Employee Share Purchase Plan.

(3) Comprises deemed interest of 273,983 ordinary shares under the OCBC Deferred Share Plan and acquisition rights of 11,162 ordinary shares under the OCBC Employee Share Purchase Plan.

(4) Comprises deemed interest of 250,810 ordinary shares under the OCBC Deferred Share Plan and acquisition rights of 14,257 ordinary shares under the OCBC Employee Share Purchase Plan.

(5) Ordinary shares/ preference shares held by spouse.

None of the directors have direct or deemed interest in the 4.5% non-cumulative non-convertible Class E preference shares.

Directors' interests in shares or debentures (continued)

(b) According to the register of directors' shareholdings, certain of the directors holding office at the end of the financial year had interests in options to acquire ordinary shares of the Bank granted pursuant to the OCBC Share Option Schemes as set out in the paragraphs on "Share options".

	Number of unissued ordinary shares	
	At 31.12.2006	At 1.1.2006
Cheong Choong Kong	**514,800**	331,200
David Conner	**3,464,000**	2,852,000
Wong Nang Jang	**573,600**	684,480

Save as disclosed above, the other directors did not hold any interest in shares in, or debentures of, the Bank or any related corporation either at the beginning or end of the financial year.

The directors' interests in shares and share options in the Bank as at 21 January 2007 were the same as those as at 31 December 2006.

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive benefits by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the financial statements and in this report.

On 12 June 2006, an agreement was made between Dr Cheong Choong Kong ("Dr Cheong"), non-executive director and Chairman of the Bank, and OCBC Management Services Private Limited, a wholly-owned subsidiary of the Bank, under which Dr Cheong is appointed as consultant to oversee and supervise the strategic planning of the Bank and its subsidiaries with respect to talent identification, and the development and succession of senior management within the group. Under the agreement, Dr Cheong will be entitled to payments and benefits as consultant with an aggregate value of $1,183,700 per annum which includes a variable bonus of $100,000 per annum but such variable bonus may include any additional amount in excess of $100,000 as the Remuneration Committee of the Bank may at its discretion agree. In his capacity as a director of the Bank, Dr Cheong is also eligible for any directors' fees or share options that are recommended by the Board of Directors. Dr Cheong's total remuneration for the year, which ranged between $2,000,000 to $2,249,999, is reflected in the Directors' Remuneration table in the Corporate Governance Section of the Annual Report.

Except as disclosed under the "Share options" section of this report, neither at the end of, nor at any time during the financial year, was the Bank a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Share options

(a) OCBC Share Option Schemes

(i) OCBC Executives' Share Option Scheme 1994

The OCBC Executives' Share Option Scheme 1994 ("1994 Scheme") in respect of the grant of options to acquire ordinary shares in the Bank was approved at an extraordinary general meeting on 11 June 1994. Options were granted to executives of the Bank and OCBC Bank (Malaysia) Berhad, a wholly-owned subsidiary of the Bank, of the rank of Assistant Manager and above. The 1994 Scheme was terminated on 3 August 2001 and replaced by the OCBC Share Option Scheme 2001.

Outstanding options under the 1994 Scheme will remain valid until their respective dates of expiration of the options. Particulars of the 1997 Replacement Options, 1998 Replacement Options, 1999 Replacement Options, 2000 Options and 2001 Options were set out in the directors' reports for the financial years ended 31 December 1999 to 2001.

Share options (continued)

(a) OCBC Share Option Schemes (continued)

(ii) OCBC Share Option Scheme 2001

The OCBC Share Option Scheme 2001 ("2001 Scheme") in respect of the grant of options to acquire ordinary shares in the Bank was approved at an extraordinary general meeting on 17 May 2001, to replace the 1994 Scheme. Executives of the Group (including executive and non-executive directors), of the rank of Assistant Manager and above, are eligible to participate in the 2001 Scheme. The Bank will either issue new shares or transfer treasury shares to the executives upon exercise of options.

Particulars of the 2002 Options, 2002A Options, 2002B Options, 2003 Options, 2004 Options, 2004A Options, 2004B Options, 2005 Options and 2005A Options, were set out in the directors' reports for the financial years ended 31 December 2002 to 2005.

The Schemes are administered by the Remuneration Committee and the members at the date of this report are as follows:

- Michael Wong Pakshong, Chairman
- Cheong Choong Kong
- Nasruddin Bin Bahari
- Tsao Yuan

Dr Cheong Choong Kong and Mr David Conner (who retired from the Remuneration Committee on 31 October 2006) did not participate in any deliberation or decision in respect of options granted to them.

(b) Share options issued during the financial year

During the financial year, pursuant to the 2001 Scheme, 5,846,476 ordinary shares were granted to 955 officers of the Group in consideration of the payment of $1 by each officer for options granted. These included options granted to the following directors of the Bank:

Name	Designation at the time of granting the options	Number of options	Acquisition price per share	Exercise period
Cheong Choong Kong	Chairman	183,600	$6.820	15.3.2007 to 13.3.2016
David Conner	Chief Executive Officer	612,000	$6.820	15.3.2007 to 13.3.2016

No options have been granted to controlling shareholders of the Bank or their associates.

Saved as disclosed above, no participant has received 5% or more of the total number of options available under the scheme during the financial year. No options were granted at a discount during the financial year.

Share options (continued)

(b) Share options issued during the financial year (continued)

Statutory and other information regarding the Options issued in 2006 are as follows:

(i) Options issued on 14 March 2006 ("2006 Options") to Group executives (including executive directors) will expire on 13 March 2016. The exercise period is from 15 March 2007 to 13 March 2016, both dates inclusive. The option may be exercised by notice in writing accompanied by a remittance for the full amount of the acquisition price, which is $6.820 per ordinary share.

(ii) Options issued on 23 January 2006 ("2006A Options") to a senior executive will expire on 22 January 2016. The exercise period is from 24 January 2007 to 22 January 2016, both dates inclusive. The option may be exercised by notice in writing accompanied by a remittance for the full amount of the acquisition price, which is $6.780 per ordinary share.

(iii) Options issued on 23 May 2006 ("2006B Options") to Group executives of Great Eastern Holdings Limited will expire on 22 May 2016. The exercise period is from 24 May 2007 to 22 May 2016, both dates inclusive. The option may be exercised by notice in writing accompanied by a remittance for the full amount of the acquisition price, which is $6.580 per ordinary share.

(iv) The acquisition prices were equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange Securities Trading Limited over five consecutive trading days immediately prior to the date when an offer to grant an option was made to a grantee.

(v) Based on the rules of the 2001 Scheme, options granted to executives (including executive directors) are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 10th anniversary of the respective dates of grant. Options granted to non-executive directors are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 5th anniversary of the respective dates of grant or, if applicable laws permit, on such later date as the Remuneration Committee may determine.

(vi) In accordance with the vesting schedule of the 2001 Scheme, the percentage of options will vest with grantees as follows:

On or before the 1st anniversary of the date of grant	Nil
On the 1st anniversary from grant date	33%
On the 2nd anniversary from grant date	33%
On the 3rd anniversary from grant date	34%

(vii) Unexercised options will lapse by reason of Rule 7.3 of the 2001 Scheme relating to the cessation of employment of the grantee unless otherwise determined by the Remuneration Committee.

(viii) The number of shares which may be acquired by a grantee or the acquisition price or both are subject to adjustment, as confirmed by the auditors of the Bank that such adjustment is fair and reasonable, by reason of any variation in the issued ordinary share capital of the Bank (whether by way of rights issue or capitalisation of profits or reserves or otherwise) while an option remains unexercised.

(ix) The persons to whom these options have been issued have no right to participate by virtue of these options in any share issue of any other company.

Share options (continued)

(c) Share options outstanding

During the financial year, changes in the number of unissued shares under options granted to directors were as follows:

Name of director	Options granted during the financial year	Aggregate options granted since commencement of Schemes to end of financial year	Aggregate options exercised since commencement of Schemes to end of financial year	Aggregate options outstanding as at end of financial year
Cheong Choong Kong	183,600 (2006 Options)	514,800	–	514,800
David Conner	612,000 (2006 Options)	3,564,000	100,000	3,464,000
Wong Nang Jang	–	927,539	353,939	573,600

The number of unissued ordinary shares of the Bank under options outstanding at the end of financial year is as follows:

OCBC Share Options	At 31.12.2006	Acquisition price per share	Exercise period
1997 Replacement Options	386,712	$3.168	30.01.2000 to 29.01.2007
1998 Replacement Options	892,594	$2.675	22.01.2001 to 21.01.2008
1999 Replacement Options	1,807,138	$3.139	10.12.2001 to 09.12.2008
2000 Options	3,797,498	$4.542	06.12.2002 to 05.12.2009
2001 Options	6,905,676	$5.367	05.12.2003 to 04.12.2010
2002 Options	9,662,677	$5.742	09.04.2003 to 08.04.2012
2002A Options	720,000	$5.692	23.04.2003 to 22.04.2012
2002B Options	180,000	$4.367	24.10.2003 to 23.10.2012
2003 Options	180,000	$4.067	28.03.2004 to 26.03.2008
2003 Options	7,866,641	$4.067	28.03.2004 to 26.03.2013
2004 Options	6,925,707	$5.142	16.03.2005 to 14.03.2014
2004A Options	160,800	$5.492	20.08.2005 to 18.08.2014
2004B Options	103,200	$5.667	23.11.2005 to 21.11.2014
2005 Options	5,968,553	$5.767	15.03.2006 to 13.03.2015
2005A Options	2,672,688	$5.784	09.04.2006 to 07.04.2015
2006 Options	4,250,705	$6.820	15.03.2007 to 13.03.2016
2006A Options	12,400	$6.780	24.01.2007 to 22.01.2016
2006B Options	1,376,000	$6.580	24.05.2007 to 22.05.2016
	53,868,989		

OCBC Deferred Share Plan

The Bank implemented the OCBC Deferred Share Plan ("DSP") in 2003, a share-based plan administered by the Remuneration Committee in accordance with the rules governing the DSP. The DSP is a discretionary incentive and retention award program extended to executives of the Group of the rank of Senior Officer and above at the absolute discretion of the Remuneration Committee. The awards are granted at no cost to the grantees, on a deferred basis as part of their performance bonus. Such awards shall lapse by reason of cessation of service but may be preserved at the absolute discretion of the Remuneration Committee. The DSP does not involve the issue of new shares. Instead, the Bank will either purchase existing shares from the market or transfer treasury shares for release to the grantees at the end of the respective vesting periods.

During the financial year, total awards of 1,444,490 ordinary shares (including awards of 119,907 ordinary shares granted to two directors of the Bank) were granted to eligible executives under the DSP.

During the financial year, the first tranche of 886,918 deferred shares granted in 2003 was released to eligible employees, of which 68,462 shares were released to a director.

OCBC Employee Share Purchase Plan

The OCBC Employee Share Purchase Plan ("ESP Plan") was approved at an extraordinary general meeting on 30 April 2004. All employees of the Group ("participants") who have attained the age of 21 years and have been employees for a period of not less than six months are eligible to participate in the ESP Plan unless they are also controlling shareholders of the Bank or their associates. The purpose of the ESP Plan is to provide participants with an opportunity to increase their personal equity interest in the Bank. The Bank will either issue new shares or transfer treasury shares to participants upon the exercise or conversion of acquisition rights. The ESP Plan is administered by the Remuneration Committee.

The Bank's first ESP Plan which commenced on 1 July 2004 expired on 30 June 2006. During the financial year, 1,728,000 new ordinary shares were issued upon the exercise of acquisition rights by participants and 2,258,382 treasury shares were transferred to participants upon conversion of outstanding acquisition rights at the end of the first offering period.

In June 2006, the Bank launched its second offering of ESP Plan, which commenced on 1 July 2006 and expires on 30 June 2008, at an acquisition price of $6.45 per ordinary share. Under the second offering, 3,338 employees (including a director of the Bank) enrolled to participate in the ESP Plan to acquire 8,222,248 ordinary shares.

No participant has been granted rights to acquire ordinary shares under the ESP Plan, which in aggregate, represent 5% or more of the total number of ordinary shares available under the ESP Plan.

(a) Other information regarding acquisition rights of ESP Plan

(i) Each offering period consists of a 24-month period (or such other period not exceeding 10 years as the Remuneration Committee may prescribe), except that the commencement date of an offering period shall not fall during the period of 30 days immediately preceding the date of announcement of the Bank's financial results for its financial year or the period of 14 days immediately preceding the date of announcement of the Bank's financial results for the first three quarters of its financial year, and provided further that no offering period may commence on any date during which another offering period is outstanding.

(ii) The acquisition price is equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange Securities Trading Limited over the five consecutive trading days immediately preceding the price fixing date for the acquisition price of the ordinary shares (as determined by the Remuneration Committee).

(iii) A participant may participate in the ESP Plan for an offering period by making contributions in cash by means of monthly deductions from his monthly base salary and/or his designated account; and/or by monthly debits from his CPF Ordinary Account to his ESP Plan account.

OCBC Employee Share Purchase Plan (continued)

(a) Other information regarding acquisition rights of ESP Plan (continued)

(iv) Termination of employment of a participant for any reason, including retirement and death and the bankruptcy of a participant, shall be treated as automatic withdrawal from the ESP Plan under Rule 8.4. However, the transfer of employment of a participant between companies within the Group shall not be treated as termination of employment.

(v) Each participant who has elected to acquire ordinary shares shall be deemed to have elected to acquire the number of ordinary shares calculated by using the amount standing to the credit of the participant's ESP Plan account as at the last day of the relevant offering period or the amount specified in the participant's Acquisition Form but shall not exceed $72,000 (or such other amount as may be prescribed by the Remuneration Committee) divided by the acquisition price and the resulting number of ordinary shares be rounded down to the nearest whole share. The balance of the cash or CPF contribution (together with accrued interest on the monthly contributions), if any, will be refunded to the participant.

(vi) Participants are allowed to acquire ordinary shares at the end of an offering period; or at any one time after the first anniversary of the first day of an offering period by completing and signing an Acquisition Form stating the conversion amount. The conversion amount shall not exceed the amount standing to the credit of the participant's Plan Account as at the date of submission of his Acquisition Form.

(vii) If a participant wishes to discontinue contributions and withdraw from the ESP Plan during an offering period, he may do so by completing and signing a Discontinuance Form. No partial withdrawals from a participant's ESP Plan account shall be permitted.

(b) Acquisition rights outstanding

The particulars relating to acquisition rights of the directors under the ESP Plan for the financial year under review were as follows:

Name	Rights to acquire shares issued during the financial year	Aggregate number of shares comprised in such rights since commencement of ESP Plan to end of financial year	Aggregate number of acquisition rights exercised since commencement of ESP Plan to end of financial year	Aggregate number of shares comprised in such rights outstanding under the ESP Plan as at end of financial year
Cheong Choong Kong	–	14,257	14,257	–
David Conner	11,162	25,419	14,257	11,162

As at 31 December 2006, the number of shares to be issued under the ESP Plan was 7,640,257 (including the participation of a director).

Issue of shares pursuant to Option Schemes and Employee Share Purchase Plan

During the financial year, the Bank issued the following ordinary shares fully paid up in cash and/or transferred treasury shares pursuant to the Share Option Schemes and ESP Plan upon the exercise of options and acquisition rights:

	Acquisition price per share	Number of ordinary shares issued	Number of ordinary shares transferred
1996 Replacement Options	$3.396	348,970	–
1997 Replacement Options	$3.168	307,070	339,684
1998 Replacement Options	$2.675	193,572	203,038
1999 Replacement Options	$3.139	232,494	197,066
2000 Options	$4.542	774,059	869,444
2001 Options	$5.367	1,802,935	774,827
2002 Options	$5.742	2,284,109	908,533
2002B Options	$4.367	60,000	–
2003 Options	$4.067	3,724,905	1,471,635
2004 Options	$5.142	1,135,858	307,592
2005 Options	$5.767	379,414	94,937
2005A Options	$5.784	90,560	170,872
Employee Share Purchase Plan	$5.050	1,728,000	2,258,382
		13,061,946	7,596,010

Audit Committee

The members of the Audit Committee at the date of this report are as follows:

Bobby Chin Yoke Choong, Chairman
Nasruddin Bin Bahari
Neo Boon Siong
Tsao Yuan
David Wong Cheong Fook

The Audit Committee performs the functions specified in the Companies Act, the SGX-ST Listing Manual, the Banking (Corporate Governance) Regulations 2005, MAS Guidelines for Corporate Governance and the Code of Corporate Governance. In performing its function, the Audit Committee met with the Bank's external and internal auditors, and reviewed the audit plans, the internal audit programme, the results of their examination and findings on their evaluation of the system of internal controls.

The Audit Committee also reviewed the following:

(a) response of the Bank's management and the assistance provided by officers of the Bank to the external and internal auditors; and
(b) financial statements of the Group and the Bank and the auditors' report thereon prior to their submission to the Board of Directors.

The Audit Committee has full access to, and the cooperation of, the management and has been given the resources required for it to discharge its functions. It has full authority and discretion to invite any Director and executive officer to attend its meetings. The Audit Committee also reviewed the Bank's relationship with the external auditors, including their independence and objectivity.

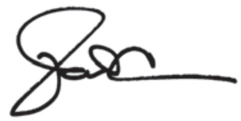
The Audit Committee has nominated KPMG for re-appointment as auditors of the Bank at the forthcoming Annual General Meeting.

Auditors

The auditors, KPMG, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director



DAVID PHILBRICK CONNER
Director

Singapore
22 February 2007

Statement by Directors

For the financial year ended 31 December 2006

In the opinion of the directors,

(a) the financial statements set out on pages 76 to 167 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2006, the results and changes in equity of the Group and the Bank for the financial year ended on that date, and cash flows of the Group for the financial year ended on that date; 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
22 February 2007

Auditors' Report

To The Members Of Oversea-Chinese Banking Corporation Limited

We have audited the accompanying financial statements of Oversea-Chinese Banking Corporation Limited ("the Bank") and its subsidiaries ("the Group"), which comprise the balance sheets of the Group and the Bank as at 31 December 2006, the income statements and statements of changes in equity of the Group and the Bank and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 76 to 167. The financial statements for the year ended 31 December 2005 were audited by another auditor whose report dated 28 February 2006 expressed an unqualified opinion on those statements.

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, Chapter 50 ("the Act") and Singapore Financial Reporting Standards. 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 the 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.

Compliance with ethical requirements

In accordance with paragraph 4(4) of the Fourth Schedule to the Accountants (Public Accountants) Rules 2004 ("Accountants Rules"), the economic interests held by staff members of KPMG who were directly involved in the audit of the accompanying financial statements of the Bank and its subsidiaries for the year ended 31 December 2006 (as well as those held by the staff members' financially dependent immediate family members), in aggregate as at 1 January 2006 were less than $0.1 million.

The abovementioned economic interests were extinguished within 90 days from the date of our appointment as auditors or in compliance with the Accountants Rules. There were no economic interests held up to the date of this report. The aggregate gross transactions of the above staff members and their financially dependent immediate family members from 1 January 2006 to 31 December 2006 were less than $0.1 million.

Opinion

In our opinion,

(a) the consolidated financial statements of the Group and the financial statements of the Bank are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 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 Group and of the Bank as at 31 December 2006, the results and changes in equity of the Group and the Bank and cash flows of the Group for the year ended on that date; and

(b) 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.

KPMG

KPMG
Certified Public Accountants

Singapore
22 February 2007

Income Statements

For the financial year ended 31 December 2006

	Note	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Interest income		**4,516,313**	3,470,335	**3,282,635**	2,565,361
Interest expense		**(2,722,255)**	(1,872,945)	**(2,132,883)**	(1,468,271)
Net interest income	3	**1,794,058**	1,597,390	**1,149,752**	1,097,090
Premium income		**5,225,491**	4,838,204	**–**	–
Investment income		**2,271,996**	1,639,856	**–**	–
Net claims, surrenders and annuities		**(4,939,969)**	(3,299,887)	**–**	–
Change in life assurance contract liabilities		**(1,422,896)**	(2,069,792)	**–**	–
Commission and others		**(758,459)**	(827,846)	**–**	–
Profit from life assurance	4	**376,163**	280,535	**–**	–
Premium income from general insurance		**59,409**	61,292	**–**	–
Fees and commissions (net)	5	**597,352**	506,822	**328,085**	296,633
Dividends	6	**128,911**	129,570	**427,736**	266,621
Rental income		**77,924**	71,823	**21,669**	19,350
Other income	7	**805,724**	239,379	**387,232**	194,477
Non-interest income		**2,045,483**	1,289,421	**1,164,722**	777,081
Total income		**3,839,541**	2,886,811	**2,314,474**	1,874,171
Staff costs		**(721,613)**	(633,684)	**(342,298)**	(325,649)
Other operating expenses		**(609,531)**	(510,835)	**(459,898)**	(385,485)
Total operating expenses	8	**(1,331,144)**	(1,144,519)	**(802,196)**	(711,134)
Operating profit before (allowances)/writeback and amortisation of intangible assets		**2,508,397**	1,742,292	**1,512,278**	1,163,037
Amortisation of intangible assets	37	**(43,732)**	(39,920)	**–**	–
(Allowances)/writeback for loans and impairment of other assets	9	**(2,426)**	(11,629)	**26,926**	(56,698)
Operating profit after (allowances)/writeback and amortisation of intangible assets		**2,462,239**	1,690,743	**1,539,204**	1,106,339
Share of results of associated and joint venture companies		**13,651**	14,796	**–**	–
Profit before income tax		**2,475,890**	1,705,539	**1,539,204**	1,106,339
Income tax expense	10	**(369,818)**	(308,083)	**(203,262)**	(153,798)
Profit for the year		**2,106,072**	1,397,456	**1,335,942**	952,541
Attributable to:					
Equity holders of the Bank		**2,002,192**	1,297,998		
Minority interests		**103,880**	99,458		
		2,106,072	1,397,456		
Earnings per share (cents)	11				
Basic		**63**	40		
Diluted		**63**	40		

The accompanying notes form an integral part of these financial statements.

Balance Sheets
As at 31 December 2006

		GROUP		BANK	
	Note	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
EQUITY					
Attributable to the Bank's equity holders					
Share capital (1)	13	**5,480,943**	1,561,177	**5,480,943**	1,561,177
Capital reserves (1)	14	**103,262**	4,292,000	**83,162**	4,245,319
Statutory reserves	15	**2,027,811**	1,959,332	**1,698,130**	1,631,330
Fair value reserves		**667,712**	617,819	**405,102**	396,285
Revenue reserves	16	**5,124,544**	3,907,553	**2,561,840**	2,033,360
		13,404,272	12,337,881	**10,229,177**	9,867,471
Minority interests	17	**1,086,631**	1,148,978	**–**	–
Total equity		**14,490,903**	13,486,859	**10,229,177**	9,867,471
LIABILITIES					
Deposits of non-bank customers	18	**75,114,981**	64,087,509	**59,363,176**	50,885,352
Deposits and balances of banks	18	**11,869,252**	10,307,432	**11,233,918**	10,125,496
Due to subsidiaries		**–**	–	**1,083,021**	1,095,217
Due to associated companies		**119,637**	21,023	**3,353**	4,482
Trading portfolio liabilities		**421,795**	455,896	**421,795**	455,896
Derivative payables	19	**2,113,796**	1,921,486	**2,050,881**	1,889,226
Other liabilities	20	**2,577,510**	2,041,815	**1,119,749**	934,533
Current tax (2)		**599,046**	575,238	**286,653**	299,512
Deferred tax (2)	21	**502,261**	436,123	**136,887**	146,267
Debts issued	22	**5,130,673**	5,518,648	**5,359,096**	5,780,990
		98,448,951	85,365,170	**81,058,529**	71,616,971
Life assurance fund liabilities (2)	23	**38,279,817**	35,858,384	**–**	–
Total liabilities		**136,728,768**	121,223,554	**81,058,529**	71,616,971
Total equity and liabilities		**151,219,671**	134,710,413	**91,287,706**	81,484,442

Notes:

(1) In accordance with the Companies (Amendment) Act 2005 which came into effect on 30 January 2006, share capital now includes share premium and capital redemption reserves (previously included in capital reserves).

(2) 2005 comparatives have been restated to include in the respective lines, life assurance fund current tax liabilities $162.7 million, deferred tax liabilities $221.2 million, cash in hand and balance with banks $385.4 million. These were previously included in the life assurance fund investment assets. In addition, certain liabilities of the life assurance fund amounting to $2,572.1 million have been reclassified from "life assurance fund investment assets" to "life assurance fund liabilities".

The accompanying notes form an integral part of these financial statements.

Balance Sheets
As at 31 December 2006

		GROUP		BANK	
	Note	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
ASSETS					
Cash and placements with central banks [(2)]	24	**5,741,343**	4,182,058	**3,207,583**	2,751,840
Singapore government treasury bills and securities	25	**8,146,956**	6,948,229	**7,645,498**	6,388,753
Other government treasury bills and securities	25	**2,194,998**	1,990,429	**285,702**	194,014
Placements with and loans to banks [(2)]	26	**17,750,089**	11,923,596	**16,409,952**	11,036,908
Loans to and bills receivable from customers	27-30	**59,309,000**	55,133,652	**46,478,716**	43,751,456
Debt and equity securities	31	**7,558,241**	7,403,267	**5,380,272**	5,337,818
Assets pledged	43	**1,896,579**	1,916,559	**523,771**	651,475
Assets held for sale	44	**6,506**	–	**805**	–
Derivative receivables	19	**2,414,434**	2,378,259	**2,353,842**	2,348,020
Other assets	32	**2,524,217**	1,947,684	**1,201,134**	929,294
Deferred tax	21	**48,188**	71,497	**1,966**	–
Associated and joint venture companies	34	**309,214**	186,021	**96,593**	96,593
Subsidiaries	35	**–**	–	**5,122,029**	5,402,133
Property, plant and equipment	36	**1,375,749**	1,428,656	**712,667**	728,962
Goodwill and intangible assets	37	**3,520,949**	3,343,555	**1,867,176**	1,867,176
		112,796,463	98,853,462	**91,287,706**	81,484,442
Life assurance fund investment assets [(2)]	23	**38,423,208**	35,856,951	**–**	–
Total assets		**151,219,671**	134,710,413	**91,287,706**	81,484,442
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	41	**6,819,168**	6,646,931	**5,153,705**	5,492,740
Commitments	42	**37,178,752**	33,132,647	**31,370,019**	27,049,958
Derivative financial instruments	19	**242,467,119**	263,295,983	**227,403,447**	251,796,439

The accompanying notes form an integral part of these financial statements.

Statement Of Changes In Equity – Group

For the financial year ended 31 December 2006

In $'000	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total	Minority interests	Total equity
	Attributable to equity holders of the Bank							
Balance at 1 January 2006	**1,561,177**	**4,292,000**	**1,959,332**	**617,819**	**3,907,553**	**12,337,881**	**1,148,978**	**13,486,859**
Movements in fair value reserves:								
Gains taken to equity	–	–	–	367,579	–	367,579	25,081	392,660
Transferred to income statements	–	–	–	(312,990)	–	(312,990)	(9,699)	(322,689)
Tax on net movements	–	–	–	(4,696)	–	(4,696)	(3,823)	(8,519)
Currency translation	–	–	–	–	(20,526)	(20,526)	(1,350)	(21,876)
Net gains/(losses) recognised in equity	–	–	–	49,893	(20,526)	29,367	10,209	39,576
Profit for the year	–	–	–	–	2,002,192	2,002,192	103,880	2,106,072
Total recognised gains for the financial year	–	–	–	49,893	1,981,666	2,031,559	114,089	2,145,648
Transfers	–	(24,102)	68,479	–	(44,377)	–	–	–
Acquisition of additional interests in subsidiaries	40,635	–	–	–	–	40,635	(121,577)	(80,942)
Dividends paid to minority interests	–	–	–	–	–	–	(54,859)	(54,859)
Effect of Companies (Amendment) Act 2005	4,185,344	(4,185,344)	–	–	–	–	–	–
Ordinary and preference dividends	–	–	–	–	(677,032)	(677,032)	–	(677,032)
Share-based staff costs capitalised	–	10,643	–	–	–	10,643	–	10,643
Share buyback – cancelled	(2,577)	2,577	–	–	(43,266)	(43,266)	–	(43,266)
Share buyback – held in treasury	(392,374)	–	–	–	–	(392,374)	–	(392,374)
Shares issued to non-executive directors	324	–	–	–	–	324	–	324
Shares issued pursuant to the Bank's employee share schemes	52,345	9,967	–	–	–	62,312	–	62,312
Shares purchased by DSP Trust	–	(7,616)	–	–	–	(7,616)	–	(7,616)
Shares vested under DSP Scheme	–	5,137	–	–	–	5,137	–	5,137
Transfer of treasury shares pursuant to the Bank's employee share schemes	36,069	–	–	–	–	36,069	–	36,069
Balance at 31 December 2006	**5,480,943**	**103,262**	**2,027,811**	**667,712**	**5,124,544**	**13,404,272**	**1,086,631**	**14,490,903**
Included:								
Share of reserves of associated and joint venture companies	–	1,404	–	–	51,725	53,129	–	53,129

An analysis of the movements in each component within 'Share capital', 'Capital reserves', 'Statutory reserves' and 'Revenue reserves' is presented in Notes 12 to 16.

The accompanying notes form an integral part of these financial statements.

Statement Of Changes In Equity – Group

For the financial year ended 31 December 2006

In $'000	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total	Minority interests	Total equity
	Attributable to equity holders of the Bank							
Balance at 1 January 2005	1,320,551	3,141,260	1,934,114	648,633	4,847,175	11,891,733	514,317	12,406,050
Movements in fair value reserves:								
Gains taken to equity	–	–	–	61,136	–	61,136	17,464	78,600
Transferred to income statements	–	–	–	(70,148)	–	(70,148)	(12,837)	(82,985)
Tax on net movements	–	–	–	(21,802)	–	(21,802)	(2,408)	(24,210)
Currency translation	–	–	–	–	(17,085)	(17,085)	(867)	(17,952)
Net gains/(losses) recognised in equity	–	–	–	(30,814)	(17,085)	(47,899)	1,352	(46,547)
Profit for the year	–	–	–	–	1,297,998	1,297,998	99,458	1,397,456
Total recognised gains/ (losses) for the financial year	–	–	–	(30,814)	1,280,913	1,250,099	100,810	1,350,909
Transfers	–	(82,146)	25,218	–	56,928	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	57,163	57,163
Acquisition of additional interests in subsidiaries	6,924	81,014	–	–	–	87,938	(43,581)	44,357
Bonus dividends and Rights Issue	262,138	1,047,612	–	–	(1,310,688)	(938)	–	(938)
Cash distribution to minority interests	–	–	–	–	–	–	(38,250)	(38,250)
Dividends paid to minority interests	–	–	–	–	–	–	(37,468)	(37,468)
Issue of preference shares by subsidiaries	–	–	–	–	–	–	575,949	575,949
Issue of rights shares by a subsidiary	–	–	–	–	–	–	20,038	20,038
Ordinary and preference dividends	–	–	–	–	(514,115)	(514,115)	–	(514,115)
Share-based staff costs capitalised	–	13,852	–	–	–	13,852	–	13,852
Share buyback – cancelled	(35,671)	35,671	–	–	(452,660)	(452,660)	–	(452,660)
Shares issued to non-executive directors	14	179	–	–	–	193	–	193
Shares issued pursuant to the Bank's employee share schemes	7,221	62,145	–	–	–	69,366	–	69,366
Shares purchased by DSP Trust	–	(7,587)	–	–	–	(7,587)	–	(7,587)
Balance at 31 December 2005	1,561,177	4,292,000	1,959,332	617,819	3,907,553	12,337,881	1,148,978	13,486,859
Included:								
Share of reserves of associated companies	–	1,404	–	–	42,669	44,073	–	44,073

An analysis of the movements in each component within 'Share capital', 'Capital reserves', 'Statutory reserves' and 'Revenue reserves' is presented in Notes 12 to 16.

The accompanying notes form an integral part of these financial statements.

Statement Of Changes In Equity – Bank

For the financial year ended 31 December 2006

In $'000	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total
Balance at 1 January 2006	**1,561,177**	**4,245,319**	**1,631,330**	**396,285**	**2,033,360**	**9,867,471**
Movements in fair value reserves:						
Gains taken to equity	**–**	**–**	**–**	**223,360**	**–**	**223,360**
Transferred to income statements	**–**	**–**	**–**	**(226,040)**	**–**	**(226,040)**
Tax on net movements	**–**	**–**	**–**	**11,497**	**–**	**11,497**
Currency translation	**–**	**–**	**–**	**–**	**(20,364)**	**(20,364)**
Net gains/(losses) recognised in equity	**–**	**–**	**–**	**8,817**	**(20,364)**	**(11,547)**
Profit for the year	**–**	**–**	**–**	**–**	**1,335,942**	**1,335,942**
Total recognised gains for the financial year	**–**	**–**	**–**	**8,817**	**1,315,578**	**1,324,395**
Transfers	**–**	**–**	**66,800**	**–**	**(66,800)**	**–**
Acquisition of additional interests in a subsidiary	**40,635**	**–**	**–**	**–**	**–**	**40,635**
Effect of Companies (Amendment) Act 2005	**4,185,344**	**(4,185,344)**	**–**	**–**	**–**	**–**
Ordinary and preference dividends	**–**	**–**	**–**	**–**	**(677,032)**	**(677,032)**
Share-based staff costs capitalised	**–**	**10,643**	**–**	**–**	**–**	**10,643**
Share buyback – cancelled	**(2,577)**	**2,577**	**–**	**–**	**(43,266)**	**(43,266)**
Share buyback – held in treasury	**(392,374)**	**–**	**–**	**–**	**–**	**(392,374)**
Shares issued to non-executive directors	**324**	**–**	**–**	**–**	**–**	**324**
Shares issued pursuant to the Bank's employee share schemes	**52,345**	**9,967**	**–**	**–**	**–**	**62,312**
Transfer of treasury shares pursuant to the Bank's employee share schemes	**36,069**	**–**	**–**	**–**	**–**	**36,069**
Balance at 31 December 2006	**5,480,943**	**83,162**	**1,698,130**	**405,102**	**2,561,840**	**10,229,177**
Balance at 1 January 2005	1,320,551	3,004,846	1,583,700	436,504	3,416,287	9,761,888
Movements in fair value reserves:						
Losses taken to equity	–	–	–	(17,592)	–	(17,592)
Transferred to income statements	–	–	–	(5,183)	–	(5,183)
Tax on net movements	–	–	–	(17,444)	–	(17,444)
Currency translation	–	–	–	–	(10,375)	(10,375)
Net losses recognised in equity	–	–	–	(40,219)	(10,375)	(50,594)
Profit for the year	–	–	–	–	952,541	952,541
Total recognised gains/(losses) for the financial year	–	–	–	(40,219)	942,166	901,947
Transfers	–	–	47,630	–	(47,630)	–
Acquisition of additional interests in a subsidiary	6,924	81,014	–	–	–	87,938
Bonus dividends and Rights Issue	262,138	1,047,612	–	–	(1,310,688)	(938)
Ordinary and preference dividends	–	–	–	–	(514,115)	(514,115)
Share-based staff costs capitalised	–	13,852	–	–	–	13,852
Share buyback – cancelled	(35,671)	35,671	–	–	(452,660)	(452,660)
Shares issued to non-executive directors	14	179	–	–	–	193
Shares issued pursuant to the Bank's employee share schemes	7,221	62,145	–	–	–	69,366
Balance at 31 December 2005	1,561,177	4,245,319	1,631,330	396,285	2,033,360	9,867,471

An analysis of the movements in each component within 'Share capital', 'Capital reserves', 'Statutory reserves' and 'Revenue reserves' is presented in Notes 12 to 16.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the financial year ended 31 December 2006

	2006 $'000	2005 $'000
Cash flows from operating activities		
Profit before income tax	**2,475,890**	1,705,539
Adjustments for non-cash items:		
Amortisation of intangible assets	**43,732**	39,920
Allowances for loans and impairment of other assets	**2,426**	11,629
Change in fair value of hedging transactions and trading securities	**14,023**	2,212
Depreciation of property, plant and equipment	**103,593**	87,761
Net gains on disposal of government, debt and equity securities	**(323,673)**	(82,985)
Net (gains)/losses on disposal of property, plant and equipment	**(278,573)**	812
Share-based staff costs	**9,695**	13,091
Share of results of associated and joint venture companies	**(13,651)**	(14,796)
Write-off of plant and equipment	**14,284**	–
Items relating to life assurance fund		
Excess of income over expenses before income tax	**476,181**	454,704
Surplus transferred from life assurance but not yet withdrawn	**(376,163)**	(280,535)
Operating profit before change in operating assets and liabilities	**2,147,764**	1,937,352
Change in operating assets and liabilities:		
Deposits of non-bank customers	**11,126,086**	4,316,836
Deposits and balances of banks	**1,561,820**	(2,167,099)
Derivative payables and other liabilities	**601,013**	392,209
Trading portfolio liabilities	**(34,101)**	455,896
Government securities and treasury bills	**(1,649,947)**	(756,636)
Trading securities	**(178,675)**	88,338
Placements with and loans to banks	**(5,611,154)**	(2,044,571)
Loans to and bills receivable from customers	**(4,191,401)**	(1,522,048)
Derivative receivables and other assets	**(699,337)**	(704,918)
Net change in investment assets and liabilities of life assurance fund	**(222,979)**	(372,973)
Cash from operating activities	**2,849,089**	(377,614)
Income tax paid	**(249,335)**	(356,550)
Net cash from operating activities	**2,599,754**	(734,164)
Cash flows from investing activities		
Acquisition of additional interests in subsidiaries	**(302,603)**	(48,542)
Dividends from associated companies	**8,432**	4,250
Increase in associated and joint venture companies	**(117,772)**	(1,606)
Net cash inflow from acquisition of additional interests in a subsidiary	**–**	76,986
Purchases of debt and equity securities	**(2,856,498)**	(2,338,379)
Purchases of property, plant and equipment	**(136,299)**	(146,976)
Proceeds from disposal of an associated company	**67**	–
Proceeds from disposal of debt and equity securities	**3,179,777**	4,607,719
Proceeds from disposal of property, plant and equipment	**353,794**	6,641
Net cash from investing activities	**128,898**	2,160,093
Cash flows from financing activities		
Cash distributions and dividends paid to minority interests	**(54,859)**	(75,718)
Decrease in debts issued	**(77,910)**	(484,218)
Dividends paid to equity holders of the Bank	**(677,032)**	(514,115)
Expenses relating to Rights Issue	**–**	(938)
Proceeds from issue of preference shares by subsidiaries	**–**	575,949
Proceeds from minority interests for subscription of shares in a subsidiary	**–**	20,038
Proceeds from exercise of options and rights under the Bank's employee share schemes	**98,381**	69,366
Share buyback	**(435,640)**	(452,660)
Net cash from financing activities	**(1,147,060)**	(862,296)
Net currency translation adjustments	**(22,307)**	1,822
Net change in cash and cash equivalents	**1,559,285**	565,455
Cash and cash equivalents at 1 January	**4,182,058**	3,616,603
Cash and cash equivalents at 31 December	**5,741,343**	4,182,058

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements
For the financial year ended 31 December 2006

These notes form an integral part of the financial statements.

The Board of Directors of Oversea-Chinese Banking Corporation Limited authorised these financial statements for issue on 22 February 2007.

1. General

Oversea-Chinese Banking Corporation Limited ("the Bank") is incorporated and domiciled in Singapore and is publicly traded on the Singapore Exchange. The address of the Bank's registered office is 65 Chulia Street #29-00, OCBC Centre, Singapore 049513.

The consolidated financial statements relate to the Bank and its subsidiaries (together referred to as the Group) and the Group's interests in associates and joint ventures. The Group is principally engaged in the business of banking, life assurance, general insurance, asset management, investment holding, futures and stockbroking.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act ("the Act"). In accordance with Section 201(19) of the Act, the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning are modified by the requirements of Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollar, which is the Bank's functional currency. All financial information presented in Singapore Dollar has been rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement when applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a high degree of judgement or complexity, are disclosed in Note 2.23.

Revisions to the following FRS and Interpretations to FRS ("INT FRS") were effective in the current financial year:

FRS	Title
FRS 19 (revised 2005)	Employee Benefits
FRS 21 (revised 2006)	The Effects of Changes in Foreign Exchange Rates
FRS 39 (revised 2006)	Financial Instruments: Recognition and Measurement
FRS 104 (revised 2006)	Insurance Contracts
INT FRS 104 (issued in 2005)	Determining whether an Arrangement contains a Lease

The revised FRS and INT FRS did not result in any change to the Group's accounting policies.

2. Significant accounting policies (continued)

2.2 Basis of consolidation

2.2.1 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the date of acquisition.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions among group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies within the Group.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Bank, unless the minority has a binding obligation, and is able to make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Bank until the minority's share of losses previously absorbed by the equity holders of the Bank has been recovered.

2.2.2 Associated and joint venture companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding of between and including 20% and 50% of the voting rights. Joint venture companies are entities whereby the Group and its joint venture partners have entered into a contractual arrangement to undertake an economic activity, which is jointly controlled and none of the parties involved unilaterally have control over the entity.

Investments in associated and joint venture companies are accounted for in the consolidated financial statements using the equity method of accounting. Investment in associated companies in the consolidated balance sheet includes goodwill identified on acquisition, where applicable.

Equity accounting involves recording investments in associated and joint venture companies initially at cost, adjusted thereafter for post-acquisition changes of the Group's share of the net assets of the associated and joint venture companies until the date the significant influence or joint control ceases. When the Group's share of losses equals or exceeds its interest in the associated and joint venture companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the companies.

2. Significant accounting policies (continued)

2.2 Basis of consolidation (continued)

2.2.2 Associated and joint venture companies (continued)

In applying the equity method of accounting, unrealised gains on transactions between the Group and its associated and joint venture companies are eliminated to the extent of the Group's interest in the associated and joint venture companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associated and joint venture companies to ensure consistency of accounting policies with those of the Group.

The results of associated and joint venture companies are taken from audited financial statements or unaudited management accounts of the entities concerned, made up to dates of not more than three months prior to the reporting date of the Group.

2.2.3 Life assurance companies

Certain subsidiaries of the Group engaged in long-term life assurance business, are structured into one or more long-term life assurance funds, and shareholders' fund. All premiums received, investment returns, claims and expenses, and changes in liabilities to policyholders are accounted for within the related long-term life assurance fund. Any surplus, which is determined by the appointed Actuary after taking into account these items, may either be distributed between the shareholders and the policyholders according to a predetermined formula or retained within the long-term life assurance funds. The amount distributed to shareholders is reported as "Profit from life assurance" in the consolidated income statement.

2.2.4 Accounting for subsidiaries and associated companies by the Bank

Investments in subsidiaries and associated companies are stated in the Bank's balance sheet at cost less any impairment in value after the date of acquisition.

2.3 Currency translation

2.3.1 Foreign currency transactions

Transactions in foreign currencies are recorded in the respective functional currencies of the Bank and its subsidiaries at the exchange rates prevailing at the transaction dates. Monetary items denominated in foreign currencies are translated to the respective entities' functional currencies at the exchange rates prevailing at the balance sheet date. Exchange differences arising on settlement and translation of such items are recognised in the income statement.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rate at the date when the fair value is determined. Exchange differences on non-monetary items such as equity investments classified as available-for-sale financial assets are included in the fair value reserve in equity.

2.3.2 Foreign operations

The assets and liabilities of foreign operations are translated to Singapore Dollar at exchange rates prevailing at the balance sheet date. The income and expenses of foreign operations are translated to Singapore Dollar at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Foreign currency differences arising from the translation of a foreign operation are recognised in the currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the currency translation reserve is included in the gain or loss on disposal of the operation.

2. Significant accounting policies (continued)

2.4 Cash and cash equivalents

For the preparation of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, balances and placements with central banks. Cash and cash equivalents are carried at amortised cost in the balance sheet.

2.5 Financial instruments

2.5.1 Recognition

The Group initially recognises loans and advances, deposits and debts issued on the date of origination. All regular way purchases and sales of financial assets with delivery of assets within the time period established by regulation or market convention are recognised on the settlement date.

2.5.2 De-recognition

Financial assets are de-recognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Financial liabilities are de-recognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

2.5.3 Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2.5.4 Sale and repurchase agreements (including securities lending and borrowing)

Securities sold under repurchase agreements ("repos") are treated as collateralised borrowing and the balances included in deposits and balances of non-bank customers and banks. The securities sold under repos are treated as pledged assets and continue to be recognised as assets. Securities purchased under commitments to sell ("reverse repos") are treated as collateralised lending and the balances included in placements with central banks, loans to banks and non-bank customers. The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to or from counterparties is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

2. Significant accounting policies (continued)

2.6 Non-derivative financial assets

The Group classifies its non-derivative financial assets in the following categories: loans and receivables, available-for-sale, financial assets at fair value through profit and loss and held-to-maturity. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

2.6.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise primarily from the Group's banking business of providing direct lending to its customers, participation in loans with other lenders and purchased loans that are not quoted in an active market. They are initially recognised at acquisition costs and subsequently measured at amortised cost using the effective interest method less impairment allowance. The Group's loans and receivables comprise mainly placements with and loans to banks and loans to and bills receivable from customers.

2.6.2 Available-for-sale financial assets

Available-for-sale financial assets, comprising mainly government and corporate debt securities, are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices.

At balance sheet date, the Group recognises unrealised gains and losses on revaluing unsettled contracts in fair value reserve in equity. Upon settlement, available-for-sale assets are carried at fair value (including transaction costs) on the balance sheet, with cumulative fair value changes taken to fair value reserve in equity, and recognised in the income statement when the asset is disposed of, collected or otherwise sold, or when the asset is assessed to be impaired.

The fair value for quoted investments is derived from market bid prices. For unquoted securities, fair value is determined based on quotes from brokers and market makers, discounted cash flow and other valuation techniques commonly used by market participants.

2.6.3 Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss comprise liquid assets such as government securities, equity and corporate debt securities, which are acquired by the trading business units of the Group for the purpose of selling them in the near term.

At balance sheet date, the Group recognises unrealised profits and losses on revaluing unsettled contracts in the income statement. Upon settlement, these assets are carried at fair value on balance sheet date, with cumulative fair value changes from the trade date recognised in the income statement.

Fair value is derived from quoted market bid prices. All realised and unrealised gains and losses are included in net trading income in the income statement. Interest earned whilst holding trading assets is included in interest income.

2.6.4 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. These assets are carried at amortised cost using the effective interest method, less any impairment loss.

2. Significant accounting policies (continued)

2.7 Derivative financial instruments

All derivative financial instruments are recognised at fair value on the balance sheet (including transaction costs), which is normally zero or negligible at inception (trade date). Subsequent changes in fair value are recorded as derivative receivables (favourable) and derivative payables (unfavourable).

The Group enters into derivative transactions for trading purposes, and the realised and unrealised gains and losses are recognised in net trading income. The Group also enters into hedging derivative transactions to manage exposures to interest rate, foreign currency and credit risks arising from its core banking activities of lending and accepting deposits. The Group applies either fair value or cash flow hedge accounting when the transactions meet the specified criteria for hedge accounting.

For qualifying fair value hedges, changes in the fair values of the derivative and of the hedged item relating to the hedged risk are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the carrying value of the asset or liability and is amortised to the income statement as a yield adjustment over the remaining maturity of the asset or liability. For fair value portfolio hedge of interest rate exposure, adjustment will be on the straight-line method if amortisation using a re-calculated effective interest rate is not practicable.

"Hedge ineffectiveness" represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item. The amount of ineffectiveness, provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in net trading income.

For qualifying cash flow hedges, the effective portion of the change in fair value of the derivative is taken to the hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are transferred to the income statement in the period in which the hedged forecasted transaction affects the income statement.

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed and adjusted as appropriate, at each balance sheet date, to ensure that they reflect the expected economic benefits derived from these assets.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Furniture and fixtures	-	5 to 10 years
Office equipment	-	5 to 10 years
Computers	-	3 to 10 years
Renovation	-	3 to 5 years
Motor vehicles	-	5 years

Freehold land and leasehold land with leases of more than 100 years to expiry are not depreciated. Buildings and other leasehold land are depreciated over 50 years or the period of the lease, whichever is shorter.

Costs incurred in developing properties, including interest on borrowings to finance the development of such properties during the period of time that is required to complete and prepare the asset for its intended use or sale, are capitalised and included in the carrying amount of the asset. All other borrowing costs are expensed.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised in the income statement during the financial year in which the expenditure is incurred.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year the asset is de-recognised.

2. Significant accounting policies (continued)

2.9 Goodwill and intangible assets

2.9.1 Goodwill

Goodwill on acquisition of subsidiaries is included in "Goodwill and intangible assets" on the balance sheet. It represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets and liabilities of the acquiree. Goodwill is stated at cost less accumulated impairment loss. Impairment test is carried out at least annually.

Gains or losses on disposal of subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

2.9.2 Intangible assets

Intangible assets are separately identifiable intangible items arising from acquisitions. The assets are stated at cost less accumulated amortisation and accumulated impairment losses on the balance sheet. The Group identified the value of in-force business arising from its acquisition of additional stake in Great Eastern Holdings Limited as intangible assets amortised on a straight-line basis over its estimated economic useful life of 20 years.

2.10 Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

2.11 Impairment of assets

2.11.1 Loans and receivables

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Allowances for loans in the loan book comprise specific allowances as well as portfolio allowances. Specific allowance is established when the present value of future recoverable cash flows for impaired loans is lower than the carrying value of the loan. Impaired loans are assessed on a loan-by-loan basis except for homogeneous loans below a certain materiality threshold, which are grouped together according to their risk characteristics and collectively assessed, taking into account the historical loss experience on such loans. Portfolio allowances are set aside for unimpaired loans based on management's credit experiences and judgements. Credit experiences are based on historical default rates which take into account risk factors, including internal risk ratings, geographic, industry and economic conditions as at reporting date.

Specific allowances are written back to the income statement when the loans are no longer considered impaired or when the loss on the loan is determined to be less than the amount of specific allowance previously made. Write-offs of debts are made when recovery action has been instituted and the loss can be reasonably determined.

2.11.2 Other non-derivative financial assets

Impairment of other non-derivative financial assets is calculated as the difference between the asset's carrying amount and the estimated recoverable amount. For equity investment classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from the fair value reserve within equity and recognised in the income statement.

Impairment losses on equity investments recognised in the income statement are not reversed through the income statement, until the investments are disposed of. For debt investments, reversal of impairment is recognised in the income statement.

2. Significant accounting policies (continued)

2.11 Impairment of assets (continued)

2.11.3 Goodwill

Goodwill is tested annually for impairment, as well as when there is indication that the goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's Cash Generating Units ("CGU") expected to benefit from synergies of the business combination. The Group's CGUs correspond with the business segments identified in the primary segment report as this is the level at which the performance of an investment is reviewed and assessed by management.

An impairment loss is recognised in the income statement when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less costs to sell and its value in use. The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. Impairment loss on goodwill is not reversed in subsequent periods.

2.11.4 Investments in subsidiaries and associated companies
Property, plant and equipment
Intangible assets

Investments in subsidiaries and associated companies, property, plant and equipment and intangible assets, are reviewed for impairment wherever there is any indication that these assets may be impaired. If such an indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised in the income statement when the carrying amount of the asset (or CGU) exceeds the recoverable amount of the asset (or CGU). An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years.

2.12 Outstanding premiums

Outstanding premiums are carried at cost, which approximate fair value.

Premiums of life assurance business which remain outstanding beyond the contractual date would automatically trigger premium loans which are taken against the cash value standing to the credit of the policy. Where the cash value is insufficient to activate a premium loan, the policy lapses and the insurance contract between the life assurance subsidiary and the policyholder is deemed cancelled without further liabilities accruing from either party.

Premiums from general insurance business which are outstanding for 90 days would lead to termination of insurance cover and the entire amount would be written off to the income statement in the year in which the 90-day credit expires.

2. Significant accounting policies (continued)

2.13 Financial liabilities

Financial liabilities comprise mainly deposits and debts issued. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits and debts issued are carried at amortised cost using the effective interest method, except when the Group chooses to carry the liabilities at fair value through income statement. Generally, it is the Group's policy to hedge the fixed interest rate risk on debts issued and apply fair value hedge accounting. The carrying values of debts issued are adjusted for changes in fair value relating to the hedged exposure rather than carried at amortised cost.

2.14 Provisions and other liabilities

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received.

Full provision is made for the estimated cost of all life assurance claims notified but not settled at balance sheet date. Provision is made for claims incurred but not reported for all classes of general insurance business written.

Provision for agents' retirement benefits is calculated in accordance with the terms and conditions in the respective Life Assurance Sales Representative's Agreements.

Policy benefits are recognised when policyholder exercises the option to deposit the survival benefits with the life assurance subsidiaries when the benefit falls due. Policy benefits are interest bearing at rates adjusted from time to time by the life assurance subsidiaries.

2.15 Insurance contracts

The insurance subsidiaries within the Group issue insurance contracts in accordance with the Insurance Regulations prevailing in their respective jurisdictions. Disclosures on the various insurance contracts and their liabilities are classified into the principal components as follows:

(a) Life Assurance Fund contract liabilities, comprising
  - Participating Fund contract liabilities;
  - Non-participating Fund contract liabilities; and
  - Investment-linked Fund contract liabilities.

(b) General Insurance Fund contract liabilities

(c) Reinsurance contracts

The Group is not required to un-bundle any insurance contract as the current accounting policy recognises all insurance premiums, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the insurance income statement. The Group does not adopt a policy of deferring acquisition cost for its insurance contracts.

2. Significant accounting policies (continued)

2.15 Insurance contracts (continued)

Life Assurance Fund contract liabilities

The Group issues a variety of short and long duration insurance contracts which transfer risks from the policyholders to the Group to protect policyholders from the consequences of insured events such as death, disability, illness, accident, including survival. These contracts may transfer both insurance and investment risk or insurance risk alone, from the policyholders to the Group.

For non-participating policy contracts, both insurance and investment risks are transferred from policyholders to the Group. For non-participating policy contracts other than medical insurance policy contracts, the payout to policyholders upon the occurrence of the insured event is pre-determined and the transfer of risk is absolute. For medical insurance policy contracts, the payout is dependent on the actual medical costs incurred upon the occurrence of the insured event.

Contracts which transfer insurance risk alone from policyholders to the Group are commonly known as investment-linked policies. As part of the pricing for these contracts, the insurance subsidiaries within the Group would include fees to cover for expenses and insured risk. The investment returns derived from the variety of investment funds as elected by the policyholder accrue directly to the policyholder.

A significant portion of insurance contracts issued by subsidiaries within the Group contain a discretionary participating feature. These contracts are classified as participating policies. In addition to benefits payable upon insured events associated with human life such as death or disability, the contract entitles the policyholder to receive benefits, commonly referred to as policyholder bonus, which is derived from the investment performance of the pool of assets and operating experiences of all the participating policies managed by each insurance subsidiary within the Group.

In addition to guaranteed benefits, set out in the participating policy contract which includes a representation by the insurance subsidiary within the Group, to the effect that the amount and timing of payment or vesting of payables are at the sole discretion of the insurance subsidiary within the Group and are based on the performance of the pool of assets, including but not limited to the investment performance, the long term sustainability of the policyholder bonus scale, policyholders' expectations, and surplus or capital strength of the participating fund. Fund surplus, not distributed to shareholders or policyholders, of the participating life fund is classified as liability.

The Group does not recognise the guaranteed component separately from the discretionary participation feature; hence the Group classifies the whole contract as a liability in the financial statements.

For the purpose of FRS 104, the Group adopts maximum policy benefits as the proxy for insurance risk and cash surrender value as the proxy for deposit component. The Group defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at any point of the insurance contract in force. Based on this definition, all policy contracts issued by insurance subsidiaries within the Group are insurance contracts at the balance sheet date.

Insurance contracts are recognised and measured in accordance with the terms and conditions of the respective contracts and are based on guidelines laid down by the respective insurance regulations. Premiums, claims and benefit payments, acquisition and management expenses and valuation of future policy benefit payments or premium reserves as the case may be, are recognised in the income statements of the respective insurance funds.

2. Significant accounting policies (continued)

2.15 Insurance contracts (continued)

The valuation of insurance contract liabilities is determined according to:

(a) Singapore Insurance Act (Chapter 142), Insurance (Valuation and Capital) Regulations 2004 for insurance funds regulated in Singapore; and

(b) Malaysia Insurance Act and Regulations 1996 for insurance funds regulated in Malaysia.

The table below provides the key underlying assumptions used for valuation of life insurance contract liabilities.

Valuation method	**Singapore**	**Malaysia**
	Gross Premium	**Net Premium**
Interest Rate	Singapore Government Bond yields for cash flows prior to 10 years, the Long Term Risk Free Discount Rate ("LTRFDR") for cash flows after 15 years, and an interpolation of the 10-year Singapore Government Bond yield and the LTRFDR for cash flows between 10 to 15 years. Data source: SGS website	Rates equal to or more conservative than the minimum rate prescribed by the Act. Participating Fund: Either 3.5% or 4.0% for regular premium within respective product groups and 4.5% for single premium products. Non-Participating Fund: 4.0% for regular premium and 4.5% for single premium products.
Mortality	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Prescribed table per regulation Table: 100% Statutory Mortality Valuation Table ("SMVT") 1996 Adjustment for females: 3 years setback
Disability	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Included in death rates
Dreaded disease	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Table: 150% Cologne Re male smoker mortality rates
Expenses	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Not applicable
Lapse & surrenders	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Not applicable
* Refer to Note 2.23 on Critical accounting estimates and judgements		

Each insurance subsidiary within the Group is required under the respective Insurance Regulations to carry out a liability adequacy test using current estimates of future cash flows under its insurance contracts; the process is referred to as the gross premium valuation or bonus reserve valuation, depending on the jurisdiction in which the insurance subsidiary operates.

2. Significant accounting policies (continued)

2.15 Insurance contracts (continued)

The liability adequacy test is applied to both the guaranteed and the discretionary participation feature; the assumptions are based on best estimates, as prescribed by the Insurance Regulations of the respective jurisdiction in which the insurance subsidiary operates. The Group performs liability adequacy tests on its actuarial reserves to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Any deficiency is charged to the income statement.

The Group issues investment-linked contracts as insurance contracts which insure human life events such as death or survival over a long duration; coupled with an embedded derivative linking death benefit payments on the contract to the value of a pool of investments within the investment-linked fund set up by the insurance subsidiary. As this embedded derivative meets the definition of insurance contract, it need not be separately accounted for from the host insurance contract. The liability valuation for such contracts is adjusted for changes in the fair value of the underlying assets at frequencies stated under the terms and conditions of the insurance contract.

General Insurance Fund contract liabilities

The Group issues short term property and casualty contracts which protect the policyholders against the risk of loss of property premises due to fire or theft in the form of fire or burglary insurance contract and/or business interruption contract; risk of liability to pay compensation to a third party for bodily harm or property damage in the form of public liability insurance contract. The Group also issues short term medical and personal accident general insurance contracts.

Claims on general insurance contracts are payable on a claim-occurrence basis. The Group is liable for insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. Hence, liability claims could be settled over a long period of time. The Group uses a combination of estimates derived from loss-ratio estimate and actual claims experience, to estimate the loss reserves and incurred but not reported ("IBNR") claim reserves. The valuation of general insurance contract liabilities at balance sheet date is based on best estimates of the ultimate settlement cost of claims plus a provision for adverse deviation. For Singapore, as required by the local Insurance Regulations, the provision for adverse deviation is set at 75 per cent level of sufficiency. For Singapore, the valuation methods used include the Paid Claim Development Method, the Incurred Claim Development Method, the Bornhuetter-Ferguson Method, the Mack's Method and the Expected Loss Ratio Method. For Malaysia, the Link Ratio Method is used. Discounting is not used due to the short term nature of the Group's general insurance liabilities. The provision for IBNR claims is classified as liabilities and included in other liabilities.

Reinsurance contracts

Contracts entered into by Group insurance subsidiaries with reinsurers in which they are compensated for losses on one or more contracts issued are classified as insurance contracts. Assets consisting of short term balances due from reinsurers are classified as other debtors. Long term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts are classified as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts. These amounts are assessed for impairment at reporting date. The Group gathers objective evidence to ascertain an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated on the same basis used for loans and receivables. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

2.16 Unexpired risk reserve

The Unexpired Risk Reserve ("URR") represents the portion of the written premiums of general insurance policies, gross of commission payable to intermediaries attributable to periods after balance sheet date, in the form of unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of the risk exposure. Further provisions are made for claims anticipated under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

URR is computed using the 1/24th method reduced by the corresponding percentage of accounted gross direct business, commissions and agency related expenses not exceeding limits specified by regulators in the respective jurisdictions in which the Group operates.

2. Significant accounting policies (continued)

2.17 Share capital and dividend

Ordinary shares, non-voting non-convertible and non-voting redeemable convertible preference shares with discretionary dividends are classified as equity on the balance sheet.

Costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction from the proceeds.

Where share capital recognised as equity is repurchased (treasury shares), the amount of the consideration paid, including directly attributable costs, is presented as a deduction from equity. Where such shares are subsequently reissued, sold or cancelled, the consideration received is recognised as a change in equity. No gain or loss is recognised in the income statement.

Interim dividends on ordinary shares and dividends on preference shares are recorded in the financial year in which they are declared payable by the Board of Directors. Final dividends proposed after year end are recorded in the financial year in which the dividends are approved by shareholders at the Annual General Meeting.

2.18 Recognition of income and expense

2.18.1 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering the contractual terms of the financial instruments including prepayment options, transaction costs and premiums or discounts.

For financial assets that are written down due to impairment loss, interest income is recognised based on the rate of interest use to discount the future cash flows for the purpose of measuring impairment loss.

2.18.2 Profit from life assurance

Profit from life assurance business is derived from insurance funds categorised as follows:

(a) Participating Fund

Profits from the participating fund are allocated to policyholders and shareholders from the surplus or surplus capital, based on the results of the annual actuarial valuation (such valuation also determines the liabilities relating to all the policyholders' benefits of the participating fund). Parameters for the valuation are set out in the Insurance Regulations governing the Group's insurance subsidiaries in their respective locations. The provisions in the Articles of Association of the Group's insurance subsidiaries are applied in conjunction with the prescriptions in the respective Insurance Regulations, such that the distribution for any year to policyholders of the participating fund and shareholders approximate 90% and 10% respectively of total distribution from the participating fund. The annual declaration of the quantum of policyholders' bonus and correspondingly the profits to shareholders to be distributed out of the participating fund is approved by the Board of Directors of each insurance subsidiary under the advice of the Appointed Actuary of the respective insurance subsidiary.

(b) Non-participating Fund

Revenue consists of premiums, investment and interest income; including fair value movements of certain assets as prescribed under the respective Insurance Regulations. Expenses include reinsurance costs, acquisition costs, benefit payments and management expenses. Profit or loss from the non-participating fund is determined from the revenue and expenses of the non-participating fund and the results of the annual actuarial valuation of the liabilities in accordance with the requirements of the respective Insurance Regulations.

(c) Investment-linked Fund

Revenue comprises bid-ask spread, fees for mortality and other insured event, policy administration and surrender charges. Expenses include reinsurance costs, acquisition costs, benefit payments and management expenses. Profit is derived from revenue net of expenses and provision for the annual actuarial valuation of liabilities to the non-unit linked part of the fund, in accordance with the requirements of the Insurance Regulations.

2. Significant accounting policies (continued)

2.18 Recognition of income and expense (continued)

2.18.2 Profit from life assurance (continued)

Premiums from policyholders are recognised on their respective due dates. Premiums not received on due dates are recognised as revenue in the income statement with the corresponding outstanding premiums reported in the balance sheet. The commission expenses arising from these outstanding premiums are accrued in the same reporting period.

Premiums received before due date are recorded as advance premiums and included under life assurance fund liabilities in the balance sheet. The commissions arising from advance premiums, if any, are not accrued for until the premiums are due and recognised as revenue in the income statement.

2.18.3 Premium income from general insurance

Premiums from the general insurance business are recognised as revenue upon commencement of insurance cover. Premiums pertaining to periods outside of the financial reporting period are adjusted through the unexpired risk reserve (Note 2.16). The commission expense is accrued in full upon the risk underwritten as reflected in the premium recognised.

Premiums ceded out and the corresponding commission income from the general insurance contracts, are recognised in the income statement upon receipt of acceptance confirmation from the ceding company or in accordance with provisions incorporated in the treaty contracts. Premium ceded out pertaining to periods outside of the financial reporting period are adjusted through the unexpired risk reserve.

2.18.4 Fees and commissions

Fee and commission income is earned from a range of services rendered by the Group to its customers, and comprises income earned from services rendered over a period of time as well as transaction-type services.

Fees earned from providing services over a period of time is recognised over the service period during which the related service is provided or credit risk is undertaken. Fee and commission income from such services comprises mainly credit cards, loans, guarantees, fund management and other management and advisory fees. When a fee is charged in lieu of interest, such fee is amortised over the same period that the related interest income is recognised. Fees earned from providing transaction-type services which include underwriting fees and brokerage income, are recognised in the period that the service is rendered.

Fee and commission expenses are netted off against the gross fee and commission income in the income statement.

2.18.5 Dividends

Dividends from available-for-sale securities, subsidiaries and associated companies are recognised when the right to receive payment is established. Dividends from trading securities are recognised when received.

2.18.6 Rental

Rental income on tenanted areas of the buildings owned by the Group is recognised on an accrual basis in accordance with the substance of the tenancy agreements.

2. Significant accounting policies (continued)

2.18 Recognition of income and expense (continued)

2.18.7 Employee benefits

Compensation package for staff consists of base salaries, allowances, commissions, cash bonuses, equity compensation schemes and plans. Salaries, allowances, commissions, bonuses and defined contributions under regulations, such as Central Provident Fund ("CPF") Act in Singapore, are recognised in the income statement when incurred. Employee leave entitlements are estimated according to the terms of the employment contract and accrued on balance sheet date.

Share options are awarded to staff as part of their performance bonus under the Bank's Share Option Schemes. Options are granted to Group executives (including executive and non-executive directors), of the rank of Assistant Manager and above, which vest in one-third increments over a 3-year period and expire between 5 and 10 years from grant date.

The Employee Share Purchase Plan ("ESP Plan") is a savings-based share ownership plan that allows eligible employees to acquire the Bank's shares ("acquisition rights"), at an acquisition price fixed before the commencement of the ESP Plan, by making monthly contributions to their Plan Accounts. Interest is accrued on the account at a preferential rate determined by the Remuneration Committee. The Plan Account balances are included in non-bank customer deposits.

The Group uses the binomial model to calculate the fair value of share options granted under the Bank's Option Schemes and acquisition rights under the ESP Plan. The value of the options and rights at grant date is recognised in the income statement over the vesting period of the employees' share schemes, with a corresponding increase in capital reserves. At each balance sheet date, the Group revises its estimates of the number of options expected to become exercisable, and the impact of the change to the original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

Under the Bank's Deferred Share Plan ("DSP"), ordinary shares are granted to executives of the Group, which vest at the end of the third year from the grant date and will lapse when the employee ceases employment during the vesting period. A trust is set up to administer the shares acquired under the DSP. The cost of the shares acquired is recognised in the income statement on the straight-line basis over the vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options and acquisition rights are exercised.

2.18.8 Lease payments

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when the termination takes place.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2. Significant accounting policies (continued)

2.19 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associated and joint ventures companies to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.20 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

2.21 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.22 Segment reporting

The Group identified different business segments representing the key customer and product groups for its reporting purposes: Consumer Banking, Business Banking, Treasury, Insurance and Others. A business segment is a group of assets and operations engaged in providing products and services that is subject to risks and returns that are different from other business segments. The business segment information is prepared based on internal management reports, which are used by senior management for decision-making and performance management. In determining the segment results, balance sheet items are internally transfer priced and revenues and expenses are attributed to each segment based on internal management reporting policies. Transactions between business segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

A geographical segment is engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from other geographical segments operating in other economic environments. The geographical segment information is prepared based on the country in which the transactions are booked and are presented after elimination of intra-group transactions and balances.

2. Significant accounting policies (continued)

2.23 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

2.23.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Liabilities of insurance business

The estimation of the ultimate liabilities arising from claims made under life and general insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liabilities that the Group will ultimately be required to pay as claims.

For life insurance contracts, estimates are made for future deaths, disabilities, voluntary terminations, investment returns and administration expenses. The Group bases the estimate of expected number of deaths on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. For those contracts that insure risk to longevity and disability, estimates are made based on recent past experience and emerging trends, but epidemic, as well as wide ranging changes to life style, could result in significant changes to the expected future exposure. All of these result in even more uncertainty in estimating the ultimate liabilities.

At each reporting date, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liabilities. In addition to the expected outcome, solvency margins prescribed by regulations are included in these key estimates.

(b) Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill and intangible assets have suffered any impairment in accordance with the accounting policies stated in Note 2.11.3 and 2.11.4 respectively. The recoverable amounts of CGUs are determined based on the value-in-use method, which requires the use of estimates. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on budgets and forecasts approved by management covering a 5-year period. Cash flows beyond the fifth year are extrapolated using estimated terminal growth rates, which do not exceed the long-term average growth of the industry and country in which the CGU operates. The discount rates applied to the cash flow projections are derived from the CGU's pre-tax weighted average cost of capital at the date of assessment. Changes to the assumptions used by management, particularly the discount rate and terminal growth rate, may significantly affect the results of the impairment test.

(c) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for similar instruments and discounted cash flows are some of the common techniques used to calculate the fair value of these instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

2. Significant accounting policies (continued)

2.23 Critical accounting estimates and judgements (continued)

2.23.1 Critical accounting estimates and assumptions (continued)

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the determination is made.

2.23.2 Critical judgements in applying accounting policies

(a) Impairment of loans

The Group assesses impairment of loans by calculating the present value of future recoverable cash flows and the fair value of the underlying collaterals, which is determined based on credit assessment on a loan-by-loan basis. Homogeneous loans below a materiality threshold are grouped together according to their risk characteristics and collectively assessed taking into account the historical loss experience on such loans. The portfolio allowances set aside for unimpaired loans are determined based on historical default rates which take into account risk factors including internal risk ratings, geographic, industry and economic conditions as at reporting date. The assumptions and judgements used by management may affect the allowances set aside for loans.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of FRS 39 in determining when an investment is impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

3. Net interest income

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Interest income				
Loans to non-bank customers	**3,109,263**	2,401,115	**2,210,070**	1,745,842
Placements with and loans to banks	**744,312**	469,416	**637,947**	407,161
Other interest-earning assets	**662,738**	599,804	**434,618**	412,358
	4,516,313	3,470,335	**3,282,635**	2,565,361
Interest expense				
Deposits of non-bank customers	**(1,966,178)**	(1,251,607)	**(1,412,977)**	(870,899)
Deposits and balances of banks	**(473,263)**	(403,053)	**(437,629)**	(383,379)
Other borrowings	**(282,814)**	(218,285)	**(282,277)**	(213,993)
	(2,722,255)	(1,872,945)	**(2,132,883)**	(1,468,271)
Net interest income	**1,794,058**	1,597,390	**1,149,752**	1,097,090
Analysed by classification of financial instruments:				
Income – Assets not at fair value through profit or loss	**4,417,506**	3,350,512	**3,199,049**	2,479,242
Income – Assets at fair value through profit or loss	**98,807**	119,823	**83,586**	86,119
Expense – Liabilities not at fair value through profit or loss	**(2,706,886)**	(1,858,416)	**(2,117,514)**	(1,453,742)
Expense – Liabilities at fair value through profit or loss	**(15,369)**	(14,529)	**(15,369)**	(14,529)
	1,794,058	1,597,390	**1,149,752**	1,097,090

Included in interest income were interest on impaired assets of $45.6 million (2005: $43.1 million) and $28.5 million (2005: $28.7 million) for the Group and Bank respectively.

4. Profit from life assurance

GROUP ($ million)	2006	2005
Income		
Gross premiums		
Annual	**3,289.4**	3,146.1
Single	**2,009.3**	1,756.7
	5,298.7	4,902.8
Reassurances	**(73.2)**	(64.6)
Premium income (net)	**5,225.5**	4,838.2
Investment income	**2,272.0**	1,639.9
Total income	**7,497.5**	6,478.1
Expenses		
Gross claims, surrenders and annuities	**(4,969.5)**	(3,332.0)
Claims, surrenders and annuities recovered from reinsurers	**29.6**	32.1
Net claims, surrenders and annuities	**(4,939.9)**	(3,299.9)
Change in life assurance fund contract liabilities (Note 23)	**(1,422.9)**	(2,069.8)
Commission and agency expenses	**(430.4)**	(437.5)
Other expenses [1]	**(236.2)**	(215.8)
Total expenses	**(7,029.4)**	(6,023.0)
Excess of income over expenses from operations	**468.1**	455.1
Share of results of associated and joint venture companies	**8.1**	(0.5)
Income tax expense	**(100.0)**	(174.1)
Profit from life assurance	**376.2**	280.5

(1) Included in other expenses are directors' emoluments of $3.1 million (2005: $2.4 million).

Profit from life assurance is presented net of tax in the income statement to reflect the substance that the tax liability is borne by the respective life funds.

5. Fees and commissions (net)

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Fee and commission income	**637,169**	543,413	**335,776**	308,807
Fee and commission expense	**(39,817)**	(36,591)	**(7,691)**	(12,174)
Fees and commissions (net)	**597,352**	506,822	**328,085**	296,633
Analysed by major sources:				
Brokerage	**72,215**	47,893	**1,091**	1,035
Credit card	**48,182**	41,542	**35,871**	31,518
Fund management	**71,771**	64,375	**(531)**	(590)
Guarantees	**23,633**	19,799	**21,106**	17,138
Investment banking	**30,890**	21,277	**26,684**	19,883
Loan-related	**80,779**	60,289	**50,810**	36,946
Service charges	**32,966**	30,720	**23,849**	23,907
Trade-related and remittances	**92,332**	76,784	**60,421**	52,724
Wealth management	**128,604**	137,409	**106,522**	113,915
Others	**15,980**	6,734	**2,262**	157
	597,352	506,822	**328,085**	296,633

6. Dividends

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Subsidiaries	**–**	–	**378,132**	232,902
Associated companies	**–**	–	**8,578**	3,120
Trading securities	**835**	776	**794**	725
Available-for-sale securities	**128,076**	128,794	**40,232**	29,874
	128,911	129,570	**427,736**	266,621

7. Other income

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Gains/(losses) from:				
Foreign exchange [1]	**143,689**	79,521	**114,746**	69,185
Interest rate and other derivatives [2]	**(661)**	9,578	**(4,416)**	2,534
Hedging activities [3]	**(18,626)**	1,131	**(18,625)**	1,429
Trading securities	**20,034**	6,108	**13,186**	(225)
Net trading income	**144,436**	96,338	**104,891**	72,923
Disposal of securities classified as available-for-sale	**322,689**	82,985	**226,040**	5,183
Disposal of securities classified as loans	**984**	–	**887**	–
Disposal/liquidation of subsidiaries	**(6,136)**	–	**38,098**	110,711
Disposal of plant and equipment	**2,150**	(3,402)	**1,582**	(716)
Disposal of property	**276,423**	2,590	**1,486**	1,586
Computer-related services income	**34,181**	33,841	**–**	–
Property-related income	**11,231**	10,786	**368**	408
Hotel-related income	**2,601**	3,608	**–**	–
Others	**17,165**	12,633	**13,880**	4,382
	805,724	239,379	**387,232**	194,477

Notes:

[1] "Foreign exchange" includes gains and losses from spot and forward contracts and translation of foreign currency assets and liabilities.

[2] "Interest rate and other derivatives" includes mainly gains and losses from interest rate, equity options and other derivative instruments.

[3] "Hedging activities" arises from the Group's use of derivatives to hedge exposures to interest rate and foreign exchange risks, which are offset by hedge accounting adjustments of the underlying hedged items.

8. Staff costs and other operating expenses

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
8.1	**Staff costs**				
	Salaries and other costs	**642,092**	555,204	**306,287**	287,131
	Share-based expenses	**9,371**	12,898	**6,351**	8,597
	Employer's contribution to defined contribution plans including Central Provident Fund	**53,461**	49,879	**22,964**	23,767
		704,924	617,981	**335,602**	319,495
	Directors' emoluments: (1)				
	– Remuneration of Bank's directors	**6,169**	5,580	**5,353**	5,052
	– Remuneration of directors of subsidiaries	**6,698**	6,650	**–**	–
	– Fees of Bank's directors (2)	**2,204**	2,016	**1,343**	1,102
	– Fees of directors of subsidiaries	**1,618**	1,457	**–**	–
		16,689	15,703	**6,696**	6,154
	Total staff costs	**721,613**	633,684	**342,298**	325,649
8.2	**Other operating expenses**				
	Property, plant and equipment:				
	Depreciation				
	– Property-related costs	**30,258**	23,448	**12,691**	12,868
	– Computer-related costs	**49,910**	46,259	**30,632**	29,525
	– Other fixed assets	**23,425**	18,054	**11,498**	7,208
		103,593	87,761	**54,821**	49,601
	Write-off of plant and equipment	**14,284**	–	**14,284**	–
	Maintenance and hire of property, plant and equipment	**61,450**	55,343	**25,166**	26,401
	Rental expenses	**24,292**	23,026	**31,110**	30,415
	Others	**73,752**	66,410	**42,157**	39,768
		277,371	232,540	**167,538**	146,185
	Auditors' remuneration:				
	– Payable to auditors of the Bank	**1,035**	1,310	**738**	885
	– Payable to associated firms of auditors of the Bank	**565**	1,017	**398**	464
	– Payable to other auditors	**1,431**	574	**136**	1
		3,031	2,901	**1,272**	1,350
	Other fees:				
	– Payable to auditors of the Bank	**157**	432	**94**	267
	– Payable to associated firms of auditors of the Bank	**130**	420	**93**	377
		287	852	**187**	644
	Hub processing charges	**–**	–	**121,326**	88,944
	General insurance claims	**32,919**	32,200	**–**	–
	Others	**295,923**	242,342	**169,575**	148,362
	Total other operating expenses	**609,531**	510,835	**459,898**	385,485
8.3	**Staff costs and other operating expenses**	**1,331,144**	1,144,519	**802,196**	711,134

Notes:

(1) Directors' emoluments pertaining to life assurance fund are disclosed in Note 4 – Profit from life assurance.

(2) Included share-based payment made to non-executive directors of $0.3 million (2005: $0.2 million).

9. Allowances/(writeback) for loans and impairment of other assets

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Specific allowances/(writeback) for loans (Note 29)	**21,214**	51,050	**(16,587)**	39,076
Impairment charge for available-for-sale securities	**2,529**	3,641	**1,389**	2,608
(Writeback)/impairment charge for other assets (Note 33)	**(21,317)**	(47,611)	**(11,728)**	15,014
Impairment charge for goodwill	**–**	4,549	**–**	–
Allowances/(writeback) and impairment charge	**2,426**	11,629	**(26,926)**	56,698

10. Income tax expense

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Current tax expense	**377,133**	310,460	**219,637**	153,585
Deferred tax expense/(credit)	**1,979**	(365)	**(4,651)**	(551)
	379,112	310,095	**214,986**	153,034
(Over)/under provided in prior years	**(9,294)**	(2,012)	**(11,724)**	764
Charge to income statements	**369,818**	308,083	**203,262**	153,798

The tax on operating profit differs from the theoretical amount that would arise using the Singapore basic tax rate as follows:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Operating profit after (allowances)/writeback and amortisation of intangible assets	**2,462,239**	1,690,743	**1,539,204**	1,106,339
Prima facie tax calculated at tax rate of 20% (2005: 20%)	**492,448**	338,149	**307,841**	221,268
Effects of different tax rates in other countries	**49,535**	29,521	**6,676**	(4,762)
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	**406**	1,755	**391**	1,618
Losses not deductible/(income not assessable) for tax	**(82,662)**	(16,585)	**(54,283)**	(42,294)
Income taxed at concessionary rate	**(41,532)**	(42,830)	**(41,532)**	(42,830)
Tax on Singapore life assurance profit	**(37,813)**	(21,509)	**–**	–
Amortisation of intangibles and goodwill impairment charge	**8,746**	8,894	**–**	–
(Non-taxable writeback)/non-deductible allowances	**(14,719)**	3,102	**(710)**	10,858
Others	**4,703**	9,598	**(3,397)**	9,176
	379,112	310,095	**214,986**	153,034

11. Earnings per share

	GROUP	
	2006	2005
$'000		
Net profit attributable to equity holders of the Bank	**2,002,192**	1,297,998
Preference dividends paid	**(39,125)**	(39,125)
Net profit attributable to equity holders of the Bank after preference dividends	**1,963,067**	1,258,873
Weighted average number of ordinary shares ('000)		
For basic earnings per share	**3,096,408**	3,140,615
Adjustment for assumed conversion of share options and acquisition rights	**12,160**	12,228
For diluted earnings per share	**3,108,568**	3,152,843
Earnings per share (cents)		
Basic	**63**	40
Diluted	**63**	40

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Bank after preference dividends by the weighted average number of ordinary shares in issue during the financial year. For calculating diluted earnings per share, the weighted average number of ordinary shares is adjusted to take into account the dilutive effect arising from the exercise of outstanding share options and acquisition rights where such shares would be issued at a price lower than the fair value (average share price during the financial period). The difference between the number of ordinary shares to be issued at the acquisition prices and the number of ordinary shares that would have been issued at the fair value based on the assumed proceeds from the issue of these ordinary shares is treated as ordinary shares issued for no consideration, and added to the number of ordinary shares outstanding in the computation of diluted earnings per share.

12. Unappropriated profit

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Net profit attributable to equity holders of the Bank	**2,002,192**	1,297,998	**1,335,942**	952,541
Add: Unappropriated profit at 1 January	**2,814,386**	3,749,145	**1,131,294**	2,503,846
Total amount available for appropriation	**4,816,578**	5,047,143	**2,467,236**	3,456,387
Dealt with as follows:				
In respect of financial year ended 31 December 2004:				
– Final dividend of 19 cents for every ordinary share less tax at 20%	**–**	(199,628)	**–**	(199,628)
In respect of financial year ended 31 December 2005:				
– Bonus dividend of $1.25 for every ordinary share less tax at 20%	**–**	(1,310,688)	**–**	(1,310,688)
– Interim dividend of 11 cents for every ordinary share less tax at 20%	**–**	(275,362)	**–**	(275,362)
– Final dividend of 12 cents for every ordinary share less tax at 20%	**(298,172)**	–	**(298,172)**	–
In respect of financial year ended 31 December 2006 #:				
– Interim tax exempt dividend of 11 cents for every ordinary share	**(339,735)**	–	**(339,735)**	–
Preference dividends paid (net of tax):				
– Class E dividends of 4.5% per annum	**(22,500)**	(22,500)	**(22,500)**	(22,500)
– Class G dividends of 4.2% per annum	**(16,625)**	(16,625)	**(16,625)**	(16,625)
Share buyback [Note 13.1(a)]	**(43,266)**	(452,660)	**(43,266)**	(452,660)
Transfer from/(to):				
Capital reserves (Note 14)	**24,102**	82,146	**–**	–
Statutory reserves (Note 15)	**(68,479)**	(34,798)	**(66,800)**	(47,630)
General reserves (Note 16.1)	**68,908**	(2,642)	**–**	–
	(695,767)	(2,232,757)	**(787,098)**	(2,325,093)
At 31 December (Note 16)	**4,120,811**	2,814,386	**1,680,138**	1,131,294

At the annual general meeting to be held, a tax exempt final dividend of 12 cents per ordinary share in respect of the financial year ended 31 December 2006, totalling $369.0 million, will be proposed. These financial statements do not reflect the dividend payable, which will be accounted in equity as a distribution of unappropriated profit in the financial year ending 31 December 2007.

13. Share capital

13.1 Issued share capital

On the date of commencement of the Companies (Amendment) Act 2005 on 30 January 2006:

(a) the concept of authorised share capital was abolished;

(b) shares of the Bank ceased to have par value; and

(c) the amount standing to the credit of the Bank's share premium account and capital redemption reserve became part of the Bank's share capital.

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares (excluding treasury shares) rank equally with regard to the Bank's residual assets.

13. Share capital (continued)

13.1 Issued share capital (continued)

The Class E non-cumulative and non-convertible preference shares with a liquidation preference of $100 per share have a fixed dividend rate of 4.5% per annum (net of tax), payable semi-annually in arrears on 20 June and 20 December, subject to directors' approval. The preference shares may be redeemed at the option of the Bank five years after issue, ten years after issue and on each dividend payment date thereafter.

The Class G non-cumulative and non-convertible preference shares with a liquidation preference of $1 per share have a fixed dividend rate of 4.2% per annum (net of tax), payable semi-annually in arrears on 20 June and 20 December, subject to directors' approval. The preference shares may be redeemed at the option of the Bank five and half years after issue, ten years after issue and on each dividend payment date thereafter.

Preference shareholders will only be entitled to attend and vote at general meetings of the Bank if the dividends have not been paid in full when due for a consecutive period of 12 months or more.

		GROUP AND BANK			
	Note	**2006 Shares '000**	2005 Shares '000	**2006 $'000**	2005 $'000
Ordinary shares					
At 1 January		**3,114,338**	1,316,543	**1,557,169**	1,316,543
Share buyback – cancelled	13.1(a)	**(7,008)**	(54,756)	**(2,577)**	(35,671)
Share Option Schemes	13.1(b)	**11,334**	9,180	**44,491**	6,341
Share Purchase Plan	13.1(c)	**1,728**	1,590	**7,854**	880
Shares issued to non-executive directors	13.1(d)	**48**	14	**324**	14
Rights Issue		**–**	262,138	**–**	262,138
Sub-division of shares		**–**	1,565,781	**–**	–
Acquisition of additional interests in a subsidiary	13.1(e)	**6,020**	13,848	**40,635**	6,924
Transfer from share premium	14(a)	**–**	–	**3,227,243**	–
Transfer from capital redemption reserve	14(b)	**–**	–	**66,278**	–
At 31 December		**3,126,460**	3,114,338	**4,941,417**	1,557,169
Treasury shares					
At 1 January		**–**	–	**–**	–
Share buyback – held in treasury	13.1(f)	**(59,265)**	–	**(392,374)**	–
Share Option Schemes	13.1(b)	**5,338**	–	**35,164**	–
Share Purchase Plan	13.1(c)	**2,258**	–	**14,899**	–
Loss on transfer of shares to employees		**–**	–	**(13,994)**	–
At 31 December		**(51,669)**	–	**(356,305)**	–
Class E preference shares					
At 1 January		**5,000**	5,000	**50**	50
Transfer from share premium	14(a)	–	–	**499,950**	–
At 31 December		**5,000**	5,000	**500,000**	50
Class G preference shares					
At 1 January		**395,831**	395,831	**3,958**	3,958
Transfer from share premium	14(a)	**–**	–	**391,873**	–
At 31 December		**395,831**	395,831	**395,831**	3,958
Issued capital, at 31 December				**5,480,943**	1,561,177

Number of shares held by associated companies of the Group	**2006**	2005
Ordinary shares	**420**	184,420
Class E preference shares	**2,500**	2,500

13. Share capital (continued)

13.1 Issued share capital (continued)

(a) In January 2006, the Bank purchased 6,407,103 ordinary shares by way of market acquisitions at an average price of $6.75 per share, which amounted to a cash distribution of $43,266,370. The Bank cancelled 7,007,747 ordinary shares under the stock purchase mandate approved by shareholders at an extraordinary general meeting held on 30 March 2005.

In 2005, the Bank purchased 16,025,572 (pre Sub-division) ordinary shares of par value $1 each, by way of market acquisition at an average price of $12.86 per share, which amounted to $206,065,538. Subsequent to the Bank's Sub-division of shares in August 2005, the Bank purchased 38,772,521 ordinary shares of par value $0.50 each, by way of market acquisition at an average price of $6.36 per share, which amounted to $246,594,490. The total cash distribution to shareholders under the share buyback programmes amounted to $452,660,028, pursuant to the stock purchase mandates approved by shareholders at extraordinary general meetings held on 15 April 2004 and 30 March 2005. Consequently, the Bank cancelled 54,756,449 ordinary shares.

(b) During the financial year, the Bank issued 11,333,946 (2005: 9,180,320) ordinary shares pursuant to the Bank's Share Option Schemes to employees for options exercised. In addition, the Bank transferred 5,337,628 ordinary shares held in treasury to employees upon the exercise of options.

(c) During the financial year, the Bank issued 1,728,000 (2005: 1,590,023) ordinary shares pursuant to the Bank's Share Purchase Plan, to employees upon their exercise of acquisition rights. In addition, the Bank transferred 2,258,382 ordinary shares held in treasury to employees arising from the conversion of acquisition rights under the Bank's Share Purchase Plan upon its expiry on 30 June 2006.

(d) At an extraordinary general meeting held by the Bank during the year, the shareholders of the Bank approved the issue of 48,000 (2005: 14,000) ordinary shares as payment in part of the non-executive directors' fees for the year. The fair value of the shares at the date of issue was $324,000 (2005: $193,200).

(e) On 16 January 2006, the Bank announced that it has entered into a conditional share purchase agreement with certain individuals to purchase an aggregate of 2,570,000 ordinary shares ("Sale Shares") of $0.50 each or 0.54% shareholdings in the capital of Great Eastern Holdings Limited. The consideration was satisfied by the issue of 6,019,968 new ordinary shares in the Bank in February 2006 at the fair value of $40,634,784.

(f) In addition to the share buyback stated in Note 13.1(a), the Bank purchased 59,264,806 ordinary shares out of its capital, by way of market acquisition at an average price of $6.62 per share, amounting to a cash consideration of $392,374,283, pursuant to stock purchase mandates approved by shareholders at extraordinary general meetings held on 30 March 2005 and 20 April 2006. The shares are held in treasury, and the Bank may at any time:

(i) sell the shares for cash;
(ii) transfer the shares to employees pursuant to the Bank's employee share schemes;
(iii) transfer the shares as consideration for the acquisition of shares in or assets of another company or assets of a person; or
(iv) cancel the treasury shares.

13. Share capital (continued)

13.2 Share option schemes

A summary of the movements in the number of options and the weighted average acquisition prices is as follows:

	2006		2005	
	Number of share options	**Weighted average acquisition price**	Number of share options	Weighted average acquisition price
At 1 January	**66,100,780**	**$4.968**	30,842,014	$11.365 [(1)]
Adjustments for Rights Issue and Sub-division	**–**	**–**	42,421,238	–
Granted	**5,846,476**	**$6.762**	4,322,134	$5.772
Exercised – Issue of new shares [Note 13.1(b)]	**(11,333,946)**	**$4.736**	(9,180,320)	$5.411
Exercised – Treasury shares [Note 13.1(b)]	**(5,337,628)**	**$4.621**	–	–
Forfeited/lapsed	**(1,406,693)**	**$5.540**	(2,304,286)	$9.351 [(1)]
At 31 December	**53,868,989**	**$5.231**	66,100,780	$4.968
Exercisable options at 31 December	**39,126,902**	**$4.931**	45,075,274	$4.865
Weighted average share price underlying the options exercised during the financial year		**$6.840**		$6.023

[(1)] Weighted average acquisition prices were calculated without adjusting for the effect of Rights Issue and Sub-division.

During the financial year, the number of share options granted to directors of the Bank was 795,600 (2005: 936,000). The share options were granted on the same terms and conditions as those offered to other employees of the Group. Details of the options outstanding as at 31 December 2006 are as follows:

Grant year	**Grant date**	**Exercise period**	**Acquisition price ($)**	**2006 Outstanding**	**2006 Exercisable**
1997R	25.05.1999	30.01.2000 – 29.01.2007	3.168	**386,712**	**386,712**
1998R	25.05.1999	22.01.2001 – 21.01.2008	2.675	**892,594**	**892,594**
1999R	25.05.1999	10.12.2001 – 09.12.2008	3.139	**1,807,138**	**1,807,138**
2000	06.03.2000	06.12.2002 – 05.12.2009	4.542	**3,797,498**	**3,797,498**
2001	05.03.2001	05.12.2003 – 04.12.2010	5.367	**6,905,676**	**6,905,676**
2002	08.04.2002	09.04.2003 – 08.04.2012	5.742	**9,662,677**	**9,662,677**
2002A	22.04.2002	23.04.2003 – 22.04.2012	5.692	**720,000**	**720,000**
2002B	23.10.2002	24.10.2003 – 23.10.2012	4.367	**180,000**	**180,000**
2003	27.03.2003	28.03.2004 – 26.03.2008	4.067	**180,000**	**180,000**
2003	27.03.2003	28.03.2004 – 26.03.2013	4.067	**7,866,641**	**7,866,641**
2004	15.03.2004	16.03.2005 – 14.03.2014	5.142	**6,925,707**	**4,064,361**
2004A	19.08.2004	20.08.2005 – 18.08.2014	5.492	**160,800**	**106,128**
2004B	22.11.2004	23.11.2005 – 21.11.2014	5.667	**103,200**	**68,112**
2005	14.03.2005	15.03.2006 – 13.03.2015	5.767	**5,968,553**	**1,763,965**
2005A	08.04.2005	09.04.2006 – 07.04.2015	5.784	**2,672,688**	**725,400**
2006	14.03.2006	15.03.2007 – 13.03.2016	6.820	**4,250,705**	**–**
2006A	23.01.2006	24.01.2007 – 22.01.2016	6.780	**12,400**	**–**
2006B	23.05.2006	24.05.2007 – 22.05.2016	6.580	**1,376,000**	**–**
				53,868,989	**39,126,902**

The weighted average remaining contractual maturity of the share options outstanding at 31 December 2006 was 6.0 years (2005: 6.5 years). As at 31 December 2006, the aggregate outstanding number of share options granted to the directors of the Bank was 4,552,400 (2005: 3,867,680).

13. Share capital (continued)

13.2 Share option schemes (continued)

The fair value of options granted during the financial year ended, determined using the binomial valuation model was $6.4 million (2005: $9.5 million). The significant inputs into the model that were used to determine the fair value of options granted during the year were as follows:

	2006	2005
Subscription price ($)	**6.58 – 6.82**	13.84 – 13.88
Average share price from grant date to acceptance date ($)	**6.25 – 6.74**	13.49 – 13.85
Expected volatility based on last 250 days historical price volatility as of acceptance date (%)	**16.04 – 17.25**	16.13 – 17.37
Risk-free rate based on SGS 10-year bond yield at acceptance date (%)	**3.85 – 3.94**	2.83 – 3.17
Expected dividend yield (%)	**2.85 – 3.07**	2.73 – 2.74
Exercise multiple (times)	**1.57**	1.69
Option life (years)	**10**	10

There are no market conditions or non-market performance conditions associated with the share option grants. Service conditions are not taken into account in the measurement of the fair value of the services to be received at the grant date.

13.3 Deferred share plan

The DSP is a discretionary share-based incentive and retention award program extended to Group executives of the rank of Senior Officer and above at the absolute discretion of the Remuneration Committee. The awards are granted at no cost to the grantees, on a deferred basis as part of their performance bonus. Such awards shall lapse by reason of cessation of service but may be preserved at the absolute discretion of the Remuneration Committee. The DSP does not involve the issue of new shares. Instead, the Bank will either purchase existing ordinary shares from the market or transfer treasury shares for release to the grantees at the end of the respective vesting periods.

During the financial year, total awards of 1,444,490 (2005: 610,979) ordinary shares were granted to eligible executives under the DSP, of which 119,907 (2005: 52,972) were granted to two directors of the Bank. The fair value of the shares at grant date was $9.8 million (2005: $8.4 million), which will be recognised in the income statements over the vesting period.

During the financial year, the first tranche of 886,918 deferred shares granted in 2003 was released to eligible employees, of which 68,462 shares were released to a director. At 31 December 2006, the directors of the Bank have deemed interest of 340,905 (2005: 289,460) deferred ordinary shares.

13.4 Share purchase plan

The OCBC Employee Share Purchase Plan ("ESP Plan") was approved at an extraordinary general meeting on 30 April 2004. All employees of the Group who have attained the age of 21 years and have been employees for a period of not less than six months are eligible to participate in the ESP Plan. The purpose of the ESP Plan is to provide employees with an opportunity to increase their personal equity interest in the Bank. The ESP Plan is administered by the Remuneration Committee. An employee may participate in the ESP Plan for an offering period by making contributions in cash by means of monthly deductions from his monthly base salary and/or his designated account; and/or by monthly debits from his CPF Ordinary Account to his ESP Plan account.

13. Share capital (continued)

13.4 Share purchase plan (continued)

Each offering period consists of a 24-month period (or such other period not exceeding 10 years as the Remuneration Committee may prescribe), except that the commencement date of an offering period shall not fall during the period of 30 days immediately preceding the date of announcement of the Bank's financial results for its financial year or the period of 14 days immediately preceding the date of announcement of the Bank's financial results for the first three quarters of its financial year, and provided further that no offering period may commence on any date during which another offering period is outstanding.

The acquisition price is equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange Securities Trading Limited over the five consecutive trading days immediately preceding the price fixing date for the acquisition price of the ordinary shares (as determined by the Remuneration Committee).

The Bank's first offering of ESP Plan, which commenced on 1 July 2004 at an acquisition price of $5.05 per ordinary share, expired on 30 June 2006. The outstanding acquisition rights were fully converted to ordinary shares in the Bank [Note 13.1(c)].

In June 2006, the Bank launched its second offering of ESP Plan at an acquisition price of $6.45 per ordinary share, which commenced on 1 July 2006 and will expire on 30 June 2008. The fair value of rights, determined using the binomial valuation model was $5.9 million. Significant inputs into the model were average share price of $6.40, expected volatility of 17.22%, dividend yield of 3.0% and annual risk-free interest rate based on 2-year swap rate of 3.49%. The expected volatility is based on Bloomberg's 250-day historical price volatility as of acceptance date.

A summary of the movements in the number of acquisition rights of the ESP Plan is as follows:

	2006		2005	
	Number of acquisition rights	**Weighted average acquisition price**	Number of acquisition rights	Weighted average acquisition price
At 1 January	**4,072,657**	**$5.050**	2,659,527	$12.12 [1]
Adjustments for Rights Issue and Sub-division	**–**	**–**	3,293,113	–
Subscriptions on commencement of plan	**8,222,248**	**$6.450**	–	–
Exercised – Issue of new shares [Note 13.1(c)]	**(1,728,000)**	**$5.050**	(1,590,023)	$5.050
Exercised – Treasury shares [Note 13.1(c)]	**(2,258,382)**	**$5.050**	–	–
Forfeited	**(668,266)**	**$6.269**	(289,960)	$9.625 [1]
At 31 December	**7,640,257**	**$6.450**	4,072,657	$5.050
Weighted average share price underlying acquisition rights exercised during the financial year		**$6.526**		$6.250

[1] Weighted average acquisition price was calculated without adjusting for the effect of Rights Issue and Sub-division of shares.

At 31 December 2006, a director of the Bank has 11,162 acquisition rights under the ESP Plan (2005: directors of the Bank have 28,514 acquisition rights).

14. Capital reserves

		Note	GROUP AND BANK 2006 $'000	2005 $'000
(a)	Share premium			
	At 1 January		**4,109,099**	2,918,149
	Share Option Schemes		**9,095**	54,139
	Share Purchase Plan		**872**	8,006
	Shares issued to non-executive directors		**–**	179
	Rights Issue		**–**	1,047,612
	Acquisition of additional interests in a subsidiary		**–**	81,014
	Transfer to ordinary share capital	13.1	**(3,227,243)**	–
	Transfer to Class E preference share capital	13.1	**(499,950)**	–
	Transfer to Class G preference share capital	13.1	**(391,873)**	–
	At 31 December		**–**	4,109,099
(b)	Capital redemption reserve			
	At 1 January		**63,701**	28,030
	Share buyback – cancelled	13.1(a)	**2,577**	35,671
	Transfer to ordinary share capital	13.1	**(66,278)**	–
	At 31 December		**–**	63,701

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
(c)	Other capital reserves				
	At 1 January	**119,200**	195,081	**72,519**	58,667
	Shares purchased by DSP Trust	**(7,616)**	(7,587)	**–**	–
	Shares vested under DSP Scheme	**5,137**	–	**–**	–
	Share-based staff costs capitalised	**10,643**	13,852	**10,643**	13,852
	Transfer to unappropriated profit (Note 12)	**(24,102)**	(82,146)	**–**	–
	At 31 December	**103,262**	119,200	**83,162**	72,519
(d)	Total capital reserves	**103,262**	4,292,000	**83,162**	4,245,319

Other capital reserves include the Bank's employee share schemes' reserves and other reserves required by Articles of Association.

15. Statutory reserves

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
At 1 January	**1,959,332**	1,934,114	**1,631,330**	1,583,700
Transfer from unappropriated profit (Note 12)	**68,479**	34,798	**66,800**	47,630
Transfer to general reserves (Note 16.1)	**–**	(9,580)	**–**	–
At 31 December	**2,027,811**	1,959,332	**1,698,130**	1,631,330

Non-distributable statutory reserves are set aside by the Group's banking and stockbroking entities in accordance with the respective laws and regulations.

16. Revenue reserves

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Unappropriated profit (Note 12)	**4,120,811**	2,814,386	**1,680,138**	1,131,294
General reserves	**1,320,155**	1,389,063	**976,000**	976,000
Currency translation reserves	**(316,422)**	(295,896)	**(94,298)**	(73,934)
	5,124,544	3,907,553	**2,561,840**	2,033,360
16.1 General reserves				
At 1 January	**1,389,063**	1,376,841	**976,000**	976,000
Transfer (to)/from unappropriated profit (Note 12)	**(68,908)**	2,642	**–**	–
Transfer from statutory reserves (Note 15)	**–**	9,580	**–**	–
At 31 December	**1,320,155**	1,389,063	**976,000**	976,000
16.2 Currency translation reserves				
At 1 January	**(295,896)**	(278,811)	**(73,934)**	(63,559)
Net adjustments for the year	**(20,526)**	(17,085)	**(20,364)**	(10,375)
At 31 December	**(316,422)**	(295,896)	**(94,298)**	(73,934)

General reserves comprise balances set aside by subsidiaries under their Articles of Association and the merger reserve of a subsidiary (reserve arising from shares issued for acquisition). Currency translation reserves comprise exchange differences arising from the translation of the net assets of overseas branches, subsidiaries and associated companies.

17. Minority interests

	Note	2006 $'000	2005 $'000
Great Eastern Holdings Limited		**391,762**	471,403
OCBC Capital Corporation	(a)	**400,000**	400,000
OCBC Bank (Malaysia) Berhad	(b)	**174,038**	175,949
P.T. Bank NISP Tbk		**110,370**	91,466
Other subsidiaries		**10,461**	10,160
		1,086,631	1,148,978

(a) $400 million 3.93% non-cumulative non-convertible guaranteed preference shares ("OCC-A Preference Shares") with liquidation value of $100 each, were issued on 2 February 2005 by OCBC Capital Corporation ("OCC"), a subsidiary of the Bank. The proceeds were on-lent to the Bank in exchange for a note issued by the Bank (Note 22.1), which guarantees on a subordinated basis, all payment obligations in respect of the OCC-A Preference Shares. The preference shares and subordinated note qualified as Tier-1 capital for the Group and the Bank.

The preference shares are redeemable in whole but not in part, at the option of OCC on 20 March 2015 and on each dividend payment date thereafter. Dividends, if declared by the Board of Directors of OCC, are payable semi-annually on or prior to 20 March 2015 at 3.93% per annum and thereafter, payable quarterly at a floating rate equal to the three-month Singapore swap offer rate plus 1.85%.

(b) RM400 million non-cumulative non-convertible preference shares with liquidation value of RM100 each, was issued on 12 August 2005 by OCBC Bank (Malaysia) Berhad ("OBMB"), a wholly-owned subsidiary of the Bank. The preference shares qualified as Tier-1 capital of OBMB but are excluded from the Group's capital in its calculation of capital adequacy ratios.

The preference shares are redeemable at the option of OBMB on the 10th anniversary from the issue date or on each dividend payment date. Dividends, payable at the discretion of the Board of Directors of OBMB, shall be made in arrears on 20 March and 20 September in each calendar year. On or prior to the 10th anniversary of the Issue Date, the preference shares carry a net cash dividend of 4.51% per annum of the liquidation preference value. Thereafter, gross dividend is at a floating rate determined at each dividend payment period, equal to the six-month Kuala Lumpur Interbank Offered Rate ("KLIBOR") plus 1.9%.

18. Deposits and balances of non-bank customers and banks

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deposits of non-bank customers				
Current accounts	**10,034,856**	9,069,718	**8,085,901**	7,453,242
Savings deposits	**11,214,703**	11,042,603	**9,792,956**	9,767,182
Term deposits	**46,374,949**	37,033,335	**37,850,153**	29,981,026
Structured deposits	**3,822,247**	3,516,069	**3,214,376**	3,046,760
Certificate of deposits issued	**1,655,132**	1,627,836	**205,493**	234,623
Other deposits	**2,013,094**	1,797,948	**214,297**	402,519
	75,114,981	64,087,509	**59,363,176**	50,885,352
Deposits and balances of banks	**11,869,252**	10,307,432	**11,233,918**	10,125,496
	86,984,233	74,394,941	**70,597,094**	61,010,848

Analysed by currency

18.1 Deposits of non-bank customers

Singapore Dollar	**46,018,074**	37,994,731	**45,936,329**	37,910,297
US Dollar	**8,352,471**	8,662,428	**7,700,609**	8,025,392
Malaysian Ringgit	**11,956,743**	9,964,664	**–**	–
Indonesian Rupiah	**2,956,749**	2,421,855	**–**	7,595
Japanese Yen	**884,490**	160,776	**862,164**	148,572
Hong Kong Dollar	**634,416**	364,036	**634,416**	364,036
British Pound	**1,273,763**	1,271,912	**1,265,280**	1,256,278
Australian Dollar	**1,682,189**	1,785,839	**1,633,604**	1,737,535
Euro	**655,218**	692,760	**639,623**	672,712
Others	**700,868**	768,508	**691,151**	762,935
	75,114,981	64,087,509	**59,363,176**	50,885,352

18.2 Deposits and balances of banks

Singapore Dollar	**2,503,955**	1,839,085	**2,503,955**	1,790,084
US Dollar	**6,347,522**	6,475,069	**6,128,352**	6,466,671
Malaysian Ringgit	**264,739**	88,916	**–**	–
Indonesian Rupiah	**149,522**	34,443	**–**	–
Japanese Yen	**28,074**	491,936	**28,074**	491,936
Hong Kong Dollar	**778,726**	380,687	**778,726**	380,687
British Pound	**481,605**	162,797	**481,605**	162,797
Australian Dollar	**251,079**	133,022	**249,209**	131,983
Euro	**816,120**	620,929	**816,120**	620,800
Others	**247,910**	80,548	**247,877**	80,538
	11,869,252	10,307,432	**11,233,918**	10,125,496

19. Derivative financial instruments

The derivative financial instruments shown in the following tables are held for both trading and hedging purposes. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative receivables) and negative (derivative payables) fair values at balance sheet date are analysed below.

GROUP ($'000)	**2006** Principal notional amount	**2006** Derivative receivables	**2006** Derivative payables	2005 Principal notional amount	2005 Derivative receivables	2005 Derivative payables
Foreign exchange derivatives						
Forwards	**4,862,473**	**28,791**	**29,531**	3,566,740	35,268	17,665
Swaps	**43,788,583**	**842,666**	**814,613**	50,264,405	869,591	633,600
OTC options – bought	**5,572,300**	**19,926**	**6,588**	5,699,572	31,921	7,997
OTC options – sold	**5,294,058**	**12,044**	**10,143**	5,181,353	9,406	19,998
	59,517,414	**903,427**	**860,875**	64,712,070	946,186	679,260
Interest rate derivatives						
Forwards	**6,575,000**	**534**	**539**	11,234,001	12,273	13,857
Swaps	**170,524,268**	**1,463,274**	**1,219,397**	181,412,056	1,386,487	1,200,880
OTC options – bought	**2,179,437**	**10,651**	**1,923**	1,095,643	10,271	131
OTC options – sold	**1,754,078**	**1,201**	**7,967**	2,157,084	1,741	10,802
Exchange traded futures – bought	**260,482**	**13**	**471**	811,675	47	226
Exchange traded futures – sold	**154,112**	**617**	**628**	862,881	609	21
	181,447,377	**1,476,290**	**1,230,925**	197,573,340	1,411,428	1,225,917
Equity derivatives						
OTC options – bought	**281,192**	**12,840**	**331**	75,143	1,360	846
OTC options – sold	**30,978**	**504**	**2,889**	38,812	885	823
	312,170	**13,344**	**3,220**	113,955	2,245	1,669
Credit derivatives						
Credit default swaps – buyer	**–**	**–**	**–**	8,313	–	49
Credit default swaps – seller	**293,455**	**3,426**	**830**	374,063	3,465	90
	293,455	**3,426**	**830**	382,376	3,465	139
Other derivatives						
Gold forwards – bought	**2,138**	**8**	**–**	1,555	87	1
Gold forwards – sold	**2,431**	**–**	**7**	23,475	379	31
Others	**892,134**	**17,939**	**17,939**	489,212	14,469	14,469
	896,703	**17,947**	**17,946**	514,242	14,935	14,501
Total	**242,467,119**	**2,414,434**	**2,113,796**	263,295,983	2,378,259	1,921,486
Derivative financial instruments designated for fair value hedges for the Group and the Bank are:						
Foreign exchange swaps	**3,515,575**	**247,683**	**492,195**	3,726,365	277,520	219,870
Interest rate swaps	**5,167,356**	**164,251**	**15,407**	6,507,910	212,985	26,077
	8,682,931	**411,934**	**507,602**	10,234,275	490,505	245,947

19. Derivative financial instruments (continued)

BANK ($'000)	2006 Principal notional amount	2006 Derivative receivables	2006 Derivative payables	2005 Principal notional amount	2005 Derivative receivables	2005 Derivative payables
Foreign exchange derivatives						
Forwards	**3,720,308**	**23,094**	**22,050**	2,801,603	27,863	16,799
Swaps	**42,516,657**	**827,814**	**798,082**	49,475,080	868,437	632,028
OTC options – bought	**2,769,789**	**16,747**	**2,675**	3,257,864	27,820	3,669
OTC options – sold	**2,515,529**	**7,010**	**7,028**	2,739,702	8,087	15,910
	51,522,283	**874,665**	**829,835**	58,274,249	932,207	668,406
Interest rate derivatives						
Forwards	**6,575,000**	**534**	**539**	11,234,001	12,273	13,857
Swaps	**163,884,676**	**1,433,628**	**1,189,172**	176,718,908	1,373,682	1,181,904
OTC options – bought	**1,896,620**	**10,176**	**–**	860,486	7,813	56
OTC options – sold	**1,628,352**	**–**	**7,977**	2,033,920	1,741	9,241
Exchange traded futures – bought	**260,482**	**13**	**471**	811,675	47	226
Exchange traded futures – sold	**154,112**	**617**	**628**	862,881	609	21
	174,399,242	**1,444,968**	**1,198,787**	192,521,871	1,396,165	1,205,305
Equity derivatives						
OTC options – bought	**266,170**	**12,607**	**330**	67,706	1,212	83
OTC options – sold	**28,514**	**233**	**3,157**	38,812	123	823
	294,684	**12,840**	**3,487**	106,518	1,335	906
Credit derivatives						
Credit default swaps – buyer	**–**	**–**	**–**	8,313	–	49
Credit default swaps – seller	**293,455**	**3,426**	**830**	374,063	3,465	90
	293,455	**3,426**	**830**	382,376	3,465	139
Other derivatives						
Gold forwards – bought	**678**	**4**	**–**	257	–	1
Gold forwards – sold	**971**	**–**	**3**	21,956	379	–
Others	**892,134**	**17,939**	**17,939**	489,212	14,469	14,469
	893,783	**17,943**	**17,942**	511,425	14,848	14,470
Total	**227,403,447**	**2,353,842**	**2,050,881**	251,796,439	2,348,020	1,889,226

20. Other liabilities

	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Bills payable	**297,616**	167,262	**179,692**	81,116
Interest payable	**625,027**	450,533	**528,679**	375,141
Sundry creditors	**1,253,466**	1,008,168	**210,788**	255,234
Others	**401,401**	415,852	**200,590**	223,042
	2,577,510	2,041,815	**1,119,749**	934,533

At 31 December 2006, reinsurance liabilities included in "Others" amounted to $12.9 million (2005: $12.8 million) for the Group.

21. Deferred tax

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
At 1 January				
- As previously reported	**143,408**	128,721	**146,267**	129,374
- Life assurance fund tax	**221,218**	222,400	**–**	–
- As restated	**364,626**	351,121	**146,267**	129,374
Currency translation and others	**841**	(977)	**48**	–
Charge/(credit) to income statements (Note 10)	**1,979**	(365)	**(4,651)**	(551)
Under provision in prior years	**5,731**	1,232	**4,754**	–
Acquisition of subsidiaries	**–**	(8,876)	**–**	–
Deferred tax on fair value changes	**8,519**	24,210	**(11,497)**	17,444
Transfer from/(to) current tax	**569**	(537)	**–**	–
Net change in life assurance fund tax	**71,808**	(1,182)	**–**	–
At 31 December	**454,073**	364,626	**134,921**	146,267

Deferred income 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 fiscal authority. The deferred tax assets and liabilities are to be recovered and settled after one year and the following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deferred tax liabilities	**502,261**	436,123	**136,887**	146,267
Deferred tax assets	**(48,188)**	(71,497)	**(1,966)**	–
	454,073	364,626	**134,921**	146,267

Deferred tax assets and liabilities (prior to offsetting within the same tax jurisdiction) comprise:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Deferred tax liabilities				
Accelerated tax depreciation	**35,690**	36,185	**13,891**	14,672
Debt and equity securities	**393,187**	323,569	**94,740**	105,250
Fair value on properties from business combinations	**77,040**	78,536	**69,924**	71,194
Unremitted income and others	**44,923**	30,349	**6**	–
	550,840	468,639	**178,561**	191,116
Deferred tax assets				
Allowances for assets	**(81,707)**	(88,710)	**(39,222)**	(43,976)
Tax losses	**(1,383)**	(2,436)	**(481)**	–
Others	**(13,677)**	(12,867)	**(3,937)**	(873)
	(96,767)	(104,013)	**(43,640)**	(44,849)
Net deferred tax liabilities	**454,073**	364,626	**134,921**	146,267

Deferred tax charge/(credit) in the income statements comprised the following temporary differences:

	GROUP 2006	GROUP 2005	BANK 2006	BANK 2005
Accelerated tax depreciation	**907**	4,323	**(781)**	2,757
Allowances for assets	**1,671**	3,426	**–**	–
Debt and equity securities	**6,994**	(7,925)	**1,022**	–
Fair value on properties from business combinations	**(1,496)**	(2,449)	**(1,270)**	(2,434)
Tax losses	**842**	1,954	**(497)**	–
Others	**(6,939)**	306	**(3,125)**	(874)
	1,979	(365)	**(4,651)**	(551)

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 December 2006, unutilised tax losses for which no deferred income tax asset has been recognised amounted to $40.5 million (2005: $44.3 million) and $2.0 million (2005: $3.8 million) for the Group and Bank respectively.

22. Debts issued

	Note	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Subordinated term notes (unsecured)	22.1	**4,012,479**	4,167,889	**4,240,902**	4,483,481
Floating rate notes (unsecured)	22.2	**766,376**	831,410	**766,376**	831,410
Euro commercial papers (unsecured)	22.3	**321,170**	432,849	**321,170**	432,849
Structured notes (unsecured)	22.4	**30,648**	33,250	**30,648**	33,250
Collateralised notes (secured)	22.5	**–**	53,250	**–**	–
		5,130,673	5,518,648	**5,359,096**	5,780,990

22.1 Subordinated term notes (unsecured)

	Note	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Issued by the Bank:					
Tier-1 subordinated note	(a)	**–**	–	**400,000**	400,000
SGD 400 million 3.93% note 2055					
Tier-2 subordinated notes	(b)				
EUR 400 million 7.25% note 2011		**853,226**	877,930	**853,226**	877,930
SGD 975 million 5% note 2011		**987,037**	991,895	**987,037**	991,895
USD 1.25 billion 7.75% note 2011		**2,000,639**	2,213,656	**2,000,639**	2,213,656
		3,840,902	4,083,481	**3,840,902**	4,083,481
Issued by OCBC Bank (Malaysia):	(c)				
MYR 200 million Islamic bond		**87,019**	–		
Issued by P.T. Bank NISP Tbk:	(d)				
Subordinated Bonds I					
Series A – IDR 455 billion		**76,905**	76,102		
Series B – USD 5 million		**7,653**	8,306		
		84,558	84,408		
Total subordinated notes		**4,012,479**	4,167,889	**4,240,902**	4,483,481

(a) Tier-1 subordinated note of $400 million was issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation, on 2 February 2005 and matures on 20 March 2055. Interest is payable semi-annually on or prior to 20 March 2015 at 3.93% per annum and thereafter, payable quarterly at a floating rate equal to the three-month Singapore swap offer rate plus 1.85%.

(b) Tier-2 subordinated notes were issued on 6 July 2001, and mature on 6 September 2011. Interest is payable semi-annually in arrears at the fixed interest rates for the SGD and USD notes and annually in arrears at the fixed interest rate for the EUR notes. The Bank has entered into interest rate and currency swaps to manage the interest rate and exchange rate risks of the Tier-2 subordinated term notes and the cumulative fair value change due to changes in the risks hedged are included in the carrying value of the long-term debts issued. The average interest rate for the notes incorporating the effects of these derivative instruments was 4.97% (2005: 3.59%).

(c) OCBC Bank (Malaysia) Berhad ("OBMB") issued the redeemable Islamic subordinated bonds on 24 November 2006. The bonds, which are based on a 15-year non-call 10 year structure, were issued under the Mudharabah (profit sharing) principle with a projected constant rate of 5.40% for the first 10 years and a step-up of 100 basis points from the 11th year, subject to the availability of profits and investors' entitlement under the profit sharing ratio. The subordinated bonds shall be redeemed in 5 equal and consecutive annual payments, unless the call option is exercised by OBMB. Each of the annual redemption shall be subject to the prior approval of Bank Negara Malaysia.

22. Debts issued (continued)

22.1 Subordinated term notes (unsecured) (continued)

(d) P.T. Bank NISP Tbk ("NISP") issued the subordinated bonds on 10 March 2003, which mature on 12 March 2013 or at an earlier date on 12 March 2008, if the option to buy is exercised by NISP. The 10-year bonds comprise Series A bonds of IDR 455 billion and Series B bonds of USD 5 million, with interest payable quarterly in arrears. Series A bonds have fixed interest rate of 17.125% per annum for the first 5 years, and thereafter at 26% per annum. Series B bonds have fixed interest rate of 10.25% per annum for the first 5 years, and thereafter at a fixed interest rate based on the 5-year US treasury rate plus 11.25%.

22.2 Floating rate notes (unsecured)

	GROUP AND BANK	
	2006	2005
	$'000	$'000
Issued by the Bank:		
USD 500 million floating rate note 2007	**766,376**	831,410

The notes were issued by the Bank on 18 June 2004 and mature on 18 June 2007. Interest is payable quarterly in arrears, determined at the 3-month LIBOR plus 0.10%. The Bank has entered into a currency swap to manage the exchange rate risks and the average interest rate of the floating rate notes, after taking into account the swap interest, was 4.09% (2005: 2.20%).

22.3 Euro commercial papers (unsecured)

The zero coupon Euro Commercial Papers ("ECP") were issued by the Bank under the USD 2 billion ECP programme established in 2004 to tap the short-dated ECP capital market. The outstanding notes at 31 December 2006 were issued between 18 October 2006 and 29 December 2006, and mature between 9 January 2007 and 19 March 2007. The average interest rate was 4.96% (2005: 4.24%).

22.4 Structured notes (unsecured)

		GROUP AND BANK	
		2006	2005
	Note	**$'000**	$'000
Issued by the Bank:			
Callable range accrual notes ("CRAN")			
USD 10 million Series 010-CRAN	(a)	**15,324**	16,625
USD 10 million Series 015-CRAN	(b)	**15,324**	16,625
		30,648	33,250

(a) Series 010-CRAN notes were issued on 19 October 2004 and mature on 19 October 2014. Interest is payable quarterly in arrears, with the interest payout depending on both the 30-year and 10-year USD swap rate. No interest will be paid if the 30-year USD swap rate is lower than the 10-year USD swap rate. The Bank has the right to call the notes at par on any interest payment date, commencing 19 October 2005. The average interest rate was 4.98% (2005: 3.26%).

(b) Series 015-CRAN notes were issued on 11 April 2005 and mature on 11 April 2015. Interest is payable quarterly in arrears, determined at the 3-month LIBOR plus 2.5% for year 1 to 5 and 3-month LIBOR plus 4.0% for year 6 to 10. No interest will be paid if the 30-year USD swap rate is lower than the 10-year USD swap rate. The Bank has the right to call the notes at par on any interest payment date, commencing 11 October 2005. The average interest rate was 4.99% (2005: 3.53%).

22.5 Collateralised notes (secured)

These were short-dated fixed rate notes issued by Pioneer Funding Limited, a special purpose entity ("SPE") of the Group, and secured by a first fixed charge over the assets of the SPE. There were no notes outstanding as at 31 December 2006 and the assets of the SPE were disposed of during the year.

23. Life assurance fund liabilities

	GROUP	
	2006	2005
	$ million	$ million
Life assurance fund liabilities		
Movements in life assurance fund		
At 1 January	**33,286.2**	30,804.8
Currency translation	**(124.0)**	232.9
Fair value reserve movements	**769.9**	2.6
Increase in life assurance fund contract liabilities	**1,422.9**	2,252.5
Decrease in life assurance fund contract liabilities under Risk-based Capital Framework	**–**	(182.7)
Transfer of contract liabilities (Dependant Protection Scheme) from CPF Board	**124.1**	162.9
Transfer of contract liabilities from General Insurance Fund	**–**	13.2
Property revaluation reserve	**4.9**	–
At 31 December	**35,484.0**	33,286.2
Policy benefits	**1,474.4**	1,352.2
Others	**1,321.4**	1,219.9
	38,279.8	35,858.3
Life assurance fund investment assets		
Deposits with banks and financial institutions	**2,673.5**	2,261.2
Loans	**2,974.8**	2,814.6
Securities	**30,714.9**	28,789.0
Property	**1,450.8**	1,305.6
Others [(1)]	**609.2**	686.5
	38,423.2	35,856.9
The following contracts were entered into under the life assurance fund:		
Operating lease commitments	**1.9**	1.9
Capital commitment authorised and contracted	**302.4**	235.5
Derivative financial instruments (principal notional amount)	**5,504.4**	6,367.7
Derivative receivables	**59.4**	18.7
Derivative payables	**12.2**	31.6
Minimum lease rental receivables under non-cancellable operating leases	**64.6**	51.3

(1) Others comprised interest receivable, deposits collected, prepayments, sundry debtors and investment debtors.

24. Cash and placements with central banks

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash on hand	**412,611**	311,072	**324,518**	238,890
Balances with central banks	**1,817,686**	1,699,822	**1,175,739**	1,116,602
Money market placements and reverse repos	**3,511,046**	2,171,164	**1,707,326**	1,396,348
	5,741,343	4,182,058	**3,207,583**	2,751,840

Balances with central banks include mandatory reserve deposits of $1,814.4 million (2005: $1,695.7 million) and $1,174.1 million (2005: $1,115.8 million) for the Group and Bank respectively.

25. Government treasury bills and securities

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Singapore government treasury bills and securities				
Trading, at fair value	**2,161,935**	2,647,416	**2,161,935**	2,647,416
Available-for-sale, at fair value	**6,476,777**	4,813,506	**5,975,319**	4,254,030
	8,638,712	7,460,922	**8,137,254**	6,901,446
Assets under repurchase agreements (Note 43)	**(491,756)**	(512,693)	**(491,756)**	(512,693)
	8,146,956	6,948,229	**7,645,498**	6,388,753
Other government treasury bills and securities				
Trading, at fair value	**171,986**	83,783	**90,370**	21,454
Available-for-sale, at fair value	**2,802,236**	2,301,548	**199,116**	175,758
Held-to-maturity, at amortised cost	**–**	15,165	**–**	–
Loans, at amortised cost	**–**	462	**–**	462
Allowance for impairment (Note 33)	**–**	(33)	**–**	(33)
	2,974,222	2,400,925	**289,486**	197,641
Assets under repurchase agreements (Note 43)	**(779,224)**	(410,496)	**(3,784)**	(3,627)
	2,194,998	1,990,429	**285,702**	194,014

26. Placements with and loans to banks

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Certificate of deposits purchased (Trading)	**68,966**	82,278	**68,966**	82,278
Certificate of deposits purchased (Available-for-sale)	**1,935,705**	843,080	**1,472,329**	418,603
Placements with and loans to banks	**15,478,502**	10,934,849	**14,316,151**	10,253,896
Market bills purchased	**532,574**	327,517	**531,222**	273,864
Reverse repos	**49,515**	143,422	**49,515**	143,422
Balances with banks	**18,065,262**	12,331,146	**16,438,183**	11,172,063
Assets under repurchase agreements (Note 43)	**(577,583)**	(792,922)	**(28,231)**	(135,155)
Bank balances of life assurance fund	**262,410**	385,372	**–**	–
	17,750,089	11,923,596	**16,409,952**	11,036,908
Balances with banks – Analysed by currency				
Singapore Dollar	**580,633**	2,031,343	**260,250**	1,989,466
US Dollar	**12,063,983**	7,879,555	**11,436,798**	7,595,389
Malaysian Ringgit	**579,153**	652,257	**189**	181
Indonesian Rupiah	**13,633**	59,846	**17**	16
Japanese Yen	**317,674**	189,114	**259,810**	104,394
Hong Kong Dollar	**190,130**	124,565	**190,017**	124,517
British Pound	**1,584,079**	346,111	**1,583,687**	345,688
Australian Dollar	**890,192**	163,692	**882,994**	144,159
Euro	**1,479,587**	562,721	**1,462,648**	551,980
Others	**366,198**	321,942	**361,773**	316,273
	18,065,262	12,331,146	**16,438,183**	11,172,063

27. Loans to and bills receivable from customers

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Gross loans	**61,132,358**	57,193,178	**47,790,875**	45,286,557
Specific allowances (Note 29)	**(862,259)**	(1,097,404)	**(505,023)**	(726,487)
Portfolio allowances (Note 30)	**(961,099)**	(962,122)	**(807,136)**	(808,614)
Net loans	**59,309,000**	55,133,652	**46,478,716**	43,751,456
Net loans comprise:				
Bills receivable	**738,012**	787,376	**320,821**	283,708
Loans	**58,570,988**	54,346,276	**46,157,895**	43,467,748
	59,309,000	55,133,652	**46,478,716**	43,751,456

27.1 Analysed by currency

	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Singapore Dollar	**37,113,901**	34,844,094	**36,382,225**	34,302,690
US Dollar	**7,989,924**	8,152,063	**6,922,179**	6,800,946
Malaysian Ringgit	**9,043,539**	7,977,564	**87**	22
Indonesian Rupiah	**2,322,941**	1,856,119	**–**	–
Japanese Yen	**441,278**	628,337	**350,896**	527,446
Hong Kong Dollar	**1,040,798**	625,539	**1,040,460**	625,179
British Pound	**906,949**	1,141,556	**906,534**	1,140,118
Australian Dollar	**1,169,923**	1,115,800	**1,148,656**	1,090,326
Euro	**282,783**	302,184	**257,740**	269,324
Others	**820,322**	549,922	**782,098**	530,506
	61,132,358	57,193,178	**47,790,875**	45,286,557

27.2 Analysed by industry

	GROUP 2006 $'000	GROUP 2005 $'000	BANK 2006 $'000	BANK 2005 $'000
Agriculture, mining and quarrying	**985,851**	791,283	**279,034**	202,633
Manufacturing	**5,042,794**	4,454,732	**2,492,860**	2,284,279
Building and construction	**9,332,117**	7,277,632	**7,637,868**	6,118,161
Housing	**18,148,552**	18,087,466	**14,822,563**	14,971,950
General commerce	**5,811,574**	5,315,248	**4,447,794**	4,186,553
Transport, storage and communication	**2,537,180**	1,852,862	**2,195,264**	1,568,469
Financial institutions, investment and holding companies	**8,416,371**	7,621,123	**7,800,276**	6,711,009
Professionals and individuals	**7,330,336**	8,315,835	**6,195,951**	7,258,009
Others	**3,527,583**	3,476,997	**1,919,265**	1,985,494
	61,132,358	57,193,178	**47,790,875**	45,286,557

27. Loans to and bills receivable from customers (continued)

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
27.3	**Analysed by product**				
	Overdrafts	**4,034,251**	4,304,991	**2,187,381**	2,552,701
	Short term loans	**4,058,915**	3,863,733	**4,058,895**	3,863,714
	Revolving credit	**5,638,346**	4,981,492	**3,367,263**	3,194,929
	Long term loans	**14,227,654**	12,482,139	**10,690,568**	9,407,413
	Housing loans	**18,038,382**	17,931,595	**14,816,319**	14,965,681
	Commercial property loans	**1,892,885**	1,930,827	**1,885,901**	1,930,827
	Car loans	**2,488,148**	3,077,459	**2,270,014**	2,808,917
	Syndicated loans	**5,893,229**	3,876,272	**5,449,268**	3,507,907
	Transferable loan certificates	**123,910**	405,228	**123,910**	405,228
	Trade finance	**1,505,245**	1,604,581	**1,015,447**	1,022,619
	Credit card receivables	**673,094**	577,985	**463,800**	413,073
	Loans under government loan schemes	**207,408**	191,936	**190,890**	178,621
	Block discounting, leasing and factoring receivables	**239,763**	224,340	**230,600**	213,185
	Hire purchase loans (exclude car loans)	**303,992**	242,081	**145,809**	83,620
	Share margin financing	**362,583**	212,619	**–**	–
	Staff loans	**105,828**	103,895	**29,371**	36,769
	Others	**1,338,725**	1,182,005	**865,439**	701,353
		61,132,358	57,193,178	**47,790,875**	45,286,557
27.4	**Analysed by geographical sector**				
	Singapore	**39,490,672**	38,305,064	**38,759,198**	37,730,925
	Malaysia	**10,416,738**	9,693,048	**902,345**	717,080
	Other ASEAN	**3,737,191**	2,800,423	**815,807**	522,004
	Greater China	**3,102,768**	2,340,795	**3,036,257**	2,324,476
	Other Asia Pacific	**1,866,086**	1,453,309	**1,789,694**	1,435,395
	Rest of the World	**2,518,903**	2,600,539	**2,487,574**	2,556,677
		61,132,358	57,193,178	**47,790,875**	45,286,557

Loans to and bills receivable from customers by geographical sector risk concentration are determined based on where the credit risk resides, regardless of where the transactions are booked.

27. Loans to and bills receivable from customers (continued)

27.5 Analysed by interest rate sensitivity

	2006		2005	
	Fixed $'000	**Variable $'000**	Fixed $'000	Variable $'000
GROUP				
Singapore	**7,312,876**	**34,959,191**	7,425,229	33,567,537
Malaysia	**884,471**	**9,651,184**	935,521	8,745,924
Other ASEAN	**256,751**	**2,866,286**	287,373	2,089,800
Greater China	**100,066**	**2,064,338**	405	1,543,356
Other Asia Pacific	**789**	**1,296,665**	72,883	1,149,883
Rest of the World	**71,529**	**1,668,212**	22,572	1,352,695
	8,626,482	**52,505,876**	8,743,983	48,449,195
BANK				
Singapore	**7,240,539**	**34,214,422**	7,353,437	32,981,598
Malaysia	**26,316**	**890,901**	4,737	705,721
Other ASEAN	**8,009**	**209,089**	2,302	96,968
Greater China	**100,066**	**2,064,338**	405	1,543,356
Other Asia Pacific	**789**	**1,296,665**	72,883	1,149,883
Rest of the World	**71,529**	**1,668,212**	22,572	1,352,695
	7,447,248	**40,343,627**	7,456,336	37,830,221

The analysis by interest rate sensitivity is based on where the loans and bills receivable are booked.

28. Non-performing loans ("NPLs") and debt securities

Non-performing loans and debt securities are those classified as Substandard, Doubtful and Loss in accordance with MAS Notice 612.

	GROUP		**BANK**	
	2006 $ million	2005 $ million	**2006 $ million**	2005 $ million
Classified loans to customers				
Substandard	**854**	1,310	**437**	832
Doubtful	**558**	595	**445**	494
Loss	**392**	428	**238**	312
	1,804	2,333	**1,120**	1,638
Classified debt securities				
Substandard	**–**	4	**–**	3
Doubtful	**25**	34	**25**	34
Loss	**–**	21	**–**	–
	25	59	**25**	37
Total classified assets	**1,829**	2,392	**1,145**	1,675
Specific allowance made for classified assets				
Substandard	**81**	146	**51**	122
Doubtful	**536**	640	**394**	477
Loss	**225**	342	**77**	154
	842	1,128	**522**	753

28. Non-performing loans ("NPLs") and debt securities (continued)

		GROUP		BANK	
		2006	2005	**2006**	2005
		$ million	$ million	**$ million**	$ million
28.1	**Analysed by period overdue**				
	Over 180 days	**1,043**	1,463	**617**	1,012
	Over 90 days to 180 days	**215**	215	**162**	181
	30 days to 90 days	**164**	188	**106**	155
	Less than 30 days	**76**	105	**74**	105
	No overdue	**331**	421	**186**	222
		1,829	2,392	**1,145**	1,675
28.2	**Analysed by collateral type**				
	Property				
	Residential	**482**	572	**349**	448
	Commercial/Industrial	**463**	768	**233**	479
	Hotel	**18**	54	**15**	21
	Budget Hotel/Boarding School	**–**	8	**–**	8
		963	1,402	**597**	956
	Fixed deposit				
	In same currency as loan	**3**	5	**2**	4
	In different currency	**4**	9	**4**	9
		7	14	**6**	13
	Stock and shares	**39**	38	**16**	14
	Motor vehicles	**3**	5	**2**	4
	Others	**36**	40	**18**	35
	Unsecured				
	Clean	**450**	518	**175**	293
	Corporate and other guarantees	**331**	375	**331**	360
		781	893	**506**	653
		1,829	2,392	**1,145**	1,675
28.3	**Analysed by industry**				
	Agriculture, mining and quarrying	**14**	28	**1**	2
	Manufacturing	**365**	390	**179**	229
	Building and construction	**251**	501	**134**	369
	Housing	**380**	399	**291**	344
	General commerce	**304**	377	**166**	223
	Transport, storage and communication	**21**	20	**15**	14
	Financial institutions, investment and holding companies	**178**	246	**128**	164
	Professionals and individuals	**253**	322	**195**	282
	Others	**63**	109	**36**	48
		1,829	2,392	**1,145**	1,675

28. Non-performing loans ("NPLs") and debt securities (continued)

28.4 Analysed by geographical sector

GROUP ($ million)	Singapore	Malaysia	Rest of the World	Total
2006				
Substandard	**381**	**401**	**72**	**854**
Doubtful	**337**	**143**	**103**	**583**
Loss	**232**	**108**	**52**	**392**
	950	**652**	**227**	**1,829**
Specific allowances	**(393)**	**(307)**	**(142)**	**(842)**
	557	**345**	**85**	**987**
2005				
Substandard	759	487	68	1,314
Doubtful	353	136	140	629
Loss	304	84	61	449
	1,416	707	269	2,392
Specific allowances	(573)	(348)	(207)	(1,128)
	843	359	62	1,264

Non-performing loans ("NPLs") and debt securities by geographical sector risk concentration are determined based on where the credit risk resides regardless of where the transactions are booked.

28.5 Restructured loans

The table below is an analysis of restructured loans into loan classification and the related specific allowances. The restructured loans as a percentage of total NPLs were 20.2% (2005: 16.5%) and 20.0% (2005: 20.4%) for the Group and the Bank respectively.

	2006		2005	
	Amount $ million	**Allowance $ million**	Amount $ million	Allowance $ million
GROUP				
Substandard	**216**	**40**	240	48
Doubtful	**120**	**125**	145	161
Loss	**33**	**33**	9	8
	369	**198**	394	217
BANK				
Substandard	**129**	**14**	197	39
Doubtful	**96**	**103**	139	152
Loss	**4**	**2**	6	4
	229	**119**	342	195

29. Specific allowances for loans

Movements in the specific allowances for loans were as follows:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
At 1 January	**1,097,404**	1,321,778	**726,487**	968,836
Currency translation	**(21,515)**	(2,233)	**(11,312)**	930
Bad debts written off	**(186,690)**	(265,445)	**(162,386)**	(245,968)
Recovery of amounts previously provided for	**(45,698)**	(40,490)	**(32,892)**	(26,367)
Allowances for loans	**66,912**	91,540	**16,305**	65,443
Net allowances charged/(writeback) to income statements (Note 9)	**21,214**	51,050	**(16,587)**	39,076
Interest recognition on impaired loans	**(45,110)**	(42,698)	**(28,135)**	(28,363)
Acquisition of subsidiaries	**–**	28,618	**–**	–
Interest capitalised as allowance for restructured loans	**1,167**	–	**1,167**	–
Transfer from/(to):				
– Available-for-sale securities	**(4,488)**	–	**(4,488)**	–
– Portfolio allowances (Note 30)	**342**	14,358	**342**	–
– Allowances for impairment of securities and other assets (Note 33)	**(15)**	(8,024)	**(15)**	(8,024)
– Other provisions	**(50)**	–	**(50)**	–
At 31 December (Note 27)	**862,259**	1,097,404	**505,023**	726,487

30. Portfolio allowances for loans

Movements in the portfolio allowances for loans were as follows:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
At 1 January	**962,122**	942,022	**808,614**	808,546
Currency translation	**(681)**	11,972	**(1,136)**	68
Acquisition of subsidiaries	**–**	22,486	**–**	–
Transfer to specific allowances for loans (Note 29)	**(342)**	(14,358)	**(342)**	–
At 31 December (Note 27)	**961,099**	962,122	**807,136**	808,614

31. Debt and equity securities

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
31.1	**Trading securities**				
	Quoted debt securities	**258,511**	162,313	**244,034**	112,627
	Unquoted debt securities	**167,286**	118,290	**–**	6,055
	Quoted equity securities	**46,531**	9,553	**38,370**	8,467
		472,328	290,156	**282,404**	127,149
31.2	**Available-for-sale securities**				
	Quoted debt securities	**3,962,882**	3,889,117	**3,252,238**	2,865,811
	Unquoted debt securities	**1,477,191**	1,730,008	**1,076,995**	1,449,478
	Quoted equity securities	**1,260,308**	1,349,363	**549,581**	726,965
	Unquoted equity securities	**227,367**	193,255	**31,761**	33,905
		6,927,748	7,161,743	**4,910,575**	5,076,159
31.3	**Securities classified as loans and receivables**				
	Unquoted debt, at amortised cost	**224,721**	202,023	**204,928**	162,564
	Allowance for impairment	**(18,540)**	(50,207)	**(17,635)**	(28,054)
	Net carrying value	**206,181**	151,816	**187,293**	134,510
31.4	**Total debt and equity securities**				
	Total carrying value	**7,624,797**	7,653,922	**5,397,907**	5,365,872
	Allowance for impairment (Note 33)	**(18,540)**	(50,207)	**(17,635)**	(28,054)
	Net carrying value (Note 31.1 + 31.2 + 31.3)	**7,606,257**	7,603,715	**5,380,272**	5,337,818
	Assets pledged (Note 43)	**(48,016)**	(200,448)	**–**	–
		7,558,241	7,403,267	**5,380,272**	5,337,818

31. Debt and equity securities (continued)

Analysis of debt and equity securities

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
31.5	**By issuer**				
	Public sector	**308,141**	159,237	**220,632**	97,883
	Banks	**1,296,007**	1,386,332	**918,471**	1,145,928
	Corporations	**5,816,897**	5,786,165	**4,215,446**	4,032,298
	Others	**185,212**	271,981	**25,723**	61,709
		7,606,257	7,603,715	**5,380,272**	5,337,818
31.6	**By industry**				
	Agriculture, mining and quarrying	**104,287**	91,519	**32,998**	37,358
	Manufacturing	**1,143,402**	846,496	**812,829**	606,283
	Building and construction	**1,014,093**	588,361	**649,114**	278,458
	General commerce	**278,270**	178,775	**224,024**	86,390
	Transport, storage and communication	**600,649**	786,552	**500,090**	629,705
	Financial institutions, investment and holding companies	**3,400,371**	3,805,978	**2,626,590**	2,913,338
	Others	**1,065,185**	1,306,034	**534,627**	786,286
		7,606,257	7,603,715	**5,380,272**	5,337,818
31.7	**By geographical sector**				
	Singapore	**3,055,335**	2,799,382	**2,068,258**	1,981,820
	Malaysia	**863,570**	1,403,468	**260,942**	496,055
	Other ASEAN	**166,982**	142,695	**118,869**	92,539
	Greater China	**543,408**	394,391	**371,249**	344,254
	Other Asia Pacific	**905,937**	937,866	**794,832**	823,555
	Rest of the World	**2,071,025**	1,925,913	**1,766,122**	1,599,595
		7,606,257	7,603,715	**5,380,272**	5,337,818

Included in debt securities is an amount of $0.5 billion (2005: $0.3 billion) relating to credit linked notes and collateralised debt which are pledged as collateral for credit default swaps where the Bank acts as the protection seller. These obligations are included in credit derivatives (Note 19).

As at 31 December 2005, quoted debt securities of $54.8 million were pledged as collaterals for the notes issued by the Group's special purpose entity, Pioneer Funding Limited (Note 22.5). These securities were disposed of during the year.

32. Other assets

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Interest receivable	**1,040,681**	693,137	**926,861**	583,149
Sundry debtors (net)	**1,103,240**	818,610	**20,997**	47,439
Deposits and prepayments	**137,504**	150,327	**95,712**	120,032
Others	**242,792**	285,610	**157,564**	178,674
	2,524,217	1,947,684	**1,201,134**	929,294

At 31 December 2006, reinsurance assets included in "Others" amounted to $54.3 million (2005: $67.9 million) for the Group.

33. Allowances for impairment of securities and other assets

Movements in allowances for impairment of securities and other assets were as follows:

GROUP	Other government securities $'000	Debt securities $'000	Property, plant & equipment $'000	Other assets $'000	Total $'000
2006					
At 1 January	**33**	**50,207**	**176,392**	**22,036**	**248,668**
Currency translation	**(3)**	**(1,773)**	**(40)**	**(273)**	**(2,089)**
Amounts written off	**–**	**(21,458)**	**(459)**	**(2,446)**	**(24,363)**
(Writeback)/allowances charged to income statements (Note 9)	**(30)**	**(8,039)**	**(18,521)**	**5,273**	**(21,317)**
Transfer from specific allowances for loans (Note 29)	**–**	**–**	**–**	**15**	**15**
Interest recognition on net NPLs	**–**	**(397)**	**–**	**–**	**(397)**
Reclassified as assets held for sale	**–**	**–**	**(1,682)**	**–**	**(1,682)**
Transfers from other provisions	**–**	**–**	**–**	**918**	**918**
At 31 December	**–**	**18,540**	**155,690**	**25,523**	**199,753**
	(Note 25)	(Note 31.4)	(Note 36)		
2005					
At 1 January	33	229,913	179,074	19,314	428,334
Allowances for impairment of AFS securities offset against carrying value	–	(132,675)	–	–	(132,675)
Currency translation	–	1,869	103	(392)	1,580
Amounts written off	–	(8,123)	(504)	(2,533)	(11,160)
Acquisition of subsidiaries	–	–	–	2,536	2,536
(Writeback)/allowances charged to income statements (Note 9)	–	(48,441)	(2,281)	3,111	(47,611)
Transfer from specific allowances for loans (Note 29)	–	8,024	–	–	8,024
Interest recognition on net NPLs	–	(360)	–	–	(360)
At 31 December	33	50,207	176,392	22,036	248,668
	(Note 25)	(Note 31.4)	(Note 36)		

33. Allowances for impairment of securities and other assets (continued)

BANK	Other government securities $'000	Debt securities $'000	Associated companies $'000	Subsidiaries $'000	Property, plant & equipment $'000	Other assets $'000	Total $'000
2006							
At 1 January	**33**	**28,054**	**6,524**	**151,907**	**137,976**	**39,759**	**364,253**
Currency translation	**(3)**	**(1,523)**	**–**	**–**	**54**	**(13)**	**(1,485)**
Amounts written off	**–**	**118**	**–**	**(14,989)**	**(303)**	**(1,143)**	**(16,317)**
(Writeback)/impairment charge to income statements (Note 9)	**(30)**	**(8,617)**	**–**	**6,390**	**(6,792)**	**(2,679)**	**(11,728)**
Transfer from specific allowances for loans (Note 29)	**–**	**–**	**–**	**–**	**–**	**15**	**15**
Interest recognition on net NPLs	**–**	**(397)**	**–**	**–**	**–**	**–**	**(397)**
At 31 December	**–**	**17,635**	**6,524**	**143,308**	**130,935**	**35,939**	**334,341**
	(Note 25)	(Note 31.4)	(Note 34)	(Note 35)	(Note 36)		
2005							
At 1 January	33	147,526	6,524	87,943	138,641	39,781	420,448
Allowances for impairment of AFS securities offset against carrying value	–	(80,638)	–	–	–	–	(80,638)
Currency translation	–	1,235	–	–	(42)	–	1,193
Amounts written off	–	(6,946)	–	(1,411)	(504)	(468)	(9,329)
(Writeback)/allowances charged to income statements (Note 9)	–	(40,787)	–	55,474	(119)	446	15,014
Transfer from specific allowances for loans (Note 29)	–	8,024	–	–	–	–	8,024
Interest recognition on net NPLs	–	(360)	–	–	–	–	(360)
Transfer from subsidiaries	–	–	–	9,901	–	–	9,901
At 31 December	33	28,054	6,524	151,907	137,976	39,759	364,253
	(Note 25)	(Note 31.4)	(Note 34)	(Note 35)	(Note 36)		

34. Associated and joint venture companies

	GROUP		BANK	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Quoted equity securities, at cost	**87,484**	87,618	**85,556**	85,556
Unquoted equity securities, at cost	**150,933**	36,931	**17,561**	17,561
	238,417	124,549	**103,117**	103,117
Allowance for impairment (Note 33)	**–**	–	**(6,524)**	(6,524)
Net carrying value	**238,417**	124,549	**96,593**	96,593
Share of post-acquisition reserves	**53,129**	44,073	**–**	–
	291,546	168,622	**96,593**	96,593
Amount due from associated companies (unsecured)	**17,668**	17,399	**–**	–
	309,214	186,021	**96,593**	96,593
Fair value of quoted associated companies	**119,438**	146,661	**96,106**	120,333

34. Associated and joint venture companies (continued)

34.1 Associated companies

	GROUP	
	2006	2005
	$'000	$'000
The summarised financial information of associated companies is as follows:		
Assets	**1,831,066**	867,545
Liabilities	**244,650**	329,770
Share of contingent liabilities	**50,471**	13,840
Total income	**311,787**	274,868
Profit for the year	**128,790**	51,212

Details of significant associated companies of the Group are as follows:

	Name of associated companies	Country of incorporation	Effective interest held by the Group	
			2006	2005
			%	%
	Quoted			
@	British and Malayan Trustees Limited	Singapore	**43**	43
#	PacificMas Berhad	Malaysia	**28**	28
	Unquoted			
	Fairfield Investment Fund Ltd	Cayman Islands	**40**	–
	Fairfield Lion Investment Fund (Asia) Ltd [(1)]	Cayman Islands	**59**	–
@	Network For Electronic Transfers (Singapore) Pte Ltd	Singapore	**33**	33

Notes:
@ Audited by PricewaterhouseCoopers
\# Audited by Ernst & Young
(1) Fairfield Lion Investment Fund (Asia) Ltd has not been accounted for as a subsidiary although the Group's effective interest is in excess of 50%. The Group does not have control over the financial and operating policies of the investee.

34.2 Joint venture company

During the year, the Group incorporated a joint venture company, Great Eastern Life Assurance (China) Company Limited ("GEL China"), of which it holds 50% interest. At 31 December 2006, the financial information of GEL China equity-accounted for is as follows:

$ million	**2006**
Share of current assets	**18.7**
Share of non-current assets	**9.1**
Share of current liabilities	**(0.7)**
Share of non-current liabilities	**(0.2)**
Share of income	**0.9**
Share of expenses	**(3.0)**

35. Subsidiaries

	BANK 2006 $'000	BANK 2005 $'000
Quoted equity security, at cost	**2,187,919**	1,845,055
Unquoted equity securities, at cost	**1,561,556**	1,885,380
	3,749,475	3,730,435
Allowance for impairment (Note 33)	**(143,308)**	(151,907)
Net carrying value	**3,606,167**	3,578,528
Amount due from subsidiaries (unsecured)	**1,515,862**	1,823,605
	5,122,029	5,402,133

At 31 December 2006, the fair value of the Bank's quoted subsidiary, Great Eastern Holdings Limited, was $6,700.8 million (2005: $5,580.4 million).

35.1 List of significant subsidiaries

Details of the significant subsidiaries of the Group are as follows:

	Name of subsidiaries	Country of incorporation	Effective interest held by the Group 2006 %	2005 %
	Banking			
	Bank of Singapore Limited	Singapore	**100**	100
	OCBC Bank (Malaysia) Berhad	Malaysia	**100**	100
@	P.T. Bank NISP Tbk	Indonesia	**72**	72
@	P.T. Bank OCBC Indonesia	Indonesia	**100**	100
	Insurance			
#	Great Eastern Life Assurance (Malaysia) Berhad	Malaysia	**87**	82
#	Overseas Assurance Corporation (Malaysia) Berhad	Malaysia	**87**	82
#	The Great Eastern Life Assurance Company Limited	Singapore	**87**	82
#	The Overseas Assurance Corporation Limited	Singapore	**87**	82
	Asset management and investment holding			
#	Lion Capital Management Limited	Singapore	**91**	87
#	Great Eastern Holdings Limited	Singapore	**87**	82
	Stockbroking			
	OCBC Securities Private Limited	Singapore	**100**	100

Notes:
Unless otherwise indicated, the significant subsidiaries listed above are audited by KPMG Singapore and its associated firms.
@ Audited by PricewaterhouseCoopers
# Audited by Ernst & Young

35.2 Acquisition of additional interests in subsidiary

On 16 January 2006, the Bank entered into a conditional share purchase agreement with certain individuals to purchase 2,570,000 ordinary shares ("Sale Shares") or 0.54% shareholding in the capital of Great Eastern Holdings Limited ("GEH"). The consideration was satisfied by the issue of 6,019,968 new ordinary shares in the Bank on the basis of 2.3424 issued for each Sale Share acquired, which amounted to $40.6 million.

During the year, the Bank made a voluntary unconditional cash offer for the remaining shares in GEH at $16 for each share. At the close of offer, the Bank received total valid acceptances of 14,763,369 GEH shares. The cash consideration paid totalled to $236.2 million.

In addition, the Bank has through a series of on-market and off-market married trades, purchased a total of 4,289,962 ordinary shares for a total cash consideration of $66.0 million.

Consequently, the Group's interest in GEH increased from 82.3% to 86.9%. The acquisition of additional interests in GEH resulted in the recognition of incremental goodwill and intangible asset of $111.7 million (Note 37) and $107.6 million (Note 37) respectively.

36. Property, plant and equipment

GROUP ($'000)	2006 Property-related	2006 Computer-related	2006 Others	2006 Total	2005 Property-related	2005 Computer-related	2005 Others	2005 Total
Cost								
At 1 January	**1,637,018**	**390,288**	**233,188**	**2,260,494**	1,576,174	323,564	214,284	2,114,022
Currency translation	**(8,472)**	**(993)**	**(836)**	**(10,301)**	2,661	592	204	3,457
Acquisition of subsidiary	**–**	**–**	**–**	**–**	40,726	14,219	12,997	67,942
Additions	**21,537**	**76,226**	**38,536**	**136,299**	22,168	103,066	21,742	146,976
Disposals	**(72,682)**	**(84,027)**	**(22,241)**	**(178,950)**	(4,711)	(51,153)	(16,039)	(71,903)
Assets held for sale	**(11,745)**	**–**	**–**	**(11,745)**	–	–	–	–
Transfers	**290**	**(400)**	**110**	**–**	–	–	–	–
At 31 December	**1,565,946**	**381,094**	**248,757**	**2,195,797**	1,637,018	390,288	233,188	2,260,494
Accumulated depreciation								
At 1 January	**(252,499)**	**(234,588)**	**(168,359)**	**(655,446)**	(229,024)	(232,312)	(157,775)	(619,111)
Currency translation	**811**	**542**	**785**	**2,138**	(307)	(683)	(145)	(1,135)
Acquisition of subsidiary	**–**	**–**	**–**	**–**	(974)	(4,004)	(6,407)	(11,385)
Disposals	**3,663**	**70,886**	**14,437**	**88,986**	1,254	48,670	14,022	63,946
Depreciation charge (Note 8.2)	**(30,258)**	**(49,910)**	**(23,425)**	**(103,593)**	(23,448)	(46,259)	(18,054)	(87,761)
Assets held for sale	**3,557**	**–**	**–**	**3,557**	–	–	–	–
Transfers	**–**	**598**	**(598)**	**–**	–	–	–	–
At 31 December	**(274,726)**	**(212,472)**	**(177,160)**	**(664,358)**	(252,499)	(234,588)	(168,359)	(655,446)
Accumulated impairment losses								
At 1 January	**(175,609)**	**–**	**(783)**	**(176,392)**	(177,862)	–	(1,212)	(179,074)
Currency translation	**31**	**–**	**9**	**40**	(75)	–	(28)	(103)
Write off upon disposal	**459**	**–**	**–**	**459**	504	–	–	504
Writeback/(impairment charge) to income statements	**21,638**	**(151)**	**(2,966)**	**18,521**	1,824	–	457	2,281
Assets held for sale	**1,682**	**–**	**–**	**1,682**	–	–	–	–
Transfers	**–**	**151**	**(151)**	**–**	–	–	–	–
At 31 December (Note 33)	**(151,799)**	**–**	**(3,891)**	**(155,690)**	(175,609)	–	(783)	(176,392)
Net carrying value, at 31 December	**1,139,421**	**168,622**	**67,706**	**1,375,749**	1,208,910	155,700	64,046	1,428,656
Net carrying value								
Freehold property	**346,157**				469,119			
Leasehold property	**793,264**				739,791			
	1,139,421				1,208,910			
Market value	**2,735,162**				2,730,451			

36. Property, plant and equipment (continued)

BANK ($'000)	2006 Property-related	2006 Computer-related	2006 Others	2006 Total	2005 Property-related	2005 Computer-related	2005 Others	2005 Total
Cost								
At 1 January	**841,778**	**243,398**	**90,328**	**1,175,504**	844,543	214,764	90,814	1,150,121
Currency translation	**(2,033)**	**(242)**	**(481)**	**(2,756)**	546	(139)	(127)	280
Additions	**55**	**51,291**	**6,413**	**57,759**	908	45,570	5,849	52,327
Disposals	**(6,616)**	**(82,166)**	**(18,416)**	**(107,198)**	(4,219)	(16,797)	(6,208)	(27,224)
Assets held for sale	**(805)**	**–**	**–**	**(805)**	–	–	–	–
At 31 December	**832,379**	**212,281**	**77,844**	**1,122,504**	841,778	243,398	90,328	1,175,504
Accumulated depreciation								
At 1 January	**(92,045)**	**(151,618)**	**(64,903)**	**(308,566)**	(79,883)	(138,775)	(62,996)	(281,654)
Currency translation	**455**	**73**	**457**	**985**	(147)	70	125	48
Disposals	**2,989**	**69,517**	**10,994**	**83,500**	853	16,612	5,176	22,641
Depreciation charge (Note 8.2)	**(12,691)**	**(30,632)**	**(11,498)**	**(54,821)**	(12,868)	(29,525)	(7,208)	(49,601)
At 31 December	**(101,292)**	**(112,660)**	**(64,950)**	**(278,902)**	(92,045)	(151,618)	(64,903)	(308,566)
Accumulated impairment losses								
At 1 January	**(137,976)**	**–**	**–**	**(137,976)**	(138,641)	–	–	(138,641)
Currency translation	**(54)**	**–**	**–**	**(54)**	42	–	–	42
Write off upon disposal	**303**	**–**	**–**	**303**	504	–	–	504
Writeback to income statements	**6,792**	**–**	**–**	**6,792**	119	–	–	119
At 31 December (Note 33)	**(130,935)**	**–**	**–**	**(130,935)**	(137,976)	–	–	(137,976)
Net carrying value, at 31 December	**600,152**	**99,621**	**12,894**	**712,667**	611,757	91,780	25,425	728,962
Net carrying value								
Freehold property	**101,846**				104,080			
Leasehold property	**498,306**				507,677			
	600,152				611,757			
Market value	**1,076,265**				1,002,159			

As at 31 December 2006, included in property are investment property with net book value of $679.8 million (2005: $749.4 million) and $413.6 million (2005: $406.0 million) for the Group and Bank respectively. Based on valuations carried out by independent professional valuers, the market values of investment property as at 31 December 2006 were $1,734.0 million (2005: $1,578.7 million) and $753.3 million (2005: $668.5 million) for the Group and Bank respectively. The excess of the market value over the net book value of property was not recognised in the financial statements.

37. Goodwill and intangible assets

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Goodwill				
At 1 January	**2,586,257**	2,231,614	**1,867,176**	1,867,176
Acquisition of additional interests in:				
– GEH (Note 35.2)	**111,659**	28,513	**–**	–
– NISP	**132**	320,862	**–**	–
– SLAM	**–**	29,419	**–**	–
Impairment charge to income statements	**–**	(4,549)	**–**	–
Currency translation	**1,781**	(19,602)	**–**	–
At 31 December	**2,699,829**	2,586,257	**1,867,176**	1,867,176
Intangible asset [(1)]				
At 1 January	**757,298**	766,958		
Acquisition of additional interests in GEH (Note 35.2)	**107,554**	30,260		
Amortisation charged to income statements	**(43,732)**	(39,920)		
At 31 December	**821,120**	757,298		
Analysed as follows:				
Goodwill from acquisition of subsidiaries/business	**2,699,829**	2,586,257	**1,867,176**	1,867,176
Intangible asset, at cost	**927,814**	820,260		
Accumulated amortisation for intangible asset	**(106,694)**	(62,962)		
	821,120	757,298		
Total goodwill and intangible assets	**3,520,949**	3,343,555	**1,867,176**	1,867,176

Note:
(1) The value of in-force life assurance business of the Group is amortised over a useful life of 20 years. At 31 December 2006, the intangible asset has a remaining useful life of 18 years.

Impairment tests for goodwill

For impairment testing, goodwill is allocated to the Group's cash generating units ("CGU") identified mainly to business segments as follows:

		Carrying value	
Cash Generating Units	Basis of determining recoverable value	**2006** **$'000**	2005 $'000
Goodwill attributed to Banking CGU			
– Consumer Banking		**844,497**	844,497
– Business Banking		**570,000**	570,000
– Treasury		**524,000**	524,000
	Value-in-use	**1,938,497**	1,938,497
Great Eastern Holdings Limited ("GEH")	Appraisal value	**426,385**	314,726
P.T. Bank NISP Tbk ("NISP")	Value-in-use	**305,528**	303,615
Straits Lion Asset Management Limited ("SLAM")	Value-in-use	**29,419**	29,419
		2,699,829	2,586,257

The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The discount rates applied to the cash flow projections are derived from the pre-tax weighted average cost of capital plus a reasonable risk premium at the date of assessment of the respective CGU. The discount rates used ranged from 10% to 19% (2005: 9% to 20%). Cash flows beyond the fifth year are extrapolated using the estimated terminal growth rates (weighted average growth rate to extrapolate cash flows beyond the projected years). For 2006, the terminal growth rates ranged from 2% to 11% (2005: 2% to 15%). The terminal growth rate for each CGU used does not exceed management's expectation of the long term average growth rate of the respective industry and country in which the CGU operates.

37. Goodwill and intangible assets (continued)

The Group's insurance CGU applies the appraisal value technique for its value-in-use calculation. This technique is commonly used to determine the economic value of an insurance business, which comprises two components: embedded value of in-force business and existing structural value (value of future sales). The embedded value of the life assurance business is the present value of projected distributable profits (cash flows) of the in-force business. The cash flows represent a deterministic approach based on assumptions as to future operating experience discounted at a risk adjusted rate. The assumptions take into account the recent experience of, and expected future outlook for the life assurance business of the CGU. Investment returns assumed are based on long term strategic asset mix and their expected future returns. The existing structural value is the value of projected distributable profits from new businesses, which is calculated based on new businesses sold for the nine months ended up to 30 September and applying a new business multiplier to the value of future sales. The returns assumed, after investment expenses, are 5.25%, 4.25% and 7% (2005: 5.25%, 4.25% and 7%) for Singapore's participating fund, non-participating fund and linked fund respectively and 7%, 6.5% and 7.5% (2005: 7%, 6.5% and 7.5%) for Malaysia's participating fund, non-participating fund and linked fund respectively.

38. Segmental information

38.1 Business segments

$ million	Consumer Banking	Business Banking	Treasury	Insurance	Others	Group
Financial year ended 31 December 2006						
Segment income	1,010	1,135	261	659	872	3,937
Elimination						(97)
Total income						3,840
Profit before tax and allowances	543	775	176	559	455	2,508
Amortisation of intangible assets	–	–	–	(44)	–	(44)
(Allowances)/writeback for loans and impairment of other assets	(66)	17	–	–	47	(2)
Income tax (charge)/credit	(97)	(164)	(31)	(86)	8	(370)
Net profit before equity accounting	380	628	145	429	510	2,092
Share of results of associated and joint venture companies						14
Minority interests						(104)
Net profit attributable to equity holders of the Bank						2,002
Other information:						
Capital expenditure	5	3	–	1	127	136
Depreciation	12	6	–	2	84	104
At 31 December 2006						
Segment assets	26,098	38,371	30,565	43,288	16,180	154,502
Unallocated assets						48
Elimination						(3,330)
Total assets						151,220
Segment liabilities	35,378	34,280	19,320	38,464	11,516	138,958
Unallocated liabilities						1,101
Elimination						(3,330)
Total liabilities						136,729
Other information:						
Gross non-bank loans	24,851	32,610	–	385	3,286	61,132
NPLs (includes debt securities)	509	1,254	–	–	66	1,829

38. Segmental information (continued)

38.1 Business segments (continued)

$ million	Consumer Banking	Business Banking	Treasury	Insurance	Others	Group
Financial year ended 31 December 2005						
Segment income	917	999	244	524	293	2,977
Elimination						(90)
Total income						2,887
Profit/(loss) before tax and allowances	505	671	168	435	(37)	1,742
Amortisation of intangible assets	–	–	–	(40)	–	(40)
(Allowances)/writeback for loans and impairment of other assets	(76)	27	–	–	37	(12)
Income tax (charge)/credit	(87)	(136)	(35)	(68)	18	(308)
Net profit before equity accounting	342	562	133	327	18	1,382
Share of results of associated companies						15
Minority interests						(99)
Net profit attributable to equity holders of the Bank						1,298
Other information:						
Capital expenditure	4	3	1	4	135	147
Depreciation	6	7	–	2	73	88
At 31 December 2005						
Segment assets	26,392	35,548	23,132	40,313	12,888	138,273
Unallocated assets						71
Elimination						(3,634)
Total assets						134,710
Segment liabilities	30,418	27,926	18,783	36,424	10,679	124,230
Unallocated liabilities						627
Elimination						(3,634)
Total liabilities						121,223
Other information:						
Gross non-bank loans	25,065	29,028	–	378	2,722	57,193
NPLs (includes debt securities)	613	1,727	–	–	52	2,392

OCBC Group is organised along four groupings covering customers, products, support functions and geography. Customer, product and support function heads have global responsibility for their respective areas, while geographic heads have stewardship responsibility.

For the purpose of financial reporting of business segment results, the Group's businesses are presented under five main segments representing the key customer and product groups: Consumer Banking, Business Banking, Treasury, Insurance and Others.

38. Segmental information (continued)

38.1 Business segments (continued)

Consumer Banking

Consumer Banking comprises the full range of products and services offered to individuals, including deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards and wealth management products (such as unit trusts, bancassurance products and structured deposits).

Business Banking

Business Banking provides a full range of financial services to business customers, ranging from large corporates and the public sector to small and medium enterprises. The products and services offered include long-term loans such as project financing, short-term credit such as overdrafts and trade financing, deposit accounts and fee-based services such as cash management, trustee and custodian services.

Treasury

Treasury engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and also offers structured treasury products and financial solutions to meet customers' investment and hedging needs.

Insurance

The Group's insurance business, including fund management activities, is carried out by the Bank's subsidiary GEH, which provides both life and general insurance products to its customers mainly in Singapore and Malaysia.

Others

The "Others" segment comprise Bank NISP, corporate finance, capital markets, property holding, stock brokerage and investment holding, support units, other investments, items not attributed to business segments, and one-time divestment gains.

The business segment information is prepared based on internal management reports, which are used by senior management for decision-making and performance management.

The following management reporting methodologies are adopted:

(a) income and expenses are attributable to each segment based on the internal management reporting policies;
(b) in determining the segment results, balance sheet items are internally transfer priced; and,
(c) transactions between business segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

Where there are material changes in the organisational structure and management reporting methodologies, segment information for prior periods is restated to allow comparability.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as income tax and borrowings.

Capital expenditure comprises additions to property, plant and equipment.

38. Segmental information (continued)

38.2 Geographical segments

$ million	Total income	Profit/(loss) before income tax	Capital expenditure	Total assets	Total liabilities
2006					
Singapore	**2,714**	**1,842**	**77**	**105,706**	**97,109**
Malaysia	**747**	**498**	**18**	**31,275**	**27,677**
Other ASEAN	**239**	**71**	**39**	**5,126**	**4,308**
Greater China	**71**	**21**	**1**	**4,650**	**3,366**
Other Asia Pacific	**33**	**21**	**1**	**1,699**	**1,064**
Rest of the World	**36**	**23**	**–**	**2,764**	**3,205**
	3,840	**2,476**	**136**	**151,220**	**136,729**
2005					
Singapore	1,949	1,093	61	96,712	87,530
Malaysia	662	507	61	26,859	23,323
Other ASEAN	148	61	23	4,381	3,462
Greater China	54	(3)	–	3,066	2,667
Other Asia Pacific	36	24	1	1,603	924
Rest of the World	38	24	1	2,089	3,317
	2,887	1,706	147	134,710	121,223

The Group's operations are in six main geographical areas:

(a) Singapore, the home country of the Bank where the primary business segments are located;

(b) Malaysia, comprising mainly the operations of the Group's banking subsidiary, OCBC Bank (Malaysia) Berhad and the operations of the Group's insurance subsidiaries, Great Eastern Life Assurance (Malaysia) Berhad and Overseas Assurance Corporation (Malaysia) Berhad;

(c) Other ASEAN, including business activities of branches and subsidiaries in Brunei, Indonesia, the Philippines, Thailand and Vietnam;

(d) Greater China, including business activities in Hong Kong SAR, China and Taiwan;

(e) Other Asia Pacific, including business activities of branches and subsidiaries in Australia, Japan, South Korea and India; and

(f) Rest of the World, comprising branch operations in United States and United Kingdom.

With the exception of Singapore and Malaysia, no other individual country contributed more than 10% of consolidated total income and total assets.

The geographical information is prepared based on the country in which the transactions are booked. It would not be materially different if it is based on the country in which the counterparty or assets are located. The geographical information is stated after elimination of intra-group transactions and balances.

39. Financial risk management

39.1 Strategy in using financial instruments

Managing risks is central to the Group's business strategy. The Group's principal business activity is commercial banking, in which substantial credit risks of corporate, institutional and retail customers are present. The Group's business activities invariably expose it to market risks arising from re-pricing, maturity and currency mismatches of assets and liabilities. The extensive use of derivative financial instruments also exposes the Group to the risk of loss due to change in the values of these financial instruments.

The Group adopts a comprehensive approach to risk management in order to manage its risk profile within pre-defined limits and to protect the Group against severe losses from unlikely but plausible stress events. The Board Risk Committee is the principal committee that supports the Board in the oversight of credit, market, operational and fiduciary risks and any other category of risks as may be deemed necessary. It is responsible for ensuring effective risk oversight of the Group. Various risk management committees have been set up to manage specific areas of risks as outlined in the sections below.

39.2 Credit risk management

Credit risk is the risk of loss due to borrower or counterparty default on payment. Such risk arises from lending, underwriting, trading and other activities of the Group.

The Credit Risk Management Committee ("CRMC") is the principal senior management committee that supports the Chief Executive Officer ("CEO") and the Board Risk Committee in credit risk management oversight. The CRMC reviews and recommends major credit risk policies for approval of the CEO and/or the Board Risk Committee. It is also responsible for ensuring that sound credit risk methodologies and effective credit risk management processes are established.

The CRMC includes representatives from major business units, where credit risk is generated, as well as independent credit risk controlling units. This joint effort in setting risk policy seeks to ensure understanding of, and commitment to, the credit risk management process. The CRMC is supported by the Credit Risk Management ("CRM") departments within Group Risk Management Division. Dedicated CRM units perform the roles of developing risk policies, guidelines and procedures and putting in place the monitoring, reporting and control systems.

New product approval

The New Product Approval Committee ("NPAC"), consisting of senior representatives from the business, support and risk management units, reviews and approves all new products including credit programmes. The representation of key stakeholders in the membership of the NPAC ensures objectivity and independence in, and injects functional expertise into, the decision-making process. The NPAC also reviews existing programmes on a regular basis.

Country risk

A country risk framework is in place, covering the assessment and rating of countries, as well as the maximum cross-border transfer risk limit that can be granted to any one country based on its risk rating. Cross-border transfer risk covers all cross-border transactions including onshore non-local currency transactions. Limits are allocated into maturity time-bands and vary according to the risk rating of the country concerned and the political and economic outlook.

39. Financial risk management (continued)

39.2 Credit risk management (continued)

At 31 December 2006, the countries where the Group's cross-border transfer risk exceeded 1% of assets were in Malaysia, United Kingdom, Hong Kong SAR, Indonesia, China, France, South Korea, Australia and Germany, and consisted mainly of placements with banks due within one year. Cross-border transfer risk covers all cross-border transactions and onshore non-local currency transactions. The Group's assets (excluding life assurance fund investment assets) amounted to $112,796 million (2005: $98,853 million) at 31 December 2006.

Cross-border transfer risk exposure exceeding 1% of assets were as follows:

$ million	Banks	Government and official institutions	Financial institutions, private sector and individuals	Total	As % of assets
2006					
Malaysia	**3,901**	**283**	**1,827**	**6,011**	**5.3**
United Kingdom	**5,163**	**3**	**133**	**5,299**	**4.7**
Hong Kong SAR	**2,040**	**10**	**989**	**3,039**	**2.7**
Indonesia	**1,301**	**33**	**1,236**	**2,570**	**2.3**
China	**1,702**	**–**	**644**	**2,346**	**2.1**
France	**1,795**	**–**	**151**	**1,946**	**1.7**
South Korea	**1,242**	**–**	**164**	**1,406**	**1.2**
Australia	**899**	**–**	**446**	**1,345**	**1.2**
Germany	**1,195**	**24**	**75**	**1,294**	**1.1**
2005					
Malaysia	3,872	611	1,616	6,099	6.2
United Kingdom	3,000	9	150	3,159	3.2
Indonesia	1,252	46	1,029	2,327	2.4
Hong Kong SAR	1,021	2	940	1,963	2.0
China	1,199	2	498	1,699	1.7
South Korea	967	17	228	1,212	1.2
France	1,060	2	112	1,174	1.2

Credit concentration

The Group seeks to spread its risk exposure amongst the various economic sectors of the major markets in which it operates. Limits are set on specific customer, industry segments and country, in order to avoid over-concentration of credit risks. Prudent limits have also been placed on exposures to single customer groups. Industry and country concentration limits are established in relation to the Group's capital.

Problem loans

(a) Loan classification

The Group classifies its loans in accordance with MAS Notice 612 and internal loan classification policies. Performing loans are categorised as 'Pass' or 'Special Mention', while non-performing loans are categorised as 'Substandard', 'Doubtful' or 'Loss' based on the following guidelines:

- Pass – Interest and principal payments are up-to-date and orderly repayment and/or timely settlement in the future is without doubt.
- Special Mention – Currently protected but potentially weak. Borrower exhibits some deteriorating trends which, if not addressed or corrected, could jeopardise the timely repayment of interest and principal.
- Substandard – Timely repayment and/or settlement is at risk. Well-defined weakness is evident.
- Doubtful – Full repayment and/or settlement is improbable.
- Loss – The outstanding debt is regarded as uncollectable.

39. Financial risk management (continued)

39.2 Credit risk management (continued)

(b) Restructured loans

A restructured loan refers to one where the original contractual terms and conditions have been modified upon mutual agreement between the Group and the borrower. Where a loan is restructured because a borrower is facing severe financial difficulties and where it is probable that the account will have to be downgraded to non-performing status without the restructuring, the restructured loan will be classified as NPL. Once classified as an NPL, a restructured loan can only be upgraded after a reasonable period (typically six months) of sustained performance under the restructured terms.

(c) Allowances for loans

Allowances for loans in the loan book comprise specific allowances as well as portfolio allowances. Specific allowance is established when the present value of future recoverable cash flows of the impaired loan is lower than the carrying value of the loan. Assessment for impairment on loans shall be conducted on a loan-by-loan basis except for homogeneous loans below a certain materiality threshold, which are grouped together according to their risk characteristics and collectively assessed taking into account the historical loss experience on such loans. Portfolio allowances for unimpaired loans are set aside in accordance with FRS 39 as modified by the Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore.

(d) Write-offs

Loans are written off when recovery action has been instituted and the loss can be reasonably determined. For unsecured consumer loan programmes, the general policy is to write-off overdue loans after 180 days from the date of first default.

(e) Collateral held against NPLs

The main type of collateral backing for the Group's NPLs is real estate in Singapore. The realisable value of the real estate collateral is used to evaluate the adequacy of the collateral coverage. Proceeds from sale of collateral pledged for a particular loan are not applied to other classified loans unless the accounts are related and cross-collateralisation of the facilities is provided for contractually.

Credit risk information

Credit risk-related information is set out in the following notes:
- Note 27 Loans to and bills receivable from customers
- Note 28 Non-performing loans and debt securities
- Note 29 Specific allowances for loans
- Note 31 Debt and equity securities
- Note 38 Segmental information

39. Financial risk management (continued)

39.3 Market risk management

Market risk is the risk arising from uncertainty in the future values of financial instruments, resulting from fluctuations in market factors such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The Group's primary exposure to market risk is associated with the maturity and re-pricing mismatches of assets and liabilities arising from its core banking business. Trading activities, involving both derivative and non-derivative financial instruments, are used to complement the banking business.

The Market Risk Management Committee ("MRMC") is the principal senior executive group that supports the Board Risk Committee and CEO in discharging their market risk oversight responsibilities. The MRMC comprises senior managers from both the business and support units, and is responsible for implementing a robust market risk management framework. This framework comprises key market risk principles and policies, best practice measurement methodologies and a comprehensive set of controls and monitoring processes.

To manage the market risk from its trading activities, a framework of market risk policies and operational limits is in place. The Value-at-Risk ("VaR") methodology is the primary risk measure for the Group's trading activities. VaR measures the potential losses that could arise from adverse movements in interest rates, foreign exchange rates, equity prices and rate/price volatilities that could affect the value of the financial instruments over a specified holding period within a specified confidence interval. To augment VaR, factor sensitivity measure such as Present Value of a Basis Point ("PV01") is used as risk monitoring mechanism on a daily basis. To manage abnormal market behaviour and supplement VaR, stress tests and scenario analyses are performed to determine potential losses from low probability stressed market events.

39.4 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, people and management, or from external events. The goal of Operational Risk Management ("ORM") is to minimise unexpected and catastrophic losses and to manage expected losses. This enables new business opportunities to be pursued in a risk controlled manner.

The Group has in place an ORM framework with the required environment and organisational components for managing operational risk in a structured, systematic and consistent manner. A comprehensive strategy has been formulated to provide a group-wide integrated solution encompassing the roll-out of qualitative and quantitative tools and methodologies which will position the Group to qualify for the more proactive risk management approaches recommended by the Basel Committee.

39.5 Asset and liability management

Asset and liability management involves managing funding liquidity, interest rate and foreign exchange rate risks arising from the core banking business. The Group's policy is to manage the earnings volatility arising from the effect of movements in interest rates and foreign exchange rates which are inherent in the Group's non-trading activities, while maintaining a prudent level of liquidity to meet financial obligations at all times. The Asset and Liability Management Committee ("ALCO") is the senior management forum that is responsible for overseeing the Group's liquidity and balance sheet risks. The ALCO comprises the CEO, the CFO and other senior management representatives from both the business and support units.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Interest rate risk

The table below summarises the effective average interest rate by major currencies for financial assets and liabilities of the Group:

	2006			2005		
%	**SGD**	**USD**	**MYR**	SGD	USD	MYR
Placements with central banks	**3.35**	**2.08**	**3.70**	3.18	2.14	3.07
Placements with and loans to banks	**3.36**	**5.29**	**3.67**	2.70	3.97	2.93
Loans to customers	**4.46**	**5.94**	**6.65**	3.78	4.85	6.44
Securities and other interest-earning assets	**3.38**	**5.60**	**4.07**	2.52	5.45	3.82
Deposits and balances of banks	**3.45**	**5.37**	**2.58**	3.07	4.21	2.92
Deposits and other accounts of non-bank customers	**2.40**	**4.60**	**2.96**	1.89	3.56	2.71
Debts issued	**4.97**	**4.38**	**5.40**	3.60	2.56	–

The Group's main market risk is the interest rate risk arising from the maturity and re-pricing mismatches of its assets and liabilities from its banking business. The Group's lending activities are funded largely by demand, savings and fixed deposits, resulting in natural mismatch positions. A system is in place to manage the interest rate mismatches arising from these activities. The mismatches are monitored against defined sensitivity limits and net interest income changes.

The table below summarises the Group's exposure to interest rate re-pricing risks, categorised by the earlier of contractual re-pricing or maturity dates.

$ million	**Less than 7 days**	**1 week to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**	**Non-interest sensitive**	**Total**
2006								
Cash and placements with central banks	**1,367**	**768**	**996**	**643**	**–**	**–**	**1,967**	**5,741**
Placements with and loans to banks	**1,561**	**2,754**	**5,087**	**8,618**	**15**	**–**	**30**	**18,065**
Loans to customers [(1)]	**3,037**	**18,218**	**26,650**	**6,974**	**2,985**	**2,408**	**(963)**	**59,309**
Securities [(2)]	**164**	**1,513**	**4,025**	**1,945**	**4,292**	**5,762**	**1,518**	**19,219**
Other assets [(3)]	**8**	**9**	**–**	**–**	**–**	**–**	**10,183**	**10,200**
	6,137	**23,262**	**36,758**	**18,180**	**7,292**	**8,170**	**12,735**	**112,534**
Life assurance fund investment assets								**38,424**
Life assurance fund bank balances								**262**
Total assets								**151,220**
Deposits of non-bank customers	**17,061**	**17,123**	**21,296**	**12,294**	**465**	**773**	**6,103**	**75,115**
Deposits and balances of banks	**4,991**	**3,532**	**1,794**	**1,432**	**120**	**–**	**–**	**11,869**
Trading portfolio liabilities	**4**	**112**	**91**	**124**	**10**	**81**	**–**	**422**
Other liabilities [(4)]	**21**	**16**	**25**	**49**	**5**	**–**	**5,390**	**5,506**
Debts issued	**31**	**207**	**881**	**–**	**–**	**4,012**	**–**	**5,131**
	22,108	**20,990**	**24,087**	**13,899**	**600**	**4,866**	**11,493**	**98,043**
Total equity	**–**	**–**	**–**	**–**	**–**	**–**	**14,491**	**14,491**
	22,108	**20,990**	**24,087**	**13,899**	**600**	**4,866**	**25,984**	**112,534**
Life assurance fund liabilities								**38,280**
Life assurance fund tax liabilities								**406**
Total liabilities and equity								**151,220**
On-balance sheet sensitivity gap	**(15,971)**	**2,272**	**12,671**	**4,281**	**6,692**	**3,304**	**(13,249)**	**–**
Off-balance sheet sensitivity gap	**(1,797)**	**(3,491)**	**280**	**3,689**	**(439)**	**1,758**	**–**	**–**
Net interest sensitivity gap	**(17,768)**	**(1,219)**	**12,951**	**7,970**	**6,253**	**5,062**	**(13,249)**	**–**

Notes:
(1) The negative balance represents mainly portfolio allowances for loans.
(2) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(3) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(4) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Interest rate risk (continued)

$ million	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest sensitive	Total
2005								
Cash and placements with central banks	458	647	604	706	–	–	1,767	4,182
Placements with and loans to banks	3,066	2,016	2,920	4,171	149	–	9	12,331
Loans to customers [(1)]	3,991	11,928	25,783	7,029	4,289	3,075	(962)	55,133
Securities [(2)]	199	963	2,413	2,051	3,973	6,333	1,534	17,466
Other assets [(3)]	8	4	6	–	–	–	9,338	9,356
	7,722	15,558	31,726	13,957	8,411	9,408	11,686	98,468
Life assurance fund investment assets								35,857
Life assurance fund bank balances								385
Total assets								134,710
Deposits of non-bank customers	14,250	15,657	18,840	8,968	351	640	5,382	64,088
Deposits and balances of banks	4,172	3,396	1,834	894	9	2	–	10,307
Trading portfolio liabilities	33	81	167	7	125	43	–	456
Other liabilities [(4)]	3	4	2	3	–	–	4,599	4,611
Debts issued	96	173	250	–	–	5,000	–	5,519
	18,554	19,311	21,093	9,872	485	5,685	9,981	84,981
Total equity	–	–	–	–	–	–	13,487	13,487
	18,554	19,311	21,093	9,872	485	5,685	23,468	98,468
Life assurance fund liabilities								35,858
Life assurance fund tax liabilities								384
Total liabilities and equity								134,710
On-balance sheet sensitivity gap	(10,832)	(3,753)	10,633	4,085	7,926	3,723	(11,782)	–
Off-balance sheet sensitivity gap	950	(2,621)	(5,247)	3,792	(764)	3,890	–	–
Net interest sensitivity gap	(9,882)	(6,374)	5,386	7,877	7,162	7,613	(11,782)	–

Notes:
(1) The negative balance represents mainly portfolio allowances for loans.
(2) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(3) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(4) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

Liquidity risk

The Group's policy of liquidity management is to ensure that there are sufficient funds to meet the Group's financial obligations as and when they become due.

Liquidity risk is managed through a combination of static financial ratios, cash flow projections, stress tests and contingency planning. Static ratios information assists the Group to monitor and determine adequate diversification in the Group's funding sources. This restricts the dependency on particular sources of funds and exposure to any particular group of lenders. Projections for each of the next 30 days are closely monitored based on contractual and actuarial patterns of the cash flow. The movements are analysed under business-as-usual and stressed scenarios and monitored against a set of cumulative maximum outflow limits. Stress test assumptions are applied to assess whether the Group has the ability to withstand sudden and heavy cash outflows.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Liquidity risk (continued)

The table below analyses assets and liabilities of the Group into maturity time bands based on the remaining time to contractual maturity as at balance sheet date.

$ million	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2006							
Cash and placements with central banks	**2,966**	**758**	**997**	**643**	**–**	**377**	**5,741**
Placements with and loans to banks	**1,582**	**2,645**	**4,820**	**8,845**	**173**	**–**	**18,065**
Loans to customers	**5,510**	**4,130**	**4,332**	**6,364**	**10,881**	**28,092**	**59,309**
Securities [1]	**372**	**1,008**	**2,761**	**1,562**	**5,566**	**7,950**	**19,219**
Other assets [2]	**904**	**1,528**	**795**	**1,373**	**276**	**5,324**	**10,200**
	11,334	**10,069**	**13,705**	**18,787**	**16,896**	**41,743**	**112,534**
Life assurance fund investment assets							**38,424**
Life assurance fund bank balances							**262**
Total assets							**151,220**
Deposits of non-bank customers	**34,880**	**16,245**	**8,949**	**11,027**	**1,802**	**2,212**	**75,115**
Deposits and balances of banks	**4,991**	**3,532**	**1,794**	**1,433**	**119**	**–**	**11,869**
Trading portfolio liabilities	**4**	**112**	**91**	**124**	**10**	**81**	**422**
Other liabilities [3]	**1,247**	**1,249**	**868**	**1,664**	**412**	**66**	**5,506**
Debts issued	**–**	**207**	**115**	**766**	**–**	**4,043**	**5,131**
	41,122	**21,345**	**11,817**	**15,014**	**2,343**	**6,402**	**98,043**
Total equity	**–**	**–**	**–**	**–**	**–**	**14,491**	**14,491**
	41,122	**21,345**	**11,817**	**15,014**	**2,343**	**20,893**	**112,534**
Life assurance fund liabilities							**38,280**
Life assurance fund tax liabilities							**406**
Total liabilities and equity							**151,220**
Net liquidity gap	**(29,788)**	**(11,276)**	**1,888**	**3,773**	**14,553**	**20,850**	**–**

Notes:
(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(2) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(3) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Liquidity risk (continued)

$ million	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2005							
Cash and placements with central banks	1,880	647	604	706	–	345	4,182
Placements with and loans to banks	3,069	1,873	2,699	4,376	314	–	12,331
Loans to customers	5,875	3,798	3,941	6,824	8,787	25,908	55,133
Securities [(1)]	412	690	1,324	2,303	5,192	7,545	17,466
Other assets [(2)]	563	1,143	902	1,687	97	4,964	9,356
	11,799	8,151	9,470	15,896	14,390	38,762	98,468
Life assurance fund investment assets							35,857
Life assurance fund bank balances							385
Total assets							134,710
Deposits of non-bank customers	30,296	15,647	6,783	7,999	667	2,696	64,088
Deposits and balances of banks	4,152	3,416	1,823	905	9	2	10,307
Trading portfolio liabilities	33	81	167	7	125	43	456
Other liabilities [(3)]	827	992	1,030	1,313	429	20	4,611
Debts issued	96	140	250	–	–	5,033	5,519
	35,404	20,276	10,053	10,224	1,230	7,794	84,981
Total equity	–	–	–	–	–	13,487	13,487
	35,404	20,276	10,053	10,224	1,230	21,281	98,468
Life assurance fund liabilities							35,858
Life assurance fund tax liabilities							384
Total liabilities and equity							134,710
Net liquidity gap	(23,605)	(12,125)	(583)	5,672	13,160	17,481	–

Notes:
(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(2) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(3) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Currency risk

The banking activities of providing financial products and services to corporate and retail customers expose the Group to foreign exchange risk. Foreign exchange risk is centrally managed by Group Treasury against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the foreign exchange positions of the Group by major currencies. The "Others" foreign exchange risks include mainly exposure to Indonesian Rupiah, Australian Dollar, Euro, Japanese Yen, Sterling Pound and Hong Kong Dollar.

$ million	SGD	USD	MYR	Others	Total
2006					
Cash and placements with central banks	2,788	32	2,201	720	5,741
Placements with and loans to banks	581	12,064	579	4,841	18,065
Loans to customers	35,916	7,877	8,619	6,897	59,309
Securities [(1)]	11,625	2,779	2,429	2,386	19,219
Other assets [(2)]	7,692	1,117	619	772	10,200
	58,602	23,869	14,447	15,616	112,534
Life assurance fund investment assets					38,424
Life assurance fund bank balances					262
Total assets					**151,220**
Deposits of non-bank customers	46,019	8,352	11,957	8,787	75,115
Deposits and balances of banks	2,504	6,347	264	2,754	11,869
Trading portfolio liabilities	422	–	–	–	422
Other liabilities [(3)]	2,727	1,589	623	567	5,506
Debts issued	3,841	951	87	252	5,131
	55,513	17,239	12,931	12,360	98,043
Total equity	14,207	–	174	110	14,491
	69,720	17,239	13,105	12,470	112,534
Life assurance fund liabilities					38,280
Life assurance fund tax liabilities					406
Total liabilities and equity					**151,220**
On-balance sheet position	(11,118)	6,630	1,342	3,146	–
Off-balance sheet position	8,486	(6,699)	(332)	(1,455)	–
Net position	(2,632)	(69)	1,010	1,691	–
Net investments in overseas operations	–	(194)	937	1,162	1,905

Notes:

(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(2) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(3) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

39. Financial risk management (continued)

39.5 Asset and liability management (continued)

Currency risk (continued)

$ million	SGD	USD	MYR	Others	Total
2005					
Cash and placements with central banks	2,336	31	1,108	707	4,182
Placements with and loans to banks	2,030	7,880	652	1,769	12,331
Loans to customers	33,460	7,994	7,552	6,127	55,133
Securities (1)	10,264	2,853	2,365	1,984	17,466
Other assets (2)	7,513	683	565	595	9,356
	55,603	19,441	12,242	11,182	98,468
Life assurance fund investment assets					35,857
Life assurance fund bank balances					385
Total assets					134,710
Deposits of non-bank customers	37,995	8,662	9,965	7,466	64,088
Deposits and balances of banks	1,838	6,475	89	1,905	10,307
Trading portfolio liabilities	456	–	–	–	456
Other liabilities (3)	2,897	976	410	328	4,611
Debts issued	4,137	1,007	–	375	5,519
	47,323	17,120	10,464	10,074	84,981
Total equity	13,220	–	176	91	13,487
	60,543	17,120	10,640	10,165	98,468
Life assurance fund liabilities					35,858
Life assurance fund tax liabilities					384
Total liabilities and equity					134,710
On-balance sheet position	(4,940)	2,321	1,602	1,017	–
Off-balance sheet position	3,248	(2,681)	(542)	(25)	–
Net position	(1,692)	(360)	1,060	992	–
Net investments in overseas operations	–	(263)	884	937	1,558

Notes:

(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(2) Other assets include derivative receivables, deferred tax, property plant and equipment, goodwill and intangible assets.
(3) Other liabilities include derivative payables, current and deferred tax and amount due to associated companies.

39.6 Insurance-related risk management

This note sets out the risk management information of GEH Group.

The underlying premise of GEH Group's Enterprise Risk Management ("ERM") Framework exists to provide value for its stakeholders, and in growing stakeholder value GEH Group will need to undertake risks. The challenge is to strike an optimal balance between building controls to protect against risks while not jeopardising the Group's resilience and competitiveness. Risk management is considered an integral part of managing the GEH Group's core business and the ERM Framework is designed to identify potential events that may affect the Group, and to manage risks within approved risk appetite and to provide reasonable assurance regarding the achievement of the Group's objectives.

The risk management policies described are generally adopted by GEH and its subsidiaries. However, certain deviations and modifications exist to comply with specific regulations of the respective country jurisdiction in which the subsidiary operates. Effective 1 January 2006, the Group Risk Management department was formed by GEH Group to spearhead the development and implementation of the ERM Framework for the Group.

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

Insurers are required to comply with the Insurance Act and Regulations, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the investment policy rests with the respective Boards of Directors ("Boards") of the insurance subsidiaries. The Boards exercise oversight on investments to safeguard the interests of policyholders and shareholders.

The Risk Committee ("RiC") was constituted to provide oversight on the risk management initiatives. Detailed risk management and oversight activities are undertaken by GEH Group's Management Committees namely: Asset Liability Committee ("ALC"), Credit Risk Committee ("CRC"), Product Development Committee ("PDC"), Senior Management Team ("SMT") and Regional Management Team ("RMT").

ALC oversees the policy formulation and execution of investment strategy, asset mix and pricing/re-pricing of products to determine the appropriate asset/liability match. Pricing risk pertains to the risk of insurance premium rates being insufficient to meet the obligations of the policy benefits and the general cost of carrying on the insurance business. Such a situation can arise when there is an adverse change in the expected long-term investment return, mortality and morbidity experience; and/or an exacerbated increase in operating costs.

CRC monitors credit risk management activities across all categories of investments according to prescribed credit policy guidelines and authorised limits. CRC has the authority to approve loans and credit transactions up to $200 million. Transactions greater than the stated limit require the approval of the RiC.

PDC oversees the product development process and evaluates the pricing of each new product launch. Generally, new products are developed and priced after considerable market research and risk assessment.

SMT oversees insurance risk including areas such as risk retention limits and reinsurance strategies. In addition, SMT is responsible for the oversight of operational risks, business environment risks and strategic risks, as well as monitoring operational risk and related policies and processes such as market conduct policies and business continuity planning.

RMT oversees the overall corporate strategy formulation, deployment and monitoring and is responsible for direction setting with oversight of business and functional strategy for the GEH Group. RMT drives cross-country and cross-unit synergy and co-operation through shared services and core competency development.

The management of capital and risk is guided by the GEH Risk Framework, known as RK20.12. The framework comprises two distinct components, namely the risk measurement model for financial risks and the control self assessment process for business and operational risks. The risk measurement model strives to achieve the dual objectives of consistency and economic basis. The model defines risk using the Value-at-Risk measure calibrated to the 99.5 percentile confidence level over a 1-year horizon. The control self assessment is a systematic process by which individual business unit analyses its own business processes step by step to identify the strengths and weaknesses of its risk control environment that could have a potential impact on its ability to achieve the organisation's business objectives. Together, the two components of RK20.12 provide a disciplined risk management framework that guides GEH Group in the achievement of its goals and objectives through active asset and liability management, as well as strategic and tactical risk and capital allocation.

The principal activities of GEH Group are the provision of financial advisory services coupled with insurance protection against risks such as mortality, morbidity (health, disability, critical illness and personal accident), property and casualty. Risks inherent in the insurance business include but are not limited to the following:

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

Insurance risk

Insurance risk comprises both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claim experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Sources of risks include policy lapses and policy claims such as mortality, morbidity and expenses.

The Group works closely with reinsurers to put in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Group's reinsurance management strategy and policy is reviewed annually by RiC and SMT. Retention limits for mortality risk per life are set up to $700,000 in Singapore and RM350,000 in Malaysia. Retention limits for critical illness per life are set up to $400,000 in Singapore and RM250,000 in Malaysia. Catastrophe reinsurance is procured to limit catastrophic losses. The Group's exposure to group insurance business is not significant, thus there is no material concentration in insurance risks.

SMT reviews trends and claims experience for insurance risks along with the lapse and surrender experience to ensure that the policies, guidelines and limits put in place to manage the risks remain adequate and appropriate.

A substantial portion of the Group's life assurance funds is participating in nature. In the event of volatile investment climate and/or unusual claims experience, the insurer has the option of revising the bonus and dividends payable to policyholders.

Stress Testing ("ST") is performed annually by the Appointed Actuary ("AA"), for endorsement by the Board. The purpose of the ST is to test the solvency of the life fund under various scenarios according to prescribed statutory valuation basis, simulating drastic changes in major parameters such as new business volume, investment environment, expense patterns, mortality/morbidity patterns and lapse rates.

Gross Premium Valuation ("GPV") is also carried out annually by the AA. GPV is computed to assess the adequacy of the projected inflows of premiums and investment income vis-à-vis the long-term benefits due to policyholders including but not limited to reversionary bonuses, terminal (or maturity) bonuses and guaranteed returns (for non-participating products/policy benefits) for the in-force block of business. GPV is submitted to the Board for approval and it provides the basis for the annual declaration of bonus to policyholders for vesting to the respective insurance policies and declaration of profits to shareholders through the income statement.

For investment-linked funds, the risk exposure for the Group is limited only to the underwriting aspect as all investment risks are borne by the policyholders.

Table 39.6(A): Exposure of life insurance risks

Concentration of insurance risk	**Singapore**		**Malaysia**	
$ million	**2006**	2005	**2006**	2005
Gross sum at risk	**89,950**	86,952	**65,723**	66,398
Reinsurance ceded	**6,702**	6,957	**17,044**	14,194
Net sum at risk	**83,248**	79,995	**48,679**	52,204

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

Sensitivity analyses produced below are based on parameters set out as follows:

(a)	Scenario 1 – Mortality & Major Illness	+ 25% for all future years
(b)	Scenario 2 – Mortality & Major Illness	– 25% for all future years
(c)	Scenario 3 – Health & Disability	+ 25% for all future years
(d)	Scenario 4 – Health & Disability	– 25% for all future years
(e)	Scenario 5 – Lapse & Surrender	+ 25% for all future years
(f)	Scenario 6 – Lapse & Surrender	– 25% for all future years
(g)	Scenario 7 – Expenses	+ 30% for all future years

Table 39.6(B1): Profit after tax sensitivity for the Singapore segment

Impact on 1-year's profit after tax

2006 ($ million)	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
Gross impact	1.4	(56.1)	48.1	(60.9)	22.7	(31.7)	(19.3)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	1.4	(56.1)	48.1	(60.9)	22.7	(31.7)	(19.3)

Table 39.6(B2): Profit after tax sensitivity for the Malaysia segment

Impact on 1-year's profit after tax

2006 ($ million)	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
Gross impact	–	–	–	–	–	–	–
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	–	–	–	–	–	–	–

The impact on profit and loss after tax above does not take into account changes in other variables, as they are considered to be less material. Such assessment and the relative materiality of individual variables may change in the future.

The sensitivity tests on the Malaysia segment were performed by applying the sensitivities to the best estimate assumptions used in the liabilities adequacy test. The resulting reserves from the liabilities adequacy test were compared to the minimum liabilities policy prescribed by regulator and any shortfall would be charged to income statement. The liabilities adequacy test reserves derived under all scenarios were lower than the minimum liabilities policy prescribed by the regulator; therefore there was no impact on profits for the year.

The effect of sensitivity analyses on reinsurance is not material.

Market and credit risk

The Group is exposed to market risk in the investments of the Shareholders' Fund as well as in the mismatch risk between the asset and liability of the Insurance Funds. ALC actively manages market risk through setting the investment policy and asset allocation, approving portfolio construction and risk measurement methodologies, approving hedging and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with GEH Group risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework. Management of market risks resulting from changes in interest rates and currency exchange rates, volatility in equity prices, as well as other risks like credit and liquidity risks are briefly described below.

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(a) *Interest rate risk (including asset liability mismatch).* The Group is exposed to interest rate risk through (i) investments in fixed income instruments in both the Shareholders' Fund as well as the Insurance Funds and (ii) policy liabilities in the Insurance Funds. Since the Shareholders' Fund has exposure to investments in fixed income instruments but no exposure to insurance policy liabilities, it will incur an economic loss when interest rates rise. Given the long duration of policy liabilities and the uncertainty of the cash flows of the Insurance Funds, it is not possible to hold assets that will perfectly match the policy liabilities. This results in a net interest rate risk or asset liability mismatch risk which is managed and monitored by ALC. The Insurance Funds will incur an economic loss when interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income assets. The management of asset liability mismatch is guided by the Asset-Liability Management Framework.

The tables below show the interest rate exposure of GEH Group's financial assets and liabilities.

$ million	Fixed rate	Floating rate	Non-interest sensitive	Total	Average effective interest rates
2006					
Equities and collective investments	–	–	10,600	10,600	–
Quoted government securities, loan stocks and bonds	12,089	1,293	–	13,382	3.8%
Other unquoted investments	5,614	572	–	6,186	4.3%
Unit linked – bonds	484	73	–	557	4.1%
Derivatives and embedded derivatives	–	–	1,343	1,343	–
Secured loans (net of allowances)	706	201	–	907	5.2%
Unsecured loans	1	26	–	27	4.2%
Policy loans	2,044	–	–	2,044	6.6%
Reinsurance assets	–	–	57	57	–
Outstanding premiums	–	–	154	154	–
Other debtors and interfund balances	–	–	878	878	–
Cash on deposit	3,505	–	–	3,505	3.1%
Cash and bank balances	319	–	–	319	3.4%
Financial assets	24,762	2,165	13,032	39,959	
Other creditors and interfund balances	–	–	997	997	–
Reinsurance liabilities	–	–	50	50	–
Policy benefits	1,475	–	–	1,475	4.0%
Claims admitted and intimated	–	–	149	149	–
Agents' retirement benefits	–	–	168	168	–
Financial liabilities	1,475	–	1,364	2,839	

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(a) *Interest rate risk* (continued)

$ million	Fixed rate	Floating rate	Non-interest sensitive	Total	Average effective interest rates
2005					
Equities and collective investments	–	–	10,956	10,956	–
Quoted government securities, loan stocks and bonds	11,813	1,331	–	13,144	3.7%
Other unquoted investments	4,509	579	–	5,088	4.5%
Unit linked – bonds	482	54	–	536	3.1%
Derivatives and embedded derivatives	–	–	695	695	–
Secured loans (net of allowances)	762	61	–	823	5.2%
Unsecured loans	2	5	–	7	3.4%
Policy loans	1,989	–	–	1,989	6.6%
Reinsurance assets	–	–	71	71	–
Outstanding premiums	–	–	162	162	–
Other debtors and interfund balances	–	–	916	916	–
Cash on deposit	2,898	–	–	2,898	5.6%
Cash and bank balances	494	–	–	494	–
Financial assets	22,949	2,030	12,800	37,779	
Other creditors and interfund balances	–	–	915	915	–
Reinsurance liabilities	–	–	41	41	–
Policy benefits	1,352	–	–	1,352	4.0%
Claims admitted and intimated	–	–	147	147	–
Agents' retirement benefits	–	–	157	157	–
Financial liabilities	1,352	–	1,260	2,612	

(b) *Foreign currency risk*. Internally limits ranging from 15% to 35% are applied to investments in fixed income portfolios at fund level. Currency risk derived from investments in foreign equities is generally not hedged. Hedging through currency forwards and swaps is typically used for the fixed income portfolio.

The Group is also exposed to foreign exchange movement on net investment in its foreign subsidiaries. The major item for the Group is in respect of its Malaysia subsidiaries. The Insurance and Shareholders' Funds in Malaysia are predominantly held in Malaysian Ringgit, as prescribed by Bank Negara, Malaysia. The Group does not hedge against this exposure. Total assets in the Shareholders' Funds in foreign subsidiaries as at 31 December 2006, under this unhedged category, approximated $301.8 million (2005: $276.1 million), translated at the respective year-end currency exchange rates.

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(b) *Foreign currency risk* (continued)

The tables below show the foreign exchange position of GEH Group by major currencies:

$ million	SGD	USD	MYR	Others	Total
2006					
Equities and collective investments	**2,665**	**3,410**	**1,426**	**3,099**	**10,600**
Quoted government securities, loan stocks and bonds	**7,502**	**3,606**	**1,367**	**907**	**13,382**
Other unquoted investments	**1,437**	**4,274**	**306**	**169**	**6,186**
Unit linked – bonds	**55**	**59**	**184**	**259**	**557**
Derivatives and embedded derivatives	**3,544**	**16**	**(1,509)**	**(708)**	**1,343**
Secured loans (net of allowances)	**447**	**460**	**–**	**–**	**907**
Unsecured loans	**27**	**#**	**–**	**–**	**27**
Policy loans	**876**	**1,168**	**–**	**#**	**2,044**
Reinsurance assets	**23**	**34**	**–**	**–**	**57**
Outstanding premiums	**65**	**89**	**–**	**#**	**154**
Other debtors and interfund balances	**555**	**321**	**–**	**2**	**878**
Cash on deposit	**2,940**	**446**	**62**	**57**	**3,505**
Cash and bank balances	**173**	**54**	**63**	**29**	**319**
Financial assets	**20,309**	**13,937**	**1,899**	**3,814**	**39,959**
Other creditors and interfund balances	**739**	**258**	**–**	**#**	**997**
Reinsurance liabilities	**26**	**24**	**–**	**#**	**50**
Policy benefits	**741**	**734**	**–**	**#**	**1,475**
Claims admitted and intimated	**58**	**91**	**–**	**#**	**149**
Agents' retirement benefits	**1**	**167**	**–**	**–**	**168**
Financial liabilities	**1,565**	**1,274**	**–**	**#**	**2,839**
2005					
Equities and collective investments	2,623	3,224	1,735	3,374	10,956
Quoted government securities, loan stocks and bonds	7,850	2,907	1,364	1,023	13,144
Other unquoted investments	914	3,656	230	288	5,088
Unit linked – bonds	36	21	186	293	536
Derivatives and embedded derivatives	2,294	57	(1,464)	(192)	695
Secured loans (net of allowances)	288	535	–	–	823
Unsecured loans	7	–	–	–	7
Policy loans	851	1,112	5	21	1,989
Reinsurance assets	26	45	–	–	71
Outstanding premiums	71	90	–	1	162
Other debtors and interfund balances	654	262	–	–	916
Cash on deposit	2,096	507	225	70	2,898
Cash and bank balances	412	33	23	26	494
Financial assets	18,122	12,449	2,304	4,904	37,779
Other creditors and interfund balances	675	240	–	#	915
Reinsurance liabilities	19	22	–	#	41
Policy benefits	697	655	–	#	1,352
Claims admitted and intimated	55	92	–	#	147
Agents' retirement benefits	2	155	–	#	157
Financial liabilities	1,448	1,164	–	#	2,612

Amount less than $0.5 million

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(c) *Equity price risk.* Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where GEH bears all or most of the volatility in returns and investment performance risk. Equity price risk also exists in investment linked products where the revenues of the insurance operations are linked to the value of the underlying equity funds as this has an impact on the level of fees earned. A robust monitoring process is in place to manage equity price risk by activating appropriate hedging and risk transfer strategies to limit the downside risk at certain predetermined levels. Limits are set for single security holdings as a percentage of the equity investment and as a percentage of equity holdings. Country limits and limits on derivatives are also set.

(d) *Real estate risk.* The Group is exposed to real estate risk through investments in direct real estate that it owns in Singapore and Malaysia and through real estate funds in other countries. Each acquisition or divestment of real estate is reviewed by ALC and submitted for the decision of the respective Boards.

(e) *Commodity risk.* The Group does not have a direct or significant exposure to commodity risk.

(f) *Cash flow and liquidity risk.* Cash flow and liquidity risk arises when a company is unable to meet its obligations at reasonable cost when required to do so. This typically happens when the investments in the portfolio is illiquid. Demands for funds can usually be met through ongoing business operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times. The projected cash flows from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although it has been quite stable over the past several years.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in insurance contracts also protects the Group from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(f) *Cash flow and liquidity risk* (continued)

The following tables show the maturity of GEH Group's financial assets and liabilities by time bands:

$ million	Less than 1 year	1 to 5 years	Over 5 years	Total
2006				
Equities and collective investments	**10,600**	**–**	**–**	**10,600**
Quoted government securities, loan stocks and bonds	**1,485**	**6,741**	**5,156**	**13,382**
Other unquoted investments	**1,219**	**2,646**	**2,321**	**6,186**
Unit linked – bonds	**93**	**161**	**303**	**557**
Derivatives and embedded derivatives	**170**	**522**	**651**	**1,343**
Secured loans (net of allowances)	**67**	**567**	**273**	**907**
Unsecured loans	**#**	**26**	**1**	**27**
Policy loans	**2,044**	**#**	**–**	**2,044**
Reinsurance assets	**27**	**30**	**–**	**57**
Outstanding premiums	**154**	**–**	**–**	**154**
Other debtors and interfund balances	**878**	**–**	**–**	**878**
Cash on deposit	**3,496**	**9**	**–**	**3,505**
Cash and bank balances	**319**	**–**	**–**	**319**
Financial assets	**20,552**	**10,702**	**8,705**	**39,959**
Other creditors and interfund balances	**997**	**–**	**–**	**997**
Reinsurance liabilities	**50**	**–**	**–**	**50**
Policy benefits	**1,475**	**–**	**–**	**1,475**
Claims admitted and intimated	**149**	**–**	**–**	**149**
Agents' retirement benefits	**168**	**–**	**–**	**168**
Financial liabilities	**2,839**	**–**	**–**	**2,839**
2005				
Equities and collective investments	10,956	–	–	10,956
Quoted government securities, loan stocks and bonds	1,661	5,976	5,507	13,144
Other unquoted investments	674	2,407	2,007	5,088
Unit linked – bonds	78	178	280	536
Derivatives and embedded derivatives	36	495	164	695
Secured loans (net of allowances)	271	244	308	823
Unsecured loans	–	6	1	7
Policy loans	1,989	#	–	1,989
Reinsurance assets	28	43	–	71
Outstanding premiums	162	–	–	162
Other debtors and interfund balances	916	–	–	916
Cash on deposit	2,788	82	28	2,898
Cash and bank balances	494	–	–	494
Financial assets	20,053	9,431	8,295	37,779
Other creditors and interfund balances	915	–	–	915
Reinsurance liabilities	41	–	–	41
Policy benefits	1,352	–	–	1,352
Claims admitted and intimated	147	–	–	147
Agents' retirement benefits	157	–	–	157
Financial liabilities	2,612	–	–	2,612

Amount less than $0.5 million

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(f) *Cash flow and liquidity risk* (continued)

Derivative financial instruments used by GEH Group for hedging interest rate, currency and equity risk exposures were as follows:

$ million		Principal notional amount	Derivative receivables	Derivative payables
2006				
Foreign exchange	Forwards	**2,963**	**12**	**9**
	Currency swaps	**800**	**43**	**–**
Interest rate	Swaps	**584**	**2**	**3**
	Swaptions	**3**	**#**	**#**
	Exchange traded futures	**1,405**	**1**	**2**
Equity	Futures	**5**	**#**	**#**
	OTC options	**25**	**3**	**–**
		5,785	**61**	**14**
2005				
Foreign exchange	Forwards	1,733	19	6
	Currency swaps	641	#	16
	OTC options	#	–	#
Interest rate	Swaps	1,537	2	9
	OTC options	31	#	–
	Exchange traded futures	2,550	#	#
Equity	Futures	7	–	–
		6,499	21	31

Amount less than $0.5 million

(g) *Credit risk.* GEH Group is exposed to credit risk through (i) investments in cash and bonds, (ii) corporate lending activities and (iii) exposure to counterparty's credit in derivative transactions and reinsurance contracts. For all three types of exposures, financial loss may materialise as a result of a credit default by the borrower or counterparty. For investments in bonds, financial loss may materialise as a result of the widening of credit spread or a downgrade of credit rating.

The task of evaluating and monitoring credit risk is undertaken by CRC. GEH Group has internal limits by issuer or counterparty and by investment grades. These limits are actively monitored to manage the credit and concentration risk. These limits are reviewed on a regular basis by CRC. The credit worthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

With respect to credit risk arising from the other financial assets of GEH Group, which comprise cash and cash equivalents, other receivables (including related party balances), investment securities and certain derivative financial instruments, GEH Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There is no significant concentration of credit risk within GEH Group.

39. Financial risk management (continued)

39.6 Insurance-related risk management (continued)

(g) *Credit risk* (continued)

The loans in GEH Group's portfolio are generally secured by collateral, with a maximum loan to collateral value ratio of 70% predominantly. The fair value of collaterals, held by GEH Group as lender, for which it is entitled to sell or pledge in the event of default is as follows:

	2006		2005	
$ million	**Carrying value of loans**	**Fair value of collaterals**	Carrying value of loans	Fair value of collaterals
Type of collaterals				
Policy loans – Cash value of policies	**2,044**	**4,069**	1,989	3,940
Secured loans				
Properties	**801**	**2,070**	640	1,887
Shares	**23**	**77**	49	124
Bankers' guarantees	**82**	**87**	127	129
Others	**1**	**1**	7	14
	2,951	**6,304**	2,812	6,094

Investments lent and collaterals received under securities lending arrangement amounted to $660.5 million and $682.8 million respectively as at 31 December 2006 (2005: $162.7 million and $166.9 million respectively).

(h) Concentration risk. An important element of managing both market and credit risks is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage concentration risk. These limits are reviewed on a regular basis by ALC and CRC. GEH Group's exposures are within the concentration limits set by the respective local regulators.

Business and operational risk

Based on GEH Group's ERM Framework, business and operational risks have been grouped into five main categories:

(a) *Business risk* includes failure of business strategy, failure of product design, development and pricing strategy, failure of marketing and communication strategy, and market misconduct.

(b) *Operational risk – external events* includes changes in regulatory requirements, liability and legal disputes, fraud, business interruption, failure of outsourced service providers and vendors, and damage to property and environment.

(c) *Operational risk – processes* includes failure of control processes and procedures, expense and cost overrun, and project failure.

(d) *Operational risk – systems* includes failure of systems availability, capacity, utilisation and IT infrastructure and failure of systems security.

(e) *Operational risk – people* includes lagging customer service quality, lack of core competencies, lack of succession of key positions and fiduciary risk.

The day-to-day management of business and operational risk is through the maintenance of a comprehensive system of internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. The SMT reviews all business and operational issues regularly, at its monthly meetings. The Internal Audit team reviews the system of internal controls to assess their ongoing relevance and effectiveness, and reports at least quarterly to the Audit Committee of GEH Group.

40. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The financial instruments of the Group are substantially carried at fair value on the balance sheet, except for loans to and bills receivable from customers, for which there is no ready market for exchange between willing parties. The Group has determined the fair values of loans to customers, taking into account the relevant market interest rates and credit spread and noted that the fair value is not materially different from the carrying amount at reporting date. The following table summarises the carrying amounts and fair values of other financial instruments that are not presented on the Group's balance sheet at their fair values.

	2006		2005	
$ million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial liabilities				
Non-bank customer term deposits	**50,197**	**50,351**	40,549	40,595
Debts issued and other borrowed funds	**6,786**	**6,999**	7,146	7,395

Note:
Fair value is determined without taking into account transaction costs that would be incurred to exchange or settle the financial instruments. The costs are expected to be insignificant and will not have any material impact on the fair value.

The fair values of financial assets and liabilities (not carried at fair value) are determined based on the following methodologies and assumptions:

Financial assets for which fair value approximates carrying value

Fair value of certain financial assets carried at cost, including cash and placements with central banks, placements with and loans to banks, interest and other short term receivables are expected to approximate their carrying value due to their short tenor.

Loans to non-bank customers

The carrying value of non-bank loans is the principal outstanding net of specific and portfolio allowances for impairment. Fair value of loans are computed after taking into account the relevant market interest rates and credit spread by product types at balance sheet date.

Financial liabilities for which fair value approximates carrying value

Fair value of certain financial liabilities, which include mainly customer deposits with no stated maturity, interbank borrowings and borrowings under repurchase agreements, are expected to approximate their carrying value due to their short tenor.

Non-bank customer term deposits

For non-bank customer deposits with maturities of less than three months, the carrying amount is a reasonable estimate of their fair value. For deposits with maturities of three months or more, fair values are estimated using discounted cash flows based on market rates.

Debts issued and other borrowed funds

The aggregate fair values of the Bank's fixed rate subordinated term notes are determined based on quoted market prices. Fair values of other borrowed funds are obtained from independent broker offer prices.

41. Contingent liabilities

The Group conducts businesses involving acceptances, guarantees, documentary credits and other similar transactions. Acceptances are undertakings by the Group to pay on bills of exchange drawn on customers. Guarantees are issued by the Group to guarantee the performance of customers to third parties. Documentary credits commit the Group to make payments to third parties on production of documents.

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Acceptances and endorsements	**936,861**	740,262	**166,481**	156,008
Guarantees and standby letters of credit	**4,707,125**	4,996,558	**4,179,984**	4,648,350
Documentary credits and other short term trade-related transactions	**1,141,748**	875,071	**807,240**	688,382
Others	**33,434**	35,040	**–**	–
	6,819,168	6,646,931	**5,153,705**	5,492,740

41.1 Analysed by geographical sector

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Singapore	**4,454,227**	4,936,995	**4,436,144**	5,008,348
Malaysia	**1,416,167**	1,065,623	**114,200**	57,420
Other ASEAN	**380,464**	247,663	**34,925**	24,078
Greater China	**388,615**	246,002	**388,615**	246,002
Other Asia Pacific	**86,068**	68,867	**86,068**	74,850
Rest of the World	**93,627**	81,781	**93,753**	82,042
	6,819,168	6,646,931	**5,153,705**	5,492,740

The information on contingent liabilities analysed by geographical sector is prepared based on the country where the transactions are booked.

41.2 Analysed by industry

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Agriculture, mining and quarrying	**67,628**	24,754	**37,531**	1,931
Manufacturing	**1,593,831**	1,828,551	**825,755**	1,271,998
Building and construction	**1,133,801**	1,130,413	**975,027**	1,125,381
General commerce	**1,600,540**	1,131,211	**1,136,157**	840,956
Transport, storage and communication	**367,151**	252,013	**297,395**	207,176
Financial institutions, investment and holding companies	**1,048,745**	1,072,228	**1,010,849**	1,054,885
Professionals and individuals	**104,958**	107,122	**79,128**	89,761
Others	**902,514**	1,100,639	**791,863**	900,652
	6,819,168	6,646,931	**5,153,705**	5,492,740

42. Commitment

Commitments comprise mainly agreements to provide credit facilities to customers. Such commitments can either be made for a fixed period, or have no specific maturity but are cancellable by the Group, subject to notice requirements.

		GROUP		BANK	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
42.1	**Credit commitments**				
	Undrawn credit facilities:				
	Original term to maturity of one year or less	**28,112,683**	24,516,587	**25,076,740**	21,564,962
	Original term to maturity of more than one year	**8,215,719**	7,597,930	**5,468,038**	4,555,464
		36,328,402	32,114,517	**30,544,778**	26,120,426
	Undrawn note issuance and revolving underwriting facilities	**145,286**	99,460	**119,180**	79,666
	Forward deposits and assets purchase/sale	**601,493**	801,468	**648,407**	800,471
		37,075,181	33,015,445	**31,312,365**	27,000,563
42.2	**Other commitments**				
	Operating lease (non-cancellable) commitments:				
	Within 1 year	**11,862**	15,102	**12,283**	13,286
	After 1 year but within 5 years	**11,444**	17,403	**10,393**	14,413
	Over 5 years	**4**	66	**4**	18
		23,310	32,571	**22,680**	27,717
	Capital commitment authorised and contracted	**80,261**	84,631	**34,974**	21,678
		103,571	117,202	**57,654**	49,395
42.3	**Total commitments**	**37,178,752**	33,132,647	**31,370,019**	27,049,958
42.4	**Analysed by geographical sector**				
	Singapore	**28,317,348**	25,151,652	**28,497,604**	25,284,483
	Malaysia	**6,207,174**	6,267,775	**391,135**	530,377
	Other ASEAN	**835,921**	572,725	**127,827**	87,939
	Greater China	**1,098,108**	465,555	**1,103,793**	472,219
	Other Asia Pacific	**4,432**	253,145	**533,891**	253,145
	Rest of the World	**715,769**	421,795	**715,769**	421,795
		37,178,752	33,132,647	**31,370,019**	27,049,958

OCBC Overseas Investments Pte. Ltd., a subsidiary of the Bank, has entered into certain arrangements with existing shareholders of NISP to acquire further shares in NISP at a future date.

43. Assets pledged

Assets pledged for repos whereby counterparties have the right by contract or by custom to resell or repledge the assets are as follows:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Singapore government treasury bills and securities	**491,756**	512,693	**491,756**	512,693
Other government treasury bills and securities	**779,224**	410,496	**3,784**	3,627
Debt and equity securities	**48,016**	200,448	**–**	–
Placements with and loans to banks	**577,583**	792,922	**28,231**	135,155
	1,896,579	1,916,559	**523,771**	651,475
Repo balances for assets pledged	**1,838,927**	1,720,049	**500,762**	517,940

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is $96.3 million (2005: $181.3 million).

44. Assets held for sale

Assets held for sale comprise properties which the Group are disposing off, subject to terms that are usual and customary in the completion of the sale. The transactions are expected to be completed by first quarter 2007 and will not have a material impact on the Group.

45. Minimum lease rental receivable

The future minimum lease rental receivable under non-cancellable operating leases by remaining period to lease expiry are as follows:

	GROUP		BANK	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within one year	**38,745**	37,555	**12,534**	10,882
After 1 year but within 5 years	**49,803**	27,140	**9,784**	9,484
Over 5 years	**1,520**	–	**–**	–
	90,068	64,695	**22,318**	20,366

46. Related party transactions

Loans and deposits transactions with related parties arising from the ordinary course of business are not treated any differently from loans to and deposits from other customers of the Group. Credit facilities granted are subject to the same credit evaluation, approval, monitoring and reporting processes.

Related parties are as follows:

(a) Companies that, directly or indirectly through one or more intermediaries, are controlled by or are under common control with, the Bank (including subsidiaries and fellow subsidiaries);

(b) Associated companies in which the Group holds interests of between 20% and 50%;

(c) Directors of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence;

(d) Key management of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence; and

(e) Life assurance fund. The transactions entered into with the Group's long-term life assurance fund pertain to the investment assets and liabilities which are attributable to policyholders.

46. Related party transactions (continued)

46.1 Related party balances at balance sheet date and transactions during the financial year were as follows:

GROUP ($ million)	Associated companies	Directors	Key management	Life assurance fund
(a) Loans and other receivables				
At 1 January 2006	137	152	3	–
Net (decrease)/increase	(119)	36	1	–
At 31 December 2006	**18**	**188**	**4**	**–**
(b) Deposits and other payables				
At 1 January 2006	21	312	8	611
Net (decrease)/increase	99	39	4	51
At 31 December 2006	**120**	**351**	**12**	**662**
(c) Off-balance sheet credit facilities [(1)]				
At 1 January 2006	–	103	–	–
Net (decrease)/increase	–	4	–	–
At 31 December 2006	**–**	**107**	**–**	**–**
(d) Income statement transactions				
Financial year ended 31 December 2006:				
Interest income	**1**	**5**	**#**	**–**
Interest expense	**1**	**5**	**#**	**20**
Rental income	**#**	**1**	**–**	**#**
Fee and commission and other income	**2**	**1**	**#**	**51**
Rental and other expenses	**6**	**#**	**#**	**1**
Financial year ended 31 December 2005:				
Interest income	4	1	#	–
Interest expense	#	3	#	15
Rental income	#	1	–	#
Fee and commission and other income	3	1	#	51
Rental and other expenses	7	1	#	1

Notes:

(1) Off-balance sheet credit facilities refer to transaction-related and trade-related contingencies.

\# Amount less than $0.5 million.

46. Related party transactions (continued)

BANK ($ million)	Subsidiaries	Associated companies	Directors	Key management	Life assurance fund
(a) Loans and other receivables					
At 1 January 2006	1,824	–	152	3	–
Net (decrease)/increase	(308)	–	36	1	–
At 31 December 2006	**1,516**	**–**	**188**	**4**	–
(b) Deposits and other payables					
At 1 January 2006	1,095	4	301	8	545
Net (decrease)/increase	(12)	(1)	37	3	10
At 31 December 2006	**1,083**	**3**	**338**	**11**	**555**
(c) Off-balance sheet credit facilities [1]					
At 1 January 2006	139	–	103	–	–
Net (decrease)/increase	(43)	–	4	–	–
At 31 December 2006	**96**	**–**	**107**	**–**	**–**
(d) Income statement transactions					
Financial year ended 31 December 2006:					
Interest income	**61**	**–**	**5**	**#**	**–**
Interest expense	**37**	**#**	**4**	**#**	**18**
Rental income	**3**	**–**	**–**	**–**	**–**
Fee and commission and other income	**8**	**–**	**#**	**#**	**40**
Rental and other expenses	**150**	**6**	**#**	**#**	**–**
Financial year ended 31 December 2005:					
Interest income	56	–	61	8	–
Interest expense	22	#	23	1	12
Rental income	3	–	–	–	–
Fee and commission and other income	5	–	2	1	41
Rental and other expenses	115	7	3	#	–

Notes:
[1] Off-balance sheet credit facilities refer to transaction-related and trade-related contingencies.
Amount less than $0.5 million.

46.2 Key management personnel compensation

Key management personnel compensation is as follows:

BANK	2006 $ million	2005 $ million
Short-term employee benefits	**19**	18
Share-based benefits	**4**	4
	23	22

During the financial year ended, total options granted to key management personnel of the Bank amounted to $1.9 million (2005: $2.2 million). Included in the above table are directors' emoluments which were disclosed in Note 8.1. Equity-settled compensation to directors of the Bank is disclosed in Notes 13.2, 13.3 and 13.4.

47. Subsequent events

(a) On 26 January 2007, Excel Holdings Private Limited ("Excel"), a wholly-owned subsidiary of the Bank announced that it had entered into conditional share sale and purchase agreements with certain individuals to purchase an aggregate of 1,078,225,000 ordinary shares ("Sale Shares") or 29.5% shareholdings in the capital of PT Trimegah Securities Tbk. ("Trimegah"), for a cash consideration of IDR 172.5 billion or IDR 160 per share. The purchase price was negotiated on a willing-buyer willing-seller basis and represents approximately 1.7 times the net asset value of Trimegah at 31 December 2005. The proposed acquisition, which is subject to all necessary regulatory approvals being received in Singapore and Indonesia, will be funded by the Group's internal resources.

Upon completion of the acquisition of the Sale Shares, Excel will become the largest shareholder of Trimegah, and it will be required to make a tender offer for Trimegah under the relevant take-over offer rules in Indonesia. The tender offer is expected to be launched and completed before June 2007.

In conjunction with the acquisition of Sale Shares, Excel has also entered into call option agreements with certain individuals whereby Excel will be granted call options over a total of 785,825,000 shares (subject to adjustment based on, *inter alia*, shares acquired by Excel pursuant to the tender offer) or 21.5% shareholdings in Trimegah. The call options are exercisable at an exercise price of IDR 160 per share, subject to adjustments to take into account interest costs and dividends paid by Trimegah up to the point of exercise. The call options will expire 18 months after the date the acquisition of the Sale Shares is completed.

(b) On 6 February 2007, the Bank announced that it had received approval from the China Banking Regulatory Commission ("CBRC") to commence preparation for local incorporation in China. In January 2007, the Bank had already obtained approval from CBRC to offer time deposit services of a minimum of RMB 1 million to Chinese residents at its Shanghai branch.

(c) On 15 February 2007, the Singapore Minister of Finance announced a reduction in the corporate tax rate from 20% to 18% with effect from Year of Assessment 2008. The effects of the reduced tax rate will be reflected in the financial statements for the year ending 31 December 2007.

48. Comparative information

The financial statements for the year ended 31 December 2005 were audited by another firm of certified public accountants. Where necessary, certain comparative figures were adjusted to conform to current year presentation.

49. New accounting standards and interpretations not yet adopted

The Group has not applied the following relevant accounting standards and interpretations that have been issued as of the balance sheet date but are not yet effective:

- FRS 40 *Investment Property*
- FRS 107 *Financial Instruments: Disclosures and the Amendment to FRS 1 Presentation of Financial Statements: Capital Disclosures*
- INT FRS 108 *Scope of FRS 102 Share-based Payment*
- INT FRS 109 *Reassessment of Embedded Derivatives*
- INT FRS 110 *Interim Financial Reporting and Impairment*

FRS 40, which becomes mandatory for the Group's 2007 financial statements, permits investment property to be stated at either fair value or cost less accumulated depreciation and accumulated impairment losses.

FRS 107 and amended FRS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital. This standard does not have any impact on the recognition and measurement in the Group's financial statements.

INT FRS 110 prohibits the reversal of an impairment loss recognised in an interim period during the financial year in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. INT FRS 110 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date the Group first applied the measurement criteria of FRS 36 and FRS 39 respectively (i.e. 1 January 2005). This standard does not have any significant impact on the Group's financial statements.