Directors' Report

For the financial year ended 31 December 2008

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 2008.

DIRECTORS

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

Cheong Choong Kong, Chairman
Bobby Chin Yoke Choong
David Philbrick Conner, Chief Executive Officer
Fang Ai Lian (appointed on 1 November 2008)
Giam Chin Toon
Lee Seng Wee
Lee Tih Shih
Colm Martin McCarthy (appointed on 1 November 2008)
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 Bobby Chin Yoke Choong and Mr Pramukti Surjaudaja retire by rotation under Articles 95 and 96 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

Dr Tsao Yuan and Mr David Wong Cheong Fook, who retire pursuant to Articles 95 and 96 of the Articles of Association of the Bank, have expressed their wish to retire at this forthcoming annual general meeting and will not offer themselves for re-election.

Mrs Fang Ai Lian and Mr Colm McCarthy, who were appointed to the Board under Article 101 of the Articles of Association of the Bank retire in accordance with the provisions of that Article and, being eligible, offer themselves for re-election.

Mr Lee Seng Wee and Mr Patrick Yeoh Khwai Hoh 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' Report
For the financial year ended 31 December 2008

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES
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 corporation, as follows:

	Direct interest		Deemed interest	
	At 31.12.2008	At 1.1.2008/ Date of appointment	At 31.12.2008	At 1.1.2008/ Date of appointment
BANK				
Ordinary shares				
Cheong Choong Kong	**127,982**	97,179	**39,715** [1]	69,487 [2]
Bobby Chin Yoke Choong	**9,600**	4,800	**40,000** [5]	40,000 [5]
David Conner	**1,120,542**	1,009,393	**401,493** [3]	288,018 [4]
Giam Chin Toon	**14,400**	9,600	**–**	–
Lee Seng Wee	**6,653,994**	6,649,194	**3,901,094** [5]	3,901,094 [5]
Lee Tih Shih	**2,362,752**	2,357,952	**–**	–
Neo Boon Siong	**14,400**	9,600	**–**	–
Tsao Yuan	**19,200**	14,400	**936** [5]	936 [5]
David Wong Cheong Fook	**28,400**	21,600	**–**	–
Wong Nang Jang	**586,146**	379,746	**165,322** [5]	165,322 [5]
Patrick Yeoh Khwai Hoh	**19,200**	14,400	**–**	–
5.1% Class B non-cumulative non-convertible preference shares				
Fang Ai Lian	**1,700**	1,700	**–**	–
4.2% Class G non-cumulative non-convertible preference shares				
Cheong Choong Kong	**15,000**	15,000	**–**	–
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]
OCBC Capital Corporation (2008)				
5.1% Non-cumulative non-convertible guaranteed preference shares				
Cheong Choong Kong	**10,000**	–	**–**	–
Lee Tih Shih	**10,000**	–	**–**	–
Tsao Yuan	**3,000**	–	**–**	–
David Wong Cheong Fook	**200**	–	**–**	–
Patrick Yeoh Khwai Hoh	**10,000**	–	**10,000** [5]	–

(1) Comprises interest of 9,600 ordinary shares held by spouse and 30,115 ordinary shares under OCBC Deferred Share Plan.
(2) Comprises interest of 9,600 ordinary shares held by spouse and 59,887 ordinary shares under OCBC Deferred Share Plan.
(3) Comprises interest of 392,787 ordinary shares under OCBC Deferred Share Plan and acquisition rights of 8,706 ordinary shares under OCBC Employee Share Purchase Plan.
(4) Comprises interest of 276,856 ordinary shares under OCBC Deferred Share Plan and acquisition rights of 11,162 ordinary shares under 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% Class E non-cumulative non-convertible preference shares.

Directors' Report
For the financial year ended 31 December 2008

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)
Save as disclosed above, no directors had any interest in shares, or debentures of, the Bank or related corporations either at the beginning of the financial year, date of appointment, or at the end of the financial year.

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2009.

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 this report, and except for professional fees paid to a firm of which a director is a member as disclosed in the financial statements.

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 customer service, talent identification, and the development and succession of senior management within the Group. Under the agreement, in respect of the financial year ended 31 December 2008, Dr Cheong has received payments and benefits amounting to $1,111,560, and will receive a variable bonus of $100,000, or any additional bonus as may be determined by the Remuneration Committee and the Board of Directors of the Bank. In respect of financial year ended 31 December 2007, Dr Cheong received aggregate payments and benefits of $1,090,562 and variable bonus of a total amount of $1,350,000 comprising bonus of $100,000 and additional bonus of $1,250,000.

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 (including the payments mentioned above and all benefits, variable bonus, directors' fees and share options) for the financial year ended 31 December 2008 is reflected in the Directors' Remuneration table in the Corporate Governance Section of the Annual Report.

SHARE-BASED COMPENSATION PLANS
The Bank's share-based compensation plans are administered by the Remuneration Committee, which comprises:

Tsao Yuan, Chairman
Cheong Choong Kong
Fang Ai Lian
Lee Tih Shih
Wong Nang Jang

Dr Cheong Choong Kong did not participate in any deliberation or decision in respect of options granted to him.

Under the share-based compensation plans, no options or rights have been granted to controlling shareholders of the Bank or their associates, nor has any participant received 5% or more of the total number of options or rights available under each respective scheme or plan during the financial year. No options or rights were granted at a discount during the financial year. The persons to whom the options or rights were issued have no right by virtue of these options or rights to participate in any share issue of any other company.

Directors' Report

For the financial year ended 31 December 2008

SHARE-BASED COMPENSATION PLANS (continued)

The Bank's share-based compensation plans are as follows:

(a) OCBC Share Option Schemes

The OCBC Executives' Share Option Scheme 1994 ("1994 Scheme") was approved at an extraordinary general meeting on 11 June 1994. The 1994 Scheme was terminated on 3 August 2001 and replaced by the OCBC Share Option Scheme 2001. Outstanding options under the 1994 Scheme remain valid until the respective expiry dates of the options.

The OCBC Share Option Scheme 2001 ("2001 Scheme") was approved at an extraordinary general meeting on 17 May 2001, to replace the 1994 Scheme. Executives of the Group ranked Manager and above (including executive and non-executive directors), are eligible for this scheme. The Bank will either issue new shares or transfer treasury shares to the executives upon their exercise of options.

Particulars of Options 1998R, 1999R, 2000, 2001, 2002, 2002A, 2002B, 2003, 2004, 2004A, 2004B, 2005, 2005A, 2006, 2006A, 2006B, 2007, 2007A, 2007B and 2007NED were set out in the Directors' Reports for the financial years ended 31 December 1999 to 2007.

During the financial year, pursuant to the 2001 Scheme, options to acquire 5,579,220 ordinary shares at $7.52 per share were granted to 532 eligible executives of the Group ("2008 Options"), as well as to a non-executive director of the Bank ("2008NED Options"). The acquisition price was equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange over five consecutive trading days immediately prior to the date when the offer to grant an option was made to a grantee.

Details of unissued ordinary shares under the share option scheme, options exercised during the financial year and options outstanding and exercisable at 31 December 2008 are as follows:

Options	Exercise period	Acquisition price ($)	Options exercised	Treasury shares transferred	At 31.12.2008 Outstanding	At 31.12.2008 Exercisable
1998R	22.01.2001 to 21.01.2008	2.675	291,448	280,124	–	–
1999R	10.12.2001 to 09.12.2008	3.139	1,355,176	1,284,280	–	–
2000	06.12.2002 to 05.12.2009	4.542	266,371	266,371	2,416,424	2,416,424
2001	05.12.2003 to 04.12.2010	5.367	394,638	390,175	3,923,848	3,923,848
2002	09.04.2003 to 08.04.2012	5.742	641,226	627,918	5,840,395	5,840,395
2002A	23.04.2003 to 22.04.2012	5.692	–	–	720,000	720,000
2002B	24.10.2003 to 23.10.2012	4.367	–	–	180,000	180,000
2003	28.03.2004 to 26.03.2013	4.067	514,021	508,386	4,767,256	4,767,256
2004	16.03.2005 to 14.03.2014	5.142	386,968	381,569	4,326,837	4,326,837
2004A	20.08.2005 to 18.08.2014	5.492	–	–	160,800	160,800
2004B	23.11.2005 to 21.11.2014	5.667	–	–	103,200	103,200
2005	15.03.2006 to 13.03.2015	5.767	474,151	469,211	4,219,066	4,219,066
2005A	09.04.2006 to 07.04.2015	5.784	452,088	432,324	1,438,228	1,438,228
2006	15.03.2007 to 13.03.2016	6.820	212,252	210,891	3,488,402	2,193,556
2006A	24.01.2007 to 22.01.2016	6.780	8,184	8,184	–	–
2006B	24.05.2007 to 22.05.2016	6.580	102,190	96,648	1,059,040	634,040
2007	15.03.2008 to 13.03.2017	8.590	29,469	28,503	3,476,226	1,142,109
2007A	16.01.2008 to 14.01.2017	7.600	–	–	445,000	146,850
2007B	15.03.2008 to 13.03.2017	8.590	12,870	12,870	951,010	313,170
2007NED	15.03.2008 to 13.03.2012	8.590	–	–	200,000	66,000
2008	15.03.2009 to 13.03.2018	7.520	–	–	5,173,720	–
2008NED	15.03.2009 to 13.03.2013	7.520	–	–	200,000	–
			5,141,052	4,997,454	43,089,452	32,591,779

Directors' Report
For the financial year ended 31 December 2008

SHARE-BASED COMPENSATION PLANS (continued)

(b) OCBC Employee Share Purchase Plan

The OCBC Employee Share Purchase Plan ("ESP Plan") was approved at an extraordinary general meeting on 30 April 2004. Employees of the Group who have attained the age of 21 years and been employed for not less than six months are eligible for the ESP Plan. Particulars of the ESP Plan were set out in the Directors' Report for the financial year ended 31 December 2007.

The Bank's second offering of ESP Plan, which commenced on 1 July 2006, had expired on 30 June 2008. During the financial year, 5,456,660 ordinary shares were transferred from Treasury Shares' account to participants upon exercise of acquisition rights and upon conversion at the end of the offering period.

In June 2008, the Bank launched its third offering of ESP Plan, which commenced on 1 July 2008 and will expire on 30 June 2010. Under the third offering, 6,281 employees (including a director of the Bank) enrolled to participate in the ESP Plan to acquire 11,423,533 ordinary shares at $8.27 per ordinary share. The acquisition price is equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange over five consecutive trading days immediately preceding the price fixing date.

(c) OCBC Deferred Share Plan

The Bank implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award program extended to executives of the Group ranked Assistant Manager and above at the absolute discretion of the Remuneration Committee. Details of the DSP were set out in the Directors' Report for the financial year ended 31 December 2007.

Total awards of 4,424,988 ordinary shares (including 202,469 ordinary shares to a director of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2008. In addition, total awards of 239,895 ordinary shares (including 14,480 ordinary shares to directors of the Bank) were awarded to grantees pursuant to declarations of final dividend for financial year ended 31 December 2007 and interim dividend for financial year ended 31 December 2008. During the financial year, 1,161,934 deferred shares were released to grantees, of which 130,790 deferred shares were released to directors of the Bank.

Changes in the number of options under the share option scheme and acquisition rights under the ESP Plan held by directors for the financial year under review are as follows:

Name of director	Options granted/ rights subscribed to acquire ordinary shares for the financial year ended 31.12.2008	Aggregate number of options granted/rights subscribed since commencement of scheme/plan to 31.12.2008	Aggregate number of options/rights exercised/ converted since commencement of scheme/plan to 31.12.2008	Aggregate number of options/rights outstanding at 31.12.2008
Option Scheme				
Cheong Choong Kong	200,000	914,800	–	914,800
David Conner	450,000	4,565,000	720,000	3,845,000
Wong Nang Jang	–	927,539	735,539	192,000
ESP Plan				
Cheong Choong Kong	–	14,257	14,257	–
David Conner	8,706	34,125	25,419	8,706

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2009.

Directors' Report
For the financial year ended 31 December 2008

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

Bobby Chin Yoke Choong, Chairman
Colm Martin McCarthy
Neo Boon Siong
Tsao Yuan
David Wong Cheong Fook

The Audit Committee performed the functions specified in the Companies Act, the SGX-ST Listing Manual, the Banking (Corporate Governance) Regulations 2005, the MAS Guidelines for Corporate Governance and the Code of Corporate Governance. In performing these functions, the Audit Committee met with the Bank's external and internal auditors, and reviewed the audit plans, the internal audit programme, as well as the results of the auditors' examination and 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;
(b) the financial statements of the Group and the Bank and the auditors' report thereon prior to their submission to the Board of Directors; and
(c) the independence and objectivity of the external auditors.

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 has nominated KPMG LLP for re-appointment as auditors of the Bank at the forthcoming annual general meeting.

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

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
18 February 2009

Statement by Directors

For the financial year ended 31 December 2008

In the opinion of the directors,

(a) the financial statements set out on pages 72 to 147 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 2008, the results and changes in equity of the Group and of 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
18 February 2009

Independent 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 2008, 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; a summary of significant accounting policies and other explanatory notes set out on pages 72 to 147.

Management's responsibility for the financial statements

Management is 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:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion,

(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 2008, the results and changes in equity of the Group and of 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 LLP

KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore
18 February 2009

Income Statements

For the financial year ended 31 December 2008

	Note	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
Interest income		**5,266,993**	5,265,312	**3,653,818**	3,814,182
Interest expense		**(2,483,595)**	(3,021,103)	**(1,797,259)**	(2,353,201)
Net interest income	3	**2,783,398**	2,244,209	**1,856,559**	1,460,981
Premium income		**6,805,646**	5,793,155	**–**	–
Investment income		**(399,777)**	3,075,450	**–**	–
Net claims, surrenders and annuities		**(4,226,976)**	(4,843,439)	**–**	–
Change in life assurance fund contract liabilities		**(1,192,612)**	(2,543,523)	**–**	–
Commission and others		**(685,931)**	(972,438)	**–**	–
Profit from life assurance	4	**300,350**	509,205	**–**	–
Premium income from general insurance		**108,606**	64,939	**–**	–
Fees and commissions (net)	5	**773,517**	808,036	**453,804**	427,613
Dividends	6	**71,711**	55,405	**382,450**	618,302
Rental income		**68,163**	62,182	**29,795**	23,282
Other income	7	**320,989**	536,640	**773,961**	238,346
Non-interest income		**1,643,336**	2,036,407	**1,640,010**	1,307,543
Total income		**4,426,734**	4,280,616	**3,496,569**	2,768,524
Staff costs		**(1,045,421)**	(946,010)	**(486,437)**	(457,683)
Other operating expenses		**(809,100)**	(733,644)	**(582,659)**	(535,946)
Total operating expenses	8	**(1,854,521)**	(1,679,654)	**(1,069,096)**	(993,629)
Operating profit before allowances and amortisation		**2,572,213**	2,600,962	**2,427,473**	1,774,895
Amortisation of intangible assets	37	**(46,472)**	(46,391)	**–**	–
Allowances for loans and impairment for other assets	9	**(446,750)**	(36,164)	**(315,541)**	(328)
Operating profit after allowances and amortisation		**2,078,991**	2,518,407	**2,111,932**	1,774,567
Share of results of associates and joint ventures		**5,511**	20,937	**–**	–
Profit before income tax		**2,084,502**	2,539,344	**2,111,932**	1,774,567
Income tax expense	10	**(224,492)**	(356,104)	**(64,687)**	(153,653)
Profit for the year		**1,860,010**	2,183,240	**2,047,245**	1,620,914
Attributable to:					
Equity holders of the Bank		**1,749,443**	2,070,754		
Minority interests		**110,567**	112,486		
		1,860,010	2,183,240		
Earnings per share (cents)	11				
Basic		**54.6**	65.9		
Diluted		**54.5**	65.6		

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Balance Sheets
As at 31 December 2008

		GROUP		BANK	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
EQUITY					
Attributable to equity holders of the Bank					
Share capital	13	**6,637,508**	5,520,141	**6,637,508**	5,520,141
Capital reserves	14	**1,329,156**	1,732,178	**1,099,054**	1,452,581
Fair value reserves		**221,844**	1,725,964	**12,003**	430,074
Revenue reserves	15	**7,685,161**	6,699,307	**5,076,140**	3,709,757
		15,873,669	15,677,590	**12,824,705**	11,112,553
Minority interests	16	**2,686,068**	1,161,222	**–**	–
Total equity		**18,559,737**	16,838,812	**12,824,705**	11,112,553
LIABILITIES					
Deposits of non-bank customers	17	**94,078,421**	88,788,394	**73,237,580**	70,415,116
Deposits and balances of banks	17	**10,113,219**	14,726,082	**9,048,750**	13,023,929
Due to subsidiaries		**–**	–	**1,399,156**	1,189,337
Due to associates		**94,534**	59,500	**87,583**	47,157
Trading portfolio liabilities		**1,111,143**	171,993	**1,111,143**	171,993
Derivative payables	18	**7,675,456**	2,696,546	**7,415,345**	2,589,755
Other liabilities	19	**2,929,859**	3,313,170	**943,598**	1,064,705
Current tax		**500,667**	648,669	**277,519**	319,513
Deferred tax	20	**576,063**	1,162,693	**41,154**	123,130
Debts issued	21	**6,009,529**	4,969,577	**7,553,935**	5,032,021
		123,088,891	116,536,624	**101,115,763**	93,976,656
Life assurance fund liabilities	22	**39,736,525**	41,231,856	**–**	–
Total liabilities		**162,825,416**	157,768,480	**101,115,763**	93,976,656
Total equity and liabilities		**181,385,153**	174,607,292	**113,940,468**	105,089,209
ASSETS					
Cash and placements with central banks	23	**7,027,689**	8,396,398	**4,266,733**	5,493,125
Singapore government treasury bills and securities	24	**9,214,572**	8,762,171	**8,635,841**	8,208,665
Other government treasury bills and securities	24	**4,776,972**	3,445,746	**1,257,386**	571,865
Placements with and loans to banks	25	**15,353,359**	15,105,109	**12,633,881**	13,210,696
Loans and bills receivable	26–29	**79,807,864**	71,316,000	**62,068,780**	54,490,406
Debt and equity securities	30	**10,173,911**	13,624,912	**7,018,391**	8,800,396
Assets pledged	43	**837,108**	888,654	**837,108**	888,654
Assets held for sale	44	**–**	912	**–**	2
Derivative receivables	18	**6,654,637**	2,937,082	**6,244,771**	2,817,939
Other assets	31	**2,665,116**	2,981,856	**1,000,791**	1,312,620
Deferred tax	20	**97,701**	45,449	**19,157**	666
Associates and joint ventures	33	**132,283**	243,416	**11,525**	96,416
Subsidiaries	34	**–**	–	**7,173,501**	6,510,411
Property, plant and equipment	35	**1,665,457**	1,611,698	**405,669**	326,886
Investment property	36	**726,077**	666,732	**499,758**	493,286
Goodwill and intangible assets	37	**3,375,526**	3,444,420	**1,867,176**	1,867,176
		142,508,272	133,470,555	**113,940,468**	105,089,209
Life assurance fund investment assets	22	**38,876,881**	41,136,737	**–**	–
Total assets		**181,385,153**	174,607,292	**113,940,468**	105,089,209
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	41	**8,660,691**	8,861,142	**7,213,079**	7,137,357
Commitments	42	**46,654,598**	45,050,761	**37,478,046**	36,279,739
Derivative financial instruments	18	**365,904,304**	339,925,452	**343,629,954**	319,968,864

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Statement of Changes in Equity – Group

For the financial year ended 31 December 2008

	Attributable to equity holders of the Bank						
In $'000	**Share capital**	**Capital reserves**	**Fair value reserves**	**Revenue reserves**	**Total**	**Minority interests**	**Total equity**
Balance at 1 January 2008	**5,520,141**	**1,732,178**	**1,725,964**	**6,699,307**	**15,677,590**	**1,161,222**	**16,838,812**
Movements in fair value reserves:							
Net valuation changes taken to equity	–	–	(1,439,682)	–	(1,439,682)	(48,239)	(1,487,921)
Transferred to income statements on sale	–	–	(200,322)	–	(200,322)	(3,548)	(203,870)
Tax on net movements	–	–	135,884	–	135,884	10,260	146,144
Currency translation	–	–	–	(203,615)	(203,615)	(32,344)	(235,959)
Net income recognised directly in equity	–	–	(1,504,120)	(203,615)	(1,707,735)	(73,871)	(1,781,606)
Profit for the year	–	–	–	1,749,443	1,749,443	110,567	1,860,010
Total recognised income and expense for the financial year	–	–	(1,504,120)	1,545,828	41,708	36,696	78,404
Transfers	–	(363,562)	–	363,562	–	–	–
Acquisition of interests in subsidiaries and change in minority interests	–	–	–	–	–	86,281	86,281
Dividends and liquidation distribution to minority interests	–	–	–	–	–	(98,131)	(98,131)
DSP reserve from dividends on unvested shares	–	–	–	3,045	3,045	–	3,045
Ordinary and preference dividends	–	–	–	(926,581)	(926,581)	–	(926,581)
Preference shares issued by a subsidiary	–	–	–	–	–	1,500,000	1,500,000
Preference shares issued by the Bank	1,000,000	–	–	–	1,000,000	–	1,000,000
Preference shares' issue expense	(1,339)	–	–	–	(1,339)	–	(1,339)
Share-based staff costs capitalised	–	15,012	–	–	15,012	–	15,012
Shares issued to non-executive directors	449	–	–	–	449	–	449
Shares purchased by DSP Trust	–	(1,999)	–	–	(1,999)	–	(1,999)
Shares vested under DSP Scheme	–	7,581	–	–	7,581	–	7,581
Transfer share-based reserves for options and rights exercised	28,913	(28,913)	–	–	–	–	–
Treasury shares transferred/sold	89,344	(31,141)	–	–	58,203	–	58,203
Balance at 31 December 2008	**6,637,508**	**1,329,156**	**221,844**	**7,685,161**	**15,873,669**	**2,686,068**	**18,559,737**
Included:							
Share of reserves of associates and joint ventures	–	2,860	(463)	31,861	34,258	(190)	34,068

An analysis of the movements in each component within 'Share capital', 'Capital reserves' and 'Revenue reserves' is presented in Notes 12 to 15.

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Statement of Changes in Equity – Group

For the financial year ended 31 December 2008

In $'000	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total	Minority interests	Total equity
	Attributable to equity holders of the Bank						
Balance at 1 January 2007	5,480,943	2,131,073	667,712	5,124,544	13,404,272	1,086,631	14,490,903
Movements in fair value reserves:							
Net valuation changes taken to equity	–	–	1,232,861	–	1,232,861	14,908	1,247,769
Transferred to income statements on sale	–	–	(192,374)	–	(192,374)	(9,777)	(202,151)
Tax on net movements	–	–	17,765	–	17,765	(107)	17,658
Currency translation	–	–	–	(60,120)	(60,120)	(15,745)	(75,865)
Net income recognised directly in equity	–	–	1,058,252	(60,120)	998,132	(10,721)	987,411
Profit for the year	–	–	–	2,070,754	2,070,754	112,486	2,183,240
Total recognised income and expense for the financial year	–	–	1,058,252	2,010,634	3,068,886	101,765	3,170,651
Transfers	–	(404,824)	–	404,824	–	–	–
Dividends to minority interests	–	–	–	–	–	(59,036)	(59,036)
Ordinary and preference dividends	–	–	–	(840,695)	(840,695)	–	(840,695)
Rights issue by a subsidiary and change in minority interests	–	–	–	–	–	31,862	31,862
Share-based staff costs capitalised	–	10,915	–	–	10,915	–	10,915
Share buyback held in treasury	(43,491)	–	–	–	(43,491)	–	(43,491)
Shares issued to non-executive directors	502	–	–	–	502	–	502
Shares purchased by DSP Trust	–	(10,540)	–	–	(10,540)	–	(10,540)
Shares vested under DSP Scheme	–	5,554	–	–	5,554	–	5,554
Treasury shares transferred/sold	82,187	–	–	–	82,187	–	82,187
Balance at 31 December 2007	5,520,141	1,732,178	1,725,964	6,699,307	15,677,590	1,161,222	16,838,812
Included:							
Share of reserves of associates and joint ventures	–	2,934	125	28,600	31,659	(147)	31,512

An analysis of the movements in each component within 'Share capital', 'Capital reserves' and 'Revenue reserves' is presented in Notes 12 to 15.

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Statement of Changes in Equity – Bank

For the financial year ended 31 December 2008

In $'000	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total equity
Balance at 1 January 2008	**5,520,141**	**1,452,581**	**430,074**	**3,709,757**	**11,112,553**
Movements in fair value reserves:					
Net valuation changes taken to equity	**–**	**–**	**(444,340)**	**–**	**(444,340)**
Transferred to income statements on sale	**–**	**–**	**(53,099)**	**–**	**(53,099)**
Tax on net movements	**–**	**–**	**79,368**	**–**	**79,368**
Currency translation	**–**	**–**	**–**	**(96,952)**	**(96,952)**
Net income recognised directly in equity	**–**	**–**	**(418,071)**	**(96,952)**	**(515,023)**
Profit for the year	**–**	**–**	**–**	**2,047,245**	**2,047,245**
Total recognised income and expense for the financial year	**–**	**–**	**(418,071)**	**1,950,293**	**1,532,222**
Transfers	**–**	**(339,626)**	**–**	**339,626**	**–**
DSP reserve from dividends on unvested shares	**–**	**–**	**–**	**3,045**	**3,045**
Ordinary and preference dividends	**–**	**–**	**–**	**(926,581)**	**(926,581)**
Preference shares issued by the Bank	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Preference shares' issue expense	**(1,339)**	**–**	**–**	**–**	**(1,339)**
Share-based staff costs capitalised	**–**	**15,012**	**–**	**–**	**15,012**
Shares issued to non-executive directors	**449**	**–**	**–**	**–**	**449**
Transfer share-based reserves for options and rights exercised	**28,913**	**(28,913)**	**–**	**–**	**–**
Treasury shares transferred/sold	**89,344**	**–**	**–**	**–**	**89,344**
Balance at 31 December 2008	**6,637,508**	**1,099,054**	**12,003**	**5,076,140**	**12,824,705**
Balance at 1 January 2007	5,480,943	1,781,292	405,102	2,561,840	10,229,177
Movements in fair value reserves:					
Net valuation changes taken to equity	–	–	108,594	–	108,594
Transferred to income statements on sale	–	–	(99,394)	–	(99,394)
Tax on net movements	–	–	15,772	–	15,772
Currency translation	–	–	–	28,072	28,072
Net income recognised directly in equity	–	–	24,972	28,072	53,044
Profit for the year	–	–	–	1,620,914	1,620,914
Total recognised income and expense for the financial year	–	–	24,972	1,648,986	1,673,958
Transfers	–	(339,626)	–	339,626	–
Ordinary and preference dividends	–	–	–	(840,695)	(840,695)
Share-based staff costs capitalised	–	10,915	–	–	10,915
Share buyback held in treasury	(43,491)	–	–	–	(43,491)
Shares issued to non-executive directors	502	–	–	–	502
Treasury shares transferred/sold	82,187	–	–	–	82,187
Balance at 31 December 2007	5,520,141	1,452,581	430,074	3,709,757	11,112,553

An analysis of the movements in each component within 'Share capital', 'Capital reserves' and 'Revenue reserves' is presented in Notes 12 to 15.

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the financial ended 31 December 2008

In $'000	2008	2007
Cash flows from operating activities		
Profit before income tax	**2,084,502**	2,539,344
Adjustments for non-cash items:		
Amortisation of intangible assets	**46,472**	46,391
Allowances for loans and impairment for other assets	**446,750**	36,164
Change in fair value for hedging transactions and trading securities	**292,121**	(3,383)
Depreciation of property, plant and equipment and investment property	**115,640**	104,095
Net gain on disposal of government, debt and equity securities	**(203,870)**	(202,151)
Net gain on disposal of property, plant and equipment and investment property	**(8,355)**	(97,187)
Net loss on disposal of an associate	**408**	–
Share-based staff costs	**13,066**	10,018
Share of results of associates and joint ventures	**(5,511)**	(20,937)
Write-off of plant and equipment	**–**	9,521
Items relating to life assurance fund		
Surplus before income tax	**45,235**	794,366
Surplus transferred from life assurance fund	**(300,350)**	(509,205)
Operating profit before change in operating assets and liabilities	**2,526,108**	2,707,036
Change in operating assets and liabilities:		
Deposits of non-bank customers	**5,324,003**	13,611,656
Deposits and balances of banks	**(4,651,373)**	2,856,830
Derivative payables and other liabilities	**4,401,788**	1,280,294
Trading portfolio liabilities	**939,150**	(249,802)
Government securities and treasury bills	**(1,137,594)**	(989,494)
Trading securities	**258,484**	(953,734)
Placements with and loans to banks	**(337,677)**	2,853,564
Loans and bills receivable	**(8,508,577)**	(11,896,898)
Derivative receivables and other assets	**(3,118,916)**	(952,151)
Net change in investment assets and liabilities of life assurance fund	**579,679**	(122,900)
Cash (used in)/from operating activities	**(3,724,925)**	8,144,401
Income tax paid	**(362,357)**	(286,560)
Net cash (used in)/from operating activities	**(4,087,282)**	7,857,841
Cash flows from investing activities		
Acquisition of minority interests	**(31,158)**	–
Dividends from associates	**2,495**	35,950
Decrease in associates and joint ventures	**3,611**	49,108
Net cash outflow from acquisition of subsidiaries	**(124,195)**	–
Purchases of debt and equity securities	**(4,424,295)**	(6,920,902)
Purchases of property, plant and equipment and investment property	**(277,664)**	(237,580)
Proceeds from disposal of an associate	**1,046**	–
Proceeds from disposal of debt and equity securities	**5,218,721**	2,686,071
Proceeds from disposal of property, plant and equipment and investment property	**41,589**	156,670
Net cash from/(used in) investing activities	**410,150**	(4,230,683)
Cash flows from financing activities		
Dividends paid to equity holders of the Bank	**(926,581)**	(840,695)
Dividends and liquidation distribution to minority interests	**(98,131)**	(59,036)
Increase/(decrease) in debts issued	**939,192**	(113,618)
Net proceeds from issue of preference shares by the Bank	**998,661**	–
Proceeds from treasury shares transferred/sold under the Bank's employee share schemes	**58,203**	82,187
Proceeds from issue of preference shares by a subsidiary	**1,500,000**	–
Proceeds from minority interests on subscription of shares in a subsidiary	**–**	32,325
Share buyback	**–**	(43,491)
Net cash from/(used in) financing activities	**2,471,344**	(942,328)
Net currency translation adjustments	**(162,921)**	(29,775)
Net change in cash and cash equivalents	**(1,368,709)**	2,655,055
Cash and cash equivalents at 1 January	**8,396,398**	5,741,343
Cash and cash equivalents at 31 December	**7,027,689**	8,396,398

The accompanying notes, as well as the Capital Management and Risk Management sections, form an integral part of these financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2008

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 18 February 2009.

1. GENERAL

Oversea-Chinese Banking Corporation Limited ("the Bank") is incorporated and domiciled in Singapore and is listed 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. SUMMARY OF 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") including the modification to FRS 39 *Financial Instruments: Recognition and Measurement* requirement on loan loss provisioning under Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore.

The financial statements are presented in Singapore Dollar, rounded to the nearest thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement, use estimates and make assumptions in the application of accounting policies on the reported amounts of assets, liabilities, revenues and expenses. 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.

In 2008, the Accounting Standards Council issued amendments to FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 107 *Financial Instruments: Disclosure*. The amendments, to be applied on or after 1 July 2008, permit the reclassification of certain financial instruments out of the "fair value through profit and loss" and "available-for-sale" categories under prescribed circumstances.

2.2 Basis of consolidation

2.2.1 Subsidiaries

Subsidiaries are entities over which the Bank, directly or indirectly, has power to govern the financial and operating policies, generally accompanied by a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Bank 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 Bank to the date that control ceases. In preparing the consolidated financial statements, intra-group 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 interests represent the portion of net results of operations and of net assets in subsidiaries that do not belong to equity holders of the Bank. They are disclosed separately in the Group income statement and balance sheet accordingly.

2.2.2 Special purpose entities

Special purpose entities (SPE) which are established for a narrow and well-defined objective are consolidated where the substance of the relationship indicates that the Group has control over the SPE notwithstanding that the Group holds little or no equity interest in the SPE.

2.2.3 Associates and joint ventures

Associates are entities over which the Bank has significant influence, but not control, generally accompanied by a shareholding of 20% to 50% of the voting rights. Joint ventures 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 associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting, and include goodwill identified on acquisition, where applicable. Certain entities in which the Group had total shareholdings of between 20% and 50% were excluded from equity accounting because investments in the Life Funds of Great Eastern Holdings Limited were not included in determining associates.

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

In applying the equity method of accounting, unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in these entities. 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 associates and joint ventures to ensure consistency of accounting policies with those of the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

2.2.3 Associates and joint ventures (continued)

The results of associates and joint ventures 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.

2.2.4 Life assurance companies

Certain subsidiaries of the Group engaged in 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 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 life assurance funds. The amount distributed to shareholders is reported as "Profit from life assurance" in the consolidated income statement.

2.2.5 Accounting for subsidiaries and associates by the Bank

Investments in subsidiaries and associates 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, 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.

2.4 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, balances and placements with central banks.

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 when the Group's contractual rights to the cash flows from the financial assets expire or when 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 when the Group's obligations specified in the contract expire or are discharged or cancelled.

2.5.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset 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.

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

Repurchase agreements ("repos") are regarded as collateralised borrowing. The securities sold under repos are treated as pledged assets and remain as assets on the balance sheets. The amount borrowed is recorded as a liability. Reverse repos are treated as collateralised lending and the amount of securities purchased is 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. The transfer of securities to or from counterparties is not reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

2.6 Non-derivative financial assets

Non-derivative financial assets are classified according to the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and evaluates this designation at every reporting date.

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 are initially recognised at acquisition cost and subsequently measured at amortised cost using the effective interest method, less impairment allowance.

Notes to the Financial Statements
For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Non-derivative financial assets (continued)

2.6.2 Available-for-sale financial assets
Available-for-sale financial assets 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 are acquired by the trading business units of the Group for the purpose of selling them in the near term.

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

2.7 Derivative financial instruments
All derivative financial instruments are recognised at fair value on the balance sheet and classified as derivative receivables when their fair value is favourable and as derivative payables when their fair value is unfavourable.

The Group enters into derivative transactions for trading purposes, and the realised and unrealised gains and losses are recognised in the income statement. 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 the income statement.

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 the hedge reserve remain in equity until the forecasted transaction is recognised in the income statement. When the forecasted transaction is no longer expected to occur, the amounts accumulated in the hedge reserve is immediately transferred to the income statement.

For hedges of net investments in foreign operations which are accounted in a similar way as cash flow hedges, the gain or loss relating to the effective portion of the hedging instrument is recognised in equity and that relating to the ineffective portion is recognised in the income statement. Gains and losses accumulated in equity are transferred to income statement on disposal of the foreign operations.

2.8 Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment includes the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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.

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

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefit is 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.

2.9 Investment property

Investment property is property held either for rental income or for capital appreciation or for both. Investment properties, other than those held under the Group's life assurance funds, are stated at cost less accumulated depreciation and impairment losses. 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.

Investment property held under the Group's life assurance fund is stated at fair value at balance sheet date. Changes in the carrying value resulting from revaluation are recognised in the income statement of the life assurance fund.

2.10 Goodwill and intangible assets

2.10.1 Goodwill

Goodwill on acquisition of subsidiaries 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 impairment loss. Impairment test is carried out annually, or when there is indication that the goodwill may be impaired.

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

2.10.2 Intangible assets

Intangible assets are separately identifiable intangible items arising from acquisitions and are stated at cost less accumulated amortisation and impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The useful life of an intangible asset is reviewed at least at each financial year end.

2.11 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 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.

2.12 Impairment of assets

Financial assets

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.

2.12.1 Loans and receivables/financial assets carried at amortised cost

Loans are assessed for impairment 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.

A specific allowance is established when the present value of recoverable cash flows for a loan is lower than the carrying value of the loan. Portfolio allowances are set aside for unimpaired loans based on portfolio and country risks, as well as industry practices.

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

2.12.2 Other non-derivative financial assets

Impairment of other non-derivative financial assets is calculated as the difference between the asset's carrying value and the estimated recoverable amount. For equity investments classified as available-for-sale, when there is a significant or prolonged decline in the fair value of the asset below its cost, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that 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 loss is recognised in the income statement.

Other assets

2.12.3 Goodwill

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.

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 CGU is the higher of the CGU's fair value less cost to sell and its value in use. Impairment loss on goodwill cannot be reversed in subsequent periods.

2.12.4 Investments in subsidiaries and associates
Property, plant and equipment
Investment property
Intangible assets

Investments in subsidiaries and associates, property, plant and equipment, investment property and intangible assets, are reviewed for impairment on balance sheet date or whenever there is any indication that the carrying value of an asset may not be recoverable. If such an indication exists, the carrying value of the asset is written down to its recoverable amount (i.e. the higher of the fair value less cost to sell and the value in use).

The impairment loss is recognised in the income statement, and is reversed 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 is increased to its revised recoverable amount, provided that this amount does not exceed the carrying value that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Insurance receivables

Insurance receivables are recognised when due. They are measured at initial recognition at the fair value received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in the income statement. Insurance receivables are derecognised when the derecognition criteria have been met.

2.14 Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method, except when the Group designates the liabilities at fair value through the income statement. Financial liabilities are designated at fair value through the income statement when:

(a) they are acquired or incurred for the purpose of selling or repurchasing in the near term;
(b) the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial liabilities or recognising gains or losses on them; or
(c) the financial liability contains an embedded derivative that would need to be separately recorded.

2.15 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.

Provision for insurance agents' retirement benefits is a defined contribution plan and is calculated in accordance with the terms and conditions in the respective Life Assurance Sales Representative's Agreements. The terms and conditions of the Agreement stipulate that upon the agent maintaining his position for the qualifying year and achieving the required personal sales and minimum new business, the agent shall be allocated a deferred benefit/retirement benefit. The deferred benefit/retirement benefit accumulated at balance sheet date, include accrued interest. The accrued deferred benefit shall only become payable provided the Agreement has been in force for certain continuous contract years and the agent has attained the minimum age stipulated in the Agreement.

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

2.16 Insurance contracts

Certain subsidiaries within the Group write insurance contracts in accordance with the insurance regulations prevailing in their respective jurisdictions. Disclosures on the various insurance contract 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 costs for its insurance contracts.

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 net 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 guaranteed benefits payable upon insured events associated with human life such as death or disability, the contract entitles the policyholder to receive benefits which vary according to the investment performance of the fund. The Group does not recognise the guaranteed component separately from the discretionary participation feature.

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 balance sheet date.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Insurance contracts (continued)

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.

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.

	Singapore	Malaysia
Valuation method	Gross Premium	Net Premium for Participating and Non-participating Fund. Cash flow projection for Investment-Linked Fund.
Interest rate	Singapore Government bond yields for cash flows up to year 10, the Long Term Risk Free Discount Rate (LTRFDR) for cash flows year 15 and after, 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 Insurance Act and Regulations. 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 and Investment-Linked Fund: 4.0% for regular premium and 4.5% for single premium products. Data source: Rates equal to or more conservative than the minimum rate prescribed by the Act.
Mortality	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Prescribed table per regulation Participating and Non-participating Funds: Table: 100% Statutory Mortality Valuation Table ("SMVT") 1996 Investment-linked Fund: Table: 100% M8388 Industry Table Adjustment for females: 3 years setback
Disability	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Included in death rates
Dread 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	Participating and Non-participating Funds: Not applicable Investment-Linked Fund: Best estimates
Lapse & surrenders	Best estimates plus provision for adverse deviation. Data source: Internal experience studies	Participating and Non-participating Funds: Not applicable Investment-linked Fund: Best estimates

* Refer to Note 2.23 on Critical accounting estimates and judgements

Notes to the Financial Statements
For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Insurance contracts (continued)

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.

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 jurisdictions 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. The provision for IBNR claims is classified as liabilities and included in other liabilities.

Reinsurance contracts

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurers. These amounts are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the financial year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive part or all outstanding amounts due under the terms of the contract. The impairment loss is recorded in the income statements. Gains or losses of the reinsurance are recognised in the income statements immediately at the date of contract. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Reinsurance liabilities represent balances due to reinsurers where the Group assumes insurance risks. Amounts payable are estimated according to the provisions in the reinsurance contract.

2.17 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 $1/24^{th}$ 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.

2.18 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.

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. Treasury shares which are subsequently reissued, sold or cancelled, is recognised as a change in equity.

Interim dividends on ordinary shares and dividends on preference shares are recorded in the year in which they are declared payable by the Board of Directors. Final dividends are recorded in the year when the dividends are approved by shareholders at the annual general meeting.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Recognition of income and expense

2.19.1 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, significant fees and transaction costs integral to the effective interest rate, as well as premiums or discounts, are considered.

For impaired financial assets, interest income is recognised on the carrying amount based on the original effective interest rate of the financial asset.

2.19.2 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 the respective jurisdictions in which they operate. 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 subsidiary.

(b) Non-Participating Fund
Revenue consists of premiums, investment and interest income; including fair value movements of certain assets as prescribed by the appropriate 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. In addition, profit transfers from the Singapore non-participating funds include fair value change of asset values measured in accordance with the Singapore insurance regulations.

(c) Investment-linked Fund
Revenue comprises bid-ask spread, fees for mortality and other insured event, asset management, 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 in accordance with the requirements of the insurance regulations, in respect of the non-unit linked part of the fund. Recurring premiums from policyholders are recognised as revenue on their respective payment due dates. Single premiums are recognised on the date on which the policy is effective.

2.19.3 Premium income from general insurance

Premiums from the general insurance business are recognised as revenue upon commencement of insurance cover. Premiums pertaining to periods after reporting date are adjusted through the unexpired risk reserve (Note 2.17). 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. Premiums ceded out pertaining to periods after reporting date are adjusted through the unexpired risk reserve.

2.19.4 Fees and commissions

The Group earns fees and commissions from a range of services rendered to its customers. Fees and commissions are generally recognised upon the completion of a transaction. For services provided over a period of time or credit risk undertaken, fees and commissions are amortised over the relevant period. Expenses are netted off against gross fees and commissions in the income statement.

2.19.5 Dividends

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

2.19.6 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.

2.19.7 Employee benefits

The Group's compensation package for staff consists of base salaries, allowances, defined contribution plans such as the Central Provident Fund, commissions, cash bonuses, equity compensation schemes and plans. These are recognised in the income statement when incurred. Employee leave entitlements are estimated according to the terms of employment contract and accrued on balance sheet date.

Equity compensation schemes and plan include the Bank's Share Option Schemes, the Employee Share Purchase Plan ("ESP Plan") and the Deferred Share Plan ("DSP"). Equity instruments granted are recognised as expense in the income statement based on the fair value of the equity instrument at the date of the grant. The expense is recognised over the vesting period of the grant, with corresponding entries to equity.

At each balance sheet date, the Group revises its estimates of the number of equity instruments expected to be vested, 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.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Recognition of income and expense (continued)

2.19.7 Employee benefits (continued)

The Group accrues for interest on the monthly contributions made by employees to the savings-based ESP Plan. For the DSP, a trust is set up to administer the shares. The DSP Trust is consolidated in the Group's financial statements.

Proceeds received upon the exercise of options and acquisition rights, net of any directly attributable transaction costs, are credited to share capital.

2.19.8 Lease payments

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 a lease is terminated before its expiry, 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 expense is allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.20 Income tax expense

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, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax computation. 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 does not affect accounting or taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures 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 for utilisation against the temporary differences. 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.

2.21 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. The assets and income from these assets do not belong to the Group, and are therefore excluded from these financial statements.

2.22 Segment reporting

The Group's business segments represent the key customer and product groups, as follows: Global Consumer Banking, Global Corporate Banking, Global Treasury, Insurance and Others. 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 engages in providing products and services within a particular economic environment that is subject to different risks from those of other economic environments. Geographical segment information is prepared based on the country in which the transactions are booked and presented after elimination of intra-group transactions and balances.

2.23 Critical accounting estimates and judgements

Certain estimates are made in the preparation of the financial statements. These often require management judgement in determining the appropriate methodology for valuation of assets and liabilities. A brief description of the Group's critical accounting estimates is set out below.

2.23.1 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 relies on standard industry, reinsurance and national mortality tables which represent historical mortality experience, and makes appropriate adjustments for its respective risk exposures in deriving the mortality and morbidity estimates. These estimates provide the basis in the valuation of the future benefits to be paid to policyholders, ensures adequate provision of reserves which are 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. Epidemics and changing patterns of life style could result in significant changes to the expected future exposures. All of these result in even more uncertainty in estimating the ultimate liabilities.

At each reporting date, these estimates are re-assessed 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.

2.23.2 Impairment of goodwill and intangible assets

The Group performs an annual review of the carrying value of its goodwill and intangible assets, against the recoverable amounts of the CGU to which the goodwill and intangible assets have been allocated. Recoverable amounts of CGUs are determined based on the present value of estimated future cash flows expected to arise from the respective CGUs' continuing operations. Management exercises its judgement in estimating the future cash flows, growth rates and discount rates used in computing the recoverable amounts of the CGUs.

Notes to the Financial Statements

For the financial year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Critical accounting estimates and judgements (continued)

2.23.3 Fair value estimation

Fair value is derived from quoted market prices or valuation techniques which refer to observable market data. The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. Where unobservable data inputs have a significant impact on the value obtained from the valuation model, such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss" is not recognised immediately in the income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is amortised over the life of the transaction, released when the instrument's fair value can be determined using market observable inputs, or when the transaction is derecognised.

2.23.4 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 in estimating 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.

2.23.5 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 at reporting date. The assumptions and judgements used by management may affect these allowances.

2.23.6 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.

2.23.7 Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the policyholder to the Group. There are contracts sold where the Group exercises judgement about the level of insurance risk transferred. Typically, these contracts contain a significant savings component. The level of insurance risk is assessed by considering whether the Group is required to pay significant additional benefits in excess of amounts payable when the insured event occurs. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the policyholder for future services. The assessment covers the whole of the expected term of the contract where such additional benefits could be payable. Some contracts contain options for the policyholder to purchase insurance risk protection at a later date, these insurance risks are deemed not significant.

3. NET INTEREST INCOME

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Interest income				
Loans to non-bank customers	**3,650,920**	3,534,958	**2,496,945**	2,491,126
Placements with and loans to banks	**779,663**	862,837	**573,106**	713,480
Other interest-earning assets	**836,410**	867,517	**583,767**	609,576
	5,266,993	5,265,312	**3,653,818**	3,814,182
Interest expense				
Deposits of non-bank customers	**(1,814,950)**	(2,174,716)	**(1,166,428)**	(1,568,490)
Deposits and balances of banks	**(429,683)**	(569,071)	**(373,785)**	(510,969)
Other borrowings	**(238,962)**	(277,316)	**(257,046)**	(273,742)
	(2,483,595)	(3,021,103)	**(1,797,259)**	(2,353,201)
Analysed by classification of financial instruments				
Income – Assets not at fair value through profit or loss	**5,117,888**	5,132,777	**3,541,249**	3,716,980
Income – Assets at fair value through profit or loss	**149,105**	132,535	**112,570**	97,202
Expense – Liabilities not at fair value through profit or loss	**(2,470,172)**	(3,009,333)	**(1,784,279)**	(2,341,431)
Expense – Liabilities at fair value through profit or loss	**(13,423)**	(11,770)	**(12,981)**	(11,770)
Net interest income	**2,783,398**	2,244,209	**1,856,559**	1,460,981

Included in interest income were interest on impaired assets of $24.7 million (2007: $37.4 million) and $12.5 million (2007: $21.0 million) for the Group and Bank respectively.

Notes to the Financial Statements
For the financial year ended 31 December 2008

4. PROFIT FROM LIFE ASSURANCE

	GROUP	
	2008 $ million	2007 $ million
Income		
Annual	**3,658.7**	3,494.2
Single	**3,225.7**	2,378.5
Gross premiums	**6,884.4**	5,872.7
Reassurances	**(78.7)**	(79.6)
Premium income (net)	**6,805.7**	5,793.1
Investment (loss)/income	**(399.8)**	3,075.5
Total income	**6,405.9**	8,868.6
Expenses		
Gross claims, surrenders and annuities	**(4,261.2)**	(4,874.9)
Claims, surrenders and annuities recovered from reinsurers	**34.2**	31.5
Net claims, surrenders and annuities	**(4,227.0)**	(4,843.4)
Change in life assurance fund contract liabilities (Note 22)	**(1,192.7)**	(2,543.5)
Commission and agency expenses	**(531.1)**	(491.0)
Depreciation – property, plant and equipment (Note 35)	**(52.6)**	(43.1)
Other expenses [1]	**(325.9)**	(218.6)
Total expenses	**(6,329.3)**	(8,139.6)
Surplus from operations	**76.6**	729.0
Share of results of associates and joint ventures	**(31.4)**	65.3
Income tax credit/(expense)	**255.1**	(285.1)
Profit from life assurance	**300.3**	509.2

[1] Included in other expenses were directors' emoluments of $3.9 million (2007: $3.9 million).

Profit from life assurance is presented net of tax in the income statement as the tax liability is borne by the respective life funds.

5. FEES AND COMMISSIONS (NET)

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fee and commission income	**833,817**	891,546	**482,276**	434,917
Fee and commission expense	**(60,300)**	(83,510)	**(28,472)**	(7,304)
Fees and commissions (net)	**773,517**	808,036	**453,804**	427,613
Analysed by major sources:				
Brokerage	**73,559**	136,391	**(101)**	1,763
Credit card	**54,739**	56,406	**38,962**	42,083
Fund management	**78,527**	85,894	**(285)**	(263)
Guarantees	**26,858**	22,536	**21,038**	18,295
Investment banking	**51,008**	41,372	**50,271**	38,308
Loan-related	**152,508**	123,902	**112,962**	87,239
Service charges	**50,418**	44,017	**32,572**	32,191
Trade-related and remittances	**128,515**	115,064	**84,981**	73,698
Wealth management	**132,404**	163,281	**111,615**	132,732
Others	**24,981**	19,173	**1,789**	1,567
	773,517	808,036	**453,804**	427,613

Notes to the Financial Statements
For the financial year ended 31 December 2008

6. DIVIDENDS

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Subsidiaries	**–**	–	**353,022**	563,110
Associates	**–**	–	**2,108**	31,686
Trading securities	**15,004**	6,536	**14,353**	6,386
Available-for-sale securities	**56,707**	48,869	**12,967**	17,120
	71,711	55,405	**382,450**	618,302

7. OTHER INCOME

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Foreign exchange [(1)]	**150,887**	186,003	**107,650**	151,026
Hedging activities [(2)]				
Hedging instruments	**77,109**	(96,384)	**69,566**	(93,453)
Hedged items	**(60,824)**	89,415	**(54,860)**	86,485
Fair value hedges	**16,285**	(6,969)	**14,706**	(6,968)
Ineffective portion of investment hedge	**–**	–	**–**	–
Interest rate and other derivatives [(3)]	**280,237**	(63,028)	**256,163**	(83,416)
Trading securities	**(404,840)**	57,652	**(375,265)**	50,623
Net trading income	**42,569**	173,658	**3,254**	111,265
Disposal of securities classified as available-for-sale	**203,870**	202,151	**53,099**	99,394
Disposal/liquidation of subsidiaries and associates	**(408)**	–	**681,120**	4,680
Disposal of plant and equipment	**385**	(220)	**(26)**	(216)
Disposal of property	**7,970**	97,407	**5,827**	1,928
Computer-related services income	**36,179**	36,903	**–**	–
Property-related income	**8,206**	8,059	**378**	464
Others	**22,218**	18,682	**30,309**	20,831
	320,989	536,640	**773,961**	238,346

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

(2) "Hedging activities" arise from the use of derivatives to hedge exposures to interest rate and foreign exchange risks, which are inherent in the underlying "Hedged items".

(3) "Interest rate and other derivatives" include mainly gains and losses from interest rate, equity options and other derivative instruments.

Notes to the Financial Statements
For the financial year ended 31 December 2008

8. STAFF COSTS AND OTHER OPERATING EXPENSES

	GROUP		BANK	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
8.1 Staff costs				
Salaries and other costs	**929,824**	846,136	**435,070**	412,628
Share-based expenses	**12,617**	9,516	**9,010**	7,044
Contribution to defined contribution plans	**78,497**	68,040	**34,201**	29,889
	1,020,938	923,692	**478,281**	449,561
Directors' emoluments: (1)				
Remuneration of Bank's directors	**7,196**	7,560	**6,087**	5,923
Remuneration of directors of subsidiaries	**12,500**	9,321	**–**	–
Fees of Bank's directors (2)	**2,974**	3,395	**2,069**	2,199
Fees of directors of subsidiaries	**1,813**	2,042	**–**	–
	24,483	22,318	**8,156**	8,122
Total staff costs	**1,045,421**	946,010	**486,437**	457,683
8.2 Other operating expenses				
Property, plant and equipment: (3)				
Depreciation (4)	**115,640**	104,095	**58,404**	51,145
Maintenance and hire	**68,374**	65,532	**26,496**	25,796
Rental expenses	**42,733**	30,433	**66,366**	35,456
Write-off of plant and equipment	**–**	9,521	**–**	8,839
Others	**113,256**	91,535	**62,801**	52,929
	340,003	301,116	**214,067**	174,165
Auditors' remuneration				
Payable to auditors of the Bank	**1,180**	1,120	**853**	823
Payable to associated firms of auditors of the Bank	**694**	565	**160**	398
Payable to other auditors	**1,330**	1,435	**35**	39
	3,204	3,120	**1,048**	1,260
Other fees				
Payable to auditors of the Bank	**67**	407	**37**	407
Payable to associated firms of auditors of the Bank	**303**	787	**117**	30
	370	1,194	**154**	437
Hub processing charges	**–**	–	**137,208**	130,170
General insurance claims	**54,301**	37,663	**–**	–
Others (5)	**411,222**	390,551	**230,182**	229,914
Total other operating expenses	**809,100**	733,644	**582,659**	535,946
8.3 Staff costs and other operating expenses	**1,854,521**	1,679,654	**1,069,096**	993,629

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

(2) Included share-based payment of $0.4 million (2007: $0.5 million) made to non-executive directors.

(3) Direct operating expenses on leased investment property for the Group and the Bank amounted to $18.7 million (2007: $14.4 million) and $6.6 million (2007: $3.9 million) respectively. Direct operating expenses on vacant investment property for the Group and the Bank amounted to $0.6 million (2007: $0.6 million) and $0.4 million (2007: $0.2 million) respectively.

(4) Included depreciation for investment property of $12.9 million (2007: $12.2 million) and $7.0 million (2007: $7.2 million) for the Group and Bank respectively.

(5) Others included professional fees paid to a firm which is related to a director, the amount paid was less than $0.2 million for 2008 and 2007 respectively.

Notes to the Financial Statements
For the financial year ended 31 December 2008

9. ALLOWANCES FOR LOANS AND IMPAIRMENT FOR OTHER ASSETS

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Allowances/(write-back of allowances) for loans (Note 28)	**164,567**	(107,763)	**94,631**	(78,191)
Portfolio allowances for loans (Note 29)	**20,189**	–	**10,184**	–
Impairment charge for available-for-sale securities	**191,943**	3,632	**143,517**	47
Allowances for collateralised debt obligations (CDOs)	**89,512**	230,888	**86,508**	226,249
Write-back for other assets (Note 32)	**(19,461)**	(90,593)	**(19,299)**	(147,777)
Net allowances and impairment	**446,750**	36,164	**315,541**	328

10. INCOME TAX EXPENSE

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current tax expense	**380,682**	458,248	**176,073**	261,021
Deferred tax (credit)/expense (Note 20)	**(15,772)**	14,899	**(8,706)**	8,438
	364,910	473,147	**167,367**	269,459
Over provision in prior periods and tax refunds	**(140,418)**	(117,043)	**(102,680)**	(115,806)
Charge to income statements	**224,492**	356,104	**64,687**	153,653

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

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Operating profit after allowances and amortisation	**2,078,991**	2,518,407	**2,111,932**	1,774,567
Prima facie tax calculated at tax rate of 18% (2007: 18%)	**374,218**	453,313	**380,148**	319,422
Effect of change in tax rates	**2,186**	(3,194)	**–**	(4,262)
Effects of different tax rates in other countries	**60,532**	84,559	**3,186**	14,021
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	**633**	725	**633**	725
Income not assessable for tax	**(25,225)**	(14,466)	**(183,490)**	(39,791)
Income taxed at concessionary rate	**(55,013)**	(21,627)	**(54,795)**	(25,730)
Tax credit on Singapore life assurance fund	**(24,415)**	(38,397)	**–**	–
Amortisation of intangibles	**8,365**	8,350	**–**	–
Non-deductible allowances/(non-taxable write-backs)	**4,702**	(8,816)	**3,120**	(1,730)
Others	**18,927**	12,700	**18,565**	6,804
	364,910	473,147	**167,367**	269,459
The deferred tax (credit)/expense comprised:				
Accelerated tax depreciation	**9,957**	4,273	**8,760**	1,855
Allowances/(write-back of allowances) for assets	**(18,941)**	(2,148)	**(17,913)**	3,922
Debt and equity securities	**(3,008)**	5,993	**(424)**	(985)
Fair value on properties from business combinations	**2,822**	241	**2,152**	2,034
Tax losses	**(2,415)**	2,254	**–**	1,686
Others	**(4,187)**	4,286	**(1,281)**	(74)
	(15,772)	14,899	**(8,706)**	8,438

Notes to the Financial Statements
For the financial year ended 31 December 2008

11. EARNINGS PER SHARE

$'000	GROUP 2008	GROUP 2007
Profit attributable to ordinary equity holders of the Bank	**1,749,443**	2,070,754
Preference dividends paid	**(59,352)**	(39,125)
Profit attributable to ordinary equity holders of the Bank after preference dividends	**1,690,091**	2,031,629
Weighted average number of ordinary shares ('000)		
For basic earnings per share	**3,094,473**	3,081,324
Adjustment for assumed conversion of share options and acquisition rights	**8,781**	16,794
For diluted earnings per share	**3,103,254**	3,098,118
Earnings per share (cents)		
Basic	**54.6**	65.9
Diluted	**54.5**	65.6

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders of the Bank net of preference dividends by the weighted average number of ordinary shares in issue during the financial year.

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from dilutive share options and acquisition rights, with the potential ordinary shares weighted for the period outstanding.

12. UNAPPROPRIATED PROFIT

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Profit attributable to equity holders of the Bank	**1,749,443**	2,070,754	**2,047,245**	1,620,914
Add: Unappropriated profit at 1 January	**5,755,694**	4,120,811	**2,799,983**	1,680,138
Total amount available for appropriation	**7,505,137**	6,191,565	**4,847,228**	3,301,052
Appropriated as follows:				
Ordinary dividends:				
2006 final tax exempt dividend of 12 cents	**–**	(369,746)	**–**	(369,746)
2007 interim dividend of 14 cents net of Malaysia tax	**–**	(431,824)	**–**	(431,824)
2007 final tax exempt dividend of 14 cents	**(433,244)**	–	**(433,244)**	–
2008 interim tax exempt dividend of 14 cents	**(433,985)**	–	**(433,985)**	–
Preference dividends:				
Class B 5.1% tax exempt	**(20,120)**	–	**(20,120)**	–
Class E 4.5% tax exempt (2007: 4.5% tax exempt)	**(22,562)**	(22,500)	**(22,562)**	(22,500)
Class G 4.2% tax exempt (2007: 4.2% net of Malaysia tax)	**(16,670)**	(16,625)	**(16,670)**	(16,625)
Transfer from:				
Capital reserves (Note 14)	**363,562**	404,824	**339,626**	339,626
General reserves (Note 15.1)	**307**	–	**292**	–
	(562,712)	(435,871)	**(586,663)**	(501,069)
At 31 December (Note 15)	**6,942,425**	5,755,694	**4,260,565**	2,799,983

At the annual general meeting to be held, a final one-tier tax exempt dividend of 14 cents per ordinary share in respect of the financial year ended 31 December 2008, totalling $434.1 million, will be proposed. The dividends will be accounted for as a distribution in the 2009 financial statements.

Notes to the Financial Statements
For the financial year ended 31 December 2008

13. SHARE CAPITAL
13.1 Issued share capital

GROUP AND BANK	2008 Shares ('000)	2007 Shares ('000)	2008 $'000	2007 $'000
Ordinary shares				
At 1 January	**3,126,513**	3,126,460	**4,941,919**	4,941,417
Shares issued to non-executive directors	**53**	53	**449**	502
Preference shares' issue expense	**–**	–	**(1,339)**	–
Transfer from share-based reserves for options and rights exercised (Note 14)	**–**	–	**28,913**	–
At 31 December	**3,126,566**	3,126,513	**4,969,942**	4,941,919
Treasury shares				
At 1 January	**(40,292)**	(51,669)	**(317,609)**	(356,305)
Share buyback – held in treasury	**–**	(4,986)	**–**	(43,491)
Share Option Schemes	**4,997**	14,951	**34,177**	100,616
Share Purchase Plan	**5,457**	1,412	**37,317**	9,641
Treasury shares transferred to DSP Trust	**4,091**	–	**31,141**	–
Loss on treasury shares transferred/sold	**–**	–	**(13,291)**	(28,070)
At 31 December	**(25,747)**	(40,292)	**(228,265)**	(317,609)
Preference shares				
At 1 January:				
Class E	**5,000**	5,000	**500,000**	500,000
Class G	**395,831**	395,831	**395,831**	395,831
			895,831	895,831
Class B shares issued during the year	**10,000**	–	**1,000,000**	–
At 31 December			**1,895,831**	895,831
Issued share capital, at 31 December			**6,637,508**	5,520,141

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and 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.

Details of the Bank's non-cumulative non-convertible preference shares are set out in the table below. Preference dividends are payable semi-annually in arrears on 20 June and 20 December, subject to directors' approval. Preference shareholders will only be entitled to attend and vote at general meetings of the Bank if dividends have not been paid in full when due for a consecutive period of 12 months or more.

The issued ordinary shares and Class B, Class E and Class G non-cumulative non-convertible preference shares qualify as Tier 1 capital for the Group.

Preference shares	Date of issue	Dividend rate p.a.	Liquidation preference	Redemption option by the Bank on these dates
Class B	29 Jul 2008	5.1%	SGD100	29 Jul 2013; dividend payment dates after 29 Jul 2013
Class E	28 Jan 2003	4.5%	SGD100	28 Jan 2008; 28 Jan 2013; dividend payment dates after 28 Jan 2013
Class G	14 Jul 2003	4.2%	SGD1	14 Jan 2008; 14 Jul 2013; dividend payment dates after 14 Jul 2013

At 31 December 2008, associates of the Group held 420 (2007: 420) ordinary shares and nil Class B, E (2007: 2,500) and G preference shares in the capital of the Bank.

Notes to the Financial Statements

For the financial year ended 31 December 2008

13. SHARE CAPITAL (continued)

13.2 Share option schemes

In March 2008, the Bank granted 5,579,220 options (2007: 5,510,350) to acquire ordinary shares in the Bank pursuant to OCBC Share Option Scheme 2001. This included 650,000 (2007: 751,000) options granted to directors of the Bank. The fair value of options granted, determined using the binomial valuation model, was $9.9 million (2007: $9.4 million). Significant inputs to the valuation model are set out below:

	2008	2007
Acquisition price ($)	**7.52**	7.60 – 8.59
Average share price from grant date to acceptance date ($)	**8.16**	7.75 – 9.00
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	**25.23**	17.15 – 20.21
Risk-free rate based on SGS bond yield at acceptance date (%)	**1.63 and 2.27**	2.73 – 3.11
Expected dividend yield (%)	**3.43**	2.56 – 2.97
Exercise multiple (times)	**1.57**	1.57
Option life (years)	**5 and 10**	5 and 10

Movements in the number of options and the average acquisition prices are as follows:

	2008		2007	
	Number of options	Average price	Number of options	Average price
At 1 January	**43,412,224**	**$5.708**	53,868,989	$5.231
Granted	**5,579,220**	**$7.520**	5,510,350	$8.510
Exercised	**(5,141,052)**	**$4.671**	(15,368,896)	$5.004
Forfeited/lapsed	**(760,940)**	**$6.851**	(598,219)	$6.670
At 31 December	**43,089,452**	**$6.046**	43,412,224	$5.708
Exercisable options at 31 December	**32,591,779**	**$5.508**	31,550,155	$5.107
Average share price underlying the options exercised		**$7.826**		$8.904

At 31 December 2008, the weighted average remaining contractual life of outstanding share options was 5.4 years (2007: 5.7 years). The aggregate outstanding number of options held by directors of the Bank was 4,951,800 (2007: 4,503,400).

13.3 Employee share purchase plan

In June 2008, the Bank launched its third offering of ESP Plan for Group employees to acquire the Bank's ordinary shares at $8.27 per share, which commenced on 1 July 2008 and expire on 30 June 2010. The fair value of rights, determined using the binomial valuation model was $13.1 million. Significant inputs to the model were average share price of $8.08, expected volatility of 24.17%, dividend yield of 2.4% and annual risk-free interest rate based on 2-year swap rate of 2.74%.

Movements in the number of acquisition rights of the ESP Plan are as follows:

	2008		2007	
	Number of acquisition rights	Acquisition price	Number of acquisition rights	Acquisition price
At 1 January	**5,483,991**	**$6.450**	7,640,257	$6.450
Exercised and conversion upon expiry	**(5,456,660)**	**$6.450**	(1,411,607)	$6.450
Forfeited	**(1,236,787)**	**$8.230**	(744,659)	$6.450
Subscription	**11,423,533**	**$8.270**	–	–
At 31 December	**10,214,077**	**$8.270**	5,483,991	$6.450
Average share price underlying acquisition rights exercised/converted		**$8.328**		$8.963

At 31 December 2008, a director of the Bank has 8,706 (2007: 11,162) acquisition rights under the ESP Plan.

Notes to the Financial Statements

For the financial year ended 31 December 2008

13. SHARE CAPITAL (continued)

13.4 Deferred share plan

During the year, 4,424,988 (2007: 1,438,600) ordinary shares were granted to executives of the Group, of which 202,469 (2007: 80,287) were granted to a director of the Bank. The fair value of the shares at grant date was $33.6 million (2007: $12.4 million).

During the year, 1,161,934 (2007: 868,964) deferred shares were released to employees, of which 130,790 (2007: 93,866) were released to directors. At 31 December 2008, the directors of the Bank have deemed interest of 422,902 (2007: 336,743) deferred shares.

14. CAPITAL RESERVES

	GROUP		BANK	
	2008	2007	**2008**	2007
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	**1,732,178**	2,131,073	**1,452,581**	1,781,292
Share-based staff costs capitalised	**15,012**	10,915	**15,012**	10,915
Shares purchased by DSP Trust	**(33,140)**	(10,540)	**–**	–
Shares vested under DSP Scheme	**7,581**	5,554	**–**	–
Transfer to unappropriated profit (Note 12)	**(363,562)**	(404,824)	**(339,626)**	(339,626)
Transfer to share capital (Note 13.1)	**(28,913)**	–	**(28,913)**	–
At 31 December	**1,329,156**	1,732,178	**1,099,054**	1,452,581

Capital reserves include statutory reserves set aside by the Group's banking and stockbroking entities in accordance with the respective laws and regulations. For banking entities operating in Singapore, the requirement to set aside statutory reserves was spelt out in section 22(1) of the Banking Act (Cap. 19). This section was repealed with effect from 31 March 2007 and no further transfer of profits to statutory reserves is required. Under the Banking (Reserve Fund) (Transitional Provision) Regulation 2007, the Bank may distribute or utilise its statutory reserves, subject to a cap of 20% of the reserve fund as of 30 March 2007 for each calendar year. Other capital reserves include the Bank's employee share schemes' reserves and deferred shares held by DSP Trust.

15. REVENUE RESERVES

	GROUP		BANK	
	2008	2007	**2008**	2007
	$'000	**$'000**	**$'000**	**$'000**
Unappropriated profit (Note 12)	**6,942,425**	5,755,694	**4,260,565**	2,799,983
General reserves	**1,322,893**	1,320,155	**978,753**	976,000
Currency translation reserves	**(580,157)**	(376,542)	**(163,178)**	(66,226)
At 31 December	**7,685,161**	6,699,307	**5,076,140**	3,709,757

15.1 General reserves

At 1 January	**1,320,155**	1,320,155	**976,000**	976,000
DSP reserve from dividends on unvested shares	**3,045**	–	**3,045**	–
Transfer to unappropriated profits (Note 12)	**(307)**	–	**(292)**	–
At 31 December	**1,322,893**	1,320,155	**978,753**	976,000

15.2 Currency translation reserves

At 1 January	**(376,542)**	(316,422)	**(66,226)**	(94,298)
Adjustments for the year	**(227,417)**	(94,531)	**(100,531)**	16,457
Effective portion of hedge	**23,802**	34,411	**3,579**	11,615
At 31 December	**(580,157)**	(376,542)	**(163,178)**	(66,226)

Currency translation reserves comprise exchange differences arising from the translation of the net assets of foreign operations and the effective portion of the hedge on exposure in foreign operations.

Notes to the Financial Statements

For the financial year ended 31 December 2008

16. MINORITY INTERESTS

	GROUP 2008 $'000	2007 $'000
Minority interests in subsidiaries	**620,272**	587,334
Preference shares issued by subsidiaries		
OCBC Bank (Malaysia) Berhad	**165,796**	173,888
OCBC Capital Corporation	**400,000**	400,000
OCBC Capital Corporation (2008)	**1,500,000**	–
Total minority interests	**2,686,068**	1,161,222

OCBC Bank (Malaysia) Berhad ("OBMB"), a wholly-owned subsidiary of the Bank, issued the RM400 million non-cumulative non-convertible preference shares on 12 August 2005. The preference shares are redeemable in whole at the option of OBMB on 12 August 2015 and on each dividend payment date thereafter. Dividends, payable at the discretion of the Board of Directors of OBMB, shall be made semi-annually on 20 March and 20 September in each year. On or prior to the 10th anniversary, dividend is fixed at 4.51% per annum on net dividend basis and thereafter, at a floating rate which will be determined for each dividend payment based on the 6-month Kuala Lumpur Interbank Offer Rate plus 1.9% less prevailing Malaysian corporate tax if the redemption option is not exercised.

OCBC Capital Corporation ("OCC"), a wholly-owned subsidiary of the Bank, issued the $400 million non-cumulative non-convertible guaranteed preference shares ("OCC-A Preference Shares") on 2 February 2005. The proceeds were on-lent to the Bank in exchange for a note issued by the Bank (Note 21.1), which guarantees on a subordinated basis, all payment obligations in respect of the OCC-A Preference Shares. The shares are redeemable in whole 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 20 March and 20 September in each year to 20 March 2015 at 3.93% per annum and thereafter, payable quarterly at a floating rate equal to the 3-month Singapore Swap Offer Rate plus 1.85% if the redemption option is not exercised. The preference shares qualify as Tier 1 capital for the Group.

OCBC Capital Corporation (2008) ("OCC2008"), a wholly-owned subsidiary of the Bank, issued the $1.5 billion non-cumulative non-convertible guaranteed preference shares ("OCC2008-B Preference Shares") on 27 August 2008. The proceeds were on-lent to the Bank in exchange for a note issued by the Bank (Note 21.1), which guarantees on a subordinated basis, all payment obligations in respect of the OCC2008 Preference Shares. The shares are redeemable in whole at the option of OCC2008 on 20 September 2018 and on each dividend payment date thereafter. Dividends, if declared by the Board of Directors of OCC2008, are payable semi-annually on 20 March and 20 September in each year to 20 September 2018 at 5.1% per annum and thereafter, payable quarterly at a floating rate equal to the 3-month Singapore Swap Offer Rate plus 2.5% if the redemption option is not exercised. The preference shares qualify as Tier 1 capital for the Group.

Notes to the Financial Statements
For the financial year ended 31 December 2008

17. DEPOSITS AND BALANCES OF NON-BANK CUSTOMERS AND BANKS

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deposits of non-bank customers				
Current accounts	**16,090,004**	12,538,308	**12,655,242**	9,759,688
Savings deposits	**16,104,417**	12,999,311	**14,392,344**	11,291,823
Term deposits	**54,259,733**	54,993,992	**42,446,111**	44,724,063
Structured deposits	**2,958,088**	3,770,988	**2,422,407**	3,505,284
Certificate of deposits issued	**1,515,766**	1,015,258	**1,168,051**	905,252
Other deposits	**3,150,413**	3,470,537	**153,425**	229,006
	94,078,421	88,788,394	**73,237,580**	70,415,116
Deposits and balances of banks	**10,113,219**	14,726,082	**9,048,750**	13,023,929
	104,191,640	103,514,476	**82,286,330**	83,439,045

17.1 Deposits of non-bank customers
Analysed by currency

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
Singapore Dollar	**53,745,472**	52,873,226	**53,540,225**	52,689,903
US Dollar	**12,104,820**	11,472,660	**10,924,873**	10,359,859
Malaysian Ringgit	**14,671,512**	13,632,898	**–**	–
Indonesian Rupiah	**3,038,517**	2,903,460	**1**	–
Japanese Yen	**667,583**	846,667	**650,286**	835,834
Hong Kong Dollar	**1,620,754**	1,243,826	**1,620,535**	1,243,742
British Pound	**1,079,947**	1,298,226	**1,053,990**	1,282,650
Australian Dollar	**4,071,475**	2,591,494	**3,743,605**	2,502,868
Euro	**892,126**	757,884	**850,143**	736,698
Others	**2,186,215**	1,168,053	**853,922**	763,562
	94,078,421	88,788,394	**73,237,580**	70,415,116

17.2 Deposits and balances of banks
Analysed by currency

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
Singapore Dollar	**1,210,810**	3,645,225	**1,210,810**	3,645,225
US Dollar	**4,649,713**	7,608,540	**4,435,646**	6,682,017
Malaysian Ringgit	**692,733**	408,221	**–**	–
Indonesian Rupiah	**1,201**	41,607	**–**	–
Japanese Yen	**130,574**	170	**130,573**	170
Hong Kong Dollar	**1,478,667**	1,038,959	**1,478,666**	1,038,959
British Pound	**330,916**	174,903	**330,916**	174,693
Australian Dollar	**204,395**	362,011	**202,574**	361,179
Euro	**847,719**	843,720	**826,463**	843,720
Others	**566,491**	602,726	**433,102**	277,966
	10,113,219	14,726,082	**9,048,750**	13,023,929

Notes to the Financial Statements

For the financial year ended 31 December 2008

18. 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.

	2008			2007		
GROUP ($'000)	**Principal notional amount**	**Derivative receivables**	**Derivative payables**	**Principal notional amount**	**Derivative receivables**	**Derivative payables**
Foreign exchange derivatives "FED"						
Forwards	**29,561,053**	**1,248,615**	**1,054,396**	34,330,587	245,798	267,185
Swaps	**63,289,062**	**1,241,613**	**2,597,304**	69,512,048	1,091,064	1,051,689
OTC options – bought	**5,306,449**	**241,978**	**98**	6,214,438	83,752	1,933
OTC options – sold	**4,945,635**	**102**	**224,104**	4,645,703	1,933	51,225
Exchange traded options – bought	**–**	**–**	**–**	55	13	–
Exchange traded options – sold	**–**	**–**	**–**	55	–	13
	103,102,199	**2,732,308**	**3,875,902**	114,702,886	1,422,560	1,372,045
Interest rate derivatives "IRD"						
Forwards	**400,000**	**–**	**300**	3,500,000	1,074	1,310
Swaps	**244,415,954**	**3,696,927**	**3,546,240**	209,638,207	1,403,750	1,197,833
OTC options – bought	**4,899,190**	**56,179**	**–**	5,034,437	24,499	7
OTC options – sold	**5,106,568**	**–**	**30,316**	2,287,761	7	9,519
Exchange traded futures – bought	**1,749,643**	**5,607**	**292**	2,173,864	1,208	298
Exchange traded futures – sold	**461,109**	**600**	**3,814**	590,617	1,198	625
	257,032,464	**3,759,313**	**3,580,962**	223,224,886	1,431,736	1,209,592
Equity derivatives						
Forwards	**–**	**–**	**–**	5,489	292	–
Swaps	**550,202**	**14,351**	**3,318**	86,505	2,769	2,769
OTC options – bought	**269,044**	**21,084**	**22**	357,177	47,283	–
OTC options – sold	**250,926**	**22**	**21,348**	332,698	–	62,828
Exchange traded futures – bought	**1,715**	**19**	**–**	4,160	6	61
Exchange traded futures – sold	**629**	**–**	**27**	11,003	89	50
	1,072,516	**35,476**	**24,715**	797,032	50,439	65,708
Credit derivatives						
Swaps – protection buyer	**1,953,489**	**91,956**	**25,597**	–	–	–
Swaps – protection seller	**1,821,065**	**18,017**	**150,713**	275,262	319	17,331
	3,774,554	**109,973**	**176,310**	275,262	319	17,331
Other derivatives						
Precious metals – bought	**126**	**–**	**2**	10,263	214	–
Precious metals – sold	**126**	**2**	**–**	4,556	–	23
OTC options – bought	**–**	**–**	**–**	12,297	695	–
OTC options – sold	**–**	**–**	**–**	12,308	–	728
Others	**922,319**	**17,565**	**17,565**	885,962	31,119	31,119
	922,571	**17,567**	**17,567**	925,386	32,028	31,870
Total	**365,904,304**	**6,654,637**	**7,675,456**	339,925,452	2,937,082	2,696,546
Included items designated for hedges:						
Fair value hedge – FED	**2,643,795**	**249,654**	**509,629**	2,668,538	266,471	519,874
Fair value hedge – IRD	**5,135,848**	**316,821**	**91,352**	5,156,237	172,012	28,087
Hedge of net investments – FED	**11,770**	**367**	**–**	2,892,430	20,317	7,288
	7,791,413	**566,842**	**600,981**	10,717,205	458,800	555,249

Notes to the Financial Statements

For the financial year ended 31 December 2008

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

BANK ($'000)	2008 Principal notional amount	2008 Derivative receivables	2008 Derivative payables	2007 Principal notional amount	2007 Derivative receivables	2007 Derivative payables
Foreign exchange derivatives "FED"						
Forwards	**26,496,895**	**1,212,152**	**1,033,570**	29,663,538	220,914	239,986
Swaps	**58,277,257**	**1,129,136**	**2,510,878**	65,970,598	1,056,739	1,014,341
OTC options – bought	**3,520,322**	**162,231**	**94**	5,385,253	79,868	1,604
OTC options – sold	**3,926,342**	**93**	**194,903**	4,075,097	1,604	47,017
	92,220,816	**2,503,612**	**3,739,445**	105,094,486	1,359,125	1,302,948
Interest rate derivatives "IRD"						
Forwards	**400,000**	**–**	**300**	3,500,000	1,074	1,310
Swaps	**234,098,576**	**3,532,156**	**3,433,657**	200,402,230	1,364,831	1,172,321
OTC options – bought	**4,515,977**	**51,622**	**–**	4,349,764	20,104	–
OTC options – sold	**4,864,979**	**–**	**29,590**	2,021,469	–	8,616
Exchange traded futures – bought	**1,749,643**	**5,607**	**292**	2,169,546	1,196	298
Exchange traded futures – sold	**461,109**	**600**	**3,814**	581,992	1,198	625
	246,090,284	**3,589,985**	**3,467,653**	213,025,001	1,388,403	1,183,170
Equity derivatives						
Forwards	**–**	**–**	**–**	5,489	292	–
Swaps	**476,962**	**14,164**	**3,132**	86,505	2,769	2,769
OTC options – bought	**64,264**	**9,451**	**–**	284,215	34,914	–
OTC options – sold	**78,159**	**–**	**11,211**	271,469	–	51,561
Exchange traded futures – bought	**1,715**	**19**	**–**	4,160	6	61
Exchange traded futures – sold	**629**	**–**	**27**	11,003	89	50
	621,729	**23,634**	**14,370**	662,841	38,070	54,441
Credit derivatives						
Swaps – protection buyer	**1,953,489**	**91,956**	**25,597**	–	–	–
Swaps – protection seller	**1,821,065**	**18,017**	**150,713**	275,262	319	17,331
	3,774,554	**109,973**	**176,310**	275,262	319	17,331
Other derivatives						
Precious metals – bought	**126**	**–**	**2**	9,657	209	–
Precious metals – sold	**126**	**2**	**–**	3,950	–	18
OTC options – bought	**–**	**–**	**–**	5,847	694	–
OTC options – sold	**–**	**–**	**–**	5,858	–	728
Others	**922,319**	**17,565**	**17,565**	885,962	31,119	31,119
	922,571	**17,567**	**17,567**	911,274	32,022	31,865
Total	**343,629,954**	**6,244,771**	**7,415,345**	319,968,864	2,817,939	2,589,755
Included items designated for hedges:						
Fair value hedge – FED	**2,629,435**	**249,654**	**508,958**	2,668,538	266,471	519,874
Fair value hedge – IRD	**4,884,923**	**307,190**	**85,176**	5,027,630	171,984	25,245
Hedge of net investments – FED	**11,770**	**367**	**–**	451,842	4,001	–
	7,526,128	**557,211**	**594,134**	8,148,010	442,456	545,119

Notes to the Financial Statements
For the financial year ended 31 December 2008

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	GROUP		BANK	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Derivative receivables:				
Analysed by counterparty				
Banks	**5,492,660**	2,402,939	**5,293,406**	2,325,692
Other financial institutions	**271,275**	194,433	**271,117**	194,068
Corporates	**747,578**	214,773	**558,781**	184,659
Individuals	**117,291**	123,485	**95,634**	112,080
Others	**25,833**	1,452	**25,833**	1,440
	6,654,637	2,937,082	**6,244,771**	2,817,939
Analysed by geography				
Singapore	**2,893,737**	1,018,597	**2,895,389**	1,008,081
Malaysia	**407,976**	103,770	**49,195**	11,802
Other ASEAN	**73,681**	42,389	**46,063**	41,255
Greater China	**223,666**	76,234	**219,712**	77,985
Other Asia Pacific	**423,082**	205,071	**422,838**	193,021
Rest of the World	**2,632,495**	1,491,021	**2,611,574**	1,485,795
	6,654,637	2,937,082	**6,244,771**	2,817,939

The analysis by geography is determined based on where the credit risk resides.

19. OTHER LIABILITIES

	GROUP		BANK	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Bills payable	**267,454**	313,548	**135,693**	177,297
Interest payable	**496,220**	622,388	**358,852**	508,850
Sundry creditors	**1,542,942**	1,951,756	**254,504**	211,315
Others	**623,243**	425,478	**194,549**	167,243
	2,929,859	3,313,170	**943,598**	1,064,705

At 31 December 2008, reinsurance liabilities included in "Others" amounted to $19.7 million (2007: $16.1 million).

20. DEFERRED TAX

	GROUP		BANK	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	**1,117,244**	949,057	**122,464**	134,921
Currency translation and others	**5,294**	(477)	**81**	44
(Credit)/expense to income statements	**(17,952)**	18,093	**(8,706)**	12,700
Effect of change in tax rates	**2,180**	(3,194)	**–**	(4,262)
Net (credit)/expense to income statements (Note 10)	**(15,772)**	14,899	**(8,706)**	8,438
Over provision in prior years	**(5,956)**	(5,167)	**(12,474)**	(5,167)
Deferred tax on fair value changes	**(145,627)**	(4,060)	**(79,368)**	(7,095)
Effect of change in tax rates	**(517)**	(13,598)	–	(8,677)
Net deferred tax change taken to equity	**(146,144)**	(17,658)	**(79,368)**	(15,772)
Net change in life assurance fund tax	**(477,901)**	176,590	**–**	–
Arising from acquisition of subsidiaries	**1,597**	–	**–**	–
At 31 December	**478,362**	1,117,244	**21,997**	122,464

Notes to the Financial Statements
For the financial year ended 31 December 2008

20. DEFERRED TAX (continued)
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	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred tax liabilities	**576,063**	1,162,693	**41,154**	123,130
Deferred tax assets	**(97,701)**	(45,449)	**(19,157)**	(666)
	478,362	1,117,244	**21,997**	122,464

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

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
Accelerated tax depreciation	**58,596**	43,710	**24,504**	15,746
Debt and equity securities	**56,176**	348,618	**(1,825)**	77,958
Fair value on properties from business combinations	**80,103**	77,281	**74,110**	71,957
Provision for policy liabilities	**397,313**	734,977	**–**	–
Unremitted income and others	**22,949**	9,587	**720**	360
Deferred tax liabilities	**615,137**	1,214,173	**97,509**	166,021
Allowances for assets	**(105,432)**	(88,686)	**(67,818)**	(40,467)
Tax losses	**(3,390)**	(973)	**(643)**	(639)
Others	**(27,953)**	(7,270)	**(7,051)**	(2,451)
Deferred tax assets	**(136,775)**	(96,929)	**(75,512)**	(43,557)
Net deferred tax liabilities	**478,362**	1,117,244	**21,997**	122,464

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 2008, unutilised tax losses for which no deferred income tax asset has been recognised amounted to $20.6 million (2007: $22.5 million) and nil (2007: $1.4 million) for the Group and Bank respectively.

21. DEBTS ISSUED

	GROUP	
	2008 $'000	2007 $'000
Subordinated debts (unsecured) [Note 21.1]	**5,154,684**	4,365,919
Commercial papers (unsecured) [Note 21.2]	**842,987**	574,910
Structured notes (unsecured) [Note 21.3]	**11,858**	28,748
	6,009,529	4,969,577

Notes to the Financial Statements
For the financial year ended 31 December 2008

21. DEBTS ISSUED (continued)
21.1 Subordinated debts (unsecured)

				GROUP	
				2008	2007
	Note	Issue Date	Maturity Date	$'000	$'000
Issued by the Bank:					
EUR400 million 7.25% notes	(a)	6 Jul 2001	6 Sep 2011	**860,775**	874,598
SGD975 million 5% notes	(a)	6 Jul 2001	6 Sep 2011	**1,025,115**	1,002,903
USD1.25 billion 7.75% notes	(a)	6 Jul 2001	6 Sep 2011	**2,008,715**	1,925,764
SGD225 million 3.78% notes	(b)	28 Nov 2007	28 Nov 2017	**235,958**	225,098
MYR1 billion 4.6% bonds	(c)	27 Mar 2008	27 Mar 2018	**414,187**	–
MYR600 million 4.6% bonds	(c)	6 Jun 2008	6 Jun 2018	**275,039**	–
SGD400 million 3.93% notes	(d)	2 Feb 2005	20 Mar 2055	**400,000**	400,000
SGD1.5 billion 5.1% notes	(e)	27 Aug 2008	20 Sep 2058	**1,500,000**	–
				6,719,789	4,428,363
Subordinated debts issued to subsidiaries				**(1,900,000)**	(400,000)
Net subordinated debts issued by the Bank				**4,819,789**	4,028,363
Issued by OCBC Bank (Malaysia) Berhad:					
MYR200 million Islamic bonds	(f)	24 Nov 2006	24 Nov 2021	**82,898**	86,944
MYR400 million bonds	(g)	30 Nov 2007	30 Nov 2017	**173,897**	173,920
				256,795	260,864
Issued by P.T. Bank OCBC NISP Tbk:					
Series A – IDR455 billion				**–**	69,506
Series B – USD5 million				**–**	7,186
Subordinated Bonds I	(h)	10 Mar 2003	12 Mar 2013	**–**	76,692
Subordinated Bonds II – IDR600 billion	(i)	12 Mar 2008	11 Mar 2018	**78,100**	–
				78,100	76,692
Total subordinated debts				**5,154,684**	4,365,919

(a) Interest is payable at fixed interest rates, semi-annually on 6 March and 6 September in each year for the SGD and USD subordinated notes and annually on 6 September in each year for the EUR subordinated notes. The Bank has entered into interest rate and currency swaps to manage the interest rate and foreign exchange risks of the subordinated notes. The cumulative fair value change of the risks hedged is included in the carrying value. Currently, 40% of these subordinated notes qualify as Tier 2 capital for the Group.

(b) Interest is payable semi-annually on 28 May and 28 November in each year to 28 November 2012 at 3.78% per annum and thereafter, quarterly at a floating rate equal to the 3-month Singapore Swap Offer Rate plus 1.72%. The subordinated notes are redeemable in whole at the option of the Bank on 28 November 2012. The Bank has entered into interest rate swaps to hedge the risk of the subordinated notes. The cumulative fair value change of the risk hedged is included in the carrying value. The subordinated bonds qualify as Tier 2 capital for the Group.

(c) Interest is payable semi-annually at 4.6% per annum for the first 5 years. The subordinated bonds are redeemable in whole at the option of the Bank on the 5th anniversary of the issue date and on every coupon payment date thereafter. If the redemption option is not exercised, the interest rate will be reset to 5.6% per annum, payable semi-annually from the 6th year. The Bank has entered into interest rate swaps to manage the interest rate risks of the MYR600 million subordinated bonds and the cumulative fair value change of the risks hedged is included in the carrying value. The subordinated bonds qualify as Tier 2 capital for the Group.

(d) The subordinated notes were issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation in exchange for the proceeds from the issue of the OCC-A Preference Shares (Note 16). Interest will, if payable, be made semi-annually on 20 March and 20 September in each year to 20 March 2015 at 3.93% per annum and thereafter, quarterly at a floating rate equal to the 3-month Singapore Swap Offer Rate plus 1.85%.

Notes to the Financial Statements
For the financial year ended 31 December 2008

21. DEBTS ISSUED (continued)
21.1 Subordinated debts (unsecured) (continued)
(e) The subordinated notes were issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation (2008) in exchange for the proceeds from the issue of the OCC2008 Preference Shares (Note 16). Interest will, if payable, be made semi-annually on 20 March and 20 September in each year to 20 September 2018 at 5.1% per annum and thereafter, quarterly at a floating rate equal to the 3-month Singapore Swap Offer Rate plus 2.5%.

(f) The redeemable Islamic subordinated bonds were issued under the Mudharabah (profit sharing) principle at a projected constant rate of 5.4% per annum, payable semi-annually, for the first 10 years. The subordinated bonds are redeemable in whole at the option of OBMB on the 10th anniversary from the issue date and on every profit payment date thereafter. If the redemption option is not exercised, there will be a step-up of 100 basis points from the 11th year, and the subordinated bonds shall be redeemed in full in 5 equal and consecutive annual payments, with the first redemption commencing on the date falling on the expiry of 11 years from the issue date. The subordinated bonds qualify as Tier 2 capital for the Group.

(g) Interest is payable semi-annually at 4.55% for the first 5 years. The subordinated bonds are redeemable in whole on the 5th anniversary and on every coupon payment date thereafter. If the redemption option is not exercised by OBMB, there will be a step-up of 100 basis points from the 6th year and the subordinated bonds shall be redeemed in full by 5 equal and consecutive annual payments with the first redemption commencing on the 6th anniversary of the issue date. OBMB has entered into interest rate swaps to manage the risks of the subordinated bonds. The cumulative fair value change of the risk hedged is included in the carrying value. The subordinated bonds qualify as Tier 2 capital for the Group.

(h) The subordinated bonds were redeemed in whole by P.T. Bank OCBC NISP on 12 March 2008.

(i) Interest is payable quarterly at 11.1% per annum for the first 5 years. If the bonds are not redeemed in whole by P.T. Bank OCBC NISP on 12 March 2013, the interest rate will be reset to 19.1% per annum.

21.2 Commercial papers (unsecured)

	GROUP	
	2008 $'000	**2007 $'000**
Issued by the Bank [Note (a)]	**822,288**	574,910
Issued by a subsidiary [Note (b)]	**20,699**	–
	842,987	574,910

(a) The zero coupon Euro Commercial Papers ("ECP") were issued by the Bank under its USD2 billion ECP programme established in 2004. The notes outstanding at 31 December 2008 were issued between 10 September 2008 (2007: 28 June 2007) and 29 December 2008 (2007: 28 December 2007), and mature between 5 January 2009 (2007: 2 January 2008) and 2 March 2009 (2007: 28 February 2008), yielding between 0.42% and 4.90% (2007: 2.25% and 9.20%).

(b) The commercial papers were issued by the Group's leasing subsidiary under its MYR200 million 7-year CP/MTN programme expiring in 2012. The notes outstanding as at 31 December 2008 were issued between 10 October 2008 and 19 December 2008, and mature between 9 January 2009 and 23 January 2009, with interest rate ranging from 3.90% to 4.15%.

Notes to the Financial Statements
For the financial year ended 31 December 2008

21. DEBTS ISSUED (continued)
21.3 Structured notes (unsecured)

				GROUP AND BANK	
				2008	2007
Issued by the Bank:	Note	Issue Date	Maturity Date	$'000	$'000
USD10 million Series 10-CRAN	(a)	19 Oct 2004	19 Oct 2014	–	14,374
USD10 million Series 15-CRAN	(a)	11 Apr 2005	11 Apr 2015	–	14,374
Callable range accrual notes ("CRAN")				–	28,748
Equity CRAN notes	(b)	27 Aug 2008	27 Aug 2009	**1,398**	–
Equity linked notes	(c)	10 – 31 Dec 2008	7 – 29 Jan 2009	**460**	–
Credit linked notes	(d)	17 Nov 2008	20 Dec 2013	**10,000**	–
				11,858	28,748

(a) Both notes were early redeemed by the Bank on 21 April 2008 and 23 December 2008 respectively.

(b) The equity callable range note will be early redeemed if the closing price of the reference share, quoted on the Singapore Exchange, is equal to or more than the strike price. Interest is payable quarterly in arrears and no interest will be paid for the trading days on which the closing price of the reference share is less than the interest barrier.

(c) The payouts at maturity are linked to the closing value of certain underlying equities quoted on the Singapore Exchange.

(d) The credit linked notes will be early redeemed upon the occurrence of a credit event with respect to any of the reference entities. Interest is payable quarterly in arrears, commencing on 20 December 2008 till maturity date, at 3-month SGD-SOR-Reuters plus 2.10% per annum and 3-month SGD-SOR-Reuters plus 1.37% per annum respectively. Interest will cease to accrue upon the occurrence of any credit event and interest determined up to the credit event determination date.

22. LIFE ASSURANCE FUND LIABILITIES AND INVESTMENT ASSETS

	GROUP	
	2008	2007
	$ million	$ million
Life assurance fund liabilities		
Movements in life assurance fund		
At 1 January	**38,243.7**	35,142.9
Currency translation	**(673.2)**	(83.0)
Fair value reserve movements	**(2,907.4)**	640.3
Change in life assurance fund contract liabilities (Note 4)	**1,192.7**	2,543.5
At 31 December	**35,855.8**	38,243.7
Policy benefits	**1,839.6**	1,645.2
Others	**2,041.1**	1,342.9
	39,736.5	41,231.8
Life assurance fund investment assets		
Deposits with banks and financial institutions	**2,842.9**	1,998.6
Loans	**3,695.9**	3,325.9
Securities	**30,110.0**	33,642.9
Investment property	**1,073.5**	1,178.3
Others [1]	**1,154.6**	991.0
	38,876.9	41,136.7
The following contracts were entered into under the life assurance fund:		
Operating lease commitments	**12.7**	2.8
Capital commitment authorised and contracted	**80.1**	82.1
Derivative financial instruments (principal notional amount)	**7,531.3**	6,939.0
Derivative receivables	**313.7**	149.9
Derivative payables	**40.6**	22.4
Minimum lease rental receivables under non-cancellable operating leases	**67.2**	61.5

[1] Others comprised interest receivable, deposits collected, prepayments, investment debtors and sundry debtors.

Notes to the Financial Statements

For the financial year ended 31 December 2008

23. CASH AND PLACEMENTS WITH CENTRAL BANKS

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash on hand	**546,931**	497,080	**361,541**	359,796
Balances with central banks	**2,659,689**	2,422,801	**1,927,112**	1,707,389
Money market placements and reverse repos	**3,821,069**	5,476,517	**1,978,080**	3,425,940
	7,027,689	8,396,398	**4,266,733**	5,493,125

Balances with central banks include mandatory reserve deposits of $2,333.0 million (2007: $2,272.7 million) and $1,603.1 million (2007: $1,564.0 million) for the Group and Bank respectively.

24. GOVERNMENT TREASURY BILLS AND SECURITIES

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Singapore government treasury bills and securities				
Trading, at fair value	**607,103**	3,264,361	**607,103**	3,264,361
Available-for-sale, at fair value	**8,692,557**	6,016,988	**8,113,826**	5,463,482
Gross securities	**9,299,660**	9,281,349	**8,720,929**	8,727,843
Assets pledged (Note 43)	**(85,088)**	(519,178)	**(85,088)**	(519,178)
	9,214,572	8,762,171	**8,635,841**	8,208,665
Other government treasury bills and securities				
Trading, at fair value	**773,127**	1,115,928	**662,527**	383,379
Available-for-sale, at fair value	**4,010,179**	2,337,069	**601,193**	195,737
Gross securities	**4,783,306**	3,452,997	**1,263,720**	579,116
Assets pledged (Note 43)	**(6,334)**	(7,251)	**(6,334)**	(7,251)
	4,776,972	3,445,746	**1,257,386**	571,865
Gross securities analysed by geography				
Singapore	**9,299,660**	9,281,349	**8,720,929**	8,727,843
Malaysia	**2,450,046**	2,096,412	**–**	–
Other ASEAN	**1,347,116**	1,007,464	**369,438**	250,394
Greater China	**246,155**	9,197	**231,468**	9,197
Other Asia Pacific	**226,208**	304,582	**226,208**	303,015
Rest of the World	**513,781**	35,342	**436,606**	16,510
	14,082,966	12,734,346	**9,984,649**	9,306,959

25. PLACEMENTS WITH AND LOANS TO BANKS

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
At fair value:				
Certificate of deposits purchased (Available-for-sale)	**3,988,626**	1,907,118	**3,489,202**	1,635,419
Forfaiting loans (Trading)	**202,880**	222,398	**202,880**	222,398
	4,191,506	2,129,516	**3,692,082**	1,857,817
At amortised cost:				
Placements with and loans to banks	**10,073,030**	11,696,611	**8,659,458**	10,829,803
Market bills purchased	**758,712**	1,290,500	**593,249**	885,301
Reverse repos	**248,314**	–	**236,923**	–
	11,080,056	12,987,111	**9,489,630**	11,715,104
Balances with banks	**15,271,562**	15,116,627	**13,181,712**	13,572,921
Assets pledged (Note 43)	**(547,831)**	(362,225)	**(547,831)**	(362,225)
Bank balances of life assurance fund	**629,628**	350,707	**–**	–
	15,353,359	15,105,109	**12,633,881**	13,210,696

Notes to the Financial Statements

For the financial year ended 31 December 2008

25. PLACEMENTS WITH AND LOANS TO BANKS (continued)

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balances with banks analysed:				
By currency				
Singapore Dollar	**1,176,755**	403,998	**1,103,923**	328,591
US Dollar	**8,239,329**	6,966,504	**7,753,073**	5,934,551
Malaysian Ringgit	**589,642**	310,043	**28**	65
Indonesian Rupiah	**11,114**	1,225	**12**	15
Japanese Yen	**396,164**	145,693	**360,093**	110,118
Hong Kong Dollar	**175,915**	278,971	**174,584**	278,762
British Pound	**1,697,744**	2,915,013	**1,664,874**	2,914,714
Australian Dollar	**1,200,379**	2,042,605	**1,063,819**	2,034,951
Euro	**1,072,262**	453,250	**1,007,822**	434,738
Others	**712,258**	1,599,325	**53,484**	1,536,416
	15,271,562	15,116,627	**13,181,712**	13,572,921
By geography				
Singapore	**1,957,078**	1,434,632	**1,865,286**	1,302,994
Malaysia	**826,758**	598,531	**27**	48,229
Other ASEAN	**233,593**	151,028	**171,955**	129,580
Greater China	**1,331,881**	998,584	**314,668**	457,930
Other Asia Pacific	**2,305,263**	4,822,683	**2,282,198**	4,608,574
Rest of the World	**8,616,989**	7,111,169	**8,547,578**	7,025,614
	15,271,562	15,116,627	**13,181,712**	13,572,921

The analysis by geography is determined based on where the credit risk resides.

26. LOANS AND BILLS RECEIVABLE

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Gross loans	**81,336,328**	72,774,864	**63,148,062**	55,544,593
Specific allowances (Note 28)	**(549,079)**	(498,918)	**(280,277)**	(264,204)
Portfolio allowances (Note 29)	**(979,385)**	(959,946)	**(799,005)**	(789,983)
Net loans	**79,807,864**	71,316,000	**62,068,780**	54,490,406
Bills receivable	**1,193,733**	1,176,680	**267,240**	455,190
Loans	**78,614,131**	70,139,320	**61,801,540**	54,035,216
Net loans	**79,807,864**	71,316,000	**62,068,780**	54,490,406
26.1 Analysed by currency				
Singapore Dollar	**47,174,368**	42,616,719	**46,618,723**	41,728,171
US Dollar	**10,671,018**	9,416,538	**8,763,741**	7,335,929
Malaysian Ringgit	**12,219,948**	10,868,691	**73**	72
Indonesian Rupiah	**2,268,870**	2,401,928	**–**	–
Japanese Yen	**1,577,963**	847,967	**1,478,984**	802,834
Hong Kong Dollar	**2,749,893**	1,838,140	**2,716,129**	1,826,804
British Pound	**781,261**	852,916	**779,943**	851,702
Australian Dollar	**1,806,368**	1,872,154	**1,804,781**	1,870,267
Euro	**378,083**	540,391	**367,419**	512,371
Others	**1,708,556**	1,519,420	**618,269**	616,443
	81,336,328	72,774,864	**63,148,062**	55,544,593

Notes to the Financial Statements
For the financial year ended 31 December 2008

26. LOANS AND BILLS RECEIVABLE (continued)

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
26.2 Analysed by product				
Overdrafts	**3,598,009**	3,773,234	**1,796,355**	1,960,485
Short-term and revolving loans	**12,963,971**	11,932,681	**9,997,853**	8,449,382
Syndicated and term loans	**34,980,622**	27,671,742	**28,184,427**	21,601,871
Housing and commercial property loans	**21,463,230**	21,019,337	**17,637,589**	17,514,007
Car, credit card and share margin loans	**2,920,296**	3,512,982	**2,387,499**	2,526,914
Others	**5,410,200**	4,864,888	**3,144,339**	3,491,934
	81,336,328	72,774,864	**63,148,062**	55,544,593
26.3 Analysed by industry				
Agriculture, mining and quarrying	**1,315,165**	1,116,239	**335,892**	214,016
Manufacturing	**6,611,530**	6,277,880	**2,590,558**	2,262,535
Building and construction	**17,175,854**	13,652,614	**14,335,817**	11,106,762
Housing	**19,784,937**	19,247,165	**15,948,165**	15,678,412
General commerce	**7,071,803**	6,942,776	**4,568,028**	5,080,803
Transport, storage and communication	**5,470,653**	3,921,919	**5,013,324**	3,470,143
Financial institutions, investment and holding companies	**11,200,700**	10,609,594	**10,576,340**	10,146,287
Professionals and individuals	**7,358,423**	7,385,310	**6,446,678**	5,964,694
Others	**5,347,263**	3,621,367	**3,333,260**	1,620,941
	81,336,328	72,774,864	**63,148,062**	55,544,593
26.4 Analysed by interest rate sensitivity				
Fixed				
Singapore	**6,588,552**	7,518,671	**6,524,306**	7,395,784
Malaysia	**1,497,272**	1,148,349	**61,561**	49,425
Other ASEAN	**179,008**	185,960	**18,557**	31,337
Greater China	**91,727**	92,833	**178**	479
Other Asia Pacific	**278,533**	208,115	**278,533**	208,115
Rest of the World	**13,556**	15,291	**13,556**	15,291
	8,648,648	9,169,219	**6,896,691**	7,700,431
Variable				
Singapore	**46,430,758**	40,547,397	**45,747,360**	39,731,727
Malaysia	**13,330,290**	11,512,555	**2,261,462**	1,330,602
Other ASEAN	**3,439,083**	3,542,281	**403,517**	373,534
Greater China	**5,106,574**	3,685,633	**3,458,057**	2,090,520
Other Asia Pacific	**2,710,175**	2,558,229	**2,710,175**	2,558,229
Rest of the World	**1,670,800**	1,759,550	**1,670,800**	1,759,550
	72,687,680	63,605,645	**56,251,371**	47,844,162
Total	**81,336,328**	72,774,864	**63,148,062**	55,544,593

The analysis by interest rate sensitivity is based on where the transactions are booked.

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
26.5 Analysed by geography				
Singapore	**49,285,437**	45,310,606	**48,664,268**	44,442,452
Malaysia	**14,334,887**	12,101,623	**1,738,123**	829,445
Other ASEAN	**4,602,216**	4,446,496	**1,392,840**	1,106,925
Greater China	**6,873,912**	5,133,159	**5,149,277**	3,438,576
Other Asia Pacific	**3,242,173**	3,072,651	**3,223,045**	3,050,609
Rest of the World	**2,997,703**	2,710,329	**2,980,509**	2,676,586
	81,336,328	72,774,864	**63,148,062**	55,544,593

The analysis by geography is determined based on where the credit risk resides.

Notes to the Financial Statements

For the financial year ended 31 December 2008

27. 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.

$ million	Substandard	Doubtful	Loss	Gross loans and securities	Specific allowances	Net loans and securities
GROUP						
2008						
Classified loans	**471**	**457**	**254**	**1,182**	**(543)**	**639**
Classified debt securities	**–**	**158**	**8**	**166**	**(156)**	**10**
Total classified assets	**471**	**615**	**262**	**1,348**	**(699)**	**649**
2007						
Classified loans	586	350	302	1,238	(499)	739
Classified debt securities	6	100	10	116	(112)	4
Total classified assets	592	450	312	1,354	(611)	743
BANK						
2008						
Classified loans	**172**	**343**	**105**	**620**	**(280)**	**340**
Classified debt securities	**–**	**148**	**–**	**148**	**(140)**	**8**
Total classified assets	**172**	**491**	**105**	**768**	**(420)**	**348**
2007						
Classified loans	232	262	153	647	(265)	382
Classified debt securities	–	100	–	100	(100)	–
Total classified assets	232	362	153	747	(365)	382

	GROUP		BANK	
	2008 $ million	2007 $ million	2008 $ million	2007 $ million
27.1 Analysed by period overdue				
Over 180 days	**568**	696	**168**	324
Over 90 days to 180 days	**193**	190	**135**	125
30 days to 90 days	**188**	137	**132**	71
Less than 30 days	**230**	191	**229**	98
No overdue	**169**	140	**104**	129
	1,348	1,354	**768**	747
27.2 Analysed by collateral type				
Property	**599**	744	**280**	380
Fixed deposit	**9**	3	**7**	2
Stock and shares	**5**	23	**5**	7
Motor vehicles	**4**	6	**3**	4
Secured – Others	**27**	48	**5**	28
Unsecured – Corporate and other guarantees	**197**	229	**194**	226
Unsecured – Clean	**507**	301	**274**	100
	1,348	1,354	**768**	747
27.3 Analysed by industry				
Agriculture, mining and quarrying	**6**	12	**–**	1
Manufacturing	**342**	275	**158**	105
Building and construction	**113**	187	**38**	92
Housing	**243**	301	**133**	194
General commerce	**147**	146	**74**	54
Transport, storage and communication	**25**	23	**18**	14
Financial institutions, investment and holding companies	**284**	179	**259**	152
Professionals and individuals	**126**	170	**65**	110
Others	**62**	61	**23**	25
	1,348	1,354	**768**	747

Notes to the Financial Statements
For the financial year ended 31 December 2008

27. NON-PERFORMING LOANS ("NPLS") AND DEBT SECURITIES (continued)
27.4 Analysed by geography

GROUP ($ million)	Singapore	Malaysia	Rest of the World	Total
2008				
Substandard	**107**	**290**	**74**	**471**
Doubtful	**184**	**121**	**310**	**615**
Loss	**104**	**85**	**73**	**262**
	395	**496**	**457**	**1,348**
Specific allowances	**(150)**	**(239)**	**(310)**	**(699)**
	245	**257**	**147**	**649**
2007				
Substandard	185	336	71	592
Doubtful	185	114	151	450
Loss	142	98	72	312
	512	548	294	1,354
Specific allowances	(201)	(230)	(180)	(611)
	311	318	114	743

Non-performing loans ("NPLs") and debt securities by geography are determined based on where the credit risk resides.

27.5 Restructured/renegotiated loans
Non-performing restructured loans by loan classification and the related specific allowances as at reporting date is shown below. The restructured loans as a percentage of total NPLs were 8.3% (2007: 13.7%) and 9.5% (2007: 13.1%) for the Group and the Bank respectively.

	2008		2007	
	Amount $ million	Allowance $ million	Amount $ million	Allowance $ million
GROUP				
Substandard	**52**	**5**	95	5
Doubtful	**40**	**42**	59	69
Loss	**19**	**8**	32	14
	111	**55**	186	88
BANK				
Substandard	**47**	**3**	55	5
Doubtful	**25**	**28**	40	50
Loss	**1**	**1**	3	1
	73	**32**	98	56

Notes to the Financial Statements
For the financial year ended 31 December 2008

28. SPECIFIC ALLOWANCES

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
At 1 January	**498,918**	862,259	**264,204**	505,023
Currency translation	**(36,945)**	(10,520)	**(11,955)**	(4,475)
Bad debts written off	**(58,733)**	(200,819)	**(54,970)**	(127,994)
Recovery of amounts previously provided for	**(61,100)**	(55,057)	**(32,512)**	(43,401)
Allowances/(write-back of allowances) for loans	**225,667**	(52,706)	**127,143**	(34,790)
Net allowances/(write-back) to income statements (Note 9)	**164,567**	(107,763)	**94,631**	(78,191)
Interest recognition on impaired loans	**(23,534)**	(36,526)	**(12,073)**	(20,698)
Arising from acquisition of subsidiaries	**1,614**	–	**–**	–
Transfer from/(to):				
Available-for-sale securities	**–**	(7,713)	**–**	(6,063)
Other provisions	**2,680**	–	**440**	–
Portfolio allowances (Note 29)	**512**	–	**–**	–
Subsidiary upon incorporation	**–**	–	**–**	(3,398)
At 31 December (Note 26)	**549,079**	498,918	**280,277**	264,204

29. PORTFOLIO ALLOWANCES

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
At 1 January	**959,946**	961,099	**789,983**	807,136
Currency translation	**(2,576)**	(1,153)	**(1,162)**	(430)
Allowances charged to income statements (Note 9)	**20,189**	–	**10,184**	–
Arising from acquisition of subsidiaries	**2,338**	–	**–**	–
Transfer to specific allowances (Note 28)	**(512)**	–	**–**	–
Transfer to subsidiary upon incorporation	**–**	–	**–**	(16,723)
At 31 December (Note 26)	**979,385**	959,946	**799,005**	789,983

30. DEBT AND EQUITY SECURITIES

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trading securities				
Quoted debt securities	**443,197**	663,553	**420,152**	648,848
Unquoted debt securities	**198,199**	532,670	**1,397**	–
Quoted equity securities	**235,386**	241,290	**222,529**	231,257
	876,782	1,437,513	**644,078**	880,105
Available-for-sale securities				
Quoted debt securities	**5,538,071**	5,936,281	**4,550,375**	4,919,451
Unquoted debt securities	**2,024,476**	3,056,470	**1,273,114**	2,177,755
Quoted equity securities	**1,326,144**	2,770,556	**409,868**	560,033
Unquoted equity securities	**294,990**	162,891	**64,975**	26,805
	9,183,681	11,926,198	**6,298,332**	7,684,044
Securities classified as loans and receivables				
Unquoted debt, at amortised cost	**336,636**	286,789	**296,393**	258,861
Allowance for impairment	**(25,333)**	(25,588)	**(22,557)**	(22,614)
Net carrying value	**311,303**	261,201	**273,836**	236,247
Total debt and equity securities				
Debt securities – gross	**8,540,579**	10,475,763	**6,541,431**	8,004,915
Allowance for impairment (Note 32)	**(25,333)**	(25,588)	**(22,557)**	(22,614)
Debt securities – net	**8,515,246**	10,450,175	**6,518,874**	7,982,301
Equity securities	**1,856,520**	3,174,737	**697,372**	818,095
Total securities	**10,371,766**	13,624,912	**7,216,246**	8,800,396
Assets pledged (Note 43)	**(197,855)**	–	**(197,855)**	–
	10,173,911	13,624,912	**7,018,391**	8,800,396

Notes to the Financial Statements

For the financial year ended 31 December 2008

30. DEBT AND EQUITY SECURITIES (continued)

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Debt securities analysis:				
By credit rating				
Investment grade (AAA to BBB)	**4,923,086**	6,018,370	**3,729,604**	4,244,234
Non-investment grade (BB to C)	**255,006**	748,172	**252,681**	677,078
Non-rated	**3,337,154**	3,683,633	**2,536,589**	3,060,989
	8,515,246	10,450,175	**6,518,874**	7,982,301
By credit quality				
Pass	**8,356,095**	10,290,536	**6,362,143**	7,826,928
Special mention	**149,269**	155,327	**149,269**	155,327
Substandard	**–**	3,333	**–**	–
Doubtful	**31,745**	22,660	**30,019**	22,660
Loss	**3,470**	3,907	**–**	–
Allowance for impairment (Note 32)	**(25,333)**	(25,588)	**(22,557)**	(22,614)
	8,515,246	10,450,175	**6,518,874**	7,982,301
Total securities – Concentration risks:				
By industry				
Agriculture, mining and quarrying	**172,666**	183,407	**81,248**	40,264
Manufacturing	**978,188**	1,224,089	**586,126**	730,393
Building and construction	**1,395,135**	1,502,022	**1,077,277**	968,110
General commerce	**167,786**	282,651	**94,985**	166,543
Transport, storage and communication	**731,447**	949,579	**604,841**	756,135
Financial institutions, investment and holding companies	**5,146,163**	7,209,320	**3,891,002**	5,156,258
Others	**1,780,381**	2,273,844	**880,767**	982,693
	10,371,766	13,624,912	**7,216,246**	8,800,396
By issuer				
Public sector	**1,294,044**	995,003	**1,167,451**	890,526
Banks	**2,565,621**	3,426,985	**1,771,304**	2,984,297
Corporations	**6,294,721**	9,004,891	**4,259,773**	4,905,836
Others	**217,380**	198,033	**17,718**	19,737
	10,371,766	13,624,912	**7,216,246**	8,800,396
By geography				
Singapore	**3,476,352**	4,214,487	**2,547,635**	2,601,311
Malaysia	**1,455,497**	1,556,542	**353,871**	334,698
Other ASEAN	**202,906**	200,912	**133,796**	156,719
Greater China	**1,067,825**	1,655,758	**596,339**	431,412
Other Asia Pacific	**1,541,371**	1,683,239	**1,414,393**	1,523,302
Rest of the World	**2,627,815**	4,313,974	**2,170,212**	3,752,954
	10,371,766	13,624,912	**7,216,246**	8,800,396

Debt securities are 82% (2007: 77%) and 90% (2007: 91%) of total securities, for the Group and the Bank respectively. Included in debt securities is an amount of $0.1 billion (2007: $0.2 billion) relating to collateralised debt with credit default swaps where the Bank acts as the protection seller. Derivative receivables and payables arising from these credit default swaps are included in Note 18.

Notes to the Financial Statements
For the financial year ended 31 December 2008

31. OTHER ASSETS

	GROUP 2008 $'000	GROUP 2007 $'000	BANK 2008 $'000	BANK 2007 $'000
Interest receivable	**866,915**	1,082,265	**686,228**	946,791
Sundry debtors (net)	**1,134,354**	1,344,128	**84,949**	42,777
Deposits and prepayments	**198,508**	163,261	**124,873**	104,465
Others	**465,339**	392,202	**104,741**	218,587
	2,665,116	2,981,856	**1,000,791**	1,312,620

At 31 December 2008, reinsurance assets included in "Others" amounted to $66.6 million (2007: $65.6 million).

32. ALLOWANCES FOR IMPAIRMENT OF SECURITIES AND OTHER ASSETS

GROUP ($'000)	Associates	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
At 1 January 2007	–	18,540	118,410	103,614	25,523	266,087
Currency translation	–	(1,602)	(69)	313	(1,100)	(2,458)
Amounts written off	–	–	(2,910)	(5,763)	(2,622)	(11,295)
Impairment charge/(write-back)						
to income statements (Note 9)	–	9,312	(16,675)	(86,445)	3,215	(90,593)
Interest recognition on net NPLs	–	(662)	–	–	–	(662)
Transfer from/(to):						
Assets held for sale	–	–	–	(475)	–	(475)
Life assurance fund investment assets	–	–	(11,193)	–	–	(11,193)
Other accounts	–	–	(6,254)	6,254	–	–
At 31 December 2007/1 January 2008	**–**	**25,588**	**81,309**	**17,498**	**25,016**	**149,411**
Currency translation	**–**	**(443)**	**(1,909)**	**(332)**	**(924)**	**(3,608)**
Amounts written off	**–**	**(60)**	**–**	**(100)**	**(3,994)**	**(4,154)**
Impairment charge/(write-back)						
to income statements (Note 9)	**5,200**	**445**	**(19,285)**	**(10,563)**	**4,742**	**(19,461)**
Interest recognition on net NPLs	**–**	**(197)**	**–**	**–**	**–**	**(197)**
Arising from acquisition of subsidiaries	**–**	**–**	**–**	**–**	**1,393**	**1,393**
Transfers from/(to) other accounts	**–**	**–**	**(1,797)**	**1,797**	**64**	**64**
At 31 December 2008	**5,200**	**25,333**	**58,318**	**8,300**	**26,297**	**123,448**
	(Note 33)	(Note 30)	(Note 35)	(Note 36)		

BANK ($'000)	Associates and subsidiaries	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
At 1 January 2007	149,832	17,635	34,951	95,984	35,939	334,341
Currency translation	–	(1,366)	–	277	–	(1,089)
Amounts written off	(2,754)	–	–	–	(744)	(3,498)
(Write-back)/impairment charge	(17,969)	6,616	(15,423)	(85,926)	(35,075)	(147,777)
Interest recognition on net NPLs	–	(271)	–	–	–	(271)
At 31 December 2007/1 January 2008	**129,109**	**22,614**	**19,528**	**10,335**	**120**	**181,706**
Currency translation	**–**	**(24)**	**–**	**(250)**	**2**	**(272)**
Amounts written off	**(115,050)**	**–**	**–**	**(100)**	**(3,197)**	**(118,347)**
(Write-back)/charge						
to income statement (Note 9)	**–**	**(32)**	**(16,782)**	**(6,598)**	**4,113**	**(19,299)**
Interest recognition on net NPLs	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Transfers from/(to) other accounts	**–**	**–**	**(1,797)**	**1,797**	**–**	**–**
At 31 December 2008	**14,059**	**22,557**	**949**	**5,184**	**1,038**	**43,787**
	(Notes 33-34)	(Note 30)	(Note 35)	(Note 36)		

Notes to the Financial Statements
For the financial year ended 31 December 2008

33. ASSOCIATES AND JOINT VENTURES

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Investment securities, at cost				
Quoted equities	**591**	87,384	**195**	85,556
Unquoted equities	**102,194**	108,654	**13,529**	14,561
Allowance for impairment (Note 32)	**(5,200)**	–	**(2,199)**	(3,701)
Net carrying value	**97,585**	196,038	**11,525**	96,416
Share of post-acquisition reserves	**34,068**	31,512	**–**	–
Amount due from associates (unsecured)	**630**	15,866	**–**	–
	132,283	243,416	**11,525**	96,416
Fair value of quoted associates	**28,463**	98,699	**9,393**	72,197

33.1 Associates
The summarised financial information of associates is as follows:

$'000	2008	2007
At 31 December:		
Assets	**1,025,426**	1,891,590
Liabilities	**158,502**	271,837
Share of contingent liabilities	**–**	14,195
For the year ended:		
Total income	**91,223**	337,606
Profit/(loss)	**(176,930)**	112,456

Details of significant associates of the Group are as follows:

Name of associates	Country of incorporation	Effective % interest held 2008	2007
Quoted			
British and Malayan Trustees Limited [(1)]	Singapore	**43**	43
PacificMas Berhad (Note 34.2) [(1)]	Malaysia	**–**	28
Unquoted			
Network For Electronic Transfers (Singapore) Pte Ltd [(2)]	Singapore	**33**	33

(1) Audited by Ernst & Young.
(2) Audited by PricewaterhouseCoopers.

33.2 Joint ventures
The Group holds 50% interest in Great Eastern Life Assurance (China) Company Limited ("GEL China"). The summarised financial information of GEL China is as follows:

$ million	2008	2007
At 31 December:		
Share of current assets	**26.1**	10.9
Share of non-current assets	**17.9**	22.6
Share of current liabilities	**(1.5)**	(6.6)
Share of non-current liabilities	**(19.5)**	(1.8)
For the year ended:		
Share of income	**12.6**	4.4
Share of expenses	**(16.7)**	(6.4)

Notes to the Financial Statements
For the financial year ended 31 December 2008

34. SUBSIDIARIES

	BANK	
	2008 $'000	2007 $'000
Investments in subsidiaries, at cost		
Quoted security	**2,198,964**	2,187,919
Unquoted securities	**1,705,393**	1,703,235
Allowance for impairment (Note 32)	**(11,860)**	(125,408)
Net carrying value	**3,892,497**	3,765,746
Unsecured loans and receivables	**2,134,304**	2,261,965
Secured loans and receivables	**1,146,700**	482,700
Amount due from subsidiaries	**3,281,004**	2,744,665
Investments in and amount due from subsidiaries	**7,173,501**	6,510,411

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

Name of subsidiaries	Country of incorporation	Effective % interest held 2008	2007
Banking			
Bank of Singapore Limited	Singapore	**100**	100
OCBC Al-Amin Bank Berhad #	Malaysia	**100**	–
OCBC Bank (Malaysia) Berhad	Malaysia	**100**	100
OCBC Bank (China) Limited	People's Republic of China	**100**	100
P.T. Bank OCBC NISP Tbk (formerly P.T. Bank NISP Tbk) (1)	Indonesia	**75**	72
P.T. Bank OCBC Indonesia (1)	Indonesia	**100**	100
Insurance			
Great Eastern Life Assurance (Malaysia) Berhad (2)	Malaysia	**87**	87
Overseas Assurance Corporation (Malaysia) Berhad (2)	Malaysia	**87**	87
The Great Eastern Life Assurance Company Limited (2)	Singapore	**87**	87
The Overseas Assurance Corporation Limited (2)	Singapore	**87**	87
Asset management and investment holding			
Lion Global Investors Limited (2) (formerly Lion Capital Management Limited)	Singapore	**91**	91
Great Eastern Holdings Limited (2)	Singapore	**87**	87
PacificMas Berhad (2)	Malaysia	**67**	–
Stockbroking			
OCBC Securities Private Limited	Singapore	**100**	100

Unless otherwise indicated, the significant subsidiaries listed above are audited by KPMG LLP Singapore and its associated firms.
(1) Audited by PricewaterhouseCoopers
(2) Audited by Ernst & Young
Incorporated during the year

At 31 December 2008, the fair value of the Bank's quoted subsidiary, Great Eastern Holdings Limited, was $3,630.3 million (2007: $6,620.5 million).

Notes to the Financial Statements
For the financial year ended 31 December 2008

34. SUBSIDIARIES (continued)
34.2 Acquisition of interest in subsidiaries
On 4 January 2008, the Bank announced the intention of its wholly-owned subsidiary, OCBC Capital (Malaysia) Sdn Bhd ("OCSB", formerly known as OSPL Holdings Sdn Bhd) to undertake a conditional cash offer ("Offer") for all the voting shares in PacificMas Berhad ("PacMas") not already owned by OCSB, at a price of RM4.30 per share.

At the close of Offer on 8 April 2008, OCSB's total shareholdings amounted to 114,686,956 shares or 67.1% of the issued and paid-up capital of PacMas. Prior to the Offer, the Group owned 28.2% or 48,125,642 PacMas shares. The purchase consideration (including cost directly attributable to the acquisition) of acquiring the additional 38.9% or 66,561,314 PacMas shares amounted to RM287.1 million or $124.2 million, comprising the following:
(i) 7,666,100 PacMas shares (4.48%) purchased from the open market for a consideration of RM32.75 million at an average price of RM4.27 per share, and
(ii) 58,895,214 PacMas shares (34.44%) from valid acceptances of the Offer for a consideration of RM254.35 million.

At acquisition date, the fair value of each class of assets acquired and liabilities assumed, the goodwill and the cash outflow, arising from the acquisition were as follows:

$ million	2008
Cash and cash equivalents	#
Government, debt and equity securities	156.9
Placements with and loans to banks	96.3
Loans and bills receivable	154.8
Other assets	22.8
Property, plant and equipment and investment property	47.8
Deposits of non-bank customers	(1.1)
Deposits and balances with banks	(38.5)
Other liabilities	(75.2)
Debts issued	(51.9)
Net identifiable assets acquired	311.9
Minority interests	(103.7)
Share of net identifiable assets acquired	208.2
Goodwill (Note 37)	4.6
Cost of business combination	212.8
Cost of investment of 28.2% stake prior to the Offer	(88.6)
Purchase consideration of acquiring the additional stake of 38.9%, settled in cash	124.2
Cash and cash equivalents acquired	(#)
Net cash outflow arising from acquisition	124.2

represents amount less than $0.1 million.

The increase in stake in PacMas has contributed $5.4 million to the Group's profit after tax for the financial year ended 31 December 2008. If the acquisition had occurred at 1 January 2008, the Group's total income and profit after tax would have been $4,453.3 million and $1,750.6 million respectively.

34.3 Acquisition of minority interests
(a) During the year, a subsidiary of the Bank, OCBC Overseas Investments Pte. Ltd., purchased 135,296,328 shares in P.T. Bank OCBC NISP ("Bank NISP"), a subsidiary listed on the Indonesia Stock Exchange, at IDR950 per share for a total cash consideration of $20.1 million. The Group's interest in Bank NISP increased from 72.40% to 74.73% and goodwill arising thereon was $7.7 million (Note 37).

(b) During the year, the Bank acquired 788,000 shares in Great Eastern Holdings Limited ("GEH"), a subsidiary listed on the Singapore Stock Exchange, at $14 per share for a total cash consideration of $11.0 million. Consequently, the Group's interest in GEH increased from 86.9% to 87.1%, and resulted in the recognition of incremental goodwill and intangible asset of $1.1 million (Note 37) and $4.9 million (Note 37) respectively.

Notes to the Financial Statements
For the financial year ended 31 December 2008

35. PROPERTY, PLANT AND EQUIPMENT

	2008				2007			
GROUP ($'000)	**Property-related**	**Computer-related**	**Others**	**Total**	**Property-related**	**Computer-related**	**Others**	**Total**
Cost								
At 1 January	**1,427,016**	**677,850**	**328,385**	**2,433,251**	1,412,770	642,211	322,162	2,377,143
Currency translation	**(22,515)**	**(15,399)**	**(10,324)**	**(48,238)**	(7,779)	(3,710)	(3,299)	(14,788)
Acquisition of subsidiaries	**10,719**	**5,555**	**4,021**	**20,295**	–	–	–	–
Additions	**36,556**	**167,311**	**58,317**	**262,184**	26,435	139,411	61,261	227,107
Disposals and other transfers	**(325)**	**(56,421)**	**(23,164)**	**(79,910)**	(704)	(100,062)	(21,979)	(122,745)
Transfer from/(to):								
Investment property (Note 36)	**(19,627)**	**–**	**–**	**(19,627)**	22,247	–	(29,760)	(7,513)
Life assurance fund assets	**(621)**	**–**	**(16,231)**	**(16,852)**	(25,953)	–	–	(25,953)
At 31 December	**1,431,203**	**778,896**	**341,004**	**2,551,103**	1,427,016	677,850	328,385	2,433,251
Accumulated depreciation								
At 1 January	**(214,493)**	**(327,197)**	**(198,554)**	**(740,244)**	(170,226)	(328,976)	(217,487)	(716,689)
Currency translation	**(7,310)**	**8,118**	**13,366**	**14,174**	1,000	2,157	2,168	5,325
Acquisition of subsidiaries	**(1,425)**	**(3,967)**	**(2,432)**	**(7,824)**	–	–	–	–
Disposals and other transfers	**85**	**35,429**	**22,715**	**58,229**	358	77,550	17,179	95,087
Depreciation charge	**(15,655)**	**(63,334)**	**(23,712)**	**(102,701)**	(15,292)	(55,381)	(21,223)	(91,896)
Depreciation charge to profit from life assurance (Note 4)	**(11,748)**	**(34,564)**	**(6,286)**	**(52,598)**	(12,719)	(22,547)	(7,866)	(43,132)
Transfer to/(from):								
Investment property (Note 36)	**3,637**	**–**	**–**	**3,637**	(6,537)	–	28,675	22,138
Life assurance fund assets	**–**	**–**	**–**	**–**	(11,077)	–	–	(11,077)
At 31 December	**(246,909)**	**(385,515)**	**(194,903)**	**(827,327)**	(214,493)	(327,197)	(198,554)	(740,244)
Accumulated impairment losses (Note 32)								
At 1 January	**(80,309)**	**–**	**(1,000)**	**(81,309)**	(114,519)	–	(3,891)	(118,410)
Currency translation	**1,874**	**–**	**34**	**1,908**	68	–	1	69
Disposals and other transfers	**–**	**–**	**–**	**–**	–	20	2,890	2,910
Write-back/(impairment charge) to income statements	**19,634**	**(43)**	**(306)**	**19,285**	16,695	(20)	–	16,675
Transfer to:								
Investment property (Note 36)	**1,797**	**–**	**–**	**1,797**	6,254	–	–	6,254
Life assurance fund assets	**–**	**–**	**–**	**–**	11,193	–	–	11,193
At 31 December	**(57,004)**	**(43)**	**(1,272)**	**(58,319)**	(80,309)	–	(1,000)	(81,309)
Net carrying value, at 31 December	**1,127,290**	**393,338**	**144,829**	**1,665,457**	1,132,214	350,653	128,831	1,611,698
Freehold property	**352,798**				339,658			
Leasehold property	**774,492**				792,556			
Net carrying value	**1,127,290**				1,132,214			
Market value	**1,950,763**				2,039,516			

Notes to the Financial Statements

For the financial year ended 31 December 2008

35. PROPERTY, PLANT AND EQUIPMENT (continued)

	2008				2007			
BANK ($'000)	Property-related	Computer-related	Others	Total	Property-related	Computer-related	Others	Total
Cost								
At 1 January	**258,745**	**231,880**	**82,430**	**573,055**	264,690	212,281	77,844	554,815
Currency translation	**(71)**	**(439)**	**(1,151)**	**(1,661)**	134	4	(262)	(124)
Additions	**–**	**81,950**	**26,512**	**108,462**	221	57,633	12,521	70,375
Disposals and other transfers	**–**	**(10,754)**	**(12,071)**	**(22,825)**	–	(36,939)	(4,537)	(41,476)
Transfer from/(to):								
Subsidiary upon incorporation	**–**	**–**	**–**	**–**	(4,547)	(1,099)	(3,136)	(8,782)
Investment property (Note 36)	**4,873**	**–**	**–**	**4,873**	(1,753)	–	–	(1,753)
At 31 December	**263,547**	**302,637**	**95,720**	**661,904**	258,745	231,880	82,430	573,055
Accumulated depreciation								
At 1 January	**(45,627)**	**(115,896)**	**(65,118)**	**(226,641)**	(43,206)	(112,660)	(64,950)	(220,816)
Currency translation	**25**	**402**	**858**	**1,285**	(51)	(7)	243	185
Disposals and other transfers	**–**	**10,729**	**11,923**	**22,652**	–	28,950	4,105	33,055
Depreciation charge	**(4,911)**	**(38,739)**	**(7,787)**	**(51,437)**	(4,942)	(33,016)	(5,998)	(43,956)
Transfer from/(to):								
Subsidiary upon incorporation	**–**	**–**	**–**	**–**	2,020	837	1,482	4,339
Investment property (Note 36)	**(1,145)**	**–**	**–**	**(1,145)**	552	–	–	552
At 31 December	**(51,658)**	**(143,504)**	**(60,124)**	**(255,286)**	(45,627)	(115,896)	(65,118)	(226,641)
Accumulated impairment losses (Note 32)								
At 1 January	**(19,528)**	**–**	**–**	**(19,528)**	(34,951)	–	–	(34,951)
Write-back to income statements	**16,782**	**–**	**–**	**16,782**	15,423	–	–	15,423
Transfer to investment property (Note 36)	**1,797**	**–**	**–**	**1,797**	–	–	–	–
At 31 December	**(949)**	**–**	**–**	**(949)**	(19,528)	–	–	(19,528)
Net carrying value, at 31 December	**210,940**	**159,133**	**35,596**	**405,669**	193,590	115,984	17,312	326,886
Freehold property	**33,753**				31,294			
Leasehold property	**177,187**				162,296			
Net carrying value	**210,940**				193,590			
Market value	**302,582**				308,950			

Notes to the Financial Statements

For the financial year ended 31 December 2008

36. INVESTMENT PROPERTY

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cost				
At 1 January	**820,317**	899,961	**566,465**	567,689
Currency translation	**(2,358)**	(3,098)	**(560)**	(689)
Acquisition of subsidiaries	**40,761**	–	**–**	–
Additions	**15,479**	10,473	**14,149**	4,191
Disposals	**(1,914)**	(92,238)	**(1,914)**	(2,384)
Transfer from/(to):				
Assets held for sale	**–**	(2,294)	**–**	(2)
Property, plant and equipment (Note 35)	**19,627**	7,513	**(4,873)**	1,753
Subsidiary upon incorporation	**–**	–	**–**	(4,093)
At 31 December	**891,912**	820,317	**573,267**	566,465
Accumulated depreciation				
At 1 January	**(136,087)**	(152,071)	**(62,844)**	(58,086)
Currency translation	**200**	281	**(34)**	259
Acquisition of subsidiaries	**(5,447)**	–	**–**	–
Disposals	**375**	49,616	**375**	1,510
Depreciation charge	**(12,939)**	(12,199)	**(6,967)**	(7,189)
Transfer (from)/to:				
Assets held for sale	**–**	424	**–**	–
Property, plant and equipment (Note 35)	**(3,637)**	(22,138)	**1,145**	(552)
Subsidiary upon incorporation	**–**	–	**–**	1,214
At 31 December	**(157,535)**	(136,087)	**(68,325)**	(62,844)
Accumulated impairment losses (Note 32)				
At 1 January	**(17,498)**	(103,614)	**(10,335)**	(95,984)
Currency translation	**332**	(313)	**250**	(277)
Disposals	**100**	5,763	**100**	–
Write-back to income statements	**10,563**	86,445	**6,598**	85,926
Transfer (from)/to:				
Assets held for sale	**–**	475	**–**	–
Property, plant and equipment (Note 35)	**(1,797)**	(6,254)	**(1,797)**	–
At 31 December	**(8,300)**	(17,498)	**(5,184)**	(10,335)
Net carrying value				
Freehold property	**255,408**	205,932	**82,441**	70,474
Leasehold property	**470,669**	460,800	**417,317**	422,812
At 31 December	**726,077**	666,732	**499,758**	493,286
Market value	**2,380,930**	2,448,219	**1,314,886**	1,436,090

Notes to the Financial Statements
For the financial year ended 31 December 2008

37. GOODWILL AND INTANGIBLE ASSETS

	GROUP		BANK	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Goodwill				
At 1 January	**2,669,691**	2,699,829	**1,867,176**	1,867,176
Acquisition of additional interests in:				
– PacificMas Berhad [Note 34.2]	**4,637**	–	**–**	–
– P.T. Bank OCBC NISP Tbk [Note 34.3(a)] (formerly known as P.T. Bank NISP Tbk)	**7,659**	206	**–**	–
– Great Eastern Holdings Limited [Note 34.3(b)]	**1,075**	–	**–**	–
Currency translation	**(40,694)**	(30,344)	**–**	–
At 31 December	**2,642,368**	2,669,691	**1,867,176**	1,867,176
Intangible asset [(1)]				
At 1 January	**774,729**	821,120		
Amortisation charged to income statements	**(46,472)**	(46,391)		
Acquisition of additional interests in GEH [Note 34.3(b)]	**4,901**	–		
At 31 December	**733,158**	774,729		
Total goodwill and intangible assets	**3,375,526**	3,444,420	**1,867,176**	1,867,176
Analysed as follows:				
Goodwill from acquisition of subsidiaries/business	**2,642,368**	2,669,691	**1,867,176**	1,867,176
Intangible asset, at cost	**932,715**	927,814	**–**	–
Accumulated amortisation for intangible asset	**(199,557)**	(153,085)	**–**	–
	3,375,526	3,444,420	**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 2008, the intangible asset has a remaining useful life of 16 years (2007: 17 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	
	Basis of determining	2008	2007
Cash Generating Units	recoverable value	$'000	$'000
Goodwill attributed to Banking CGU			
Global Consumer Financial Services		**844,497**	844,497
Global Corporate Banking		**570,000**	570,000
Global Treasury		**524,000**	524,000
	Value-in-use	**1,938,497**	1,938,497
Great Eastern Holdings Limited ("GEH")	Appraisal value	**427,460**	426,385
PacificMas Berhad	Value-in-use	**4,447**	–
P.T. Bank OCBC NISP Tbk	Value-in-use	**242,545**	275,390
Lion Global Investors Limited	Value-in-use	**29,419**	29,419
		2,642,368	2,669,691

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. For 2008, the discount rates used ranged from 8.5% to 16% (2007: 8.5% to 15%). 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). The terminal growth rates ranged from 2% to 6% (2007: 2% to 10%). 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.

Notes to the Financial Statements
For the financial year ended 31 December 2008

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 of 8.0% (2007: 8.0%) and 9.5% (2007: 9.5%) for Singapore and Malaysia respectively. 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 5.15% – 5.25%, 4.25% and 7% (2007: 5.15% – 5.25%, 4.25% and 7%) for Singapore's participating fund, non-participating fund and linked fund respectively and 6.5%, 6.0% and 7.0% (2007: 6.5%, 6.0% and 7.0%) for Malaysia's participating fund, non-participating fund and linked fund respectively.

38. SEGMENT INFORMATION

38.1 Business segments

$ million	Global Consumer Financial Services	Global Corporate Banking	Global Treasury	Insurance	Others	Group
Year ended 31 December 2008						
Total income	1,308	1,428	683	523	485	4,427
Operating profit before allowances and amortisation	715	953	497	372	36	2,573
Amortisation of intangible assets	–	–	–	(47)	–	(47)
(Allowances and impairment)/ write-back for loans and other assets	(37)	(100)	(19)	(55)	(236)	(447)
Operating profit/(loss) after allowances and amortisation	678	853	478	270	(200)	2,079
Other information:						
Capital expenditure	24	23	1	90	140	278
Depreciation	9	4	–	1	102	116
At 31 December 2008						
Segment assets	26,656	57,150	39,011	45,195	20,310	188,322
Unallocated assets						132
Elimination						(7,069)
Total assets						181,385
Segment liabilities	40,556	46,019	25,653	40,337	16,252	168,817
Unallocated liabilities						1,077
Elimination						(7,069)
Total liabilities						162,825
Other information:						
Gross non-bank loans	25,414	51,245	715	430	3,532	81,336
NPLs (include debt securities)	319	811	2	14	202	1,348

Notes to the Financial Statements
For the financial year ended 31 December 2008

38. SEGMENT INFORMATION (continued)
38.1 Business segments (continued)

$ million	Global Consumer Financial Services	Global Corporate Banking	Global Treasury	Insurance	Others	Group
Year ended 31 December 2007						
Total income	1,160	1,194	440	812	675	4,281
Operating profit before allowances and amortisation	599	756	301	688	257	2,601
Amortisation of intangible assets	–	–	–	(47)	–	(47)
(Allowances and impairment)/ write-back for loans and other assets	(18)	62	–	(5)	(75)	(36)
Operating profit after allowances and amortisation	581	818	301	636	182	2,518
Other information:						
Capital expenditure	15	7	–	84	132	238
Depreciation	8	4	–	2	90	104
At 31 December 2007						
Segment assets	25,917	51,190	35,119	47,727	19,241	179,194
Unallocated assets						87
Elimination						(4,674)
Total assets						174,607
Segment liabilities	38,858	43,258	24,668	41,911	11,936	160,631
Unallocated liabilities						1,811
Elimination						(4,674)
Total liabilities						157,768
Other information:						
Gross non-bank loans	24,303	44,118	382	252	3,720	72,775
NPLs (include debt securities)	387	802	–	8	157	1,354

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: Global Consumer Financial Services, Global Corporate Banking, Global Treasury, Insurance and Others.

Global Consumer Financial Services
Global Consumer Financial Services 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 (unit trusts, bancassurance products and structured deposits).

Global Corporate Banking
Global Corporate Banking provides comprehensive 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.

Global Treasury
Global 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.

Notes to the Financial Statements
For the financial year ended 31 December 2008

38. SEGMENT INFORMATION (continued)
38.1 Business segments (continued)
Insurance
The Group's insurance business, including its 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 P.T. Bank OCBC NISP, newly acquired PacificMas Berhad, 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.

38.2 Geographical segments

$ million	Total income	Profit/(loss) before income tax	Capital expenditure	Total assets	Total liabilities
2008					
Singapore	**2,870**	**1,430**	**192**	**118,157**	**111,031**
Malaysia	**914**	**519**	**53**	**38,402**	**33,379**
Other ASEAN	**326**	**81**	**23**	**5,853**	**5,012**
Greater China	**207**	**56**	**9**	**9,861**	**8,276**
Other Asia Pacific	**65**	**(11)**	**–**	**5,168**	**2,945**
Rest of the World	**45**	**10**	**1**	**3,944**	**2,182**
	4,427	**2,085**	**278**	**181,385**	**162,825**
2007					
Singapore	2,810	1,689	128	117,833	109,271
Malaysia	961	670	64	36,309	32,698
Other ASEAN	315	93	39	5,940	4,864
Greater China	117	40	6	7,150	6,453
Other Asia Pacific	40	23	–	3,801	2,004
Rest of the World	38	24	1	3,574	2,478
	4,281	2,539	238	174,607	157,768

The Group's operations are in six main geographical areas. 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 Overview
The objective of the Group's risk management practice is to drive the business through an integrated proactive risk management approach with strong risk analytics, while protecting the Group against losses that could arise from taking risks beyond its risk appetite. The Group's philosophy is that all risks must be properly understood, measured, monitored, controlled and managed. In addition, risk management processes must be closely aligned to the Group's business strategy, to enable the Group to maximise its risk-adjusted return on capital.

The Group's risk management objectives, policies and processes are detailed in the Risk Management Section.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.2 Credit risk
Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Gross		Average	
$ million	**2008**	**2007**	**2008**	**2007**
Credit risk exposure of on-balance sheet assets:				
Loans and bills receivable	**79,808**	71,316	**76,769**	64,123
Placements with and loans to banks	**15,353**	15,105	**16,644**	17,005
Government treasury bills and securities	**13,992**	12,208	**12,757**	11,410
Debt securities	**8,317**	10,450	**9,313**	8,371
Amount due from associates	**1**	16	**5**	18
Assets pledged	**837**	889	**756**	1,390
Derivative receivables	**6,655**	2,937	**4,503**	2,279
Other assets, comprise interest receivables and sundry debtors	**2,001**	2,426	**2,131**	2,896
	126,964	115,347	**122,878**	107,492
Credit risk exposure of off-balance sheet items:				
Contingent liabilities	**8,661**	8,861	**9,129**	7,952
Credit commitments	**45,007**	43,563	**42,928**	40,843
	53,668	52,424	**52,057**	48,795
Total maximum credit risk exposure	**180,632**	167,771	**174,935**	156,287

As presented in the above table, the Group's gross maximum exposure to credit risk comprise 53% (2007: 52%) derived primarily from its lending activities to banks and customers and 12% (2007: 14%) from its investments in government and debt securities.

Collaterals

The main types of collateral obtained by the Group are as follows:

- For personal housing loans, mortgages over residential properties;
- For commercial property loans, charges over the properties being financed;
- For car loans, charges over the vehicles financed;
- For share margin financing, listed securities of Singapore, Malaysia and Hong Kong; and
- For other loans, charges over business assets such as premises, inventories, trade receivables or deposits.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.2 Credit risk (continued)
Total loans and advances – Credit quality

In addition to the credit grading of facilities under MAS Notice 612, loans and advances are required, under FRS 107, to be categorised into "neither past due nor impaired", "past due but not impaired" and "impaired". Past due loans refer to loans that are overdue by one day or more. Impaired loans are classified loans with specific allowances made.

$ million	Bank loans 2008	Bank loans 2007	Non-bank loans 2008	Non-bank loans 2007
Neither past due nor impaired	**15,272**	15,117	**79,244**	70,620
Not impaired	**–**	–	**1,045**	1,045
Impaired	**–**	–	**958**	1,039
Past due loans	**–**	–	**2,003**	2,084
Impaired but not past due	**–**	–	**89**	71
Gross loans	**15,272**	15,117	**81,336**	72,775
Specific allowances	**–**	–	**(549)**	(499)
Portfolio allowances	**–**	–	**(979)**	(960)
Net loans	**15,272**	15,117	**79,808**	71,316

Loans neither past due nor impaired

Analysis of loans and advances that are neither past due nor impaired analysed based on the Group's internal credit grading system is as follows:

$ million	Bank loans 2008	Bank loans 2007	Non-bank loans 2008	Non-bank loans 2007
Grades				
Satisfactory and special mention	**15,272**	15,117	**79,197**	70,581
Substandard but not impaired	**–**	–	**47**	39
Neither past due nor impaired	**15,272**	15,117	**79,244**	70,620

Past due loans

Analysis of past due loans by industry and geography are as follows:

$ million	Bank loans 2008	Bank loans 2007	Non-bank loans 2008	Non-bank loans 2007
By industry				
Agriculture, mining and quarrying	**–**	–	**14**	13
Manufacturing	**–**	–	**330**	261
Building and construction	**–**	–	**104**	216
General commerce	**–**	–	**210**	155
Transport, storage and communication	**–**	–	**33**	21
Financial institutions, investment and holding companies	**#**	–	**53**	62
Professionals and individuals (include housing)	**–**	–	**1,096**	1,274
Others	**–**	–	**163**	82
	#	–	**2,003**	2,084
By geography				
Singapore	**–**	–	**1,020**	1,828
Malaysia	**–**	–	**611**	17
Rest of the World	**#**	–	**372**	239
	#	–	**2,003**	2,084

Represents amount less than $0.5 million.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.2 Credit risk (continued)
Loans past due but not impaired
Certain loans and advances are past due but not impaired as the collateral values of these loans are in excess of the principal and interest outstanding. Allowances for these loans may have been set aside on a portfolio basis. The Group's non-bank loans which are past due but not impaired are as follows:

$ million	2008	2007
Past due		
Less than 30 days	**450**	579
30 to 90 days	**527**	407
Over 90 days	**68**	59
Past due but not impaired	**1,045**	1,045

Impaired loans and allowances
Non-bank loans that are individually determined to be impaired as at the reporting date are as follows:

$ million	2008	2007
Business segment		
Global Consumer Financial Services	**269**	339
Global Corporate Banking	**714**	727
Others	**48**	30
Individually impaired loans	**1,031**	1,096

Details on non-performing loans are set out in Note 27. The movements of specific and portfolio allowances account for loans are set out in Notes 28 and 29 respectively.

Renegotiated loans
Loans that would have been past due or impaired had they not been renegotiated amounted to $93.8 million for the year ended 31 December 2008 (2007: $55.9 million).

Collateral and other credit enhancements obtained
During the year, the Group obtained the following assets by taking possession of collaterals held as security, or by calling upon other credit enhancements:

$ million	2008	2007
Properties	**1**	18
Others	**#**	#
Carrying amount of assets obtained during the year	**1**	18

Represents amount less than $0.5 million.

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group generally does not occupy the premises repossessed for its business use.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.2 Credit risk (continued)
Country risk
The Group's country risk framework covers the assessment and rating of countries, as well as the maximum cross-border transfer risk limit granted to any one country based on its risk rating. The 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 and the political and economic outlook. Cross-border transfer risk exposures of more than 1% of assets were as follows:

$ million	Banks	Government and official institutions	Loans to financial institutions and customers	Total exposure	As % of assets
Exposure [1]					
2008					
Malaysia	**5,889**	**128**	**3,974**	**9,991**	**7.0**
United Kingdom	**7,081**	**2**	**122**	**7,205**	**5.1**
China	**2,553**	**–**	**931**	**3,484**	**2.4**
South Korea	**2,798**	**233**	**280**	**3,311**	**2.3**
Indonesia	**853**	**223**	**1,792**	**2,868**	**2.0**
Australia	**1,545**	**–**	**671**	**2,216**	**1.6**
Germany	**1,977**	**21**	**135**	**2,133**	**1.5**
United States	**1,019**	**34**	**1,047**	**2,100**	**1.5**
Hong Kong SAR	**963**	**–**	**985**	**1,948**	**1.4**
Netherlands	**1,544**	**–**	**349**	**1,893**	**1.3**
2007					
Malaysia	4,163	190	2,886	7,239	5.4
United Kingdom	6,485	3	323	6,811	5.1
Hong Kong SAR	2,402	–	1,026	3,428	2.6
Indonesia	1,320	121	1,715	3,156	2.4
China	2,051	1	1,021	3,073	2.3
South Korea	1,591	274	854	2,719	2.0
Australia	1,285	16	814	2,115	1.6
United States	1,060	18	791	1,869	1.4
Japan	1,020	–	502	1,522	1.1

[1] Assets (excluding life assurance fund investment assets) of $142,508 million (2007: $133,471 million).

39.3 Market risk and asset liability management
Disclosures on the Group's market risk management, and the Value-at-Risk ("VaR") summary of its trading portfolio, are in the Risk Management Section.

The Group's Asset Liability Management framework consists of three components:
- Structural interest rate risk management
- Structural foreign exchange risk management; and
- Liquidity management

The objectives, policies and processes of asset liability management are in the Risk Management Section.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Market risk and asset liability management (continued)

Interest rate risk

The table below summarises the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

$ million	Within 1 week	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest sensitive	Total
2008								
Cash and placements with central banks	**940**	**2,271**	**506**	**427**	**–**	**16**	**2,868**	**7,028**
Placements with and loans to banks	**3,326**	**2,790**	**6,533**	**2,612**	**9**	**–**	**2**	**15,272**
Loans and bills receivable [(1)]	**6,674**	**25,936**	**31,306**	**9,722**	**3,826**	**3,043**	**(699)**	**79,808**
Securities [(2)]	**838**	**2,004**	**4,735**	**3,915**	**4,053**	**7,190**	**1,720**	**24,455**
Other assets [(3)]	**–**	**–**	**–**	**–**	**–**	**–**	**9,320**	**9,320**
Financial assets	**11,778**	**33,001**	**43,080**	**16,676**	**7,888**	**10,249**	**13,211**	**135,883**
Deposits of non-bank customers	**19,699**	**21,514**	**28,833**	**13,356**	**1,016**	**216**	**9,444**	**94,078**
Deposits and balances of banks	**3,801**	**3,246**	**2,393**	**374**	**168**	**60**	**71**	**10,113**
Trading portfolio liabilities	**–**	**460**	**170**	**268**	**111**	**93**	**9**	**1,111**
Other liabilities [(3)]	**11**	**7**	**34**	**43**	**–**	**–**	**10,605**	**10,700**
Debts issued	**23**	**637**	**194**	**1**	**3,895**	**1,260**	**–**	**6,010**
Financial liabilities	**23,534**	**25,864**	**31,624**	**14,042**	**5,190**	**1,629**	**20,129**	**122,012**
On-balance sheet sensitivity gap	**(11,756)**	**7,137**	**11,456**	**2,634**	**2,698**	**8,620**		
Off-balance sheet sensitivity gap	**(290)**	**2,752**	**(1,057)**	**(5,152)**	**4,028**	**(281)**		
Net interest sensitivity gap	**(12,046)**	**9,889**	**10,399**	**(2,518)**	**6,726**	**8,339**		
2007								
Cash and placements with central banks	1,400	1,701	2,030	646	–	–	2,619	8,396
Placements with and loans to banks	1,213	3,123	5,692	5,077	3	–	9	15,117
Loans and bills receivable [(1)]	4,612	24,481	29,372	7,916	2,937	2,898	(900)	71,316
Securities [(2)]	691	2,456	5,493	4,389	3,792	6,527	3,011	26,359
Other assets [(3)]	7	9	–	–	–	–	5,919	5,935
Financial assets	7,923	31,770	42,587	18,028	6,732	9,425	10,658	127,123
Deposits of non-bank customers	18,739	21,213	26,320	13,894	557	394	7,671	88,788
Deposits and balances of banks	7,167	3,205	3,079	1,096	179	–	–	14,726
Trading portfolio liabilities	1	–	–	–	94	73	4	172
Other liabilities [(3)]	3	23	26	6	–	–	6,011	6,069
Debts issued	24	540	117	–	–	4,289	–	4,970
Financial liabilities	25,934	24,981	29,542	14,996	830	4,756	13,686	114,725
On-balance sheet sensitivity gap	(18,011)	6,789	13,045	3,032	5,902	4,669		
Off-balance sheet sensitivity gap	(1,020)	5,799	(3,909)	(1,173)	(1,059)	1,362		
Net interest sensitivity gap	(19,031)	12,588	9,136	1,859	4,843	6,031		

(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/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Market risk and asset liability management (continued)

The main market risk faced by the Group is interest rate risk arising from the re-pricing mismatches of assets and liabilities from its banking businesses. These are monitored through tenor limits and net interest income changes. One way of expressing this sensitivity for all interest rate sensitive positions, whether marked to market or subject to amortised cost accounting, is the impact on their fair values of basis point change in interest rates.

The Bank's interest rate risk is monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions. Based on a 100 bp parallel rise in yield curves on the Group's exposure to major currencies i.e. Singapore Dollar, US Dollar and Malaysian Ringgit, net interest income is estimated to increase by $61 million. The corresponding impact from a 100 bp decrease is an estimated reduction of $216 million in net interest income. As a percentage of reported net interest income, the maximum exposure would be -7.7% (2007: -2.2%).

The 1% rate shock impact on net interest income is based on simplified scenarios with assumptions on loan prepayment, using the Group's interest rate risk profile as at reporting date. It does not take into account actions that would be taken by Global Treasury or the business units to mitigate the impact of this interest rate risk. In reality, Global Treasury seeks proactively to change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections also assume a constant balance sheet position and that all positions run to maturity.

Currency risk

The Group's foreign exchange position by major currencies is shown below. "Others" include mainly Indonesian Rupiah, Australian Dollar, Euro, Japanese Yen, Sterling Pound and Hong Kong Dollar.

$ million	SGD	USD	MYR	Others	Total
2008					
Cash and placements with central banks	**3,507**	**28**	**2,195**	**1,298**	**7,028**
Placements with and loans to banks	**1,177**	**8,239**	**590**	**5,266**	**15,272**
Loans and bills receivable	**46,261**	**10,576**	**11,870**	**11,101**	**79,808**
Securities (1)	**13,178**	**3,247**	**3,576**	**4,454**	**24,455**
Other assets (2)	**5,439**	**1,769**	**1,017**	**1,095**	**9,320**
Financial assets	**69,562**	**23,859**	**19,248**	**23,214**	**135,883**
Deposits of non-bank customers	**53,744**	**12,105**	**14,672**	**13,557**	**94,078**
Deposits and balances of banks	**1,210**	**4,650**	**693**	**3,560**	**10,113**
Trading portfolio liabilities	**1,109**	**–**	**–**	**2**	**1,111**
Other liabilities (2)	**6,328**	**1,083**	**948**	**2,341**	**10,700**
Debts issued	**4,188**	**359**	**967**	**496**	**6,010**
Financial liabilities	**66,579**	**18,197**	**17,280**	**19,956**	**122,012**
Net financial assets/(liabilities) exposure	**2,983**	**5,662**	**1,968**	**3,258**	
2007					
Cash and placements with central banks	4,741	53	2,315	1,287	8,396
Placements with and loans to banks	404	6,967	310	7,436	15,117
Loans and bills receivable	41,647	9,336	10,543	9,790	71,316
Securities (1)	13,836	3,762	3,378	5,383	26,359
Other assets (2)	3,633	1,717	590	(5)	5,935
Financial assets	64,261	21,835	17,136	23,891	127,123
Deposits of non-bank customers	52,873	11,473	13,633	10,809	88,788
Deposits and balances of banks	3,645	7,609	408	3,064	14,726
Trading portfolio liabilities	168	–	–	4	172
Other liabilities (2)	3,529	1,335	637	568	6,069
Debts issued	4,044	393	261	272	4,970
Financial liabilities	64,259	20,810	14,939	14,717	114,725
Net financial assets/(liabilities) exposure	2	1,025	2,197	9,174	

(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).

(2) Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.3 Market risk and asset liability management (continued)
Structural foreign exchange risk

Structural foreign exchange risks arise primarily from the Group's net investments in overseas branches, subsidiaries and associates, strategic equity investments as well as property assets. The Group uses mainly foreign currency forwards and swaps to hedge its exposure. The table below shows the Group's structural foreign currency exposure at reporting date.

	2008			2007		
$ million	Structural currency exposure	Hedging financial instruments	Net structural currency exposure	Structural currency exposure	Hedging financial instruments	Net structural currency exposure
US Dollar	**551**	**–**	**551**	343	357	(14)
Malaysian Ringgit	**1,231**	**–**	**1,231**	1,059	–	1,059
Others	**1,764**	**6**	**1,758**	1,678	437	1,241
Total	**3,546**	**6**	**3,540**	3,080	794	2,286

Liquidity risk

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

$ million	Within 1 week	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2008							
Cash and placements with central banks	**3,253**	**2,271**	**506**	**427**	**–**	**571**	**7,028**
Placements with and loans to banks	**4,409**	**2,395**	**5,750**	**2,621**	**90**	**7**	**15,272**
Loans and bills receivable	**6,095**	**6,045**	**7,231**	**9,537**	**15,588**	**35,312**	**79,808**
Securities [1]	**746**	**1,190**	**2,292**	**3,387**	**6,292**	**10,548**	**24,455**
Other assets [2]	**834**	**1,419**	**1,635**	**3,405**	**1,464**	**563**	**9,320**
Financial assets	**15,337**	**13,320**	**17,414**	**19,377**	**23,434**	**47,001**	**135,883**
Deposits of non-bank customers	**47,362**	**20,516**	**10,755**	**12,895**	**2,264**	**286**	**94,078**
Deposits and balances of banks	**3,830**	**3,229**	**2,433**	**392**	**168**	**61**	**10,113**
Trading portfolio liabilities	**9**	**460**	**170**	**268**	**111**	**93**	**1,111**
Other liabilities [2]	**1,253**	**2,011**	**2,673**	**3,872**	**321**	**570**	**10,700**
Debts issued	**23**	**637**	**184**	**1**	**3,895**	**1,270**	**6,010**
Financial liabilities	**52,477**	**26,853**	**16,215**	**17,428**	**6,759**	**2,280**	**122,012**
Net liquidity gap – financial assets less financial liabilities	**(37,140)**	**(13,533)**	**1,199**	**1,949**	**16,675**	**44,721**	
2007							
Cash and placements with central banks	3,675	1,627	1,720	956	–	418	8,396
Placements with and loans to banks	1,215	2,884	5,318	5,488	187	25	15,117
Loans and bills receivable	5,959	6,178	6,685	7,332	12,040	33,122	71,316
Securities [1]	817	1,467	2,819	4,005	5,450	11,801	26,359
Other assets [2]	1,016	1,555	927	1,447	432	558	5,935
Financial assets	12,682	13,711	17,469	19,228	18,109	45,924	127,123
Deposits of non-bank customers	40,261	20,389	11,896	12,690	2,587	965	88,788
Deposits and balances of banks	7,213	3,159	3,079	1,096	179	–	14,726
Trading portfolio liabilities	5	–	–	–	94	73	172
Other liabilities [2]	1,436	1,259	1,095	1,547	253	479	6,069
Debts issued	167	368	117	–	–	4,318	4,970
Financial liabilities	49,082	25,175	16,187	15,333	3,113	5,835	114,725
Net liquidity gap – financial assets less financial liabilities	(36,400)	(11,464)	1,282	3,895	14,996	40,089	

(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).

(2) Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Market risk and asset liability management (continued)

Contractual maturity for financial liabilities

The table below shows the undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturities. Information on cash outflow of gross loan commitments is set out in Note 42. The expected cash flows of these liabilities could vary significantly from what is shown in the table. For example, deposits of non-bank customers included demand deposits, such as current and savings (Note 17) which are expected to remain stable, and unrecognised loan commitments are not all expected to be drawn down immediately.

$ million	Within 1 week	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2008							
Deposits of non-bank customers [1]	**47,381**	**20,528**	**10,860**	**13,123**	**2,338**	**311**	**94,541**
Deposits and balances of banks [1]	**3,833**	**3,238**	**2,447**	**401**	**169**	**61**	**10,149**
Trading portfolio liabilities	**1,111**	**–**	**–**	**–**	**–**	**–**	**1,111**
Other liabilities [2]	**877**	**583**	**206**	**224**	**207**	**356**	**2,453**
Debts issued	**23**	**637**	**290**	**195**	**4,175**	**1,609**	**6,929**
Net settled derivatives							
Trading	**398**	**116**	**352**	**814**	**1,311**	**875**	**3,866**
Hedging	**–**	**2**	**3**	**30**	**48**	**24**	**107**
Gross settled derivatives							
Trading – Outflow	**14,465**	**20,949**	**23,228**	**25,789**	**1,290**	**711**	**86,432**
Trading – Inflow	**(14,377)**	**(21,156)**	**(22,711)**	**(25,160)**	**(1,311)**	**(719)**	**(85,434)**
Hedging – Outflow	**201**	**761**	**885**	**51**	**3,117**	**–**	**5,015**
Hedging – Inflow	**(190)**	**(768)**	**(848)**	**(83)**	**(2,870)**	**–**	**(4,759)**
	53,722	**24,890**	**14,712**	**15,384**	**8,474**	**3,228**	**120,410**
2007							
Deposits of non-bank customers [1]	40,290	20,519	12,022	13,016	2,724	1,029	89,600
Deposits and balances of banks [1]	7,216	3,178	3,123	1,119	189	–	14,825
Trading portfolio liabilities	172	–	–	–	–	–	172
Other liabilities [2]	1,256	365	256	167	223	411	2,678
Debts issued	167	369	211	178	546	4,567	6,038
Net settled derivatives							
Trading	202	62	136	332	416	253	1,401
Hedging	–	(1)	–	10	21	5	35
Gross settled derivatives							
Trading – Outflow	15,748	18,531	33,044	24,571	204	658	92,756
Trading – Inflow	(15,817)	(18,632)	(33,112)	(24,611)	(194)	(686)	(93,052)
Hedging – Outflow	1,673	513	343	481	246	3,066	6,322
Hedging – Inflow	(1,680)	(517)	(342)	(533)	(317)	(2,840)	(6,229)
	49,227	24,387	15,681	14,730	4,058	6,463	114,546

[1] Interest cash flows of bank and non-bank deposits are included in the respective deposit lines based on interest payment dates.

[2] Other liabilities include amount due to associates.

39.4 Other risk areas

Details of the Group's management of operational, fiduciary and reputation risks are disclosed in the Risk Management Section.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management

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

Governance framework

The underlying premise of GEH Group's Enterprise Risk Management ("ERM") Framework is that the Group 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 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. Group Risk Management department spearheads the development and implementation of the ERM Framework for the Group.

The Risk and Investment Committee ("RIC") was constituted to provide oversight on the risk management initiatives. Detailed risk management and oversight activities are undertaken by GEH Group Management Committees comprising the Chief Executive Officer and key senior management executives of its key operating subsidiaries, namely: Group Management Team ("GMT") and Group Asset-Liability Committee ("Group ALC").

GMT is responsible for formulating GEH Group's corporate vision, mission, core values, financial goals, business portfolio mix and risk profile. It also reviews and monitors the execution of the Group's corporate strategy and oversees the development and deployment of resources for growth in markets in which the Group operates. In addition, GMT is responsible for the oversight of operational risks faced by the Group, including the monitoring of related limits and policies such as underwriting limits and business continuity plans. GMT is supported by the local Senior Management Team ("SMT") and Product Development Committee ("PDC") at the key operating subsidiaries. SMTs oversee business and operational risks at the local level while PDCs oversee the product development and launch process.

Group ALC is responsible for managing the Group's balance sheet, including the insurance, market and credit risks faced by the Group. This includes the formulation of the group wide investment strategy, asset mix and group level risk policies such as the risk and capital management policy, asset-liability management policy and credit policy. Group ALC is supported by the local Asset-Liability Committee ("ALC") at the key operating subsidiaries, which is in turn supported by sub-committees focusing on each asset class such as Credit Risk Committee ("CRC") and Alternative Investment Committee.

Regulatory framework

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 Board of Directors ("Board") of the insurance subsidiaries. The Board exercises oversight on investments to safeguard the interests of policyholders and shareholders.

Risk and capital management framework

GEH's capital management policy is to create shareholder value, deliver sustainable returns to shareholders, maintain a strong capital position with optimum buffer to meet policyholders' obligations and regulatory requirements and make strategic investments for business growth.

The management of capital and risk is guided by the GEH Risk and Capital Management Framework, known as RK20.12, where R stands for risk, K stands for capital, and 20 and 12 represent the 20 business and operational risks and 12 financial risks which the framework encompasses. RK20.12 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 measurements/parameters based on economic factors. The model defines risk using the Value-at-Risk measure calibrated to the 99.5th percentile confidence level over a one-year horizon. The control self assessment is a systematic process by which individual business unit analyses its own business processes methodically to identify the strengths and weaknesses of its risk control environment that could have a potential impact on its ability to achieve the Group's business objectives. Together, the two components of RK20.12 provide a disciplined risk management framework that guides the Group in the achievement of its goals and objectives through active asset and liability management, as well as strategic and tactical risk and capital allocations.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Regulatory capital

The insurance subsidiaries of the Group are required to comply with capital ratios prescribed in the insurance regulations of the jurisdiction in which the subsidiary operates.

In Singapore, the minimum capital requirement under the Risk-based Capital Framework regulated by the Monetary Authority of Singapore is 120% for each insurance entity. The capital requirements include capital residing in the participating fund which is not fungible. Regulated capital of the consolidated Singapore insurance subsidiaries as at 31 December 2008 comprised available capital of $6.0 billion (2007: $7.4 billion), risk capital of $2.6 billion (2007: $2.9 billion) and Capital Adequacy Ratio 227% (2007: 252%). Including capital at GEH, overall Singapore Capital Adequacy Ratio was 249% (2007: 272%).

In Malaysia and other subsidiaries, margins of solvency are prescribed. Assets are not marked to market under this regime. A proxy for measurement of financial soundness and strength is the ratio of fund surplus computed under margin of solvency rules over the long term actuarial liabilities whose valuation are prescribed by the insurance regulations. In Malaysia, the ratio on marked to market basis was 33% as at 31 December 2008 (2007: 45%) based on actuarial liability reserve of $9.0 billion (2007: $8.5 billion). Risk-based Capital Framework will come into effect in Malaysia in 2009. The Malaysia insurance subsidiaries will have Capital Adequacy Ratio well above the regulatory minimum of 130%.

Dividend

GEH's dividend policy aims to provide shareholders with a predictable and sustainable dividend return, payable on a half-yearly basis.

Financial risk management

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 Group's activities include but are not limited to the risks discussed below.

Insurance risk

Insurance risk arise when we underwrite insurance contracts. A mis-estimation of the assumptions used in pricing the insurance products as well as subsequent setting of the technical provisions may give rise to potential shortfalls when actual experience is different from expected experience. Sources of assumptions affecting insurance risk include policy lapses and policy claims such as mortality, morbidity and expenses.

The Group utilises reinsurance to manage the mortality and morbidity risks. The Group's reinsurance management strategy and policy are reviewed annually by RIC and SMT. Reinsurance structures are set based on the type of risk. Retention limits for mortality risk per life are limited to a maximum of $700,000 in Singapore and MYR350,000 in Malaysia. Retention limits for critical illness per life are limited to a maximum of $400,000 in Singapore and MYR250,000 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 risk.

Only reinsurers meeting credit rating of S&P A- are considered when deciding on which reinsurers to reinsure our risk. Risk to any one reinsurer is limited by ceding different products to different reinsurers or to a panel of reinsurers.

SMT reviews the actual experience of mortality, morbidity, lapses and surrenders, and expenses to ensure that the policies, guidelines and limits put in place to manage the risks remain adequate and appropriate.

Insurance risk of life insurance contracts

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.

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.

Stress Testing ("ST") is performed at least once a year. 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.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.5 Insurance-related risk management (continued)
Table 39.5(A): Concentration of life insurance risk

Life assurance contract liabilities ($ million)	2008	2007
(a) By class of business		
Whole life	**14,619**	16,201
Endowment	**14,262**	14,069
Term	**452**	437
Accident and health	**494**	438
Annuity	**627**	611
Others	**1,295**	1,086
Total	**31,749**	32,842
(b) By country		
Singapore	**20,431**	21,888
Malaysia	**11,162**	10,798
Others	**156**	156
Total	**31,749**	32,842

The sensitivity analyses below shows the impact of change in key parameters on the value of policy liabilities, and hence on the profit and loss statements. Sensitivity analyses produced below are based on parameters set out as follows:

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

Table 39.5(B1): Profit/(loss) after tax and shareholders' equity sensitivity for the Singapore segment
Impact on 1-year's profit/(loss) after tax and shareholders' equity

$ million	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2008							
Gross impact	**(15.7)**	**(30.8)**	**82.1**	**(106.5)**	**26.7**	**(35.9)**	**(19.6)**
Reinsurance ceded [(1)]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net impact	**(15.7)**	**(30.8)**	**82.1**	**(106.5)**	**26.7**	**(35.9)**	**(19.6)**
2007							
Gross impact	(4.2)	(46.1)	109.9	(138.6)	25.9	(37.0)	(20.6)
Reinsurance ceded [(1)]	–	–	–	–	–	–	–
Net impact	(4.2)	(46.1)	109.9	(138.6)	25.9	(37.0)	(20.6)

(1) The effect of sensitivity analyses on reinsurance ceded are not material.

Table 39.5(B2): Profit/(loss) after tax and shareholders' equity sensitivity for the Malaysia segment
Impact on 1-year's profit/(loss) after tax and shareholders' equity

$ million	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2008 and 2007							
Gross impact	–	–	–	–	–	–	–
Reinsurance ceded [(1)]	–	–	–	–	–	–	–
Net impact	–	–	–	–	–	–	–

(1) The effect of sensitivity analyses on reinsurance ceded are not material.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

The impact on profit and loss after tax does not take into account of changes in other variables. Impact of interest rate on liability is tested concurrently with assets and impact of other variables is considered to be not material. Such assessment and the relative materiality of individual variables may change in the future.

The sensitivity testing on the Malaysia segment was 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 policy liabilities prescribed by regulator and any shortfall would be charged to the income statement. The Liabilities Adequacy Test reserves derived under all scenarios were lower than the minimum policy liabilities prescribed by the regulator; therefore there was no impact on profit after tax.

Insurance risk of non-life insurance contracts

Risks under non-life insurance policies usually cover twelve month duration. The risk inherent in non-life insurance contracts is reflected in the insurance contract liabilities which include the premium and claim liabilities. The premium liabilities comprise reserve for unexpired risks, while the claims liabilities comprise the loss reserves which include both provision for outstanding claims notified and outstanding claims incurred but not reported.

Table 39.5(C1): Concentration of non-life insurance risk

Non-life insurance contract liabilities ($ million)	2008 Net premium liabilities	2008 Net claims liabilities	2007 Net premium liabilities	2007 Net claims liabilities
(a) By class of business				
Fire	**7**	**3**	7	4
Motor	**11**	**28**	9	30
Marine and aviation	**#**	**1**	#	1
Workmen's compensation	**3**	**6**	3	7
Personal accident and health	**17**	**5**	13	4
Others	**5**	**6**	5	8
Total	**43**	**49**	37	54
(b) By country				
Singapore	**21**	**17**	17	14
Malaysia	**22**	**32**	20	40
Others	**–**	**–**	–	–
Total	**43**	**49**	37	54

Non-life insurance contracts liabilities are determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions, economic conditions and claims handling procedures. The estimates of the non-life insurance contract liabilities are therefore sensitive to various factors and uncertainties. The actual future premium and claims liabilities will not develop exactly as projected and may vary from initial estimates.

Table 39.5(C2): Cumulative claims estimates and cumulative payments to-date

$ million	Before 2004	2004	2005	2006	2007	2008
(a) Estimate of cumulative claims						
Accident Year	142	29	29	32	35	39
One year later	80	25	26	29	32	–
Two years later	74	22	22	25	–	–
Three years later	71	20	21	–	–	–
Four years later	68	19	–	–	–	–
Five years later	66	–	–	–	–	–
Estimate of cumulative claims	**501**	**115**	**98**	**86**	**67**	**39**
Current estimate	**66**	**19**	**21**	**25**	**32**	**39**

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Table 39.5(C2): Cumulative claims estimates and cumulative payments to-date (continued)

$ million	Before 2004	2004	2005	2006	2007	2008
(b) Estimate of cumulative payments						
Accident Year	53	11	12	13	14	17
One year later	54	17	18	21	24	–
Two years later	55	16	17	20	–	–
Three years later	56	17	18	–	–	–
Four years later	57	17	–	–	–	–
Five years later	58	–	–	–	–	–
Estimate of cumulative payments	**333**	**78**	**65**	**54**	**38**	**17**
Current estimate	**58**	**17**	**18**	**20**	**24**	**17**
(c) Total non-life net claim liabilities	**8**	**2**	**3**	**5**	**8**	**22**

Market and credit risk

Market risk arises when the market value of assets and liabilities do not move consistently as financial markets change. Change in interest rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future earnings of the insurance operations as well as shareholders' equity.

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. As for the funds managed by its asset management subsidiary, Lion Global Investors Limited (formerly known as Lion Capital Management Limited), investment risks are borne by investors and the Group does not assume any liability in the event of occurrence of loss or write-down on the investments' valuation.

Group ALC and local ALCs actively manage market risk through setting of 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 the Group's 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 described below.

(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 the Group ALC and local ALCs. 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. With the use of the Long Term Risk Free Discount Rate ("LTRFDR") formulated under the Singapore regulations governed by MAS to discount liability cash flows with duration of more than 15 years, the Singapore non-participating funds could have negative earnings impact when the LTRFDR decreases. The management of asset liability mismatch is guided by the Asset-Liability Management Framework.

(b) Foreign currency risk

Hedging through currency forwards and swaps is typically used for the fixed income portfolio. Internal limits on foreign exchange exposures ranging from 15% to 35% are applied to investments in fixed income portfolios at fund level. Currency risk of investments in foreign equities is generally not hedged.

The Group is also exposed to foreign exchange movement on net investment in its foreign subsidiaries. The major exposure 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. The table below shows the foreign exchange position of GEH Group by major currencies.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.5 Insurance-related risk management (continued)
(b) Foreign currency risk (continued)

$ million	SGD	MYR	USD	Others	Total
2008					
Equities and collective investments	**2,032**	**2,530**	**1,558**	**2,272**	**8,392**
Government securities, loan stocks and bonds	**9,083**	**10,037**	**2,326**	**1,026**	**22,472**
Derivatives and embedded derivatives	**3,429**	**15**	**(2,037)**	**(476)**	**931**
Loans	**2,111**	**1,680**	**–**	**19**	**3,810**
Reinsurance assets	**34**	**33**	**–**	**#**	**67**
Outstanding premiums	**70**	**107**	**–**	**#**	**177**
Other debtors and interfund balances	**1,514**	**246**	**–**	**1**	**1,761**
Cash and cash equivalents	**2,649**	**1,119**	**77**	**185**	**4,030**
Financial assets	**20,922**	**15,767**	**1,924**	**3,027**	**41,640**
Other creditors and interfund balances	**1,686**	**344**	**–**	**7**	**2,037**
Reinsurance liabilities	**51**	**24**	**–**	**1**	**76**
Unexpired risk reserve	**–**	**–**	**–**	**67**	**67**
Policy benefits	**815**	**1,025**	**–**	**#**	**1,840**
Claims admitted or intimated	**57**	**121**	**–**	**#**	**178**
Agents' retirement benefits	**1**	**182**	**–**	**–**	**183**
General insurance fund contract liabilities	**42**	**57**	**–**	**–**	**99**
Life assurance fund contract liabilities	**20,232**	**10,662**	**58**	**797**	**31,749**
Financial liabilities	**22,884**	**12,415**	**58**	**872**	**36,229**
2007					
Equities and collective investments	3,650	3,764	1,935	3,070	12,419
Government securities, loan stocks and bonds	9,490	9,301	2,141	1,243	22,175
Derivatives and embedded derivatives	3,947	40	(1,914)	(673)	1,400
Loans	1,806	1,660	–	3	3,469
Reinsurance assets	41	38	–	#	79
Outstanding premiums	79	90	–	#	169
Other debtors and interfund balances	970	396	–	#	1,366
Cash and cash equivalents	1,589	853	205	121	2,768
Financial assets	21,572	16,142	2,367	3,764	43,845
Other creditors and interfund balances	992	451	–	1	1,444
Reinsurance liabilities	33	35	–	#	68
Unexpired risk reserve	27	33	–	–	60
Policy benefits	792	853	–	#	1,645
Claims admitted or intimated	45	119	–	1	165
Agents' retirement benefits	2	182	–	–	184
General insurance fund contract liabilities	39	62	–	–	101
Life assurance fund contract liabilities	21,642	10,798	140	262	32,842
Financial liabilities	23,572	12,533	140	264	36,509

Represents amount less than $0.5 million.

(c) Equity price risk
Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where the Group, through investments in both Shareholders' Funds and Insurance Funds, 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 since 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 pre-determined levels. Limits are set for single security holdings as a percentage of equity holdings.

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.5 Insurance-related risk management (continued)

(d) Credit spread risk
Exposure to credit spread risk exists in the Group's investments in bonds. Credit spread is the difference between the quoted rates of return of two different investments of different credit quality. When spreads widen between bonds with different quality ratings, it implies that the market is factoring more risk of default on lower grade bonds. A widening in credit spreads will result in a fall in the values of the Group's bond portfolio.

(e) Alternative investment risk
The Group is exposed to alternative investment risk through investments in direct real estate that it owns in Singapore and Malaysia and through real estate, private equity, infrastructure and hedge funds for exposures in other countries. A monitoring process is in place to manage foreign exchange, country and manager concentration risks. This process and the acquisition or divestment of alternative investments is reviewed and approved by the appropriate committee based on an authority matrix approved by the Board of Directors.

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

(g) 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 are illiquid. Demands for funds can usually be met through ongoing normal 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.

The following tables show the cash flows of GEH Group's liabilities and assets:

$ million	Less than 1 year	1 to 5 years	Over 5 years	Unit-linked	Total
2008					
Income tax	170	–	–	–	170
Other creditors and interfund balances	1,677	71	289	–	2,037
Reinsurance liabilities	41	25	10	–	76
Unexpired risk reserve	–	67	–	–	67
Policy benefits	1,825	13	2	–	1,840
Claims admitted or intimated	175	3	–	–	178
Agents' retirement benefits	182	–	1	–	183
Deferred tax	–	51	435	–	486
General insurance fund contract liabilities	–	99	–	–	99
Life assurance fund contract liabilities	2,432	5,518	21,071	2,728	31,749
Liabilities	**6,502**	**5,847**	**21,808**	**2,728**	**36,885**

Notes to the Financial Statements
For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.5 Insurance-related risk management (continued)
(g) Cash flow and liquidity risk (continued)

$ million	Less than 1 year	1 to 5 years	Over 5 years	Unit-linked	Total
2007					
Income tax	259	–	–	–	259
Other creditors and interfund balances	972	76	396	–	1,444
Reinsurance liabilities	28	35	5	–	68
Unexpired risk reserve	54	6	–	–	60
Policy benefits	1,626	15	4	–	1,645
Claims admitted or intimated	163	2	#	–	165
Agents' retirement benefits	34	148	2	–	184
Deferred tax	–	284	735	–	1,019
General insurance fund contract liabilities	91	10	–	–	101
Life assurance fund contract liabilities	1,788	5,146	22,150	3,758	32,842
Liabilities	5,015	5,722	23,292	3,758	37,787

$ million	Current*	Non-current	Unit-linked	Total
2008				
Cash and cash equivalents	**3,847**	**–**	**183**	**4,030**
Other debtors and interfund balances	**594**	**1,122**	**45**	**1,761**
Outstanding premiums	**177**	**#**	**–**	**177**
Reinsurance assets	**36**	**31**	**–**	**67**
Loans	**2,412**	**1,398**	**–**	**3,810**
Investments, including derivative instruments	**9,482**	**20,159**	**2,154**	**31,795**
Associates and joint ventures	**6**	**455**	**–**	**461**
Goodwill	**–**	**26**	**–**	**26**
Property, plant and equipment	**–**	**804**	**–**	**804**
Investment properties	**–**	**1,073**	**–**	**1,073**
Assets	**16,554**	**25,068**	**2,382**	**44,004**
2007				
Cash and cash equivalents	2,500	–	268	2,768
Other debtors and interfund balances	893	438	35	1,366
Outstanding premiums	168	1	–	169
Reinsurance assets	53	26	–	79
Loans	967	2,502	–	3,469
Investments, including derivative instruments	12,261	20,124	3,609	35,994
Associates and joint ventures	66	582	–	648
Goodwill	–	25	–	25
Property, plant and equipment	–	819	–	819
Investment properties	–	1,178	–	1,178
Assets	16,908	25,695	3,912	46,515

* Represents expected recovery or settlement within 12 months from the balance sheet date.
\# Represents amount less than $0.5 million.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)
39.5 Insurance-related risk management (continued)
(g) Cash flow and liquidity risk (continued)

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

$ million	2008 Principal notional amount	2008 Derivative receivables	2008 Derivative payables	2007 Principal notional amount	2007 Derivative receivables	2007 Derivative payables
Foreign exchange						
Forwards	**1,942**	**30**	**7**	2,860	26	#
Currency swaps	**1,248**	**66**	**4**	1,020	112	–
Interest rate						
Swaps	**2,854**	**213**	**29**	1,968	6	21
Swaptions and options	**7**	**–**	**#**	9	#	#
Exchange traded futures	**1,564**	**6**	**1**	1,091	3	2
Equity						
Futures	**19**	**#**	**#**	141	1	#
OTC options	**25**	**1**	**–**	25	3	–
	7,659	**316**	**41**	7,114	151	23

\# Represents amount less than $0.5 million.

(h) 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 also 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 the local CRCs which in turn report to the local ALCs. Group wide credit risk is managed by Group ALC. 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. The limits are reviewed on a regular basis. The creditworthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

The loans in GEH Group's portfolio are generally secured by collaterals, with a maximum loan to value of 70% predominantly. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of the types of collateral and the valuation parameters. 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:

$ million	2008 Carrying value of loans	2008 Fair value of collaterals	2007 Carrying value of loans	2007 Fair value of collaterals
Type of collaterals				
Policy loans – Cash value of policies	**2,179**	**4,154**	2,101	4,221
Secured loans				
Properties	**1,511**	**3,578**	1,044	2,588
Shares	**73**	**187**	215	520
Bankers' guarantees	**26**	**26**	34	34
Others	**4**	**7**	4	7
	3,793	**7,952**	3,398	7,370

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

(h) Credit risk (continued)

Investments lent and collaterals received under securities lending arrangements amounted to $110.0 million and $116.4 million respectively as at 31 December 2008 (2007: $529.0 million and $546.9 million respectively). As at reporting date, no investments (2007: $15.4 million) were placed as collateral for currency hedging purposes. Transactions are conducted under terms and conditions that are usual and customary to standard securities borrowing and lending activities.

The table below shows the maximum exposure to credit risk for the components of the balance sheet of GEH Group. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives. For derivatives, the fair value shown on the balance sheet represents the current risk exposure but not the maximum exposure that could arise in the future as a result of the change in value. The table also provides information regarding the credit risk exposure of GEH Group by classifying assets according to the Group's credit ratings of counterparties.

	Neither past due nor impaired					
$ million	Investment grade @	Non-investment grade @	Non-rated	Unit linked/ not subject to credit risk	Past due or impaired	Total
2008	(AAA–BBB)	(BB–C)				
Equities and collective investments	**–**	**–**	**–**	**8,392**	**–**	**8,392**
Government securities, loan stocks and bonds	**18,903**	**770**	**1,903**	**896**	**–**	**22,472**
Derivatives and embedded derivatives	**404**	**61**	**(4)**	**470**	**–**	**931**
Loans	**–**	**–**	**3,810**	**–**	**–**	**3,810**
Reinsurance assets	**–**	**–**	**33**	**–**	**34**	**67**
Outstanding premiums	**–**	**–**	**104**	**–**	**73**	**177**
Other debtors and interfund balances	**–**	**–**	**1,430**	**45**	**286**	**1,761**
Cash and cash equivalents	**3,722**	**–**	**125**	**183**	**–**	**4,030**
Financial assets	**23,029**	**831**	**7,401**	**9,986**	**393**	**41,640**
2007						
Equities and collective investments	–	–	–	12,419	–	12,419
Government securities, loan stocks and bonds	19,615	164	1,777	619	–	22,175
Derivatives and embedded derivatives	466	22	440	472	–	1,400
Loans	–	–	3,469	–	–	3,469
Reinsurance assets	–	–	39	–	40	79
Outstanding premiums	–	–	91	–	78	169
Other debtors and interfund balances	–	–	1,231	35	100	1,366
Cash and cash equivalents	2,489	3	8	268	–	2,768
Financial assets	22,570	189	7,055	13,813	218	43,845

@ Based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

(h) Credit risk (continued)

Ageing analysis of financial assets past due:

	Past due but not impaired					
$ million	Less than 6 months	6 to 12 months	Over 12 months	Sub-total	Past due and impaired	Total
2008						
Loans	**–**	**–**	**#**	**#**	**–**	**#**
Reinsurance assets	**3**	**–**	**31**	**34**	**–**	**34**
Outstanding premiums	**70**	**2**	**1**	**73**	**–**	**73**
Other debtors and interfund balances	**281**	**3**	**2**	**286**	**–**	**286**
Total	**354**	**5**	**34**	**393**	**–**	**393**
2007						
Reinsurance assets	14	–	26	40	–	40
Outstanding premiums	77	1	1	79	–	79
Other debtors and interfund balances	39	59	1	99	–	99
Total	130	60	28	218	–	218

\# Represents amount less than $0.5 million.

(i) 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 the respective management committees. GEH Group's exposures are within the concentration limits set by the respective local regulators.

Market risk sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables constant. The correlation of variables will have a significant effect in determining the ultimate fair values and/or amortised costs of financial assets, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. The movements in these variables are non-linear. The method for deriving the sensitivity information and significant variables used did not change from the previous period. The impact on profit after tax represents the effect caused by changes in fair value of financial assets whose fair values are recorded in the income statement, and changes in valuations of insurance contract liabilities. The impact on equity represents the impact on profit after tax and the effect on changes in fair value of financial assets held in Shareholders' Funds.

	Impact on profit after tax		Impact on equity	
$ million	2008	2007	2008	2007
Change in variables:				
Interest rate				
+100 basis points	**(196.5)**	(95.5)	**(237.0)**	(125.6)
–100 basis points	**189.7**	92.6	**230.2**	122.8
LTRFDR				
+10 basis points	**35.0**	32.0	**35.0**	32.0
–10 basis points	**(35.0)**	(32.0)	**(35.0)**	(32.0)
Foreign currency				
Market value of assets in foreign currency +5%	**10.7**	15.4	**20.9**	31.6
Market value of assets in foreign currency –5%	**(10.7)**	(15.4)	**(20.9)**	(31.6)
Equity				
Market value of all equities +20%	**27.9**	24.8	**99.2**	157.4
Market value of all equities –20%	**(31.4)**	(24.8)	**(102.8)**	(157.4)
Credit				
Spread +100%	**(100.8)**	(79.5)	**(114.8)**	(93.6)
Spread –100%	**100.8**	79.5	**114.8**	93.6
Alternative investments				
Market value of all alternative investments +10%	**10.2**	8.7	**21.0**	20.8
Market value of all alternative investments –10%	**(10.2)**	(8.7)	**(21.0)**	(20.8)

Notes to the Financial Statements

For the financial year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

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 information technology 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. GMT reviews business and operational issues on a group basis at its monthly meetings while local level issues are managed and monitored by the local SMTs. 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 INSTRUMENTS

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 following table summarises the carrying amounts and fair values of financial instruments of the Group.

	2008		2007	
$ million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Non-bank customer deposits	**94,172**	94,266	**88,847**	88,991
Debts issued	**6,010**	5,719	**4,971**	5,158

Financial assets

Fair values of cash and balances with central banks, placements with banks, interest and other short term receivables are expected to approximate their carrying value due to their short tenor or frequent re-pricing.

Securities held by the Group, comprising government securities (Note 24) and debt and equity securities (Note 30) are substantially carried at fair value on the balance sheet.

Non-bank customer loans are carried at amortised cost on the balance sheet, net of specific and portfolio allowances. The Group deemed the fair value of non-bank loans to approximate their carrying amount as substantially the loans are subject to frequent re-pricing.

Financial liabilities

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 amount due to their short tenor. For non-bank customer term deposits, cash flows based on contractual terms or derived based on certain assumptions, are discounted at market rates as at reporting date to estimate the fair value.

The fair values of the Group's subordinated term notes are determined based on quoted market prices and independent broker offer prices. For other debts issued which are usually short term, the fair value approximates the carrying value.

Notes to the Financial Statements
For the financial year ended 31 December 2008

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 receipt of bills of exchange drawn on customers. The Group issues guarantees on the performance of customers to third parties. Documentary credits commit the Group to make payments to third parties on presentation of stipulated documents. As the Group will only be required to meet these obligations in the event of customer's default, the cash requirements of these instruments are expected to be considerably below their nominal contractual amounts.

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Acceptances and endorsements	**825,777**	917,413	**105,760**	169,643
Guarantees and standby letters of credit	**6,711,662**	6,385,351	**6,379,052**	5,962,627
Documentary credits and other short term trade-related transactions	**965,141**	1,514,456	**728,267**	1,005,087
Others	**158,111**	43,922	**–**	–
	8,660,691	8,861,142	**7,213,079**	7,137,357
41.1 Analysed by industry				
Agriculture, mining and quarrying	**78,558**	152,996	**12,046**	37,376
Manufacturing	**1,974,213**	2,335,804	**1,442,938**	1,511,658
Building and construction	**1,898,109**	1,946,472	**1,393,909**	1,351,587
General commerce	**1,537,874**	1,927,195	**1,036,021**	1,395,682
Transport, storage and communication	**401,622**	279,589	**320,874**	247,011
Financial institutions, investment and holding companies	**984,101**	1,090,790	**1,050,405**	1,398,969
Professionals and individuals	**146,229**	105,994	**93,536**	81,424
Others	**1,639,985**	1,022,302	**1,863,350**	1,113,650
	8,660,691	8,861,142	**7,213,079**	7,137,357
41.2 Analysed by geography				
Singapore	**5,347,699**	5,258,131	**5,630,183**	5,535,836
Malaysia	**1,551,289**	1,564,255	**814,954**	554,065
Other ASEAN	**786,661**	867,557	**50,795**	60,493
Greater China	**535,415**	690,272	**275,897**	505,918
Other Asia Pacific	**99,957**	142,310	**99,957**	142,311
Rest of the World	**339,670**	338,617	**341,293**	338,734
	8,660,691	8,861,142	**7,213,079**	7,137,357

Contingent liabilities analysed by geography is based on the country where the transactions are recorded.

42. COMMITMENTS
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	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
42.1 Credit commitments				
Undrawn credit facilities:				
Original term to maturity of one year or less	**30,438,618**	31,400,955	**25,559,448**	26,640,858
Original term to maturity of more than one year	**14,498,050**	12,112,927	**10,291,320**	8,153,314
	44,936,668	43,513,882	**35,850,768**	34,794,172
Undrawn note issuance and revolving underwriting facilities	**70,747**	49,455	**22,666**	16,416
	45,007,415	43,563,337	**35,873,434**	34,810,588

Notes to the Financial Statements
For the financial year ended 31 December 2008

42. COMMITMENTS (continued)

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
42.2 Other commitments				
Operating lease (non-cancellable) commitments:				
Within 1 year	**23,504**	17,238	**12,830**	11,625
After 1 year but within 5 years	**34,817**	22,142	**19,757**	15,331
Over 5 years	**3,395**	4,266	**3,395**	4,266
	61,716	43,646	**35,982**	31,222
Capital commitment authorised and contracted	**82,571**	110,427	**58,090**	62,635
Forward deposits and assets purchase/sale	**1,502,896**	1,333,351	**1,510,540**	1,375,294
	1,647,183	1,487,424	**1,604,612**	1,469,151
42.3 Total commitments	**46,654,598**	45,050,761	**37,478,046**	36,279,739
42.4 Credit commitments analysed by industry				
Agriculture, mining and quarrying	**625,852**	544,701	**150,579**	56,211
Manufacturing	**4,689,696**	5,478,012	**3,052,170**	3,949,927
Building and construction	**10,957,936**	8,793,633	**9,480,798**	7,431,735
General commerce	**5,750,646**	5,384,457	**4,289,516**	4,114,247
Transport, storage and communication	**2,631,378**	2,646,983	**2,503,758**	2,497,749
Financial institutions, investment and holding companies	**6,431,016**	7,659,349	**6,431,837**	7,694,120
Professionals and individuals	**7,624,554**	7,089,500	**7,254,025**	6,630,766
Others	**6,296,337**	5,966,702	**2,710,751**	2,435,833
	45,007,415	43,563,337	**35,873,434**	34,810,588
42.5 Credit commitments analysed by geography				
Singapore	**33,362,611**	32,058,587	**33,254,267**	31,806,582
Malaysia	**7,795,308**	7,409,011	**151,682**	103,233
Other ASEAN	**1,184,422**	995,757	**260,034**	261,166
Greater China	**1,063,772**	1,361,393	**604,154**	899,024
Other Asia Pacific	**1,060,718**	948,868	**1,062,713**	950,862
Rest of the World	**540,584**	789,721	**540,584**	789,721
	45,007,415	43,563,337	**35,873,434**	34,810,588

Credit commitments analysed by geography is based on the country where the transactions are recorded.

43. ASSETS PLEDGED

	GROUP		BANK	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Government treasury bills and securities (Note 24)				
Singapore	**85,088**	519,178	**85,088**	519,178
Others	**6,334**	7,251	**6,334**	7,251
Placements with and loans to banks (Note 25)	**547,831**	362,225	**547,831**	362,225
Debt securities (Note 30)	**197,855**	–	**197,855**	–
	837,108	888,654	**837,108**	888,654
Repo balances for assets pledged	**682,207**	877,585	**682,207**	877,585

The fair value of financial assets accepted as collateral, which the Group is permitted to sell or re-pledge in the absence of default is $770.8 million (2007: $575.3 million).

The fair value of financial assets accepted as collateral that have been sold or re-pledged is $58.5 million (2007: $224.0 million). The Group is obliged to return equivalent assets.

Transactions are conducted under terms and conditions that are usual and customary to standard securities borrowing and lending activities.

Notes to the Financial Statements

For the financial year ended 31 December 2008

44. ASSETS HELD FOR SALE

Assets held for sale comprise properties which the Group is disposing, subject to terms that are usual and customary in the completion of the sale. The transactions are not expected to have a material impact on the Group's net earnings and net assets for the current financial year.

45. MINIMUM LEASE RENTAL RECEIVABLE

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

	GROUP		BANK	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Within 1 year	**54,977**	71,334	**19,591**	18,174
After 1 year but within 5 years	**50,356**	87,462	**10,140**	13,835
Over 5 year	**4,126**	–	**–**	–
	109,459	158,796	**29,731**	32,009

46. RELATED PARTY TRANSACTIONS

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

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

GROUP ($ million)	Associates	Directors	Key management	Life assurance fund
(a) Loans, placements and other receivables				
At 1 January 2008	16	88	8	–
Net decrease	(15)	(36)	(2)	–
At 31 December 2008	**1**	**52**	**6**	**–**
(b) Deposits, borrowings and other payables				
At 1 January 2008	60	369	16	1,100
Net increase/(decrease)	35	(25)	8	(472)
At 31 December 2008	**95**	**344**	**24**	**628**
(c) Off-balance sheet credit facilities [(1)]				
At 1 January 2008	–	70	–	–
Net decrease	–	(42)	–	–
At 31 December 2008	**–**	**28**	**–**	**–**
(d) Income statement transactions				
Year ended 31 December 2008:				
Interest income	**#**	**2**	**#**	**#**
Interest expense	**1**	**5**	**#**	**19**
Rental income	**#**	**2**	**–**	**#**
Fee and commission and other income	**1**	**1**	**#**	**77**
Rental and other expenses	**6**	**#**	**#**	**9**
Year ended 31 December 2007:				
Interest income	1	4	#	#
Interest expense	1	7	#	18
Rental income	#	1	–	#
Fee and commission and other income	3	1	#	52
Rental and other expenses	8	#	#	7

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

\# represents amount less than $0.5 million.

Notes to the Financial Statements

For the financial year ended 31 December 2008

46. RELATED PARTY TRANSACTIONS (continued)

BANK ($ million)	Subsidiaries	Associates	Directors	Key management	Life assurance fund
(a) Loans, placements and other receivables					
At 1 January 2008	2,745	–	88	8	–
Net increase/(decrease)	536	–	(40)	(2)	–
At 31 December 2008	**3,281**	**–**	**48**	**6**	**–**
(b) Deposits, borrowings and other payables					
At 1 January 2008	1,589	47	356	16	679
Net increase/(decrease)	1,710	41	(24)	8	(399)
At 31 December 2008	**3,299**	**88**	**332**	**24**	**280**
(c) Off-balance sheet credit facilities [1]					
At 1 January 2008	868	–	70	–	–
Net increase/(decrease)	198	–	(42)	–	–
At 31 December 2008	**1,066**	**–**	**28**	**–**	**–**
(d) Income statement transactions					
Year ended 31 December 2008:					
Interest income	**107**	**–**	**2**	**#**	**#**
Interest expense	**60**	**1**	**5**	**#**	**4**
Rental income	**4**	**–**	**–**	**–**	**–**
Fee and commission and other income	**21**	**–**	**#**	**#**	**65**
Rental and other expenses	**204**	**6**	**#**	**#**	**#**
Year ended 31 December 2007:					
Interest income	82	–	4	#	#
Interest expense	45	#	6	#	10
Rental income	2	–	–	–	–
Fee and commission and other income	13	–	#	#	42
Rental and other expenses	163	7	#	#	#

[1] Off-balance sheet credit facilities refer to transaction-related and trade-related contingencies.

represents amount less than $0.5 million.

46.2 Key management personnel compensation

	BANK 2008 $ million	BANK 2007 $ million
Key management personnel compensation is as follows:		
Short-term employee benefits	**30**	29
Share-based benefits	**7**	5
	37	34

During the financial year, total options granted to key management personnel of the Bank amounted to $4.1 million (2007: $4.5 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 EVENT

On 22 January 2009, the Singapore Minister of Finance announced a reduction in the corporate tax rate from 18% to 17% with effect from Year of Assessment 2010. The effects of the reduced tax rate will be reflected in the financial statements for the year ending 31 December 2009.

Notes to the Financial Statements

For the financial year ended 31 December 2008

48. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

As of balance sheet date, certain new standards, amendments and interpretations to existing accounting standards have been published. For the Group, the following relevant new/revised standards and interpretations are mandatory with effect from the annual period commencing 1 January 2009:

- FRS 1 *Presentation of Financial Statements*
- FRS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- FRS 102 *Share-based Payment – Amendments Relating to Vesting Conditions and Cancellations*
- FRS 108 *Operating Segments*
- INT FRS 113 *Customer Loyalty Programmes*
- INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*
- Improvements to FRSs 2008

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. The revised standard also introduces the statement of comprehensive income. The requirement is to present all items of income and expense recognised in profit or loss, together with all other items of comprehensive income, either in one single statement of comprehensive income, or in two linked statements. In addition, a statement of financial position is required at the beginning of the earliest comparative period following any retrospective application of an accounting policy, retrospective restatement of items in the financial statements or reclassification of items in the financial statements.

FRS 108 replaces FRS 14 *Segment Reporting*, and requires an entity to present its segment performance based on the same segment information used by management internally for managing the entity's operations.

INT FRS 113 requires that revenue for sale transactions involving the award of customer loyalty points be separated into two identifiable components, namely for goods or services rendered and for the loyalty points which may be redeemed in the future. The portion allocated to the loyalty points is deferred and recognised in income as and when the entity fulfils its obligations under the customer loyalty programmes.

Other than the impact on presentation following application of FRS 1, the initial application of the above standards (including their consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements.