

Directors' Report

For the financial year ended 31 December 2010

The directors present their report to the members together with the audited consolidated financial statements of the Group and the income statement, statement of comprehensive income, balance sheet and statement of changes in equity of the Bank for the financial year ended 31 December 2010.

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
Lai Teck Poh (appointed on 1 June 2010)
Lee Seng Wee
Lee Tih Shih
Colm Martin McCarthy
Neo Boon Siong
Pramukti Surjaudaja
Patrick Yeoh Khwai Hoh

Dr Cheong Choong Kong, Dr Lee Tih Shih 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.

Mr Lai Teck Poh, who was appointed to the Board under Article 101 of the Articles of Association of the Bank, retires in accordance with the provisions of that Article and, being eligible, offers himself 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' 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 31.12.2010	At 1.1.2010/ Date of appointment	At 31.12.2010	At 1.1.2010/ Date of appointment
BANK				
Ordinary shares				
Cheong Choong Kong	172,063	165,923	10,447 ⁽¹⁾	10,074 ⁽¹⁾
Bobby Chin Yoke Choong	21,893	15,112	43,533 ⁽¹⁾	41,979 ⁽¹⁾
David Philbrick Conner	1,580,281	1,333,094	1,530,811 ⁽²⁾	778,967 ⁽³⁾
Fang Ai Lian	6,222	—	—	—
Lai Teck Poh	392,511	378,955	44,244 ⁽⁴⁾	42,666 ⁽⁴⁾
Lee Seng Wee	7,253,265	6,988,447	4,245,723 ⁽¹⁾	4,094,223 ⁽¹⁾
Lee Tih Shih	2,582,926	2,484,760	—	—
Colm Martin McCarthy	6,115	—	—	—
Neo Boon Siong	27,117	20,149	—	—
Pramukti Surjaudaja	6,115	—	—	—
Patrick Yeoh Khwai Hoh	33,184	26,000	—	—
5.1% Class B non-cumulative non-convertible preference shares				
Fang Ai Lian	1,700	1,700	—	—
Lai Teck Poh	2,500	2,500	—	—
4.2% Class G non-cumulative non-convertible preference shares				
Cheong Choong Kong	15,000	15,000	—	—
Bobby Chin Yoke Choong	—	—	8,227 ⁽¹⁾	8,227 ⁽¹⁾
David Philbrick Conner	50,000	50,000	—	—
Lee Seng Wee	800,000	800,000	600,000 ⁽¹⁾	600,000 ⁽¹⁾
Lee Tih Shih	240,000	240,000	—	—
OCBC Capital Corporation (2008)				
5.1% non-cumulative non-convertible guaranteed preference shares				
Cheong Choong Kong	10,000	10,000	—	—
Lee Tih Shih	10,000	10,000	—	—
Patrick Yeoh Khwai Hoh	10,000	10,000	10,000 ⁽¹⁾	10,000 ⁽¹⁾

⁽¹⁾ Ordinary shares/preference shares held by spouse.

⁽²⁾ Comprises interest of 1,050,485 ordinary shares under OCBC Deferred Share Plan, acquisition rights of 9,560 ordinary shares under OCBC Employee Share Purchase Plan and 470,766 ordinary shares under employment contract.

⁽³⁾ Comprises interest of 773,521 ordinary shares under OCBC Deferred Share Plan and acquisition rights of 5,446 ordinary shares under OCBC Employee Share Purchase Plan.

⁽⁴⁾ Ordinary shares under OCBC Deferred Share Plan.

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

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 2011.

Directors' Report

For the financial year ended 31 December 2010

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, or in the financial statements of the Company and of the Group.

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. This agreement was renewed on 1 December 2008 and came into effect on 1 July 2009. Under the respective agreements, (i) in respect of the financial year ended 31 December 2010, Dr Cheong has received payments and benefits amounting to \$1,118,993, 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, and (ii) in respect of the financial year ended 31 December 2009, Dr Cheong has received aggregate payments and benefits of \$1,109,478 and a variable bonus of a total amount of \$1,200,000, comprising a bonus of \$100,000 and an additional bonus of \$1,100,000.

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 2010 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:

Fang Ai Lian, Chairman
Cheong Choong Kong
Lee Tih Shih
Neo Boon Siong

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.

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 last option under this scheme expired in December 2010.

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 2001, 2002, 2002A, 2002B, 2003, 2004, 2004A, 2004B, 2005, 2005A, 2006, 2006B, 2007, 2007A, 2007B, 2007NED, 2008, 2008NED, 2009 and 2009NED were set out in the Directors' Reports for the financial years ended 31 December 2001 to 2009.

During the financial year, pursuant to the 2001 Scheme, options to acquire 3,356,827 ordinary shares at \$8.762 per ordinary share were granted to 319 eligible executives of the Group ("2010 Options"), as well as to a non-executive director of the Bank ("2010NED 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.

SHARE-BASED COMPENSATION PLANS (continued)**(a) OCBC Share Option Schemes (continued)**

Details of unissued ordinary shares under the share option scheme, options exercised during the financial year and options outstanding and exercisable at 31 December 2010 are as follows:

Options	Exercise period	Acquisition price (\$)	Options exercised	Treasury shares transferred	At 31.12.2010	
					Outstanding	Exercisable
2001	05.12.2003 to 04.12.2010	5.367	2,898,406	2,858,811	–	–
2002	09.04.2003 to 08.04.2012	5.742	1,313,673	1,263,011	3,858,521	3,858,521
2002A	23.04.2003 to 22.04.2012	5.692	720,000	304,778	–	–
2002B	24.10.2003 to 23.10.2012	4.367	–	–	180,000	180,000
2003	28.03.2004 to 26.03.2013	4.067	551,855	546,720	3,628,823	3,628,823
2004	16.03.2005 to 14.03.2014	5.142	519,625	514,025	2,540,075	2,540,075
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	681,456	665,910	3,212,994	3,212,994
2005A	09.04.2006 to 07.04.2015	5.784	608,828	606,008	536,160	536,160
2006	15.03.2007 to 13.03.2016	6.820	537,565	535,005	2,702,649	2,702,649
2006B	24.05.2007 to 22.05.2016	6.580	268,570	265,834	594,210	594,210
2007	15.03.2008 to 13.03.2017	8.590	464,403	457,730	2,985,910	2,985,910
2007A	16.01.2008 to 14.01.2017	7.600	–	–	445,000	445,000
2007B	15.03.2008 to 13.03.2017	8.590	222,010	222,010	686,000	686,000
2007NED	15.03.2008 to 13.03.2012	8.590	–	–	200,000	200,000
2008	15.03.2009 to 13.03.2018	7.520	536,529	532,886	4,424,669	2,748,569
2008NED	15.03.2009 to 13.03.2013	7.520	–	–	200,000	132,000
2009	17.03.2010 to 15.03.2019	4.138	197,260	196,794	3,259,408	962,614
2009NED	17.03.2010 to 15.03.2014	4.138	–	–	162,958	53,776
2010	16.03.2011 to 14.03.2020	8.762	–	–	2,990,900	–
2010NED	16.03.2011 to 14.03.2015	8.762	–	–	233,727	–
			9,520,180	8,969,522	33,106,004	25,731,301

(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.

At an extraordinary general meeting held on 17 April 2009, alterations to the ESP Plan were approved to enable two (but not more than two) Offering Periods to be outstanding on any date. Since each Offering Period currently consists of a 24-month period, these alterations will enable the Bank to prescribe Offering Periods once every 12 months (instead of once every 24 months as was previously the case).

In June 2010, the Bank launched its fifth offering of ESP Plan, which commenced on 1 July 2010 and will expire on 30 June 2012. Under the fifth offering, 4,337 employees (including a director of the Bank) enrolled to participate in the ESP Plan to acquire 5,500,602 ordinary shares at \$8.75 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 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 3,814,034 ordinary shares (including 342,212 ordinary shares to directors of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2010. In addition, total awards of 488,860 ordinary shares (including 39,063 ordinary shares to directors of the Bank) were awarded to grantees pursuant to declarations of final dividend for financial year ended 31 December 2009 and interim dividend for financial year ended 31 December 2010. During the financial year, 1,360,587 deferred shares were released to grantees, of which 97,879 deferred shares were released to directors of the Bank.

Directors' Report

For the financial year ended 31 December 2010

SHARE-BASED COMPENSATION PLANS (continued)

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 31.12.2010	Aggregate number of options granted/rights subscribed since commencement of scheme/plan to 31.12.2010	Aggregate number of options/rights exercised/converted/ lapsed since commencement of scheme/plan to 31.12.2010	Aggregate number of options/rights outstanding at 31.12.2010
Option Scheme				
Cheong Choong Kong	233,727	1,311,485	–	1,311,485
David Philbrick Conner	–	4,565,000	2,232,000	2,333,000
Lai Teck Poh	–	481,000	–	481,000
ESP Plan				
David Philbrick Conner	4,114	43,685	34,125	9,560

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2011.

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

The Audit Committee performed the functions specified in the Companies Act, the SGX-ST Listing Manual, the Banking (Corporate Governance) Regulations 2005, the Banking (Corporate Governance) (Amendment) Regulations 2010, 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

Statement by Directors

For the financial year ended 31 December 2010

In the opinion of the directors,

- (a) the financial statements set out on pages 77 to 164 are drawn up 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 2010, 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 2011

Independent Auditors' Report

To the Members of Oversea-Chinese Banking Corporation Limited

Report on the financial statements

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 2010, the income statements, statements of comprehensive income and statements of changes in equity of the Group and the Bank and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 77 to 164.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards, and for 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.

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 about 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 of financial statements that give a true and fair view 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, 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, to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2010, 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.

Report on other legal and regulatory requirements

In our opinion, 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
Public Accountants and
Certified Public Accountants

Singapore
18 February 2011

Income Statements

For the financial year ended 31 December 2010

	Note	GROUP		BANK	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest income ⁽¹⁾		4,363,260	4,183,783	2,585,502	2,638,609
Interest expense ⁽¹⁾		(1,416,381)	(1,358,560)	(820,326)	(819,336)
Net interest income	3	2,946,879	2,825,223	1,765,176	1,819,273
Premium income		5,866,349	5,588,882	–	–
Investment income		2,439,931	2,726,114	–	–
Net claims, surrenders and annuities		(4,181,156)	(4,471,041)	–	–
Change in life assurance fund contract liabilities		(2,545,154)	(2,007,587)	–	–
Commission and others		(1,142,738)	(1,109,692)	–	–
Profit from life assurance	4	437,232	726,676	–	–
Premium income from general insurance		148,584	122,023	–	–
Fees and commissions (net)	5	993,750	730,134	513,210	394,416
Dividends	6	62,639	56,960	292,270	183,876
Rental income		77,069	77,632	33,583	34,759
Other income	7	658,575	276,351	367,353	295,205
Non-interest income		2,377,849	1,989,776	1,206,416	908,256
Total income		5,324,728	4,814,999	2,971,592	2,727,529
Staff costs		(1,283,285)	(995,117)	(537,908)	(472,371)
Other operating expenses		(970,294)	(801,272)	(617,750)	(564,425)
Total operating expenses	8	(2,253,579)	(1,796,389)	(1,155,658)	(1,036,796)
Operating profit before allowances and amortisation		3,071,149	3,018,610	1,815,934	1,690,733
Amortisation of intangible assets	37	(54,799)	(46,636)	–	–
Allowances for loans and impairment for other assets	9	(134,026)	(429,048)	(35,885)	(306,063)
Operating profit after allowances and amortisation		2,882,324	2,542,926	1,780,049	1,384,670
Share of results of associates and joint ventures		(2,095)	(64)	–	–
Profit before income tax		2,880,229	2,542,862	1,780,049	1,384,670
Income tax expense	10	(433,302)	(388,374)	(188,981)	(149,722)
Profit for the year		2,446,927	2,154,488	1,591,068	1,234,948
Attributable to:					
Equity holders of the Bank		2,253,466	1,962,413		
Non-controlling interests		193,461	192,075		
		2,446,927	2,154,488		
Earnings per share (cents)	11				
Basic		66.1	59.4		
Diluted		65.9	59.3		

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

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

Statements of Comprehensive Income

For the financial year ended 31 December 2010

	Note	GROUP		BANK	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit for the year		2,446,927	2,154,488	1,591,068	1,234,948
Other comprehensive income:					
Available-for-sale financial assets					
Gains for the year		119,025	1,305,919	185,668	568,452
Reclassification of (gains)/losses to income statement					
- on disposal		(152,580)	(50,222)	(137,252)	(31,474)
- on impairment		(23,128)	161,457	(27,314)	133,120
Tax on net movements	20	(53,804)	(110,171)	(17,813)	(79,541)
Exchange differences on translating foreign operations		(53,757)	97,435	(10,408)	31,730
Other comprehensive income of associates and joint ventures		(4,031)	2,785	–	–
Total other comprehensive income, net of tax		(168,275)	1,407,203	(7,119)	622,287
Total comprehensive income for the year, net of tax		2,278,652	3,561,691	1,583,949	1,857,235
Total comprehensive income attributable to:					
Equity holders of the Bank		2,065,233	3,332,883		
Non-controlling interests		213,419	228,808		
		2,278,652	3,561,691		

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 2010

		GROUP		BANK	
		2010	2009	2010	2009
	Note	\$'000	\$'000	\$'000	\$'000
EQUITY					
Attributable to equity holders of the Bank					
Share capital	13	8,210,550	7,376,252	8,210,550	7,376,252
Capital reserves	14	612,826	985,445	432,498	768,012
Fair value reserves		1,374,198	1,506,279	605,849	602,560
Revenue reserves	15	10,592,671	9,102,681	6,605,466	5,715,859
		20,790,245	18,970,657	15,854,363	14,462,683
Non-controlling interests	16	2,854,919	2,808,378	–	–
Total equity		23,645,164	21,779,035	15,854,363	14,462,683
LIABILITIES					
Deposits of non-bank customers	17	123,300,026	100,632,559	88,890,546	77,297,559
Deposits and balances of banks	17	16,508,477	10,958,259	13,810,825	9,674,356
Due to subsidiaries		–	–	4,623,552	1,368,610
Due to associates		139,028	119,132	118,374	117,665
Trading portfolio liabilities		1,734,253	2,016,117	1,734,236	2,016,117
Derivative payables	18	4,562,754	3,918,282	4,222,133	3,766,715
Other liabilities	19	3,186,719	3,214,910	1,062,633	1,011,511
Current tax		744,224	606,360	311,113	269,594
Deferred tax	20	1,126,541	945,585	131,277	119,904
Debts issued	21	6,854,466	6,863,384	7,887,194	8,230,226
		158,156,488	129,274,588	122,791,883	103,872,257
Life assurance fund liabilities	22	47,481,158	43,245,917	–	–
Total liabilities		205,637,646	172,520,505	122,791,883	103,872,257
Total equity and liabilities		229,282,810	194,299,540	138,646,246	118,334,940
ASSETS					
Cash and placements with central banks	23	11,492,891	13,171,117	6,786,943	8,160,098
Singapore government treasury bills and securities	24	11,156,522	10,922,369	10,485,222	10,549,341
Other government treasury bills and securities	24	5,944,527	5,564,189	3,174,142	2,744,121
Placements with and loans to banks	25	18,568,632	15,820,671	13,612,284	11,992,091
Loans and bills receivable	26–29	104,989,207	80,876,471	75,877,251	61,340,337
Debt and equity securities	30	14,254,552	11,679,852	9,835,616	7,786,344
Assets pledged	43	745,737	279,131	708,171	266,865
Assets held for sale	44	3,540	–	1,654	–
Derivative receivables	18	4,836,906	3,973,029	4,461,711	3,770,259
Other assets	31	3,116,482	2,910,494	828,060	688,805
Deferred tax	20	78,529	63,538	6,454	5,128
Associates and joint ventures	33	255,097	226,019	113,018	56,146
Subsidiaries	34	–	–	9,934,430	8,150,596
Property, plant and equipment	35	1,624,737	1,608,974	400,627	408,545
Investment property	36	732,893	765,367	553,487	549,088
Goodwill and intangible assets	37	3,996,481	3,361,599	1,867,176	1,867,176
		181,796,733	151,222,820	138,646,246	118,334,940
Life assurance fund investment assets	22	47,486,077	43,076,720	–	–
Total assets		229,282,810	194,299,540	138,646,246	118,334,940
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	41	8,513,410	7,313,779	6,835,328	6,458,490
Commitments ⁽¹⁾	42	55,072,685	42,842,954	40,142,602	34,652,781
Derivative financial instruments	18	423,148,517	355,210,168	391,146,507	335,535,126

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

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 2010

In \$'000	Attributable to equity holders of the Bank					Non-controlling interests	Total equity
	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total		
Balance at 1 January 2010	7,376,252	985,445	1,506,279	9,102,681	18,970,657	2,808,378	21,779,035
Total comprehensive income for the year							
Profit for the year	–	–	–	2,253,466	2,253,466	193,461	2,446,927
Other comprehensive income							
Available-for-sale financial assets							
Gains for the year	–	–	93,734	–	93,734	25,291	119,025
Reclassification of (gains)/losses to income statement							
– on disposal	–	–	(152,750)	–	(152,750)	170	(152,580)
– on impairment	–	–	(23,670)	–	(23,670)	542	(23,128)
Tax on net movements	–	–	(49,156)	–	(49,156)	(4,648)	(53,804)
Exchange differences on translating foreign operations	–	–	–	(52,887)	(52,887)	(870)	(53,757)
Other comprehensive income of associates and joint ventures	–	–	(239)	(3,265)	(3,504)	(527)	(4,031)
Total other comprehensive income, net of tax	–	–	(132,081)	(56,152)	(188,233)	19,958	(168,275)
Total comprehensive income for the year	–	–	(132,081)	2,197,314	2,065,233	213,419	2,278,652
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Transfers	10,004	(360,316)	–	350,312	–	–	–
Divestment of an associate	–	–	–	82	82	(82)	–
Dividends to non-controlling interests	–	–	–	–	–	(132,854)	(132,854)
DSP reserve from dividends on unvested shares	–	–	–	5,786	5,786	–	5,786
Ordinary and preference dividends paid in cash	–	–	–	(279,092)	(279,092)	–	(279,092)
Share-based staff costs capitalised	–	14,116	–	–	14,116	–	14,116
Share buyback held in treasury	(42,260)	–	–	–	(42,260)	–	(42,260)
Shares issued in-lieu of ordinary dividends	757,373	–	–	(757,373)	–	–	–
Shares issued to non-executive directors	541	–	–	–	541	–	541
Shares purchased by DSP Trust	–	(4,000)	–	–	(4,000)	–	(4,000)
Shares vested under DSP Scheme	–	8,240	–	–	8,240	–	8,240
Treasury shares transferred/sold	108,640	(30,659)	–	–	77,981	–	77,981
Total contributions by and distributions to owners	834,298	(372,619)	–	(680,285)	(218,606)	(132,936)	(351,542)
Changes in ownership interests in subsidiaries that do not result in loss of control							
Changes in non-controlling interests	–	–	–	(27,039)	(27,039)	(33,942)	(60,981)
Total changes in ownership interests in subsidiaries	–	–	–	(27,039)	(27,039)	(33,942)	(60,981)
Balance at 31 December 2010	8,210,550	612,826	1,374,198	10,592,671	20,790,245	2,854,919	23,645,164
Included:							
Share of reserves of associates and joint ventures	–	–	171	25,381	25,552	(3,429)	22,123

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

In \$'000	Attributable to equity holders of the Bank					Non-controlling interests	Total equity
	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total		
Balance at 1 January 2009	6,637,508	1,329,156	221,844	7,685,161	15,873,669	2,686,068	18,559,737
Total comprehensive income for the year							
Profit for the year	–	–	–	1,962,413	1,962,413	192,075	2,154,488
Other comprehensive income							
Available-for-sale financial assets							
Gains for the year	–	–	1,277,833	–	1,277,833	28,086	1,305,919
Reclassification of (gains)/losses to income statement							
– on disposal	–	–	(49,605)	–	(49,605)	(617)	(50,222)
– on impairment	–	–	159,358	–	159,358	2,099	161,457
Tax on net movements	–	–	(104,023)	–	(104,023)	(6,148)	(110,171)
Exchange differences on translating foreign operations	–	–	–	84,346	84,346	13,089	97,435
Other comprehensive income of associates and joint ventures	–	–	872	1,689	2,561	224	2,785
Total other comprehensive income, net of tax	–	–	1,284,435	86,035	1,370,470	36,733	1,407,203
Total comprehensive income for the year	–	–	1,284,435	2,048,448	3,332,883	228,808	3,561,691
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Transfers	2,418	(338,075)	–	335,657	–	–	–
Dividends to non-controlling interests	–	–	–	–	–	(114,615)	(114,615)
DSP reserve from dividends on unvested shares	–	–	–	3,129	3,129	–	3,129
Ordinary and preference dividends paid in cash	–	–	–	(285,729)	(285,729)	–	(285,729)
Share-based staff costs capitalised	–	11,002	–	–	11,002	–	11,002
Shares issued in-lieu of ordinary dividends	683,985	–	–	(683,985)	–	–	–
Shares issued to non-executive directors	245	–	–	–	245	–	245
Shares purchased by DSP Trust	–	(3,129)	–	–	(3,129)	–	(3,129)
Shares vested under DSP Scheme	–	8,830	–	–	8,830	–	8,830
Treasury shares transferred/sold	52,096	(22,339)	–	–	29,757	–	29,757
Total contributions by and distributions to owners	738,744	(343,711)	–	(630,928)	(235,895)	(114,615)	(350,510)
Changes in ownership interests in subsidiaries that do not result in loss of control							
Changes in non-controlling interests	–	–	–	–	–	8,117	8,117
Total changes in ownership interests in subsidiaries	–	–	–	–	–	8,117	8,117
Balance at 31 December 2009	7,376,252	985,445	1,506,279	9,102,681	18,970,657	2,808,378	21,779,035
Included:							
Share of reserves of associates and joint ventures	–	2,860	437	31,979	35,276	(764)	34,512

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

Statement of Changes in Equity – Bank

For the financial year ended 31 December 2010

In \$'000	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total equity
Balance at 1 January 2010	7,376,252	768,012	602,560	5,715,859	14,462,683
Total comprehensive income for the year ⁽¹⁾	–	–	3,289	1,580,660	1,583,949
Transfers	10,004	(349,630)	–	339,626	–
DSP reserve from dividends on unvested shares	–	–	–	5,786	5,786
Ordinary and preference dividends paid in cash	–	–	–	(279,092)	(279,092)
Share-based staff costs capitalised	–	14,116	–	–	14,116
Share buyback held in treasury	(42,260)	–	–	–	(42,260)
Shares issued in-lieu of ordinary dividends	757,373	–	–	(757,373)	–
Shares issued to non-executive directors	541	–	–	–	541
Treasury shares transferred/sold	108,640	–	–	–	108,640
Balance at 31 December 2010	8,210,550	432,498	605,849	6,605,466	15,854,363
Balance at 1 January 2009	6,637,508	1,099,054	12,003	5,076,140	12,824,705
Total comprehensive income for the year ⁽¹⁾	–	–	590,557	1,266,678	1,857,235
Transfers	2,418	(342,044)	–	339,626	–
DSP reserve from dividends on unvested shares	–	–	–	3,129	3,129
Ordinary and preference dividends paid in cash	–	–	–	(285,729)	(285,729)
Share-based staff costs capitalised	–	11,002	–	–	11,002
Shares issued in-lieu of ordinary dividends	683,985	–	–	(683,985)	–
Shares issued to non-executive directors	245	–	–	–	245
Treasury shares transferred/sold	52,096	–	–	–	52,096
Balance at 31 December 2009	7,376,252	768,012	602,560	5,715,859	14,462,683

⁽¹⁾ Refer to Statements of Comprehensive Income for detailed breakdown.

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

Consolidated Cash Flow Statement

For the financial year ended 31 December 2010

In \$'000	2010	2009
Cash flows from operating activities		
Profit before income tax	2,880,229	2,542,862
Adjustments for non-cash items:		
Allowances for loans and impairment for other assets	134,026	429,048
Amortisation of intangible assets	54,799	46,636
Change in fair value for hedging transactions and trading securities	(53,578)	(296,698)
Depreciation of property, plant and equipment and investment property	151,579	135,226
Net gain on disposal of government, debt and equity securities	(152,591)	(50,230)
Net gain on disposal of property, plant and equipment and investment property	(22,902)	(8,541)
Net (gain)/loss on disposal/liquidation of subsidiaries and associates	(37,991)	363
Share-based staff costs	12,295	9,385
Share of results of associates and joint ventures	2,095	64
Items relating to life assurance fund		
Surplus before income tax	703,176	998,062
Surplus transferred from life assurance fund	(437,232)	(726,676)
Operating profit before change in operating assets and liabilities	3,233,905	3,079,501
Change in operating assets and liabilities:		
Deposits of non-bank customers	16,688,042	6,579,805
Deposits and balances of banks	5,316,434	845,040
Derivative payables and other liabilities	398,948	(3,493,382)
Trading portfolio liabilities	(281,864)	904,974
Government securities and treasury bills	357,530	(2,736,534)
Trading securities	(730,388)	114,759
Placements with and loans to banks	(937,487)	80,519
Loans and bills receivable	(19,526,988)	(1,341,402)
Derivative receivables and other assets	(1,046,463)	2,234,874
Net change in investment assets and liabilities of life assurance fund	(181,131)	(520,936)
Cash from operating activities	3,290,538	5,747,218
Income tax paid	(419,487)	(341,999)
Net cash from operating activities	2,871,051	5,405,219
Cash flows from investing activities		
Dividends from associates	3,746	3,343
Increase in associates and joint ventures	(48,615)	(91,723)
Net cash outflow from acquisition of subsidiaries	(2,002,700)	–
Purchases of debt and equity securities	(6,357,410)	(3,130,277)
Purchases of property, plant and equipment and investment property	(183,183)	(200,009)
Proceeds from disposal of associates	13,853	–
Proceeds from disposal of debt and equity securities	4,017,877	3,391,894
Proceeds from disposal of interests in subsidiaries	–	7,711
Proceeds from disposal of property, plant and equipment and investment property	29,393	20,459
Net cash (used in)/from investing activities	(4,527,039)	1,398
Cash flows from financing activities		
Changes in non-controlling interests	(64,140)	–
Increase in debts issued	396,288	1,054,307
Dividends paid to equity holders of the Bank	(279,092)	(285,729)
Dividends paid to non-controlling interests	(132,854)	(114,615)
Proceeds from treasury shares transferred/sold under the Bank's employee share schemes	77,981	29,757
Share buyback	(42,260)	–
Net cash (used in)/from financing activities	(44,077)	683,720
Net currency translation adjustments	21,839	53,091
Net change in cash and cash equivalents	(1,678,226)	6,143,428
Cash and cash equivalents at 1 January	13,171,117	7,027,689
Cash and cash equivalents at 31 December	11,492,891	13,171,117

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 2010

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 2011.

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, #09-00 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 Singapore 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.

The following new/revised financial reporting standards and interpretations were applied with effect from 1 January 2010:

- FRS 27 (Revised) *Consolidated and Separate Financial Statements*
- FRS 103 (Revised) *Business Combinations*
- FRS 39 (Amendments) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- FRS 102 (Amendments) *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
- INT FRS 117 *Distributions of Non-cash Assets to Owners*
- Improvements to FRSs 2008
- Improvements to FRSs 2009

The revised FRS 27 requires that changes in a parent's ownership interests in a subsidiary which do not result in a loss of control be accounted for as equity transactions, with resulting gains and losses taken to equity and not to the income statement. The standard also requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control.

Under the revised FRS 103, the Group has to expense costs incurred in the acquisition of a business in the period in which it was incurred or when the service was received. Where an acquirer obtains control of a business through step acquisition, any previously held equity interests shall be measured at fair value on the date that control is attained, with resulting gains and losses taken to the income statement. Goodwill arising from the business combination is measured as the difference between (a) the net acquisition-date fair value of identifiable assets acquired and liabilities assumed (including contingent liabilities and indemnification assets measured according to the revised FRS 103); and (b) the aggregate consideration transferred, any non-controlling interests in the acquiree, and in a business combination achieved in stages, the fair value of previously held equity interests.

The initial application of the above standards (including their consequential amendments) and interpretations does not have any material impact on the Group's financial statements.

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.

Non-controlling 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.2 Basis of consolidation (continued)

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 which are jointly controlled by the Group and its joint venture partners. The parties involved have entered into a contractual arrangement to undertake an economic activity and none of them unilaterally has 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.

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 on 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 on the date the fair value is determined. Exchange differences on non-monetary items such as equity investments classified as available-for-sale financial assets are recognised in other comprehensive income and presented in the fair value reserve within 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 other comprehensive income and presented in the currency translation reserve within equity. 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.

Notes to the Financial Statements

For the financial year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

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 or 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.

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 other comprehensive income. 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 other comprehensive income and presented in fair value reserve within 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 or loss

Financial assets at fair value through profit or 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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

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 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 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.

Notes to the Financial Statements

For the financial year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Impairment of assets (continued)

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 the CGU, including the goodwill, exceeds the recoverable amount of the CGU. The CGU's recoverable amount is the higher of its 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.

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 liabilities are held at fair value through profit or loss. Financial liabilities are held at fair value through the income statement when:

- they are acquired or incurred for the purpose of selling or repurchasing in the near term;
- 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
- 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, including deferred benefits, is calculated according to terms and conditions stipulated in the respective Life Assurance Sales Representative's Agreements. The deferred/retirement benefit accumulated at balance sheet date includes accrued interest.

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. Interest payable on policy benefits is recognised in the income statements as incurred.

2.16 Insurance contracts

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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 realisable value of the insurance contract on surrender. 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 considered insurance contracts as at balance sheet date.

Certain subsidiaries within the Group write insurance contracts in accordance with insurance regulations prevailing in their respective jurisdictions. Disclosures on the various insurance contract liabilities are classified into the principal components, as follows:

- Life Assurance Fund contract liabilities, comprising
 - Participating Fund contract liabilities;
 - Non-participating Fund contract liabilities; and
 - Investment-linked Fund contract liabilities.
- General Insurance Fund contract liabilities
- Reinsurance contracts

The Group does not adopt a policy of deferring acquisition costs for its insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.16 Insurance contracts (continued)

Life Assurance Fund contract liabilities

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.

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating policy, appropriate level of future gross considerations arising from the policy discounted at the appropriate discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate risk margin allowance for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefit liabilities of participating life policies and liabilities of non-unit investment-linked policies.

The liability in respect of a participating insurance contract is taken at the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above.

In the case of a life policy where a part of, or the whole of premiums are accumulated in a fund, the accumulated amount, as declared to policyholders are set as liabilities if the accumulated amount is higher than the amount as calculated using the gross premium valuation method.

In the case of short-term life policies covering contingencies other than death or survival, the liability for such life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Adjustments to liabilities at each reporting date are recorded in the respective income statements. Profits originated from margins of adverse deviations on run-off contracts are recognised in the income statements over the life of the contract, whereas losses are fully recognised in income statements during the first year of run-off.

The liability is extinguished when the contract expires, is discharged or is cancelled.

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 certain charges and fees to cover for expenses and insured risk. The net investment returns derived from the variety of investment funds as selected 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 could vary according to the investment performance of the fund. The Group does not recognise the guaranteed component separately from the discretionary participation feature.

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 and Risk-based Capital Framework for Insurers for insurance funds regulated in Malaysia.

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 as stated under the terms and conditions of the insurance contracts.

Notes to the Financial Statements

For the financial year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Insurance contracts (continued)

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

	Singapore	Malaysia
Valuation method	<p>Gross premium valuation</p> <p>For Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none"> (i) Total assets backing policy benefits; (ii) Guaranteed and non-guaranteed cashflows discounted at 5.25%; and (iii) Guaranteed cashflows discounted using the interest rate outlined under (i) below. 	<p>Gross premium valuation</p> <p>For Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none"> (i) Net fund based yield of 5.52% for total benefits (i.e. guaranteed and non-guaranteed cashflows); and (ii) For guaranteed cashflows, weighted average of Malaysia Government Bond zero coupon spot yields (as outlined below).
Interest rate	<ul style="list-style-type: none"> (i) Singapore Government Bond yields for cash flows up to year 10, an interpolation of the 10-year Singapore Government Bond yield and the Long Term Risk Free Discount Rate ("LTRFDR") for cash flows between 10 to 15 years, and the LTRFDR for cash flows year 15 and after. (ii) For the fair value hedge portfolio, Singapore Government Bond yields for cash flows up to year 20, and the 20-year rate for cash flows beyond 20 years. Interpolation for years where rates are unavailable. <p><i>Data source: SGS website</i></p>	<p>Weighted average of Malaysia Government bond yields determined based on the following:</p> <ul style="list-style-type: none"> (i) For cashflows with duration less than 15 years, weighted average of Malaysia Government Bond zero coupon spot yields of matching duration. (ii) For cashflows with duration 15 years or more, weighted average of Malaysia Government Bond zero coupon spot yields of 15 years to maturity. <p>The weighting is based on 30% weights for yields at date of valuation and 70% weights of the simple average of yields in the preceding 7 quarters prior to the date of valuation.</p> <p><i>Data source: Weighted average of Malaysia Government Bond zero coupon spot yield from Bondweb, a bond pricing agency.</i></p>
Mortality, Disability, Dread disease, Expenses, Lapse and surrenders	<p>Best estimates plus provision for adverse deviation.</p> <p><i>Data source: Internal experience studies</i></p>	<p>Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none"> (i) Best estimates for total benefits (i.e. guaranteed and non-guaranteed cashflows); and (ii) Best estimates plus provision for risk of adverse deviation ("PRADs") for guaranteed cashflows only. <p>Non-participating and unit reserves of Investment-linked Fund:</p> <p>Best estimates plus PRADs.</p> <p><i>Data source: Internal experience studies</i></p>

* Refer to Note 2.23 on Critical accounting estimates and judgements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.16 Insurance contracts (continued)

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.

General insurance contract liabilities include liabilities for outstanding claims and unearned premiums.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other receivables. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial projection techniques based on empirical data and the current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. The provision is recognised when contracts are entered into and premiums are charged. The provision is released over the term of the contract and is recognised as premium income.

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 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.

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 reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each balance sheet 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 on reinsurance are recognised in the income statements immediately at the date of contract and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.17 Unexpired risk reserve

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

URR is computed using the 1/24th method and is reduced by the corresponding percentage of gross direct business, commissions and agency related expenses not exceeding limits specified by regulators in the respective jurisdictions in which the insurance entity 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, are recognised as changes 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.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.19 Recognition of income and expense (continued)

2.19.2 Profit from life assurance

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

(a) Participating Fund

Profits to shareholders from the participating fund are allocated 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 are approved by the Board of Directors of each insurance subsidiary on the advice of the Appointed Actuary of the respective subsidiary, in accordance with the Insurance Regulations and the Articles of Association of the respective subsidiary.

(b) Non-participating Fund

Revenue consists of premiums, interest and investment income; including changes in the fair value 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, expenses, and the annual actuarial valuation of the non-participating fund liabilities in accordance with the requirements of the insurance regulations of the respective jurisdictions in which the insurance subsidiaries operate. In addition, profit transfers from the Singapore and Malaysia non-participating funds include changes in the fair value of assets measured in accordance with the respective insurance regulations.

(c) Investment-linked Fund

Revenue comprises bid-ask spread, fees for mortality and other insured events, 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. Premiums from the investment-linked business are recognised as revenue when payment is received.

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 balance sheet date are adjusted through the unexpired risk reserve (Note 2.17). Commission is recognised as an expense when incurred, typically upon the risk underwritten as reflected in the premium recognised.

Premiums ceded out and the corresponding commission income from 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 balance sheet date are adjusted through the movement in 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, and share-based compensation 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.

Share-based compensation plans 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.19 Recognition of income and expense (continued)

2.19.7 Employee benefits (continued)

Government grants – Jobs credit scheme

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as an offset against the expenses over the periods which they are intended to compensate, on a systematic basis.

The Jobs credit scheme is a cash grant introduced in the Singapore Budget 2009 to help businesses preserve jobs in the economic downturn.

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 or in other comprehensive income.

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 Financial Services, 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, and ensure adequate provision of reserves which are monitored against current and future premiums. For those contracts that insure risk on longevity and disability, estimates are made based on recent past experience and emerging trends. Epidemics and changing patterns of lifestyle could result in significant changes to the expected future exposures.

At each balance sheet date, these estimates are assessed for adequacy and changes will be reflected as adjustments to the insurance fund contract liabilities.

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date ("IBNR").

Notes to the Financial Statements

For the financial year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Critical accounting estimates and judgements (continued)

2.23.1 Liabilities of insurance business (continued)

It can take a significant time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability. The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that a company's past development experience can be used to project future claims development and hence, ultimate claim costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years but can also be further analysed by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example, to reflect one-off occurrences, changes in external or market factors, economic conditions as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all uncertainties involved.

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.

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 several 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 based on management's credit experiences and judgement, taking into account geographical and industry factors. A minimum 1% portfolio allowance is maintained by the Group in accordance with the transitional arrangement set out in MAS Notice 612. 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. The Group exercises judgement about the level of insurance risk transferred. 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 benefits 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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Interest income				
Loans to non-bank customers	3,201,347	3,042,746	1,853,863	1,917,708
Placements with and loans to banks	423,459	431,950	221,092	295,066
Other interest-earning assets ⁽¹⁾	738,454	709,087	510,547	425,835
	4,363,260	4,183,783	2,585,502	2,638,609
Interest expense				
Deposits of non-bank customers	(1,060,954)	(1,035,903)	(449,910)	(455,737)
Deposits and balances of banks	(102,894)	(96,188)	(65,418)	(69,247)
Other borrowings ⁽¹⁾	(252,533)	(226,469)	(304,998)	(294,352)
	(1,416,381)	(1,358,560)	(820,326)	(819,336)
Analysed by classification of financial instruments				
Income – Assets not at fair value through profit or loss ⁽¹⁾	4,152,750	4,044,613	2,434,654	2,550,385
Income – Assets at fair value through profit or loss	210,510	139,170	150,848	88,224
Expense – Liabilities not at fair value through profit or loss ⁽¹⁾	(1,355,295)	(1,323,253)	(759,919)	(784,029)
Expense – Liabilities at fair value through profit or loss	(61,086)	(35,307)	(60,407)	(35,307)
Net interest income	2,946,879	2,825,223	1,765,176	1,819,273

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

Included in interest income were interest on impaired assets of \$15.1 million (2009: \$22.3 million) and \$5.1 million (2009: \$9.9 million) for the Group and Bank respectively.

4. PROFIT FROM LIFE ASSURANCE

	GROUP	
	2010	2009
	\$ million	\$ million
Income		
Annual	4,188.3	3,812.5
Single	1,778.4	1,858.5
Gross premiums	5,966.7	5,671.0
Reinsurances	(100.4)	(82.1)
Premium income (net)	5,866.3	5,588.9
Investment income (net)	2,439.9	2,726.1
Total income	8,306.2	8,315.0
Expenses		
Gross claims, surrenders and annuities	(4,226.9)	(4,519.6)
Claims, surrenders and annuities recovered from reinsurers	45.8	48.5
Net claims, surrenders and annuities	(4,181.1)	(4,471.1)
Change in life assurance fund contract liabilities (Note 22)	(2,545.2)	(2,007.6)
Commission and agency expenses	(601.6)	(517.6)
Depreciation – property, plant and equipment (Note 35)	(46.9)	(45.0)
Other expenses ⁽¹⁾	(253.8)	(247.8)
Total expenses	(7,628.6)	(7,289.1)
Surplus from operations	677.6	1,025.9
Share of results of associates and joint ventures	25.5	(27.8)
Income tax expense	(265.9)	(271.4)
Profit from life assurance	437.2	726.7

⁽¹⁾ Included in other expenses were directors' emoluments of \$2.1 million (2009: \$2.9 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.

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5. FEES AND COMMISSIONS (NET)

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Fee and commission income	1,047,453	790,697	522,413	412,497
Fee and commission expense	(53,703)	(60,563)	(9,203)	(18,081)
Fees and commissions (net)	993,750	730,134	513,210	394,416

Analysed by major sources:

Brokerage	85,711	95,562	1,521	1,157
Credit card	46,313	44,638	40,075	32,639
Fund management	83,097	70,253	(956)	(95)
Guarantees	20,944	22,906	14,432	17,917
Investment banking	79,964	54,162	62,327	53,854
Loan-related	207,508	172,380	164,395	122,115
Service charges	69,609	52,831	41,418	31,552
Trade-related and remittances	172,254	123,974	121,951	84,161
Wealth management	188,748	64,604	65,261	47,394
Others	39,602	28,824	2,786	3,722
	993,750	730,134	513,210	394,416

6. DIVIDENDS

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Subsidiaries	–	–	269,142	160,808
Associates	–	–	3,154	3,102
Trading securities	5,460	5,117	4,558	4,476
Available-for-sale securities	57,179	51,843	15,416	15,490
	62,639	56,960	292,270	183,876

7. OTHER INCOME

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Foreign exchange ⁽¹⁾	315,043	392,076	150,036	275,549
Hedging activities ⁽²⁾				
Hedging instruments	(303,085)	(111,802)	(305,607)	(109,355)
Hedged items	300,075	113,451	302,854	111,419
Fair value hedges	(3,010)	1,649	(2,753)	2,064
Ineffective portion of investment hedge	–	–	–	–
Interest rate and other derivatives ⁽³⁾	(60,851)	(207,202)	(6,052)	(196,544)
Securities at fair value through profit and loss	336	–	–	–
Trading securities	139,525	157,945	57,893	136,492
Net trading income	391,043	344,468	199,124	217,561
Disposal of securities classified as available-for-sale	152,580	50,222	137,252	31,474
Disposal of securities classified as loans and receivables	11	8	–	–
Disposal/liquidation of subsidiaries and associates	37,991	(363)	2,292	1,112
Disposal of plant and equipment	733	62	(5)	(198)
Disposal of property	22,169	8,479	21,360	5,603
Computer-related services income	31,815	32,764	–	–
Property-related income	9,218	8,554	453	415
Others	13,015	(167,843)	6,877	39,238
	658,575	276,351	367,353	295,205

⁽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 gains and losses from interest rate, equity options and other derivative instruments.

8. STAFF COSTS AND OTHER OPERATING EXPENSES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
8.1 Staff costs				
Salaries and other costs ⁽¹⁾	1,148,349	887,083	481,691	422,666
Share-based expenses	11,754	9,140	8,435	6,866
Contribution to defined contribution plans	94,631	75,978	37,877	34,339
	1,254,734	972,201	528,003	463,871
Directors' emoluments:				
Remuneration of Bank's directors	8,432	6,879	7,918	6,509
Remuneration of directors of subsidiaries	13,519	10,686	–	–
Fees of Bank's directors	3,003	3,187	1,987	1,991
Fees of directors of subsidiaries	3,597	2,164	–	–
	28,551	22,916	9,905	8,500
Total staff costs	1,283,285	995,117	537,908	472,371
8.2 Other operating expenses				
Property, plant and equipment: ⁽²⁾				
Depreciation	151,579	135,226	81,078	72,601
Maintenance and hire	70,225	61,768	23,819	21,998
Rental expenses	59,335	46,334	70,604	66,851
Others	125,815	105,933	46,713	41,726
	406,954	349,261	222,214	203,176
Auditors' remuneration				
Payable to auditors of the Bank	1,496	1,249	979	958
Payable to associated firms of auditors of the Bank	950	902	235	221
Payable to other auditors	2,238	2,135	136	10
	4,684	4,286	1,350	1,189
Other fees				
Payable to auditors of the Bank	230	162	185	122
Payable to associated firms of auditors of the Bank	441	249	279	151
	671	411	464	273
Hub processing charges	–	–	153,983	124,820
General insurance claims	92,181	55,534	–	–
Others	465,804	391,780	239,739	234,967
	557,985	447,314	393,722	359,787
Total other operating expenses	970,294	801,272	617,750	564,425
8.3 Staff costs and other operating expenses	2,253,579	1,796,389	1,155,658	1,036,796

⁽¹⁾ Net of government grants (Jobs credit scheme) of \$4.4 million (2009: \$19.4 million) and \$2.2 million (2009: \$11.7 million) for the Group and the Bank received respectively.

⁽²⁾ Direct operating expenses on leased investment property for the Group and the Bank amounted to \$14.5 million (2009: \$13.6 million) and \$4.1 million (2009: \$4.0 million) respectively. Direct operating expenses on vacant investment property for the Group and the Bank amounted to \$1.1 million (2009: \$1.1 million) and \$0.5 million (2009: \$0.5 million) respectively.

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9. ALLOWANCES FOR LOANS AND IMPAIRMENT FOR OTHER ASSETS

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Specific allowances for loans (Note 28)	57,373	241,266	3,466	172,290
Portfolio allowances for loans (Note 29)	97,558	22,863	59,919	–
Impairment charge/(write-back) for available-for-sale securities	9,752	73,778	(1,173)	47,594
(Write-back)/impairment charge for collateralised debt obligations (CDOs)	(25,796)	87,679	(26,141)	85,526
(Write-back)/impairment charge for other assets (Note 32)	(4,861)	3,462	(186)	653
Net allowances and impairment	134,026	429,048	35,885	306,063

10. INCOME TAX EXPENSE

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current tax expense	495,875	351,294	230,145	174,444
Deferred tax (credit)/expense (Note 20)	(23,469)	67,057	(6,670)	14,132
	472,406	418,351	223,475	188,576
Over provision in prior years and tax refunds	(39,104)	(29,977)	(34,494)	(38,854)
Charge to income statements	433,302	388,374	188,981	149,722

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

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Operating profit after allowances and amortisation	2,882,324	2,542,926	1,780,049	1,384,670
Prima facie tax calculated at tax rate of 17%	489,995	432,297	302,608	235,394
Effect of change in tax rates	98	(3,894)	98	(2,323)
Effects of different tax rates in other countries	81,134	76,762	13,372	8,112
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	801	2,254	483	684
Income not assessable for tax	(40,925)	(29,875)	(55,449)	(35,540)
Income taxed at concessionary rate	(48,752)	(35,831)	(47,088)	(30,196)
Effect of Singapore life assurance fund	(28,622)	(43,220)	–	–
Amortisation of intangibles	8,385	7,928	–	–
(Non-taxable write-backs)/non-deductible allowances	(1,924)	4,086	(172)	6,107
Others	12,216	7,844	9,623	6,338
	472,406	418,351	223,475	188,576

The deferred tax (credit)/expense comprised:

	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Accelerated tax depreciation	267	892	842	859
(Write-back of allowances)/allowances for assets	(12,299)	17,825	(4,776)	22,326
Debt and equity securities	(344)	1,382	(117)	129
Fair value on properties from business combinations	(2,393)	(6,511)	(2,295)	(6,195)
Tax losses	(942)	(938)	–	(1,067)
Others	(7,758)	54,407	(324)	(1,920)
	(23,469)	67,057	(6,670)	14,132

11. EARNINGS PER SHARE

\$'000	GROUP	
	2010	2009
Profit attributable to ordinary equity holders of the Bank	2,253,466	1,962,413
Preference dividends paid	(90,125)	(90,125)
Profit attributable to ordinary equity holders of the Bank after preference dividends	2,163,341	1,872,288
Weighted average number of ordinary shares ('000)		
For basic earnings per share	3,270,738	3,152,818
Adjustment for assumed conversion of share options and acquisition rights	10,693	6,403
For diluted earnings per share	3,281,431	3,159,221
Earnings per share (cents)		
Basic	66.1	59.4
Diluted	65.9	59.3

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 share options and acquisition rights, with the potential ordinary shares weighted for the period outstanding.

12. UNAPPROPRIATED PROFIT

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit attributable to equity holders of the Bank	2,253,466	1,962,413	1,591,068	1,234,948
Add: Unappropriated profit at 1 January	8,270,781	6,942,425	4,865,425	4,260,565
Total amount available for appropriation	10,524,247	8,904,838	6,456,493	5,495,513
Appropriated as follows:				
Ordinary dividends:				
2008 final tax exempt dividend of 14 cents	–	(434,894)	–	(434,894)
2009 interim tax exempt dividend of 14 cents	–	(444,695)	–	(444,695)
2009 final tax exempt dividend of 14 cents	(453,209)	–	(453,209)	–
2010 interim tax exempt dividend of 15 cents	(493,131)	–	(493,131)	–
Preference dividends:				
Class B 5.1% tax exempt (2009: 5.1% tax exempt)	(51,000)	(51,000)	(51,000)	(51,000)
Class E 4.5% tax exempt (2009: 4.5% tax exempt)	(22,500)	(22,500)	(22,500)	(22,500)
Class G 4.2% tax exempt (2009: 4.2% tax exempt)	(16,625)	(16,625)	(16,625)	(16,625)
Transfer from:				
Capital reserves (Note 14)	350,312	335,657	339,626	339,626
Currency translation reserves (Note 15.2)	(121)	–	–	–
General reserves (Note 15.1)	3,556	–	3,556	–
Fair value reserves	526	–	–	–
Acquisition of non-controlling interests	(27,039)	–	–	–
Share of an associate's acquisition of non-controlling interests	(435)	–	–	–
Divestment of an associate	82	–	–	–
	(709,584)	(634,057)	(693,283)	(630,088)
At 31 December (Note 15)	9,814,663	8,270,781	5,763,210	4,865,425

At the annual general meeting to be held, a final one-tier tax exempt dividend of 15 cents per ordinary share in respect of the financial year ended 31 December 2010, totalling \$500.7 million, will be proposed. The dividends will be accounted for as a distribution in the 2011 financial statements.

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13. SHARE CAPITAL

13.1 Share capital

GROUP AND BANK	2010 Shares ('000)	2009 Shares ('000)	2010 \$'000	2009 \$'000
Ordinary shares				
At 1 January	3,245,121	3,126,566	5,656,590	4,969,942
Shares issued in-lieu of ordinary dividends	95,865	118,512	757,373	683,985
Shares issued to non-executive directors	60	43	541	245
Transfer from share-based reserves for options and rights exercised (Note 14)	–	–	10,004	2,418
At 31 December	3,341,046	3,245,121	6,424,508	5,656,590
Treasury shares				
At 1 January	(14,782)	(25,747)	(176,169)	(228,265)
Share buyback	(4,439)	–	(42,260)	–
Share Option Schemes	8,969	6,044	65,348	41,330
Share Purchase Plan	3,512	23	24,303	156
Treasury shares transferred to DSP Trust	3,470	4,898	30,657	22,340
Loss on treasury shares transferred/sold	–	–	(11,668)	(11,730)
At 31 December	(3,270)	(14,782)	(109,789)	(176,169)
Preference shares				
At 1 January/31 December:				
Class B	10,000	10,000	1,000,000	1,000,000
Class E	5,000	5,000	500,000	500,000
Class G	395,831	395,831	395,831	395,831
			1,895,831	1,895,831
Issued share capital, at 31 December			8,210,550	7,376,252

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 value per share	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 2013; dividend payment dates after 28 Jan 2013
Class G	14 Jul 2003 6 Aug 2003	4.2%	SGD1	14 Jul 2013; dividend payment dates after 14 Jul 2013

At 31 December 2010, associates of the Group held nil (2009: 420) ordinary shares and nil (2009: 10,000) Class E preference shares in the capital of the Bank.

13. SHARE CAPITAL (continued)**13.2 Share option schemes**

In March 2010, the Bank granted 3,356,827 options (2009: 3,755,564) to acquire ordinary shares in the Bank pursuant to OCBC Share Option Scheme 2001. This included 233,727 (2009: 162,958) options granted to directors of the Bank. The fair value of options granted, determined using the binomial valuation model, was \$7.3 million (2009: \$5.5 million). Significant inputs to the valuation model are set out below:

	2010	2009
Acquisition price (\$)	8.76	4.14
Average share price from grant date to acceptance date (\$)	8.85	4.97
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	28.10	40.43
Risk-free rate based on SGS bond yield at acceptance date (%)	0.92 and 2.79	1.34 and 2.06
Expected dividend yield (%)	3.16	5.63
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:

	2010		2009	
	Number of options	Average price	Number of options	Average price
At 1 January	39,746,960	\$6.026	43,089,452	\$6.046
Granted	3,356,827	\$8.762	3,755,564	\$4.138
Exercised	(9,520,180)	\$5.856	(6,534,886)	\$5.106
Forfeited/lapsed	(477,603)	\$6.553	(563,170)	\$5.654
At 31 December	33,106,004	\$6.344	39,746,960	\$6.026
Exercisable options at 31 December	25,731,301	\$6.168	30,796,721	\$5.941
Average share price underlying the options exercised		\$9.111		\$7.605

At 31 December 2010, the weighted average remaining contractual life of outstanding share options was 5.1 years (2009: 5.2 years). The aggregate outstanding number of options held by directors of the Bank was 4,125,485 (2009: 4,130,758).

13.3 Employee share purchase plan

In June 2010, the Bank launched its fifth offering of ESP Plan for Group employees, which commenced on 1 July 2010 and expire on 30 June 2012. Under the offering, the Bank granted 5,500,602 (2009: 5,545,385) rights to acquire ordinary shares in the Bank. This included 4,114 (2009: 5,446) rights granted to a director of the Bank. The fair value of rights, determined using the binomial valuation model was \$4.8 million (2009: \$10.9 million). Significant inputs to the valuation model are set out below:

	2010	2009
Acquisition price (\$)	8.75	6.61
Average share price (\$)	8.32	7.23
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	22.31	44.66
Risk-free rate based on 2-year swap rate (%)	1.16	1.99
Expected dividend yield (%)	2.69	3.10

Notes to the Financial Statements

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13. SHARE CAPITAL (continued)

13.3 Employee share purchase plan (continued)

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

	2010		2009	
	Number of acquisition rights	Average price	Number of acquisition rights	Average price
At 1 January	8,452,191	\$7.217	10,214,077	\$8.270
Exercised and conversion upon expiry	(3,740,629)	\$7.872	(17,181)	\$8.270
Forfeited	(1,053,482)	\$7.605	(7,290,090)	\$8.228
Subscription	5,500,602	\$8.750	5,545,385	\$6.610
At 31 December	9,158,682	\$7.826	8,452,191	\$7.217
Average share price underlying acquisition rights exercised/converted		\$8.963		\$8.334

At 31 December 2010, the weighted average remaining contractual life of outstanding acquisition rights was 1.1 years (2009: 1.1 years). The aggregate outstanding number of rights held by a director of the Bank was 9,560 (2009: 5,446).

13.4 Deferred share plan

Total awards of 3,814,034 (2009: 5,333,474) ordinary shares (including 342,212 (2009: 441,863) ordinary shares to directors of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2010. The fair value of the shares at grant date was \$34.1 million (2009: \$24.6 million).

During the year, 1,360,587 (2009: 1,253,853) deferred shares were released to employees, of which 97,879 (2009: 127,729) were released to directors. At 31 December 2010, the directors of the Bank have deemed interest of 1,094,729 (2009: 773,521) deferred shares.

14. CAPITAL RESERVES

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
At 1 January	985,445	1,329,156	768,012	1,099,054
Share-based staff costs capitalised	14,116	11,002	14,116	11,002
Shares purchased by DSP Trust	(34,659)	(25,468)	–	–
Shares vested under DSP Scheme	8,240	8,830	–	–
Transfer to unappropriated profit (Note 12)	(350,312)	(335,657)	(339,626)	(339,626)
Transfer to share capital (Note 13.1)	(10,004)	(2,418)	(10,004)	(2,418)
At 31 December	612,826	985,445	432,498	768,012

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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Unappropriated profit (Note 12)	9,814,663	8,270,781	5,763,210	4,865,425
General reserves	1,328,252	1,326,022	984,112	981,882
Currency translation reserves	(550,244)	(494,122)	(141,856)	(131,448)
At 31 December	10,592,671	9,102,681	6,605,466	5,715,859

15.1 General reserves

At 1 January	1,326,022	1,322,893	981,882	978,753
DSP reserve from dividends on unvested shares	5,786	3,129	5,786	3,129
Transfer to unappropriated profits (Note 12)	(3,556)	–	(3,556)	–
At 31 December	1,328,252	1,326,022	984,112	981,882

15.2 Currency translation reserves

At 1 January	(494,122)	(580,157)	(131,448)	(163,178)
Adjustments for the year	(226,490)	78,069	(15,526)	31,306
Effective portion of hedge	170,247	7,966	5,118	424
Transfer to unappropriated profits (Note 12)	121	–	–	–
At 31 December	(550,244)	(494,122)	(141,856)	(131,448)

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.

16. NON-CONTROLLING INTERESTS

	GROUP	
	2010 \$'000	2009 \$'000
Non-controlling interests in subsidiaries	787,966	744,828
Preference shares issued by subsidiaries		
OCBC Bank (Malaysia) Berhad	166,953	163,550
OCBC Capital Corporation	400,000	400,000
OCBC Capital Corporation (2008)	1,500,000	1,500,000
Total non-controlling interests	2,854,919	2,808,378

OCBC Bank (Malaysia) Berhad ("OBMB"), a wholly-owned subsidiary of the Bank, issued the MYR400 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 each dividend payment date thereafter. Dividends, which are subject to declaration by the Board of Directors of OBMB, are payable semi-annually on 20 March and 20 September each year at 4.51% per annum on a net dividend basis on or prior to the 10th anniversary, and thereafter at a floating rate per annum based on the 6-month Kuala Lumpur Interbank Offer Rate plus 1.90% 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 on 2 February 2005. The proceeds are on-lent to the Bank in exchange for a note issued by the Bank [Note 21.1(g)], which guarantees on a subordinated basis, all payment obligations in respect of the preference shares. The preference shares are redeemable in whole at the option of OCC on 20 March 2015 and each dividend payment date thereafter. Dividends, which are subject to declaration by the Board of Directors of OCC, are payable semi-annually on 20 March and 20 September each year at 3.93% per annum up to 20 March 2015, and thereafter quarterly on 20 March, 20 June, 20 September and 20 December each year at a floating rate per annum 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.

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16. NON-CONTROLLING INTERESTS (continued)

OCBC Capital Corporation (2008) ("OCC2008"), a wholly-owned subsidiary of the Bank, issued the \$1.5 billion non-cumulative non-convertible guaranteed preference shares on 27 August 2008. The proceeds are on-lent to the Bank in exchange for a note issued by the Bank [Note 21.1(h)], which guarantees on a subordinated basis, all payment obligations in respect of the preference shares. The preference shares are redeemable in whole at the option of OCC2008 on 20 September 2018 and each dividend payment date thereafter. Dividends, which are subject to declaration by the Board of Directors of OCC2008, are payable semi-annually on 20 March and 20 September each year at 5.10% per annum up to 20 September 2018, and thereafter quarterly on 20 March, 20 June, 20 September and 20 December each year at a floating rate per annum equal to the 3-month Singapore Swap Offer Rate plus 2.50% if the redemption option is not exercised. The preference shares qualify as Tier 1 capital for the Group.

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

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Deposits of non-bank customers				
Current accounts	31,736,321	20,761,628	22,591,223	16,795,547
Savings deposits	25,620,282	21,753,038	22,305,082	19,060,907
Term deposits	55,319,294	50,583,383	38,060,837	36,816,232
Structured deposits	3,282,873	3,037,627	1,902,215	2,560,853
Certificate of deposits issued	3,139,045	1,755,190	2,945,275	1,423,321
Other deposits	4,202,211	2,741,693	1,085,914	640,699
	123,300,026	100,632,559	88,890,546	77,297,559
Deposits and balances of banks	16,508,477	10,958,259	13,810,825	9,674,356
	139,808,503	111,590,818	102,701,371	86,971,915

17.1 Deposits of non-bank customers

Analysed by currency

Singapore Dollar	66,934,019	58,457,704	66,215,107	58,198,876
US Dollar	16,917,543	11,143,758	10,567,238	9,835,038
Malaysian Ringgit	17,097,308	16,285,782	–	–
Indonesian Rupiah	4,423,480	3,735,474	1	1
Japanese Yen	1,683,191	282,945	1,488,159	260,359
Hong Kong Dollar	3,192,223	1,401,381	2,757,593	1,399,846
British Pound	1,550,594	1,149,705	1,111,879	1,078,626
Australian Dollar	5,447,809	4,933,554	4,761,977	4,647,299
Euro	1,525,186	913,015	821,897	748,854
Others	4,528,673	2,329,241	1,166,695	1,128,660
	123,300,026	100,632,559	88,890,546	77,297,559

17.2 Deposits and balances of banks

Analysed by currency

Singapore Dollar	2,938,432	790,560	2,937,692	790,440
US Dollar	8,759,696	5,840,387	7,575,017	5,584,978
Malaysian Ringgit	693,045	662,510	–	–
Indonesian Rupiah	104,188	115,203	–	–
Japanese Yen	145,847	15,192	–	15,192
Hong Kong Dollar	616,949	1,739,004	610,721	1,739,004
British Pound	507,542	542,416	506,880	542,416
Australian Dollar	976,120	248,155	975,896	248,155
Euro	1,009,369	535,771	753,451	535,771
Others	757,289	469,061	451,168	218,400
	16,508,477	10,958,259	13,810,825	9,674,356

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.

GROUP (\$'000)	2010			2009		
	Principal notional amount	Derivative receivables	Derivative payables	Principal notional amount	Derivative receivables	Derivative payables
Foreign exchange derivatives "FED"						
Forwards	32,256,590	337,551	454,181	22,128,268	149,654	126,718
Swaps	91,612,308	1,517,087	1,166,780	84,513,402	1,063,026	1,104,156
OTC options – bought	4,277,799	55,164	1,660	4,815,860	70,373	1,133
OTC options – sold	4,005,399	1,086	64,317	5,064,284	719	67,279
	132,152,096	1,910,888	1,686,938	116,521,814	1,283,772	1,299,286
Interest rate derivatives "IRD"						
Swaps	265,273,613	2,737,315	2,671,583	212,859,334	2,496,779	2,360,781
OTC options – bought	2,412,027	22,122	–	4,225,610	34,380	–
OTC options – sold	8,659,895	–	51,571	6,980,046	–	25,276
Exchange traded futures – bought	1,963,190	140	19	2,451,125	378	1,235
Exchange traded futures – sold	3,596,934	54	412	4,657,790	8,217	1,185
	281,905,659	2,759,631	2,723,585	231,173,905	2,539,754	2,388,477
Equity derivatives						
Swaps	81,940	359	2,678	104,617	174	7,623
OTC options – bought	617,963	42,117	5,088	432,550	31,178	–
OTC options – sold	585,321	5,088	13,240	299,448	–	10,589
Exchange traded options – bought	1,772	36	–	–	–	–
Exchange traded options – sold	55,670	–	681	–	–	–
Exchange traded futures – bought	16,231	5	39	12,512	33	–
Exchange traded futures – sold	1,121	–	4	19,407	20	169
Equity linked notes	52,781	797	–	31,689	496	–
	1,412,799	48,402	21,730	900,223	31,901	18,381
Credit derivatives						
Swaps – protection buyer	2,921,438	10,991	93,442	2,075,739	542	126,967
Swaps – protection seller	2,806,328	81,696	13,352	1,899,435	95,028	63,595
	5,727,766	92,687	106,794	3,975,174	95,570	190,562
Other derivatives						
Precious metals – bought	61,916	217	444	17,216	346	139
Precious metals – sold	46,734	3,083	295	24,406	307	116
OTC options – bought	690,579	4,759	1,219	945,223	1,753	773
OTC options – sold	586,002	912	5,425	932,168	773	1,695
Futures – bought	788	3	–	2,420	–	–
Others	564,178	16,324	16,324	717,619	18,853	18,853
	1,950,197	25,298	23,707	2,639,052	22,032	21,576
Total	423,148,517	4,836,906	4,562,754	355,210,168	3,973,029	3,918,282
Included items designated for hedges:						
Fair value hedge – FED	671,472	80,618	8,684	2,539,255	230,298	554,368
Fair value hedge – IRD	5,797,709	136,319	66,165	5,063,426	191,924	56,424
Hedge of net investments – FED	1,325,000	113,012	–	419,207	425	1,403
	7,794,181	329,949	74,849	8,021,888	422,647	612,195

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18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

BANK (\$'000)	2010			2009		
	Principal notional amount	Derivative receivables	Derivative payables	Principal notional amount	Derivative receivables	Derivative payables
Foreign exchange derivatives "FED"						
Forwards	23,781,665	146,141	306,524	17,265,476	126,066	107,342
Swaps	80,255,985	1,430,899	1,047,653	78,459,906	1,009,814	1,049,105
OTC options – bought	3,360,739	43,823	1,113	4,399,103	56,738	1,102
OTC options – sold	3,221,750	588	52,790	4,807,608	681	60,925
	110,620,139	1,621,451	1,408,080	104,932,093	1,193,299	1,218,474
Interest rate derivatives "IRD"						
Swaps	256,354,243	2,665,144	2,627,575	205,730,508	2,395,184	2,296,418
OTC options – bought	2,286,812	21,093	–	3,927,139	31,672	–
OTC options – sold	8,075,180	–	50,624	6,754,643	–	24,568
Exchange traded futures – bought	1,963,190	140	19	2,451,125	378	1,235
Exchange traded futures – sold	3,596,934	54	412	4,647,544	8,217	1,185
	272,276,359	2,686,431	2,678,630	223,510,959	2,435,451	2,323,406
Equity derivatives						
Swaps	51,980	34	2,353	104,617	174	7,623
OTC options – bought	231,369	34,825	414	225,265	23,203	–
OTC options – sold	170,407	414	1,720	109,279	–	4,923
Exchange traded options – bought	1,772	36	–	–	–	–
Exchange traded options – sold	55,670	–	681	–	–	–
Exchange traded futures – bought	7,396	5	13	759	33	–
Exchange traded futures – sold	1,121	–	4	19,407	20	169
Equity linked notes	52,781	797	–	31,689	496	–
	572,496	36,111	5,185	491,016	23,926	12,715
Credit derivatives						
Swaps – protection buyer	2,921,438	10,991	93,442	2,075,739	542	126,967
Swaps – protection seller	2,806,328	81,696	13,352	1,899,435	95,028	63,595
	5,727,766	92,687	106,794	3,975,174	95,570	190,562
Other derivatives						
Precious metals – bought	61,916	217	444	11,842	346	121
Precious metals – sold	46,734	3,083	295	19,032	288	116
OTC options – bought	690,579	4,495	1,219	945,223	1,753	773
OTC options – sold	586,340	912	5,162	932,168	773	1,695
Others	564,178	16,324	16,324	717,619	18,853	18,853
	1,949,747	25,031	23,444	2,625,884	22,013	21,558
Total	391,146,507	4,461,711	4,222,133	335,535,126	3,770,259	3,766,715
Included items designated for hedges:						
Fair value hedge – FED	1,983,602	192,480	8,684	2,525,251	228,832	554,368
Fair value hedge – IRD	5,214,002	132,810	65,073	4,821,017	186,092	52,742
Hedge of net investments – FED	–	–	–	126,204	364	215
	7,197,604	325,290	73,757	7,472,472	415,288	607,325

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Derivative receivables:				
Analysed by counterparty				
Banks	3,662,488	3,390,929	3,545,405	3,252,656
Other financial institutions	581,636	130,789	572,434	110,920
Corporates	327,667	376,801	276,219	334,172
Individuals	226,708	24,142	29,533	22,160
Others	38,407	50,368	38,120	50,351
	4,836,906	3,973,029	4,461,711	3,770,259
Analysed by geography				
Singapore	2,327,047	1,653,572	2,376,125	1,649,854
Malaysia	202,131	198,446	28,724	35,418
Other ASEAN	29,283	18,852	10,792	11,935
Greater China	145,731	152,979	103,888	154,220
Other Asia Pacific	95,207	72,851	87,393	62,505
Rest of the World	2,037,507	1,876,329	1,854,789	1,856,327
	4,836,906	3,973,029	4,461,711	3,770,259

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

19. OTHER LIABILITIES

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Bills payable	314,751	266,008	196,835	176,501
Interest payable	346,664	379,504	211,776	266,371
Sundry creditors	1,886,319	2,021,008	366,182	328,137
Others	638,985	548,390	287,840	240,502
	3,186,719	3,214,910	1,062,633	1,011,511

At 31 December 2010, reinsurance liabilities included in "Others" amounted to \$17.5 million (2009: \$16.2 million).

20. DEFERRED TAX

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
At 1 January	882,047	478,362	114,776	21,997
Currency translation and others	2,328	(3,104)	2,822	(894)
(Credit)/expense to income statements	(23,567)	70,951	(6,768)	16,455
Effect of change in tax rates	98	(3,894)	98	(2,323)
Net (credit)/expense to income statements (Note 10)	(23,469)	67,057	(6,670)	14,132
(Over)/under provision in prior years	(12,734)	57	(3,918)	–
Deferred tax on fair value changes	49,064	111,007	13,073	81,874
Effect of change in tax rates	4,740	(836)	4,740	(2,333)
Net deferred tax change taken to other comprehensive income	53,804	110,171	17,813	79,541
Net change in life assurance fund tax	127,733	229,504	–	–
Arising from acquisition of subsidiaries	18,303	–	–	–
At 31 December	1,048,012	882,047	124,823	114,776

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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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Deferred tax liabilities	1,126,541	945,585	131,277	119,904
Deferred tax assets	(78,529)	(63,538)	(6,454)	(5,128)
	1,048,012	882,047	124,823	114,776
Deferred tax assets and liabilities (prior to offsetting within the same tax jurisdiction) comprise:				
Accelerated tax depreciation	59,092	63,150	26,210	25,367
Debt and equity securities	358,404	228,929	96,772	79,082
Fair value on properties from business combinations	71,199	73,592	65,620	67,915
Provision for policy liabilities	608,188	562,249	–	–
Unremitted income and others	93,845	74,430	256	208
Deferred tax liabilities	1,190,728	1,002,350	188,858	172,572
Allowances for assets	(99,366)	(89,789)	(50,148)	(47,715)
Tax losses	(8,230)	(5,065)	–	(4,770)
Others	(35,120)	(25,449)	(13,887)	(5,311)
Deferred tax assets	(142,716)	(120,303)	(64,035)	(57,796)
Net deferred tax liabilities	1,048,012	882,047	124,823	114,776

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 2010, unutilised tax losses for which no deferred income tax asset has been recognised amounted to \$8.9 million (2009: \$17.5 million) and nil (2009: nil) for the Group and Bank respectively.

21. DEBTS ISSUED

	GROUP	
	2010 \$'000	2009 \$'000
Subordinated debts (unsecured) [Note 21.1]	6,339,576	5,769,387
Commercial papers (unsecured) [Note 21.2]	460,848	1,060,929
Structured notes (unsecured) [Note 21.3]	54,042	33,068
	6,854,466	6,863,384

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

				GROUP	
	Note	Issue Date	Maturity Date	2010 \$'000	2009 \$'000
Issued by the Bank:					
EUR372 million 7.25% notes	(a)	6 Jul 2001	6 Sep 2011	657,106	799,717
SGD265 million 5.00% notes	(a)	6 Jul 2001	6 Sep 2011	270,303	275,343
USD1.25 billion 7.75% notes	(a)	6 Jul 2001	6 Sep 2011	1,668,271	1,892,956
SGD225 million 3.78% notes	(b)	28 Nov 2007	28 Nov 2017	234,579	233,382
MYR1 billion 4.60% bonds	(c)	27 Mar 2008	27 Mar 2018	417,226	408,646
MYR600 million 4.60% bonds	(c)	6 Jun 2008	6 Jun 2018	262,061	262,065
SGD711.93 million 5.60% notes	(d)	27 Mar 2009	27 Mar 2019	726,441	706,987
USD500 million 4.25% notes	(e)	18 Nov 2009	18 Nov 2019	661,997	687,762
USD500 million 3.75% notes	(f)	15 Nov 2010	15 Nov 2022	603,331	–
SGD400 million 3.93% notes	(g)	2 Feb 2005	20 Mar 2055	400,000	400,000
SGD1.5 billion 5.10% notes	(h)	27 Aug 2008	20 Sep 2058	1,500,000	1,500,000
				7,401,315	7,166,858
Subordinated debts issued to subsidiaries				(1,900,000)	(1,900,000)
Net subordinated debts issued by the Bank				5,501,315	5,266,858
Issued by OCBC Bank (Malaysia) Berhad (“OBMB”):					
MYR200 million Islamic bonds	(i)	24 Nov 2006	24 Nov 2021	83,477	81,775
MYR400 million bonds	(j)	30 Nov 2007	30 Nov 2017	169,489	168,236
MYR400 million Innovative Tier 1 Capital Securities	(k)	17 Apr 2009	Not applicable	166,953	163,551
MYR500 million bonds	(l)	4 Nov 2010	4 Nov 2020	207,880	–
				627,799	413,562
Issued by P.T. Bank OCBC NISP Tbk:					
Subordinated Bonds II – IDR600 billion	(m)	12 Mar 2008	11 Mar 2018	85,465	88,967
Subordinated Bonds III – IDR880 billion	(n)	30 Jun 2010	30 Jun 2017	124,997	–
				210,462	88,967
Total subordinated debts				6,339,576	5,769,387

- (a) Interest is payable semi-annually on 6 March and 6 September each year at 5.00% per annum for the SGD subordinated notes and 7.75% per annum for the USD subordinated notes and annually on 6 September each year at 7.25% per annum for the EUR subordinated notes. The Bank had entered into interest rate and currency swaps to manage the risk of the subordinated notes, and the cumulative fair value change of the risk hedged is included in the carrying value. In September 2010, currency swaps entered into to hedge the USD subordinated notes were terminated. These notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules. As at 31 December 2010, the eligible amount is nil (2009: 20%).
- (b) Interest is payable semi-annually on 28 May and 28 November each year at 3.78% per annum up to 28 November 2012, and thereafter quarterly on 28 February, 28 May, 28 August and 28 November each year at a floating rate per annum 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 had entered into interest rate swaps to manage the risk of the subordinated notes and the cumulative fair value change of the risk hedged is included in the carrying value. The subordinated notes qualify as Tier 2 capital for the Group.
- (c) Interest is payable semi-annually at 4.60% per annum for the first 5 years, and thereafter at 5.60% per annum. The subordinated bonds are redeemable in whole at the option of the Bank on the 5th anniversary of the issue date and each coupon payment date thereafter. The coupon payment dates are on 27 March and 27 September each year for the MYR1 billion subordinated bonds and on 6 June and 6 December each year for the MYR600 million subordinated bonds. The Bank had entered into interest rate swaps to manage the risk of the MYR600 million subordinated bonds and 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.

Notes to the Financial Statements

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21. DEBTS ISSUED (continued)

21.1 Subordinated debts (unsecured) (continued)

- (d) Interest is payable semi-annually on 27 March and 27 September each year at 5.60% per annum up to 27 March 2014 and, thereafter at 7.35% per annum. The subordinated notes are redeemable in whole at the option of the Bank on 27 March 2014. The Bank had entered into interest rate swaps to manage the risk of the subordinated notes and the cumulative fair value change of the risk hedged is included in the carrying value. The subordinated notes qualify as Tier 2 capital for the Group.
- (e) Interest is payable semi-annually on 18 May and 18 November each year at 4.25% per annum up to 18 November 2014, and thereafter at a fixed rate per annum equal to the aggregate of the relevant 5-year US Treasury benchmark rate and 2.997%. The subordinated notes are redeemable in whole at the option of the Bank on 18 November 2014. The Bank had entered into interest rate swaps to manage the risk of the subordinated notes and the cumulative fair value change of the risk hedged is included in the carrying value. The subordinated notes qualify as Tier 2 capital for the Group.
- (f) Interest is payable semi-annually on 15 May and 15 November each year at 3.75% per annum up to 15 November 2017, and thereafter quarterly on 15 February, 15 May, 15 August and 15 November each year at a floating rate per annum equal to the three-month London Interbank Offer Rate plus 1.848%. The subordinated notes are redeemable in whole at the option of the Bank on 15 November 2017. The Bank had entered into interest rate swaps to manage the risk of the subordinated notes and the cumulative fair value change of the risk hedged is included in the carrying value. The subordinated notes qualify as Tier 2 capital for the Group.
- (g) The subordinated note was issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation in exchange for the proceeds from the issue of the \$400 million non-cumulative non-convertible guaranteed preference shares (Note 16). Interest will, if payable, be made semi-annually on 20 March and 20 September each year at 3.93% per annum up to 20 March 2015, and thereafter quarterly on 20 March, 20 June, 20 September and 20 December each year at a floating rate per annum equal to the 3-month Singapore Swap Offer Rate plus 1.85%. The subordinated note is redeemable at the option of the Bank on 20 March 2015 and each coupon payment date thereafter.
- (h) The subordinated note was issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation (2008) in exchange for the proceeds from the issue of the \$1.5 billion non-cumulative non-convertible guaranteed preference shares (Note 16). Interest will, if payable, be made semi-annually on 20 March and 20 September each year at 5.1% per annum up to 20 September 2018, and thereafter quarterly on 20 March, 20 June, 20 September and 20 December each year at a floating rate per annum equal to the 3-month Singapore Swap Offer Rate plus 2.5%. The subordinated note is redeemable at the option of the Bank on 20 September 2018 and each coupon payment date thereafter.
- (i) The Islamic subordinated bonds were issued under the Mudharabah (profit sharing) principle payable semi-annually on 24 May and 24 November each year at a projected constant rate of 5.40% per annum up to 24 November 2016, and thereafter at 6.40% per annum. The subordinated bonds are redeemable in whole at the option of OBMB on 24 November 2016 and each profit payment date thereafter. In addition, the subordinated bonds are to be redeemed in full in 5 equal and consecutive annual payments with the first redemption commencing on 24 November 2017. The subordinated bonds qualify as Tier 2 capital for the Group.
- (j) Interest is payable semi-annually on 30 May and 30 November each year at 4.55% per annum up to 30 November 2012, and thereafter at 5.55% per annum. The subordinated bonds are redeemable in whole at the option of OBMB on 30 November 2012 and each coupon payment date thereafter. In addition, the subordinated bonds are to be redeemed in full in 5 equal and consecutive annual payments with the first redemption commencing on 30 November 2013. OBMB had entered into interest rate swaps to manage the risk of the subordinated bonds and 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.
- (k) Interest is payable semi-annually on 17 April and 17 October each year at 6.75% per annum up to 17 April 2019, and thereafter at a floating rate per annum based on the 6-month Kuala Lumpur Interbank Offer Rate plus 3.32%. The Innovative Tier 1 ("IT1") Capital Securities are redeemable in whole at the option of OBMB on 17 April 2019 and each coupon payment date thereafter. In addition, the IT1 Capital Securities are to be redeemed in full with the proceeds from the issuance of non-cumulative non-convertible preference shares on 17 April 2039. The IT1 Capital Securities qualify as Tier 1 capital for the Group.

21. DEBTS ISSUED (continued)

21.1 Subordinated debts (unsecured) (continued)

- (l) Interest is payable semi-annually on 4 May and 4 November each year at 4.20% per annum. The subordinated bonds are redeemable in whole at the option of OBMB on 4 November 2015 and each coupon payment date thereafter. If the redemption option is not exercised, the subordinated bonds are to be redeemed in full in 5 equal and consecutive annual payments with the first redemption commencing on 4 November 2016. OBMB had entered into interest rate swaps to manage the risk of the subordinated bonds and 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.
- (m) Interest is payable quarterly on 11 March, 11 June, 11 September and 11 December each year at 11.1% per annum up to 12 March 2013, and thereafter at 19.1% per annum. The subordinated bonds are redeemable in whole at the option of P.T. Bank OCBC NISP on 12 March 2013.
- (n) Interest is payable quarterly on 30 March, 30 June, 30 September and 30 December each year at 11.35% per annum. The subordinated bonds qualify as Tier 2 capital for the Group.

21.2 Commercial papers (unsecured)

	Note	GROUP	
		2010 \$'000	2009 \$'000
Issued by the Bank	(a)	431,837	1,030,300
Issued by a subsidiary	(b)	29,011	30,629
		460,848	1,060,929

- (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 2010 were issued between 26 October 2010 (2009: 8 October 2009) and 17 December 2010 (2009: 31 December 2009), and mature between 18 January 2011 (2009: 8 January 2010) and 18 March 2011 (2009: 17 June 2010), yielding between 0.037% and 4.90% (2009: 0.0426% and 3.88%).
- (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 2010 were issued between 29 October 2010 (2009: 15 October 2009) and 27 December 2010 (2009: 23 December 2009), and mature between 7 January 2011 (2009: 4 January 2010) and 12 May 2011 (2009: 28 January 2010), with interest rate ranging from 3.15% to 3.68% (2009: 3.00% to 3.30%).

21.3 Structured notes (unsecured)

	Issue Date	Maturity Date	GROUP AND BANK	
			2010 \$'000	2009 \$'000
Issued by the Bank:				
Credit linked notes	17 Nov 2008	20 Dec 2013	5,000	10,000
Equity-linked notes	3 - 31 Dec 2010	4 Jan - 1 Apr 2011	47,556	16,699
Fixed Rate Notes	30 Apr - 4 May 2009	16 Feb 2011	1,486	1,489
Equity Autocallable Bonus Notes	Not applicable	Not applicable	–	4,080
Equity Callable Daily Range Accrual Notes	Not applicable	Not applicable	–	800
			54,042	33,068

The structured notes were issued by the Bank under its Structured Notes and Medium Term Notes Programmes and are carried at amortised cost, except for the fixed rate notes which is at fair value through profit or loss.

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22. LIFE ASSURANCE FUND LIABILITIES AND INVESTMENT ASSETS

	GROUP	
	2010	2009
	\$ million	\$ million
Life assurance fund liabilities		
Movements in life assurance fund		
At 1 January	39,386.6	35,855.8
Currency translation	282.4	(181.0)
Deferred tax on policyholders' bonus	–	(86.9)
Fair value reserve movements	1,053.7	1,791.1
Change in life assurance fund contract liabilities (Note 4)	2,545.2	2,007.6
At 31 December	43,267.9	39,386.6
Policy benefits	2,118.5	1,948.7
Others	2,094.8	1,910.6
	47,481.2	43,245.9
Life assurance fund investment assets		
Deposits with banks and financial institutions	2,044.3	2,374.9
Loans	3,811.6	4,088.4
Securities	39,246.8	34,516.0
Investment property	1,355.4	1,118.9
Others ⁽¹⁾	1,028.0	978.5
	47,486.1	43,076.7

The following contracts were entered into under the life assurance fund:

Operating lease commitments	2.6	3.0
Capital commitment authorised and contracted	65.3	10.1
Derivative financial instruments (principal notional amount)	6,931.1	6,054.6
Derivative receivables	518.7	321.6
Derivative payables	25.8	46.2
Minimum lease rental receivables under non-cancellable operating leases	65.4	67.6

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

23. CASH AND PLACEMENTS WITH CENTRAL BANKS

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cash on hand	660,251	567,105	490,986	415,527
Balances with central banks	2,824,129	1,694,118	1,925,868	1,309,808
Money market placements and reverse repos	8,008,511	10,909,894	4,370,089	6,434,763
	11,492,891	13,171,117	6,786,943	8,160,098

Balances with central banks include mandatory reserve deposits of \$2,802.8 million (2009: \$1,671.7 million) and \$1,909.8 million (2009: \$1,292.7 million) for the Group and Bank respectively.

24. GOVERNMENT TREASURY BILLS AND SECURITIES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Singapore government treasury bills and securities				
Trading, at fair value	1,557,525	1,788,846	1,557,524	1,788,846
Available-for-sale, at fair value	9,509,065	9,393,890	8,927,698	9,020,862
Fair value at initial recognition	89,932	–	–	–
Gross securities	11,156,522	11,182,736	10,485,222	10,809,708
Assets pledged (Note 43)	–	(260,367)	–	(260,367)
	11,156,522	10,922,369	10,485,222	10,549,341
Other government treasury bills and securities				
Trading, at fair value	2,186,136	2,349,114	1,740,420	1,322,419
Available-for-sale, at fair value	3,812,197	3,221,573	1,508,120	1,428,200
Fair value at initial recognition	20,592	–	–	–
Gross securities	6,018,925	5,570,687	3,248,540	2,750,619
Assets pledged (Note 43)	(74,398)	(6,498)	(74,398)	(6,498)
	5,944,527	5,564,189	3,174,142	2,744,121
Gross securities analysed by geography				
Singapore	11,156,522	11,182,736	10,485,222	10,809,708
Malaysia	1,718,832	1,366,249	–	–
Other ASEAN	1,954,114	2,023,909	923,152	572,048
Greater China	1,006,642	384,147	1,006,642	384,147
Other Asia Pacific	640,698	929,972	640,698	929,972
Rest of the World	698,639	866,410	678,048	864,452
	17,175,447	16,753,423	13,733,762	13,560,327

25. PLACEMENTS WITH AND LOANS TO BANKS

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At fair value:				
Certificate of deposits purchased (Trading)	–	65,678	–	65,678
Certificate of deposits purchased (Available-for-sale)	3,451,233	4,305,089	3,241,668	3,314,863
Forfaiting loans (Trading)	1,207	18,792	1,207	18,792
	3,452,440	4,389,559	3,242,875	3,399,333
At amortised cost:				
Placements with and loans to banks	10,538,190	9,650,439	6,399,705	7,206,745
Market bills purchased	4,329,195	1,349,539	4,132,003	1,349,539
Reverse repos	58,767	76,693	55,770	36,474
	14,926,152	11,076,671	10,587,478	8,592,758
Balances with banks	18,378,592	15,466,230	13,830,353	11,992,091
Assets pledged (Note 43)	(218,069)	–	(218,069)	–
Bank balances of life assurance fund	408,109	354,441	–	–
	18,568,632	15,820,671	13,612,284	11,992,091

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25. PLACEMENTS WITH AND LOANS TO BANKS (continued)

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Balances with banks analysed:				
By currency				
Singapore Dollar	160,896	318,230	87,016	227,306
US Dollar	10,437,938	6,039,799	9,176,062	4,836,252
Malaysian Ringgit	1,167,637	1,506,256	111	39
Indonesian Rupiah	75,636	27,736	2	2
Japanese Yen	124,754	117,382	60,303	31,816
Hong Kong Dollar	1,001,157	446,374	997,996	410,180
British Pound	893,147	1,588,235	889,194	1,548,795
Australian Dollar	1,253,414	1,037,562	1,104,141	970,089
Euro	377,614	3,618,218	373,062	3,576,589
Others	2,886,399	766,438	1,142,466	391,023
	18,378,592	15,466,230	13,830,353	11,992,091
By geography				
Singapore	1,254,217	1,028,487	1,028,420	922,216
Malaysia	1,615,113	1,826,845	111	56,055
Other ASEAN	1,165,295	1,085,185	1,073,399	984,484
Greater China	8,378,204	2,968,936	6,114,556	1,617,415
Other Asia Pacific	2,149,944	1,647,301	2,001,530	1,608,912
Rest of the World	3,815,819	6,909,476	3,612,337	6,803,009
	18,378,592	15,466,230	13,830,353	11,992,091

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

26. LOANS AND BILLS RECEIVABLE

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Gross loans	106,449,432	82,341,217	76,816,959	62,333,391
Specific allowances (Note 28)	(328,130)	(453,990)	(83,661)	(193,900)
Portfolio allowances (Note 29)	(1,094,529)	(998,490)	(856,047)	(799,154)
Net loans	105,026,773	80,888,737	75,877,251	61,340,337
Assets pledged (Note 43)	(37,566)	(12,266)	–	–
	104,989,207	80,876,471	75,877,251	61,340,337
Bills receivable	4,276,900	1,901,488	3,268,862	942,940
Loans	100,749,873	78,987,249	72,608,389	60,397,397
Net loans	105,026,773	80,888,737	75,877,251	61,340,337
26.1 Analysed by currency				
Singapore Dollar	54,849,816	46,022,164	53,776,464	45,167,674
US Dollar	18,937,578	11,080,755	13,619,328	9,300,791
Malaysian Ringgit	14,885,075	13,239,500	104	117
Indonesian Rupiah	3,551,212	2,888,515	–	–
Japanese Yen	2,540,620	1,217,983	1,187,371	1,152,898
Hong Kong Dollar	3,985,801	2,558,778	3,338,955	2,480,388
British Pound	832,812	716,649	659,796	714,501
Australian Dollar	3,229,029	2,520,320	3,138,983	2,518,212
Euro	732,941	267,201	485,680	261,203
Others	2,904,548	1,829,352	610,278	737,607
	106,449,432	82,341,217	76,816,959	62,333,391

26. LOANS AND BILLS RECEIVABLE (continued)

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
26.2 Analysed by product				
Overdrafts	5,865,473	3,298,435	1,354,478	1,515,187
Short-term and revolving loans	16,303,150	11,143,508	9,670,599	7,998,928
Syndicated and term loans	41,713,193	35,113,202	33,476,570	28,021,834
Housing and commercial property loans	28,956,479	23,208,709	23,226,428	18,736,990
Car, credit card and share margin loans	3,001,736	2,925,266	2,092,801	2,104,215
Others	10,609,401	6,652,097	6,996,083	3,956,237
	106,449,432	82,341,217	76,816,959	62,333,391
26.3 Analysed by industry				
Agriculture, mining and quarrying	2,909,394	1,621,302	1,592,196	447,240
Manufacturing	7,057,076	5,827,600	2,544,515	2,020,224
Building and construction	18,532,273	15,643,369	15,342,228	12,951,072
Housing	27,076,124	21,459,890	21,532,350	17,153,502
General commerce	11,792,578	7,749,961	7,588,195	4,585,573
Transport, storage and communication	6,447,367	5,790,977	5,464,574	5,252,602
Financial institutions, investment and holding companies	12,877,505	10,032,495	12,151,982	9,496,894
Professionals and individuals	13,572,746	7,967,989	6,608,561	6,135,690
Others	6,184,369	6,247,634	3,992,358	4,290,594
	106,449,432	82,341,217	76,816,959	62,333,391
26.4 Analysed by interest rate sensitivity				
Fixed				
Singapore	8,095,491	5,928,754	8,026,548	5,925,797
Malaysia	1,200,578	1,626,698	104	117
Other ASEAN	757,801	180,998	12,058	15,757
Greater China	8,519	87,791	140	163
Other Asia Pacific	207,905	200,015	207,905	200,015
Rest of the World	11,256	12,372	11,256	12,372
	10,281,550	8,036,628	8,258,011	6,154,221
Variable				
Singapore	61,163,269	46,317,286	55,190,936	45,344,345
Malaysia	16,895,094	14,422,370	2,855,806	2,593,210
Other ASEAN	4,395,646	3,893,584	529,042	420,572
Greater China	8,634,382	5,195,002	4,906,772	3,344,696
Other Asia Pacific	3,642,402	3,099,192	3,639,303	3,099,192
Rest of the World	1,437,089	1,377,155	1,437,089	1,377,155
	96,167,882	74,304,589	68,558,948	56,179,170
Total	106,449,432	82,341,217	76,816,959	62,333,391

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

26.5 Analysed by geography

Singapore	59,967,267	48,456,871	58,750,222	47,521,200
Malaysia	17,080,330	15,321,942	1,795,177	1,879,742
Other ASEAN	6,884,367	4,986,061	1,792,446	1,332,162
Greater China	11,078,732	7,065,737	6,923,886	5,205,687
Other Asia Pacific	5,310,514	3,926,277	4,747,845	3,862,963
Rest of the World	6,128,222	2,584,329	2,807,383	2,531,637
	106,449,432	82,341,217	76,816,959	62,333,391

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

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27. NON-PERFORMING LOANS ("NPLS"), DEBT SECURITIES AND CONTINGENTS

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

\$ million	Substandard	Doubtful	Loss	Gross loans, securities and contingents	Specific allowances	Net loans, securities and contingents
GROUP						
2010						
Classified loans	616	193	186	995	(323)	672
Classified debt securities	–	13	#	13	(13)	#
Classified contingents	163	11	26	200	(3)	197
Total classified assets	779	217	212	1,208	(339)	869
2009						
Classified loans	723	421	240	1,384	(448)	936
Classified debt securities	–	30	1	31	(30)	1
Classified contingents	32	1	–	33	(1)	32
Total classified assets	755	452	241	1,448	(479)	969
BANK						
2010						
Classified loans	284	83	76	443	(83)	360
Classified debt securities	–	7	–	7	(7)	#
Classified contingents	163	–	–	163	–	163
Total classified assets	447	90	76	613	(90)	523
2009						
Classified loans	357	280	93	730	(193)	537
Classified debt securities	–	22	–	22	(22)	#
Classified contingents	1	1	–	2	(1)	1
Total classified assets	358	303	93	754	(216)	538

(1) # represents amounts less than \$0.5 million.

	GROUP		BANK	
	2010	2009	2010	2009
	\$ million	\$ million	\$ million	\$ million
27.1 Analysed by period overdue				
Over 180 days	511	639	104	194
Over 90 days to 180 days	98	188	49	120
30 days to 90 days	166	208	133	143
Less than 30 days	20	74	8	73
No overdue	413	339	319	224
	1,208	1,448	613	754
27.2 Analysed by collateral type				
Property	496	686	197	324
Fixed deposit	14	6	#	1
Stock and shares	16	47	13	47
Motor vehicles	3	2	2	1
Secured – Others	151	110	88	71
Unsecured – Corporate and other guarantees	237	246	236	241
Unsecured – Clean	291	351	77	69
	1,208	1,448	613	754

(1) # represents amounts less than \$0.5 million.

27. NON-PERFORMING LOANS ("NPLs"), DEBT SECURITIES AND CONTINGENTS (continued)

	GROUP		BANK	
	2010	2009	2010	2009
	\$ million	\$ million	\$ million	\$ million
27.3 Analysed by industry				
Agriculture, mining and quarrying	7	13	#	4
Manufacturing	399	404	228	178
Building and construction	192	234	97	113
Housing	190	224	78	102
General commerce	130	220	37	107
Transport, storage and communication	79	111	62	102
Financial institutions, investment and holding companies	20	65	13	59
Professionals and individuals	139	140	73	84
Others	52	37	25	5
	1,208	1,448	613	754

⁽¹⁾ # represents amounts less than \$0.5 million.

27.4 Analysed by geography

GROUP (\$ million)	Singapore	Malaysia	Rest of the World	Total
2010				
Substandard	272	419	88	779
Doubtful	54	114	49	217
Loss	73	72	67	212
	399	605	204	1,208
Specific allowances	(43)	(199)	(97)	(339)
	356	406	107	869
2009				
Substandard	163	427	165	755
Doubtful	164	155	133	452
Loss	90	53	98	241
	417	635	396	1,448
Specific allowances	(76)	(230)	(173)	(479)
	341	405	223	969

Non-performing loans ("NPLs"), debt securities and contingents 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 17.0% (2009: 6.2%) and 28.1% (2009: 8.7%) for the Group and the Bank respectively.

	2010		2009	
	Amount	Allowance	Amount	Allowance
	\$ million	\$ million	\$ million	\$ million
GROUP				
Substandard	170	5	45	2
Doubtful	22	15	30	29
Loss	13	11	15	4
	205	31	90	35
BANK				
Substandard	158	1	39	#
Doubtful	14	12	25	26
Loss	#	#	2	#
	172	13	66	26

⁽¹⁾ # represents amounts less than \$0.5 million.

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28. SPECIFIC ALLOWANCES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	453,990	549,079	193,900	280,277
Currency translation	(4,589)	14,407	(5,714)	10,947
Bad debts written off	(180,056)	(329,364)	(102,925)	(260,624)
Recovery of amounts previously provided for	(48,903)	(46,156)	(30,407)	(33,530)
Allowances for loans	106,276	287,422	33,873	205,820
Net allowances charged to income statements (Note 9)	57,373	241,266	3,466	172,290
Interest recognition on impaired loans	(15,056)	(22,279)	(5,066)	(9,871)
Arising from acquisition of subsidiaries	16,345	–	–	–
Transfer from other provisions	123	881	–	881
At 31 December (Note 26)	328,130	453,990	83,661	193,900

Analysed by industry

	Cumulative specific allowances		Specific allowances charged/ (write-back) to income statements	
	2010	2009	2010	2009
	\$ million	\$ million	\$ million	\$ million
GROUP				
Agriculture, mining and quarrying	1	2	(4)	3
Manufacturing	102	164	(7)	86
Building and construction	36	31	8	6
Housing	39	38	4	8
General commerce	59	107	1	77
Transport, storage and communication	10	21	1	6
Financial institutions, investment and holding companies	4	10	(1)	(3)
Professionals and individuals	58	64	13	47
Others	19	17	42	11
	328	454	57	241
BANK				
Agriculture, mining and quarrying	#	#	(3)	3
Manufacturing	28	75	(18)	71
Building and construction	3	5	(2)	1
Housing	2	5	(4)	1
General commerce	9	50	(6)	59
Transport, storage and communication	5	17	(3)	5
Financial institutions, investment and holding companies	4	10	(1)	(3)
Professionals and individuals	27	30	14	28
Others	6	2	26	7
	84	194	3	172

⁽¹⁾ # represents amounts less than \$0.5 million.

29. PORTFOLIO ALLOWANCES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	998,490	979,385	799,154	799,005
Currency translation	(6,368)	(3,091)	(3,026)	149
Allowances charged to income statements (Note 9)	97,558	22,863	59,919	–
Arising from acquisition of subsidiaries	1,149	–	–	–
Transfer from/(to) other provisions	3,700	(667)	–	–
At 31 December (Note 26)	1,094,529	998,490	856,047	799,154

30. DEBT AND EQUITY SECURITIES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trading securities				
Quoted debt securities	1,166,440	602,113	1,012,046	502,616
Unquoted debt securities	500,305	299,073	377,094	105,712
Quoted equity securities	183,576	164,583	128,041	148,445
Quoted investment funds	2,412	10,131	1,887	9,482
Unquoted investment funds	1,583	—	—	—
	1,854,316	1,075,900	1,519,068	766,255
Available-for-sale securities				
Quoted debt securities	5,726,461	4,669,858	4,966,389	4,200,743
Unquoted debt securities	3,332,674	2,754,705	2,033,944	1,583,427
Quoted equity securities	2,671,252	2,219,871	1,035,238	697,494
Unquoted equity securities	220,333	217,121	44,583	49,988
Quoted investment funds	143,786	88,487	19,430	17,283
Unquoted investment funds	121,484	197,529	43,324	42,751
	12,215,990	10,147,571	8,142,908	6,591,686
Securities classified as loans and receivables				
Unquoted debt, at amortised cost	606,969	480,594	596,097	450,356
Allowance for impairment (Note 32)	(7,019)	(24,213)	(6,753)	(21,953)
Net carrying value	599,950	456,381	589,344	428,403
Total debt and equity securities				
Debt securities – gross	11,332,849	8,806,343	8,985,570	6,842,854
Allowance for impairment (Note 32)	(7,019)	(24,213)	(6,753)	(21,953)
Debt securities – net	11,325,830	8,782,130	8,978,817	6,820,901
Equity securities	3,075,161	2,601,575	1,207,862	895,927
Investment funds	269,265	296,147	64,641	69,516
Total securities	14,670,256	11,679,852	10,251,320	7,786,344
Assets pledged (Note 43)	(415,704)	—	(415,704)	—
	14,254,552	11,679,852	9,835,616	7,786,344
Debt securities analysis:				
By credit rating				
Investment grade (AAA to BBB)	7,624,090	5,068,491	6,149,061	4,030,547
Non-investment grade (BB to C)	194,658	249,811	164,480	243,218
Non-rated	3,507,082	3,463,828	2,665,276	2,547,136
	11,325,830	8,782,130	8,978,817	6,820,901
By credit quality				
Pass	11,149,282	8,669,823	8,802,003	6,708,961
Special mention	176,773	111,895	176,773	111,895
Substandard	—	—	—	—
Doubtful	6,794	24,625	6,794	21,998
Loss	—	—	—	—
Allowance for impairment (Note 32)	(7,019)	(24,213)	(6,753)	(21,953)
	11,325,830	8,782,130	8,978,817	6,820,901

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30. DEBT AND EQUITY SECURITIES (continued)

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Debt and equity securities – Concentration risks:				
By industry				
Agriculture, mining and quarrying	147,956	62,056	78,618	14,887
Manufacturing	1,250,781	1,032,057	612,577	561,219
Building and construction	1,362,591	1,242,614	965,875	909,636
General commerce	119,780	63,664	91,979	18,189
Transport, storage and communication	1,013,661	688,959	798,176	516,144
Financial institutions, investment and holding companies	9,129,813	7,060,814	7,024,344	5,215,002
Others	1,645,674	1,529,688	679,751	551,267
	14,670,256	11,679,852	10,251,320	7,786,344
By issuer				
Public sector	1,253,679	1,174,498	1,039,391	1,021,819
Banks	5,856,644	4,914,118	4,641,424	3,600,647
Corporations	7,267,610	5,300,366	4,499,952	3,096,045
Others	292,323	290,870	70,553	67,833
	14,670,256	11,679,852	10,251,320	7,786,344
By geography				
Singapore	4,646,780	3,753,018	3,146,906	2,458,240
Malaysia	1,431,806	1,231,199	379,898	282,273
Other ASEAN	265,411	143,183	30,980	76,954
Greater China	1,763,885	1,793,732	922,033	680,960
Other Asia Pacific	2,758,975	2,344,492	2,582,371	2,237,840
Rest of the World	3,803,399	2,414,228	3,189,132	2,050,077
	14,670,256	11,679,852	10,251,320	7,786,344

Debt securities are 77% (2009: 75%) and 88% (2009: 88%) of total securities, for the Group and the Bank respectively. Included in debt securities is an amount of \$0.05 billion (2009: \$0.06 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.

31. OTHER ASSETS

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest receivable	623,888	579,725	461,492	454,137
Sundry debtors (net)	1,927,561	1,890,594	45,401	29,558
Deposits and prepayments	210,169	186,564	105,810	99,668
Others	354,864	253,611	215,357	105,442
	3,116,482	2,910,494	828,060	688,805

At 31 December 2010, reinsurance assets included in "Others" amounted to \$80.3 million (2009: \$71.3 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 2009	5,200	25,333	58,319	8,300	26,297	123,449
Currency translation	–	(307)	(61)	4	(380)	(744)
Amounts written off	(5,200)	(1,036)	–	–	(3,382)	(9,618)
Impairment charge/(write-back) to income statements (Note 9)	–	370	–	(831)	3,923	3,462
Impairment charge to profit from life assurance	–	–	8,727	–	–	8,727
Interest recognition on net NPLs	–	(147)	–	–	–	(147)
Transfers to other accounts	–	–	–	–	(214)	(214)
At 31 December 2009/1 January 2010	–	24,213	66,985	7,473	26,244	124,915
Currency translation	–	(1,703)	276	63	(326)	(1,690)
Amounts written off	–	(12,661)	–	–	(6,300)	(18,961)
Write-back to income statements (Note 9)	–	(2,830)	(1)	(303)	(1,727)	(4,861)
Transfers to other accounts	–	–	(64)	(157)	(4,415)	(4,636)
At 31 December 2010	–	7,019	67,196	7,076	13,476	94,767
	(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 2009	14,059	22,557	949	5,184	1,038	43,787
Currency translation	–	(557)	–	28	(4)	(533)
Amounts written off	–	–	–	–	(9)	(9)
Impairment charge/(write-back) to income statements (Note 9)	25	(47)	–	(211)	886	653
Transfers to other accounts	–	–	–	–	(881)	(881)
At 31 December 2009/1 January 2010	14,084	21,953	949	5,001	1,030	43,017
Currency translation	–	(1,708)	–	29	(12)	(1,691)
Amounts written off	(506)	(12,661)	–	–	–	(13,167)
(Write-back)/impairment charge to income statements (Note 9)	–	(831)	(1)	27	619	(186)
Transfers to other accounts	–	–	–	(221)	–	(221)
At 31 December 2010	13,578	6,753	948	4,836	1,637	27,752
	(Notes 33-34)	(Note 30)	(Note 35)	(Note 36)		

33. ASSOCIATES AND JOINT VENTURES

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Investment securities, at cost				
Quoted equities	–	591	–	195
Unquoted equities	231,153	186,041	115,217	58,150
Allowance for impairment (Note 32)	–	–	(2,199)	(2,199)
Net carrying value	231,153	186,632	113,018	56,146
Share of post-acquisition reserves	22,123	34,512	–	–
Amount due from associates (unsecured)	1,821	4,875	–	–
	255,097	226,019	113,018	56,146
Fair value of quoted associates	–	41,092	–	13,561

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33. ASSOCIATES AND JOINT VENTURES (continued)

33.1 Associates

The summarised financial information of associates not adjusted for the proportion of ownership interest held by the Group is as follows:

\$'000	2010	2009
At 31 December:		
Assets	647,339	592,020
Liabilities	(178,132)	(191,484)
For the year ended:		
Total income	134,790	163,714
Profit/(loss)	19,633	35,186

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

Name of associate	Country of incorporation	Effective % interest held	
		2010	2009
Unquoted			
Network For Electronic Transfers (Singapore) Pte Ltd ⁽¹⁾	Singapore	33	33

⁽¹⁾ 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 based on the Group's 50% interest is as follows:

\$ million	2010	2009
At 31 December:		
Share of current assets	134.3	117.4
Share of non-current assets	20.5	8.0
Share of current liabilities	(14.2)	(12.0)
Share of non-current liabilities	(62.4)	(25.4)
For the year ended:		
Share of income	50.8	24.2
Share of expenses	(56.0)	(30.2)

34. SUBSIDIARIES

	BANK	
	2010	2009
	\$'000	\$'000
Investments in subsidiaries, at cost		
Quoted security	2,198,964	2,198,964
Unquoted securities	3,649,048	1,697,094
Allowance for impairment (Note 32)	(11,379)	(11,885)
Net carrying value	5,836,633	3,884,173
Unsecured loans and receivables	3,024,597	3,153,223
Secured loans and receivables	1,073,200	1,113,200
Amount due from subsidiaries	4,097,797	4,266,423
Investments in and amount due from subsidiaries	9,934,430	8,150,596

At 31 December 2010, the fair values of the Group's interests in its quoted subsidiaries, Great Eastern Holdings Limited and PT Bank OCBC NISP Tbk, were \$6,412.1 million (2009: \$5,522.0 million) and \$1,157.7 million (2009: \$518.0 million) respectively.

34. SUBSIDIARIES (continued)**34.1 List of significant subsidiaries**

Significant subsidiaries of the Group are as follows:

Name of subsidiaries	Country of incorporation	Effective % interest held ⁽³⁾	
		2010	2009
Banking			
Singapore Island Bank Limited (formerly Bank of Singapore Limited)	Singapore	100	100
Bank of Singapore Limited (formerly ING Asia Private Bank Ltd)	Singapore	100	–
OCBC Al-Amin Bank Berhad	Malaysia	100	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 ⁽¹⁾	Indonesia	82	75
P.T. Bank OCBC Indonesia	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⁾	Singapore	91	91
Great Eastern Holdings Limited ⁽²⁾	Singapore	87	87
PacificMas Berhad ⁽²⁾	Malaysia	64	64
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.

⁽³⁾ Rounded to the nearest percentage.

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34. SUBSIDIARIES (continued)

34.2 Acquisition of interests in subsidiaries

On 29 January 2010, the Bank acquired 100% of the equity interest in ING Asia Private Bank Ltd and its subsidiaries (now known as Bank of Singapore Limited) for a cash consideration of USD1,421 million or approximately \$1,995.8 million.

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

\$ million	2010
<i>Identifiable assets and liabilities</i>	
Cash and placements with central banks	7.0
Government, debt and equity securities	755.8
Placements with banks	2,041.0
Loans and bills receivable	4,785.7
Other assets	110.2
Property, plant and equipment and investment property	10.9
Intangible assets (Note 37)	150.4
Total assets	7,861.0
Deposits of non-bank customers	(5,996.3)
Bank borrowings	(233.8)
Other liabilities	(228.6)
Deferred tax liabilities on intangible assets	(17.1)
Total liabilities	(6,475.8)
Net identifiable assets acquired	1,385.2
Goodwill (Note 37)	610.6
Cash consideration paid	1,995.8
Less: Cash and cash equivalents in subsidiary acquired	(7.0)
Net cash outflow arising from acquisition	1,988.8

Pre-acquisition carrying amounts were determined based on applicable FRS immediately before the acquisition.

Intangible assets acquired relate to the value of customer relationships while the goodwill recognised on the acquisition was mainly attributable to the value of the workforce in place and the synergies expected to arise after the acquisition.

The acquired subsidiaries contributed revenue of \$205.1 million and net profit of \$33.3 million for the financial period from 29 January 2010 to 31 December 2010. If the acquisition had occurred at 1 January 2010, the Group's total income and profit after tax would have been \$5,341.6 million and \$2,256.4 million respectively.

34.3 Acquisition of non-controlling interests

On 25 June 2010, a subsidiary of the Bank, OCBC Overseas Investments Pte. Ltd., purchased 417,081,477 shares in P.T. Bank OCBC NISP ("Bank NISP"), a subsidiary listed on the Indonesia Stock Exchange, at IDR1,200 per share for a total cash consideration of \$76.7 million. The Group's interest in Bank NISP increased from 74.73% to 81.90% and the Group recognised a decrease in non-controlling interests of \$50 million on the acquisition date. The difference of \$27 million between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid was recorded as a decrease in the revenue reserves.

35. PROPERTY, PLANT AND EQUIPMENT

GROUP (\$'000)	2010				2009			
	Property-related	Computer-related	Others	Total	Property-related	Computer-related	Others	Total
Cost								
At 1 January	1,411,892	860,786	364,230	2,636,908	1,431,203	778,896	341,004	2,551,103
Currency translation	(340)	915	(1,825)	(1,250)	4,333	2,878	2,200	9,411
Acquisition of subsidiaries	–	18,139	16,998	35,137	–	–	–	–
Additions	13,245	112,300	31,789	157,334	12,241	93,634	35,365	141,240
Disposals and other transfers	(2,440)	(15,386)	(13,845)	(31,671)	(4,781)	(14,622)	(14,339)	(33,742)
Transfer from/(to):								
Investment property (Note 36)	40,049	–	–	40,049	1,336	–	–	1,336
Life assurance fund assets	–	–	–	–	(32,440)	–	–	(32,440)
At 31 December	1,462,406	976,754	397,347	2,836,507	1,411,892	860,786	364,230	2,636,908
Accumulated depreciation								
At 1 January	(262,043)	(478,593)	(220,313)	(960,949)	(246,909)	(385,515)	(194,903)	(827,327)
Currency translation	550	(216)	1,756	2,090	7,917	(86)	(838)	6,993
Acquisition of subsidiaries	–	(11,799)	(11,752)	(23,551)	–	–	–	–
Disposals and other transfers	668	15,444	11,437	27,549	4,414	9,087	11,937	25,438
Depreciation charge	(16,578)	(88,225)	(33,958)	(138,761)	(15,799)	(76,366)	(30,376)	(122,541)
Depreciation charge to profit								
from life assurance (Note 4)	(13,551)	(26,950)	(6,445)	(46,946)	(13,203)	(25,713)	(6,133)	(45,049)
Transfer to:								
Investment property (Note 36)	(4,006)	–	–	(4,006)	1,269	–	–	1,269
Life assurance fund assets	–	–	–	–	268	–	–	268
At 31 December	(294,960)	(590,339)	(259,275)	(1,144,574)	(262,043)	(478,593)	(220,313)	(960,949)
Accumulated impairment losses (Note 32)								
At 1 January	(65,660)	(63)	(1,262)	(66,985)	(57,004)	(43)	(1,272)	(58,319)
Currency translation	(261)	–	(15)	(276)	71	(20)	10	61
Write-back to income statements	1	–	–	1	–	–	–	–
Impairment charge to								
profit from life assurance	–	–	–	–	(8,727)	–	–	(8,727)
Transfer to investment property (Note 36)	64	–	–	64	–	–	–	–
At 31 December	(65,856)	(63)	(1,277)	(67,196)	(65,660)	(63)	(1,262)	(66,985)
Net carrying value, at 31 December	1,101,590	386,352	136,795	1,624,737	1,084,189	382,130	142,655	1,608,974
Freehold property	322,381				326,701			
Leasehold property	779,209				757,488			
Net carrying value	1,101,590				1,084,189			
Market value	1,957,448				1,769,155			

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35. PROPERTY, PLANT AND EQUIPMENT (continued)

BANK (\$'000)	2010				2009			
	Property-related	Computer-related	Others	Total	Property-related	Computer-related	Others	Total
Cost								
At 1 January	260,951	353,721	106,573	721,245	263,547	302,637	95,720	661,904
Currency translation	8	(80)	(450)	(522)	6	142	373	521
Additions	–	58,078	9,428	67,506	–	55,189	17,147	72,336
Disposals and other transfers	–	(4,047)	(4,313)	(8,360)	–	(4,247)	(6,667)	(10,914)
Transfer to investment property (Note 36)	(2,123)	–	–	(2,123)	(2,602)	–	–	(2,602)
At 31 December	258,836	407,672	111,238	777,746	260,951	353,721	106,573	721,245
Accumulated depreciation								
At 1 January	(55,137)	(190,496)	(66,118)	(311,751)	(51,658)	(143,504)	(60,124)	(255,286)
Currency translation	(4)	59	196	251	(2)	(127)	(334)	(463)
Disposals and other transfers	–	4,041	4,225	8,266	–	2,538	5,615	8,153
Depreciation charge	(4,939)	(58,402)	(10,602)	(73,943)	(4,922)	(49,403)	(11,275)	(65,600)
Transfer to investment property (Note 36)	1,006	–	–	1,006	1,445	–	–	1,445
At 31 December	(59,074)	(244,798)	(72,299)	(376,171)	(55,137)	(190,496)	(66,118)	(311,751)
Accumulated impairment losses (Note 32)								
At 1 January	(949)	–	–	(949)	(949)	–	–	(949)
Write-back to income statements	1	–	–	1	–	–	–	–
At 31 December	(948)	–	–	(948)	(949)	–	–	(949)
Net carrying value, at 31 December	198,814	162,874	38,939	400,627	204,865	163,225	40,455	408,545
Freehold property	44,408				46,409			
Leasehold property	154,406				158,456			
Net carrying value	198,814				204,865			
Market value	332,801				306,195			

36. INVESTMENT PROPERTY

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Cost				
At 1 January	939,724	891,912	630,302	573,267
Currency translation	(3,194)	(2,017)	(1,582)	(447)
Additions	25,849	58,769	16,136	58,416
Disposals	(2,410)	(7,389)	–	(3,509)
Transfer to/(from):				
Property, plant and equipment (Note 35)	(40,049)	(1,336)	2,123	2,602
Assets held for sale	(9,574)	(215)	(7,138)	(27)
At 31 December	910,346	939,724	639,841	630,302
Accumulated depreciation				
At 1 January	(166,884)	(157,535)	(76,213)	(68,325)
Currency translation	543	330	459	142
Disposals	1,845	4,228	–	416
Depreciation charge	(12,818)	(12,685)	(7,135)	(7,001)
Transfer to/(from):				
Property, plant and equipment (Note 35)	4,006	(1,269)	(1,006)	(1,445)
Assets held for sale	2,931	47	2,377	–
At 31 December	(170,377)	(166,884)	(81,518)	(76,213)
Accumulated impairment losses (Note 32)				
At 1 January	(7,473)	(8,300)	(5,001)	(5,184)
Currency translation	(63)	(4)	(29)	(28)
Write-back/(impairment charge) to income statements	303	831	(27)	211
Transfer to/(from):				
Property, plant and equipment (Note 35)	(64)	–	–	–
Assets held for sale	221	–	221	–
At 31 December	(7,076)	(7,473)	(4,836)	(5,001)
Net carrying value				
Freehold property	331,938	308,972	157,108	142,448
Leasehold property	400,955	456,395	396,379	406,640
At 31 December	732,893	765,367	553,487	549,088
Market value	2,420,216	2,363,869	1,280,704	1,265,896

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37. GOODWILL AND INTANGIBLE ASSETS

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Goodwill				
At 1 January	2,675,077	2,642,368	1,867,176	1,867,176
Acquisition/(disposal) of interests in:				
– Bank of Singapore Limited (Note 34.2)	610,639	–	–	–
– Others	2,990	–	–	–
– PacificMas Berhad	–	(235)	–	–
Currency translation	(62,128)	32,944	–	–
At 31 December	3,226,578	2,675,077	1,867,176	1,867,176
Intangible assets				
At 1 January	686,522	733,158		
Acquisition of subsidiary:				
– Customer relationships ⁽¹⁾ (Note 34.2)	150,352	–		
Amortisation charged to income statements:				
– Life assurance business ⁽²⁾	(46,636)	(46,636)		
– Customer relationships ⁽¹⁾	(8,163)	–		
Currency translation	(12,172)	–		
At 31 December	769,903	686,522		
Total goodwill and intangible assets	3,996,481	3,361,599	1,867,176	1,867,176
Analysed as follows:				
Goodwill from acquisition of subsidiaries/business	3,226,578	2,675,077	1,867,176	1,867,176
Intangible assets, at cost	1,070,459	932,715	–	–
Accumulated amortisation for intangible assets	(300,556)	(246,193)	–	–
	3,996,481	3,361,599	1,867,176	1,867,176

⁽¹⁾ Customer relationships, arising from the acquisition of Bank of Singapore Limited, are determined to have an estimated useful life of 10 years.

⁽²⁾ The value of in-force assurance business of the Group is amortised over a useful life of 20 years. At 31 December 2010, the intangible asset has a remaining useful life of 14 years (2009: 15 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:

Cash Generating Units	Basis of determining recoverable value	Carrying value	
		2010 \$'000	2009 \$'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	427,460
Bank of Singapore Limited	Value-in-use	559,434	–
BOS Securities Co Ltd, Korea	Value-in-use	2,982	–
PacificMas Berhad	Value-in-use	4,239	4,153
P.T. Bank OCBC NISP Tbk	Value-in-use	264,547	275,548
Lion Global Investors Limited	Value-in-use	29,419	29,419
		3,226,578	2,675,077

37. GOODWILL AND INTANGIBLE ASSETS (continued)

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 2010, the discount rates used ranged from 10.2% to 12.8% (2009: 8.3% to 14.0%). 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 2.0% to 5.0% (2009: 2.0% to 5.0%). 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.

For the insurance CGU, the Group 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% (2009: 8.0%) and 9.5% (2009: 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 5.25%, 4.0% and 7.0% (2009: 5.25%, 4.0% and 7.0%) for Singapore's participating fund, non-participating fund and linked fund respectively and 6.0%, 5.1% and 7.0% (2009: 6.0%, 5.1% 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	Elimination	Group
Year ended 31 December 2010							
Total income	1,151	1,755	807	774	1,314	(476)	5,325
Operating profit before allowances and amortisation	567	1,216	567	615	556	(450)	3,071
Amortisation of intangible assets (Allowances and impairment)/ write-back for loans and other assets	– (24)	– (16)	– 3	(47) (4)	(8) (93)	–	(55) (134)
Operating profit after allowances and amortisation	543	1,200	570	564	455	(450)	2,882
Other information:							
Capital expenditure	10	7	#	38	128		183
Depreciation	17	10	1	2	122		152
At 31 December 2010							
Segment assets	34,071	71,653	45,505	54,467	34,773		240,469
Unallocated assets							101
Elimination							(11,287)
Total assets							229,283
Segment liabilities	46,038	57,913	35,986	47,961	27,156		215,054
Unallocated liabilities							1,871
Elimination							(11,287)
Total liabilities							205,638
Other information:							
Gross non-bank loans	32,871	61,343	1,567	174	10,494		106,449
NPAs (include debt securities)	232	839	–	7	130		1,208

⁽¹⁾ # represents amounts less than \$0.5 million.

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38. SEGMENT INFORMATION (continued)

38.1 Business segments (continued)

\$ million	Global Consumer Financial Services	Global Corporate Banking	Global Treasury	Insurance	Others	Elimination	Group
Year ended 31 December 2009							
Total income	1,142	1,477	816	758	1,012	(390)	4,815
Operating profit before allowances and amortisation	629	1,010	611	642	492	(365)	3,019
Amortisation of intangible assets	–	–	–	(47)	–	–	(47)
Allowances and impairment for loans and other assets	(57)	(180)	(11)	(16)	(165)	–	(429)
Operating profit after allowances and amortisation	572	830	600	579	327	(365)	2,543
Other information:							
Capital expenditure	24	8	1	24	143		200
Depreciation	16	9	1	2	107		135
At 31 December 2009							
Segment assets	27,900	56,542	46,761	49,634	21,750		202,587
Unallocated assets							98
Elimination							(8,385)
Total assets							194,300
Segment liabilities	44,333	48,652	23,405	43,824	19,140		179,354
Unallocated liabilities							1,552
Elimination							(8,385)
Total liabilities							172,521
Other information:							
Gross non-bank loans	26,702	49,878	1,046	289	4,426		82,341
NPAs (include debt securities)	280	1,018	–	7	143		1,448

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.

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, PacificMas Berhad, Bank of Singapore, corporate finance, capital markets, property holding, stock brokerage and investment holding.

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
2010					
Singapore	3,350	1,958	127	145,864	138,092
Malaysia	1,233	768	29	47,673	41,293
Other ASEAN	389	60	20	8,550	6,885
Greater China	216	34	4	17,263	12,532
Other Asia Pacific	95	53	1	6,987	3,735
Rest of the World	42	7	2	2,946	3,101
	5,325	2,880	183	229,283	205,638
2009					
Singapore	2,912	1,594	143	125,001	115,633
Malaysia	1,239	800	30	43,070	36,757
Other ASEAN	370	125	20	6,922	5,901
Greater China	179	(4)	6	10,291	8,139
Other Asia Pacific	63	45	#	5,463	2,924
Rest of the World	52	(17)	1	3,553	3,167
	4,815	2,543	200	194,300	172,521

⁽¹⁾ # represents amounts less than \$0.5 million.

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.

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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.

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.

\$ million	Gross		Average	
	2010	2009	2010	2009
Credit risk exposure of on-balance sheet assets:				
Loans and bills receivable	104,989	80,876	94,056	78,275
Placements with and loans to banks	18,569	15,821	17,526	17,074
Government treasury bills and securities	17,101	16,487	17,328	16,908
Debt securities	10,910	8,782	10,339	7,907
Amount due from associates	2	5	2	2
Assets pledged	746	279	450	379
Derivative receivables	4,837	3,973	4,789	4,792
Other assets, comprise interest receivables and sundry debtors	2,551	2,470	2,684	2,436
	159,705	128,693	147,174	127,773
Credit risk exposure of off-balance sheet items:				
Contingent liabilities	8,513	7,314	7,809	7,536
Credit commitments	54,749	42,584	50,960	43,319
	63,262	49,898	58,769	50,855
Total maximum credit risk exposure	222,967	178,591	205,943	178,628

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.

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		Non-bank loans	
	2010	2009	2010	2009
Neither past due nor impaired	18,379	15,466	105,000	80,245
Not impaired	–	–	628	1,039
Impaired	–	–	613	863
Past due loans	–	–	1,241	1,902
Impaired but not past due	–	–	209	194
Gross loans	18,379	15,466	106,450	82,341
Specific allowances	–	–	(328)	(454)
Portfolio allowances	–	–	(1,095)	(998)
Net loans	18,379	15,466	105,027	80,889

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		Non-bank loans	
	2010	2009	2010	2009
Grades				
Satisfactory and special mention	18,379	15,466	104,944	80,157
Substandard but not impaired	–	–	56	88
Neither past due nor impaired	18,379	15,466	105,000	80,245

Past due loans

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

\$ million	Bank loans		Non-bank loans	
	2010	2009	2010	2009
By industry				
Agriculture, mining and quarrying	–	–	35	47
Manufacturing	–	–	245	374
Building and construction	–	–	64	145
General commerce	–	–	154	262
Transport, storage and communication	–	–	28	58
Financial institutions, investment and holding companies	–	–	15	61
Professionals and individuals (include housing)	–	–	623	898
Others	–	–	77	57
	–	–	1,241	1,902
By geography				
Singapore	–	–	359	743
Malaysia	–	–	600	650
Rest of the World	–	–	282	509
	–	–	1,241	1,902

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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	2010	2009
Past due		
Less than 30 days	137	399
30 to 90 days	400	474
Over 90 days	91	166
Past due but not impaired	628	1,039

Impaired loans and allowances

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

\$ million	2010	2009
Business segment		
Global Consumer Financial Services	189	248
Global Corporate Banking	537	711
Others	83	80
Individually impaired loans	809	1,039

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 \$1,110.4 million for the year ended 31 December 2010 (2009: \$324.8 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	2010	2009
Properties	24	2
Others	#	—
Carrying amount of assets obtained during the year	24	2

⁽¹⁾ # represents amounts less than \$0.5 million.

Reposessed 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 reposessed for its business use.

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⁾					
31 December 2010					
People's Republic of China	5,516	9	1,909	7,434	4.1
Malaysia	2,221	–	3,343	5,564	3.1
Indonesia	1,562	569	2,513	4,644	2.6
Hong Kong SAR	1,823	–	2,495	4,318	2.4
United States	1,279	265	2,277	3,821	2.1
United Kingdom	2,488	41	553	3,082	1.7
British Virgin Island	–	–	2,823	2,823	1.6
Australia	1,485	132	613	2,230	1.2
31 December 2009					
United Kingdom	4,740	412	462	5,614	3.7
Malaysia	1,893	–	2,603	4,496	3.0
People's Republic of China	2,977	6	1,103	4,086	2.7
Indonesia	1,536	179	1,657	3,372	2.2
United States	616	180	1,399	2,195	1.5
Australia	1,322	258	507	2,087	1.4

⁽¹⁾ Assets (excluding life assurance fund investment assets) of \$181,797 million (2009: \$151,223 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.

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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
2010								
Cash and placements with central banks	1,444	3,058	2,154	1,823	–	352	2,662	11,493
Placements with and loans to banks	4,450	3,106	6,788	3,973	29	–	33	18,379
Loans and bills receivable ⁽¹⁾	6,497	34,084	42,520	14,520	5,158	2,192	56	105,027
Securities ⁽²⁾	597	1,761	3,415	5,308	6,686	10,648	3,431	31,846
Other assets ⁽³⁾	–	#	#	1	1	–	7,953	7,955
Financial assets	12,988	42,009	54,877	25,625	11,874	13,192	14,135	174,700
Deposits of non-bank customers	24,886	25,230	39,135	13,644	879	274	19,252	123,300
Deposits and balances of banks	8,745	4,665	1,914	580	155	–	449	16,508
Trading portfolio liabilities	#	–	124	777	793	37	3	1,734
Other liabilities ⁽³⁾	16	4	60	47	–	12	7,750	7,889
Debts issued	–	45	371	2,608	1,294	2,450	86	6,854
Financial liabilities	33,647	29,944	41,604	17,656	3,121	2,773	27,540	156,285
On-balance sheet sensitivity gap	(20,659)	12,065	13,273	7,969	8,753	10,419		
Off-balance sheet sensitivity gap	105	722	(1,164)	(1,142)	169	1,310		
Net interest sensitivity gap	(20,554)	12,787	12,109	6,827	8,922	11,729		
2009								
Cash and placements with central banks	4,248	5,881	1,080	53	–	–	1,909	13,171
Placements with and loans to banks	2,242	3,083	5,578	4,559	1	–	3	15,466
Loans and bills receivable ⁽¹⁾	8,009	19,997	32,752	6,936	3,823	9,982	(610)	80,889
Securities ⁽²⁾	766	2,070	6,232	5,355	5,058	6,057	2,895	28,433
Other assets ⁽³⁾	–	1	–	3	1	–	6,883	6,888
Financial assets	15,265	31,032	45,642	16,906	8,883	16,039	11,080	144,847
Deposits of non-bank customers	20,833	18,983	34,025	13,638	802	227	12,125	100,633
Deposits and balances of banks	4,246	3,458	2,484	589	165	–	16	10,958
Trading portfolio liabilities	–	46	–	–	1,572	398	#	2,016
Other liabilities ⁽³⁾	17	2	56	45	–	–	7,132	7,252
Debts issued	52	612	392	19	3,208	2,563	17	6,863
Financial liabilities	25,148	23,101	36,957	14,291	5,747	3,188	19,290	127,722
On-balance sheet sensitivity gap	(9,883)	7,931	8,685	2,615	3,136	12,851		
Off-balance sheet sensitivity gap	933	(3,286)	(2,473)	583	2,238	2,005		
Net interest sensitivity gap	(8,950)	4,645	6,212	3,198	5,374	14,856		

⁽¹⁾ Net of 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.

⁽⁴⁾ # represents amounts less than \$0.5 million.

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.

39. FINANCIAL RISK MANAGEMENT (continued)**39.3 Market risk and asset liability management (continued)****Interest rate risk (continued)**

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 \$236 million (2009: \$133 million). The corresponding impact from a 100 bp decrease is an estimated reduction of \$84 million (2009: \$132 million) in net interest income. As a percentage of reported net interest income, the maximum exposure would be -2.8% (2009: -4.5%).

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, Chinese Renminbi, Australian Dollar, Euro, Japanese Yen, Sterling Pound and Hong Kong Dollar.

\$ million	SGD	USD	MYR	Others	Total
2010					
Cash and placements with central banks	5,276	50	3,227	2,940	11,493
Placements with and loans to banks	161	10,438	1,168	6,612	18,379
Loans and bills receivable	54,003	18,895	14,530	17,599	105,027
Securities ⁽¹⁾	16,347	3,721	2,628	9,150	31,846
Other assets ⁽²⁾	4,535	1,553	927	940	7,955
Financial assets	80,322	34,657	22,480	37,241	174,700
Deposits of non-bank customers	66,934	16,918	17,097	22,351	123,300
Deposits and balances of banks	2,938	8,760	693	4,117	16,508
Trading portfolio liabilities	1,731	3	–	–	1,734
Other liabilities ⁽²⁾	4,419	1,620	768	1,082	7,889
Debts issued	1,930	3,349	1,336	239	6,854
Financial liabilities	77,952	30,650	19,894	27,789	156,285
Net financial assets exposure	2,370	4,007	2,586	9,452	
2009					
Cash and placements with central banks	8,051	31	4,484	605	13,171
Placements with and loans to banks	318	6,040	1,506	7,602	15,466
Loans and bills receivable	45,153	10,966	12,891	11,879	80,889
Securities ⁽¹⁾	15,272	3,273	2,266	7,622	28,433
Other assets ⁽²⁾	4,663	866	845	514	6,888
Financial assets	73,457	21,176	21,992	28,222	144,847
Deposits of non-bank customers	58,458	11,144	16,286	14,745	100,633
Deposits and balances of banks	791	5,840	663	3,664	10,958
Trading portfolio liabilities	2,016	–	–	–	2,016
Other liabilities ⁽²⁾	4,602	294	709	1,647	7,252
Debts issued	3,955	1,285	1,115	508	6,863
Financial liabilities	69,822	18,563	18,773	20,564	127,722
Net financial assets exposure	3,635	2,613	3,219	7,658	

⁽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.

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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.

\$ million	Structural currency exposure	2010 Hedging financial instruments	Net structural currency exposure	Structural currency exposure	2009 Hedging financial instruments	Net structural currency exposure
US Dollar	2,306	1,942	364	549	419	130
Malaysian Ringgit	1,773	414	1,359	1,471	406	1,065
Others	2,931	–	2,931	2,743	–	2,743
Total	7,010	2,356	4,654	4,763	825	3,938

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
2010							
Cash and placements with central banks	1,665	3,059	2,154	1,823	–	2,792	11,493
Placements with and loans to banks	6,111	2,691	5,501	4,020	55	1	18,379
Loans and bills receivable	8,249	9,152	8,947	12,377	17,516	48,786	105,027
Securities ⁽¹⁾	1,362	1,595	2,313	5,210	7,262	14,104	31,846
Other assets ⁽²⁾	1,059	1,116	1,740	3,173	626	241	7,955
Financial assets	18,446	17,613	20,655	26,603	25,459	65,924	174,700
Deposits of non-bank customers	71,029	20,916	15,697	13,930	1,122	606	123,300
Deposits and balances of banks	9,173	4,570	2,030	580	155	–	16,508
Trading portfolio liabilities	#	–	127	777	792	38	1,734
Other liabilities ⁽²⁾	1,594	1,364	1,720	2,374	380	457	7,889
Debts issued	14	117	366	2,608	385	3,364	6,854
Financial liabilities	81,810	26,967	19,940	20,269	2,834	4,465	156,285
Net liquidity gap – financial assets less financial liabilities	(63,364)	(9,354)	715	6,334	22,625	61,459	
2009							
Cash and placements with central banks	4,498	5,881	1,080	53	–	1,659	13,171
Placements with and loans to banks	4,952	2,413	3,780	4,272	47	2	15,466
Loans and bills receivable	5,739	6,094	6,409	9,452	17,751	35,444	80,889
Securities ⁽¹⁾	1,253	1,226	3,263	4,997	6,918	10,776	28,433
Other assets ⁽²⁾	896	779	1,476	2,880	670	187	6,888
Financial assets	17,338	16,393	16,008	21,654	25,386	48,068	144,847
Deposits of non-bank customers	55,119	19,044	10,687	13,843	1,577	363	100,633
Deposits and balances of banks	4,262	3,458	2,484	589	165	–	10,958
Trading portfolio liabilities	#	46	–	–	1,572	398	2,016
Other liabilities ⁽²⁾	1,426	1,221	1,553	2,237	371	444	7,252
Debts issued	73	608	382	19	2,974	2,807	6,863
Financial liabilities	60,880	24,377	15,106	16,688	6,659	4,012	127,722
Net liquidity gap – financial assets less financial liabilities	(43,542)	(7,984)	902	4,966	18,727	44,056	

⁽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.

⁽³⁾ # represents amounts less than \$0.5 million.

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
2010							
Deposits of non-bank customers ⁽¹⁾	71,046	20,997	15,808	14,082	1,136	629	123,698
Deposits and balances of banks ⁽¹⁾	9,176	4,577	2,037	586	157	–	16,533
Trading portfolio liabilities	–	–	127	777	793	37	1,734
Other liabilities ⁽²⁾	1,242	525	260	402	257	199	2,885
Debts issued	14	117	469	2,774	585	4,482	8,441
Net settled derivatives							
Trading	398	124	328	862	1,142	347	3,201
Hedging	#	1	3	6	11	60	81
Gross settled derivatives							
Trading – Outflow	22,839	25,459	25,136	27,295	3,332	1,871	105,932
Trading – Inflow	(21,622)	(26,661)	(24,461)	(28,235)	(3,289)	(1,854)	(106,122)
Hedging – Outflow	–	–	1,223	614	–	–	1,837
Hedging – Inflow	–	–	(1,328)	(705)	–	–	(2,033)
	83,093	25,139	19,602	18,458	4,124	5,771	156,187
2009							
Deposits of non-bank customers ⁽¹⁾	55,131	19,091	10,736	13,995	1,601	380	100,934
Deposits and balances of banks ⁽¹⁾	4,264	3,460	2,486	591	169	–	10,970
Trading portfolio liabilities	–	46	#	–	1,572	398	2,016
Other liabilities ⁽²⁾	1,286	526	293	291	215	277	2,888
Debts issued	74	610	488	250	3,237	3,775	8,434
Net settled derivatives							
Trading	361	95	301	883	893	247	2,780
Hedging	#	3	(1)	6	21	38	67
Gross settled derivatives							
Trading – Outflow	16,993	21,997	26,600	24,330	3,041	1,339	94,300
Trading – Inflow	(17,047)	(22,033)	(26,794)	(24,442)	(3,063)	(1,330)	(94,709)
Hedging – Outflow	–	420	36	37	2,980	–	3,473
Hedging – Inflow	–	(419)	(20)	(73)	(2,637)	–	(3,149)
	61,062	23,796	14,125	15,868	8,029	5,124	128,004

⁽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 and joint ventures.

⁽³⁾ # represents amounts less than \$0.5 million.

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 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management

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

Governance framework

Managing risk is an integral part of GEH Group's core business, and it shall always operate within the risk appetite set by the GEH Board, and ensure reward commensurate for any risk taken.

GEH Group's Risk Management department spearheads the development and implementation of the ERM Framework for the Group.

The Risk and Investment Committee ("RIC") is constituted to provide oversight on the risk management initiatives. At GEH group level, detailed risk management and oversight activities are undertaken by the following group management committees comprising the Group Chief Executive Officer and key Senior Management Executives, namely: Group Management Team ("GMT"), Group Asset-Liability Committee ("Group ALC") and Group Information Technology Steering Committee ("Group ITSC").

GMT is responsible for providing leadership, direction and oversight with regards to all matters of GEH Group. The GMT is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework, i.e. Group standards and guidelines. The GMT is supported by the local Senior Management Team ("SMT") and Product Development Committee ("PDC").

Group ALC is responsible for assisting GMT in balance sheet management. Specifically, Group ALC reviews and formulates technical frameworks, policies and methodology relating to balance sheet management. Group ALC is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework, i.e. Group standards and guidelines. Group ALC is supported by the local Asset-Liability Committee ("ALC").

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.

Capital management

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

Regulatory capital

The insurance subsidiaries of GEH Group are required to comply with capital ratios prescribed by the insurance regulations of the jurisdiction in which the subsidiaries operate.

In Singapore, the minimum Capital Adequacy Ratio under the Risk-based Capital Framework regulated by the Monetary Authority of Singapore is 120% for each insurance entity. The capital requirements also include Fund Solvency Ratios of the respective insurance funds operated by GEH Group. Regulatory capital of the consolidated Singapore insurance subsidiaries as at 31 December 2010 comprised Available Capital of \$7.1 billion (2009: \$7.0 billion), Risk Capital of \$3.3 billion (2009: \$3.0 billion) and Capital Adequacy Ratio of 215% (2009: 235%).

Risk-based Capital Framework for the insurance industry in Malaysia came into effect on 1 January 2009. Under this new framework, insurance assets and liabilities are subject to mark-to-market rules. The minimum capital requirement under the Risk-based Capital Framework regulated by Bank Negara, Malaysia is 130% for each insurance entity. Regulated capital of the consolidated Malaysia insurance subsidiaries as at 31 December 2010 comprised Available Capital of \$0.6 billion (2009: \$0.7 billion), Risk Capital of \$0.2 billion (2009: \$0.2 billion) and Capital Adequacy Ratio of 277% (2009: 323%).

GEH Group has met all of its regulatory requirements throughout the financial year.

Dividend

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

GEH Group has had no significant changes in its policies and processes relating to its capital structure during the year.

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

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.

GEH Group's underwriting strategy is designed to ensure that these risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are also set in place to enforce appropriate risk selection criteria. For example, GEH Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims.

Risks inherent in GEH Group's activities include but are not limited to the risks discussed below.

Insurance risk

Insurance risks arise when GEH Group underwrites 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 risks include policy lapses and policy claims such as mortality, morbidity and expenses. These risks do not vary significantly in relation to the location of the risk insured by GEH Group, type of risk insured or by industry.

GEH Group utilises reinsurance to manage the mortality and morbidity risks. GEH Group's reinsurance management strategy and policy are reviewed annually by RIC and Group ALC. 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. GEH 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 GEH Group's risk. Risk to any one reinsurer is limited by ceding different products to different reinsurers or to a panel of reinsurers.

Group ALC 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 non-participating funds, the risk is that the guaranteed policy benefits must be met even when investment markets perform poorly, or claims experience is higher than expected. For investment-linked funds, the risk exposure for GEH 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

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Insurance risk (continued)

Table 39.5(A): Concentration of life insurance risk, net of reinsurance

Insurance liabilities (\$ million)	2010	2009
(a) By class of business		
Whole life	20,170	17,695
Endowment	15,486	14,973
Term	344	338
Accident and health	766	613
Annuity	624	634
Others	544	305
Total	37,934	34,558
(b) By country		
Singapore	24,451	22,976
Malaysia	13,221	11,385
Others	262	197
Total	37,934	34,558

The sensitivity analyses below shows the impact of change in key parameters on the value of policy liabilities, and hence on the income statements and shareholders' equity. 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 Rates	+ 25% for all future years
(f) Scenario 6 – Lapse and Surrender Rates	– 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
2010							
Gross impact	(33.6)	(7.5)	47.9	(85.0)	37.4	(45.3)	(19.6)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(33.6)	(7.5)	47.9	(85.0)	37.4	(45.3)	(19.6)
2009 ⁽¹⁾							
Gross impact	(28.9)	(18.0)	76.4	(88.7)	30.8	(40.4)	(15.7)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(28.9)	(18.0)	76.4	(88.7)	30.8	(40.4)	(15.7)

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

39. FINANCIAL RISK MANAGEMENT (continued)**39.5 Insurance-related risk management** (continued)**Insurance risk** (continued)**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
2010							
Gross impact	(51.0)	55.4	(11.8)	10.0	(3.6)	4.7	(6.2)
Reinsurance ceded	—	—	—	—	—	—	—
Net impact	(51.0)	55.4	(11.8)	10.0	(3.6)	4.7	(6.2)
2009							
Gross impact	(50.4)	55.3	(9.2)	9.2	(3.7)	4.8	(6.0)
Reinsurance ceded	—	—	—	—	—	—	—
Net impact	(50.4)	55.3	(9.2)	9.2	(3.7)	4.8	(6.0)

The above tables demonstrate the sensitivity of GEH Group's profit and loss after tax to a reasonably possible change in actuarial valuation assumptions on an individual basis with all other variables held constant.

The effect of sensitivity analyses on reinsurance ceded for Singapore and Malaysia segments are not material.

The method used and significant assumptions made for deriving sensitivity information above did not change from the previous year.

Insurance risk of non-life insurance contracts

Risks under non-life insurance policies usually cover a twelve-month duration. The risk inherent in non-life insurance contracts is reflected in the insurance contract liabilities which include the premium and claims 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.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Insurance risk (continued)

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

Non-life insurance contracts \$ million	2010			2009		
	Gross premium liabilities	Reinsured premium liabilities	Net premium liabilities	Gross premium liabilities	Reinsured premium liabilities	Net premium liabilities
(a) By class of business						
Fire	21	(15)	6	17	(11)	6
Motor	28	(4)	24	24	(3)	21
Marine and aviation	2	(1)	1	1	(1)	#
Workmen's compensation	4	(2)	2	4	(1)	3
Personal accident and health	23	(1)	22	22	(1)	21
Miscellaneous	19	(13)	6	11	(6)	5
Total	97	(36)	61	79	(23)	56
(b) By country						
Singapore	47	(17)	30	41	(12)	29
Malaysia	50	(19)	31	38	(11)	27
Total	97	(36)	61	79	(23)	56

Non-life insurance contracts \$ million	2010			2009		
	Gross claims liabilities	Reinsured claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsured claims liabilities	Net claims liabilities
(a) By class of business						
Fire	23	(19)	4	26	(22)	4
Motor	43	(7)	36	36	(8)	28
Marine and aviation	2	(1)	1	2	(1)	1
Workmen's compensation	7	(1)	6	7	(1)	6
Personal accident and health	8	(1)	7	7	(1)	6
Miscellaneous	23	(10)	13	14	(10)	4
Total	106	(39)	67	92	(43)	49
(b) By country						
Singapore	41	(17)	24	28	(17)	11
Malaysia	65	(22)	43	64	(26)	38
Total	106	(39)	67	92	(43)	49

⁽¹⁾ # represents amounts less than \$0.5 million.

39. FINANCIAL RISK MANAGEMENT (continued)**39.5 Insurance-related risk management** (continued)**Insurance risk** (continued)**Table 39.5(C2): Cumulative claims estimates and cumulative payments to-date**

The tables below show the cumulative claims estimates, including both claims notified and IBNR for each successive accident year, at each balance sheet date, together with cumulative payments to date.

(i) Gross non-life insurance contract liabilities for 2010 (excluding provision for liability adequacy)

\$ million	Before								Total
	2004	2004	2005	2006	2007	2008	2009	2010	
(a) Estimate of cumulative claims									
Accident Year	216	63	61	51	63	59	77	76	
One year later	201	60	67	53	66	60	83	–	
Two years later	198	62	65	52	61	60	–	–	
Three years later	202	62	64	50	61	–	–	–	
Four years later	192	61	63	50	–	–	–	–	
Five years later	183	60	63	–	–	–	–	–	
Six years later	153	60	–	–	–	–	–	–	
Seven years later	198	–	–	–	–	–	–	–	
Current estimate of cumulative claims	198	60	63	50	61	60	83	76	
(b) Cumulative payments									
Accident Year	162	19	22	20	23	24	33	32	
One year later	182	42	51	39	45	47	59	–	
Two years later	185	54	55	44	50	52	–	–	
Three years later	193	56	56	46	52	–	–	–	
Four years later	185	57	58	46	–	–	–	–	
Five years later	177	57	58	–	–	–	–	–	
Six years later	150	58	–	–	–	–	–	–	
Seven years later	195	–	–	–	–	–	–	–	
Cumulative payments	195	58	58	46	52	52	59	32	
(c) Total non-life gross claim liabilities	3	2	5	4	9	8	24	44	99

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Insurance risk (continued)

(ii) Non-life insurance contract liabilities, net of reinsurance liabilities for 2010 (excluding provision for liability adequacy)

\$ million	Before								Total
	2004	2004	2005	2006	2007	2008	2009	2010	
(a) Estimate of cumulative claims									
Accident Year	169	28	27	30	33	37	45	60	
One year later	159	27	28	30	34	38	48	–	
Two years later	156	27	27	29	33	38	–	–	
Three years later	161	27	27	29	32	–	–	–	
Four years later	152	26	26	28	–	–	–	–	
Five years later	144	26	26	–	–	–	–	–	
Six years later	118	25	–	–	–	–	–	–	
Seven years later	157	–	–	–	–	–	–	–	
Current estimate of cumulative claims	157	25	26	28	32	38	48	60	
(b) Cumulative payments									
Accident Year	138	11	11	13	14	17	23	25	
One year later	147	20	21	23	26	30	37	–	
Two years later	148	22	23	25	28	33	–	–	
Three years later	154	24	24	26	29	–	–	–	
Four years later	148	24	24	26	–	–	–	–	
Five years later	140	25	25	–	–	–	–	–	
Six years later	116	24	–	–	–	–	–	–	
Seven years later	155	–	–	–	–	–	–	–	
Cumulative payments	155	24	25	26	29	33	37	25	
(c) Total non-life net claim liabilities	2	1	1	2	3	5	11	35	60

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.

Insurance risk of non-life insurance contracts is mitigated by emphasising diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of GEH Group. GEH Group further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

GEH Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, e.g. hurricanes, earthquakes and flood damages.

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

The sensitivity analysis below shows the impact of changes in key assumptions on gross and net liabilities, profit before tax and equity.

\$ million	Change in assumptions	Impact on			
		Gross liabilities	Net liabilities	Profit before tax	Equity
2010					
Provision for adverse deviation margin	+20%	3	2	2	2
Loss ratio	+20%	4	4	4	4
Claims handling expenses	+20%	#	#	#	#
2009					
Provision for adverse deviation margin	+20%	3	2	2	2
Loss ratio	+20%	5	6	6	6
Claims handling expenses	+20%	1	1	1	

(1) # represents amounts less than \$0.5 million.

The method used and significant assumptions made for deriving sensitivity information above did not change from the previous year.

Market and credit risk

Market risk arises when the market value of assets and liabilities do not move consistently as financial markets change. Changes 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.

GEH Group is exposed to market risk in the investments of the Shareholders' Fund as well as in the mismatch risk between the assets and liabilities of the Insurance Funds. As for the funds managed by its asset management subsidiary, Lion Global Investors Limited, investment risks are borne by investors and GEH Group does not assume any liability in the event of occurrence of loss or write-down in market valuation.

Group ALC and local ALCs actively manage market risks 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 GEH 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)

GEH 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 GEH 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.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(a) Interest rate risk (including asset liability mismatch) (continued)

In 2009, GEH Group commenced an exercise to achieve portfolio matching of the assets and liabilities of Great Eastern Life Non Participating fund's long dated liabilities. These long dated liabilities are discounted using the market yield of the Singapore Government Securities of a matching duration (and not the LTRFDR mentioned above). The long dated liabilities which do not fall within the matching program will still be subject to the LTRFDR requirement.

Under Malaysia regulations governed by Bank Negara Malaysia ("BNM"), the liability cash flows of all durations are discounted using weighted interest rates that reflect both past and current yield levels. The effect of changes in current interest rates on the value of liability reserves is therefore dampened compared to the corresponding impact on fixed income asset values. As a result, Malaysia non-participating funds could have negative earnings impact when actual interest rates rise.

(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.

GEH Group is also exposed to foreign exchange movement on net investment in its foreign subsidiaries. The major exposure for GEH Group is in respect of its Malaysia subsidiaries. The Insurance and Shareholders' Funds in Malaysia are predominantly held in Malaysian Ringgit, as prescribed by BNM. The following table shows the foreign exchange position of GEH Group by major currencies.

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

\$ million	SGD	MYR	USD	Others	Total
2010					
Available-for-sale securities					
Equity securities	2,731	3,867	1,246	2,211	10,055
Debt securities	8,789	12,548	4,082	427	25,846
Other investments	413	76	658	134	1,281
Securities at fair value through profit or loss					
Equity securities	311	724	188	976	2,199
Debt securities	36	261	250	144	691
Other investments	703	27	56	146	932
Derivative assets and embedded derivatives	1,079	7	57	69	1,212
Loans	1,311	269	–	–	1,580
Insurance receivables	929	1,568	1	21	2,519
Other debtors and interfund balances	1,308	463	3	15	1,789
Cash and cash equivalents	2,275	276	156	123	2,830
Financial assets	19,885	20,086	6,697	4,266	50,934
Other creditors and interfund balances	1,230	635	3	24	1,892
Insurance payables	875	1,482	5	11	2,373
Unexpired risk reserve	47	50	–	–	97
Derivative payables	15	–	6	5	26
Agents' retirement benefits	–	215	–	1	216
General insurance fund contract liabilities	41	65	–	–	106
Life assurance fund contract liabilities	24,358	13,221	112	243	37,934
Financial liabilities	26,566	15,668	126	284	42,644
2009					
Available-for-sale securities					
Equity securities	1,679	3,059	843	2,109	7,690
Debt securities	8,328	10,841	3,562	627	23,358
Other investments	363	10	808	156	1,337
Securities at fair value through profit or loss					
Equity securities	257	461	293	968	1,979
Debt securities	41	218	223	167	649
Other investments	515	14	48	90	667
Derivative assets and embedded derivatives	4,828	3	(3,325)	(304)	1,202
Loans	1,564	368	–	–	1,932
Insurance receivables	944	1,492	2	17	2,455
Other debtors and interfund balances	1,314	497	#	24	1,835
Cash and cash equivalents	2,089	958	74	95	3,216
Financial assets	21,922	17,921	2,528	3,949	46,320
Other creditors and interfund balances	1,218	638	–	10	1,866
Insurance payables	907	1,290	1	9	2,207
Unexpired risk reserve	40	39	–	–	79
Derivative payables	32	–	10	5	47
Agents' retirement benefits	1	191	–	–	192
General insurance fund contract liabilities	28	64	–	–	92
Life assurance fund contract liabilities	22,949	11,385	47	177	34,558
Financial liabilities	25,175	13,607	58	201	39,041

(1) # represents amounts less than \$0.5 million.

GEH Group has no significant concentration of foreign currency risk.

Notes to the Financial Statements

For the financial year ended 31 December 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(c) Equity price risk

Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where GEH 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. Limits are set for single security holdings as a percentage of equity holdings.

(d) Credit spread risk

Exposure to credit spread risk exists in GEH 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 GEH Group's bond portfolio.

(e) Alternative investment risk

GEH 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 are reviewed and approved by RIC and GEH Group ALC.

(f) Commodity risk

GEH 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 associated with financial instruments 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 GEH Group from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

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

The following tables show the expected recovery or settlement of financial assets and maturity profile of GEH Group's financial liabilities (contractual undiscounted cash flow basis):

\$ million	Less than 1 year	1 to 5 years	Over 5 years	No maturity date	Total
2010					
Available-for-sale securities					
Equity securities	–	–	–	10,055	10,055
Debt securities	3,466	9,759	28,683	–	41,908
Other investments	–	–	–	1,281	1,281
Securities at fair value through profit or loss					
Equity securities	–	–	–	2,199	2,199
Debt securities	85	285	683	–	1,053
Other investments	–	–	–	932	932
Embedded derivatives	58	446	185	–	689
Loans	324	1,139	297	–	1,760
Insurance receivables	197	1	–	2,321	2,519
Other debtors and interfund balances	1,613	176	–	–	1,789
Cash and cash equivalents	2,830	–	–	–	2,830
Financial assets	8,573	11,806	29,848	16,788	67,015
Other creditors and interfund balances	1,624	254	14	–	1,892
Insurance payables	2,319	48	2	4	2,373
Agents' retirement benefits	52	44	120	–	216
General insurance fund contract liabilities	60	45	1	–	106
Life assurance fund contract liabilities	6,215	7,500	24,110	109	37,934
Financial liabilities	10,270	7,891	24,247	113	42,521
2009 ⁽¹⁾					
Available-for-sale securities					
Equity securities	–	–	–	7,690	7,690
Debt securities	6,597	13,471	17,870	–	37,938
Other investments	–	–	–	1,337	1,337
Securities at fair value through profit or loss					
Equity securities	–	–	–	1,979	1,979
Debt securities	90	311	539	–	940
Other investments	–	–	–	667	667
Embedded derivatives	251	385	244	–	880
Loans	429	1,218	540	–	2,187
Insurance receivables	232	14	–	2,209	2,455
Other debtors and interfund balances	1,103	732	–	–	1,835
Cash and cash equivalents	3,216	–	–	–	3,216
Financial assets	11,918	16,131	19,193	13,882	61,124
Other creditors and interfund balances	881	6	979	–	1,866
Insurance payables	272	23	14	1,898	2,207
Agents' retirement benefits	43	43	106	–	192
General insurance fund contract liabilities	83	9	–	–	92
Life assurance fund contract liabilities	5,248	7,279	21,978	53	34,558
Financial liabilities	6,527	7,360	23,077	1,951	38,915

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

Notes to the Financial Statements

For the financial year ended 31 December 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(g) Cash flow and liquidity risk (continued)

The following tables show the current/non-current classification of assets and liabilities:

\$ million	Current*	Non-current	Unit-linked	Total
2010				
Cash and cash equivalents	2,568	–	262	2,830
Other debtors and interfund balances	1,624	93	72	1,789
Insurance receivables	1,725	794	–	2,519
Loans	312	1,268	–	1,580
Investments, including derivative instruments	3,364	35,021	3,831	42,216
Associates and joint ventures	–	337	–	337
Goodwill	–	19	–	19
Property, plant and equipment	–	728	–	728
Investment properties	–	1,355	–	1,355
Assets	9,593	39,615	4,165	53,373
Insurance payables	2,318	42	13	2,373
Other creditors and interfund balances	1,532	244	116	1,892
Unexpired risk reserve	97	–	–	97
Derivative payables	4	15	7	26
Income tax	391	–	(9)	382
Agents' retirement benefits	52	164	–	216
Deferred tax	–	940	10	950
General insurance fund contract liabilities	59	47	–	106
Life assurance fund contract liabilities	2,234	31,610	4,090	37,934
Liabilities	6,687	33,062	4,227	43,976
2009				
Cash and cash equivalents	2,986	–	230	3,216
Other debtors and interfund balances	1,124	691	20	1,835
Insurance receivables	1,608	847	–	2,455
Amount due from joint venture	6	–	–	6
Loans	406	1,526	–	1,932
Investments, including derivative instruments	11,307	22,266	3,309	36,882
Associates and joint ventures	–	324	–	324
Goodwill	–	19	–	19
Property, plant and equipment	–	743	–	743
Investment properties	–	1,119	–	1,119
Assets	17,437	27,535	3,559	48,531
Insurance payables	2,080	124	3	2,207
Other creditors and interfund balances	154	1,712	#	1,866
Unexpired risk reserve	79	–	–	79
Derivative payables	8	33	6	47
Income tax	313	–	(14)	299
Agents' retirement benefits	186	6	–	192
Deferred tax	–	763	3	766
General insurance fund contract liabilities	83	9	–	92
Life assurance fund contract liabilities	1,674	29,257	3,627	34,558
Liabilities	4,577	31,904	3,625	40,106

(1) * represents expected recovery or settlement within 12 months from the balance sheet date.

(2) # represents amounts less than \$0.5 million.

39. FINANCIAL RISK MANAGEMENT (continued)**39.5 Insurance-related risk management (continued)****Market and credit risk (continued)****(h) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. GEH Group is mainly 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 investment 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 ALCs. GEH 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. These 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.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year. Credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. GEH Group issues unit-linked investment policies. In the unit-linked business, the policyholder bears the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, GEH Group has no material credit risk on unit-linked financial assets.

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 depend 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. GEH management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. 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:

	2010		2009	
	Carrying amount of loans	Fair value of collaterals	Carrying amount of loans	Fair value of collaterals
\$ million				
Type of collaterals				
Policy loans – Cash value of policies	2,242	4,284	2,209	3,505
Secured loans				
Properties	1,507	3,868	1,863	4,156
Shares	51	108	43	89
Bankers' guarantees	18	18	23	23
Others	3	5	3	6
	3,821	8,283	4,141	7,779

Investments lent and collaterals received under securities lending arrangements amounted to \$41.8 million and \$43.2 million respectively as at 31 December 2010 (2009: \$43.4 million and \$45.1 million respectively). As at the balance sheet date, no investments (2009: nil) 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.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(h) Credit risk (continued)

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.

\$ million	Neither past due nor impaired			Unit linked/not subject to credit risk	Past due	Total
	Investment grade [®]	Non-investment grade [®]	Non-rated			
2010	(AAA–BBB)	(BB–C)				
Available-for-sale securities						
Equity securities	–	–	–	10,055	–	10,055
Debt securities	23,850	224	1,772	–	–	25,846
Other investments	–	–	–	1,281	–	1,281
Securities at fair value through profit or loss						
Equity securities	–	–	–	2,199	–	2,199
Debt securities	2	–	2	687	–	691
Other investments	–	–	–	932	–	932
Derivative assets and embedded derivatives	861	52	150	149	–	1,212
Loans	168	–	1,412	–	–	1,580
Insurance receivables	1	–	2,500	–	18	2,519
Other debtors and interfund balances	–	–	1,707	72	10	1,789
Cash and cash equivalents	2,391	–	177	262	–	2,830
Financial assets	27,273	276	7,720	15,637	28	50,934
2009						
Available-for-sale securities						
Equity securities	–	–	–	7,690	–	7,690
Debt securities	21,767	118	1,473	–	–	23,358
Other investments	–	–	–	1,337	–	1,337
Securities at fair value through profit or loss						
Equity securities	–	–	1	1,978	–	1,979
Debt securities	5	–	2	642	–	649
Other investments	–	–	53	614	–	667
Derivative assets and embedded derivatives	349	#	268	585	–	1,202
Loans	–	–	1,932	–	–	1,932
Insurance receivables	–	–	2,409	–	46	2,455
Other debtors and interfund balances	–	–	1,608	20	207	1,835
Cash and cash equivalents	2,970	–	16	230	–	3,216
Financial assets	25,091	118	7,762	13,096	253	46,320

(1) [®] based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

(2) # represents amounts less than \$0.5 million.

39. FINANCIAL RISK MANAGEMENT (continued)**39.5 Insurance-related risk management (continued)****Market and credit risk (continued)****(h) Credit risk (continued)**

Ageing analysis of financial assets past due:

\$ million	Past due but not impaired			Sub-total	Past due and impaired [®]	Total
	Less than 6 months	6 to 12 months	Over 12 months			
2010						
Insurance receivables	17	1	–	18	#	18
Other debtors and interfund balances	8	1	1	10	–	10
Total	25	2	1	28	#	28
2009						
Insurance receivables	17	#	29	46	#	46
Other debtors and interfund balances	204	3	#	207	–	207
Total	221	3	29	253	#	253

⁽¹⁾ # represents amounts less than \$0.5 million.⁽²⁾ ® for assets to be classified as “past due and impaired”, contractual payments must be in arrears for more than 90 days.**(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. GEH Group actively manages its product mix to ensure that there is no significant concentration of credit risk.

(j) Sensitivity analysis on financial risks

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 have 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 year. 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.

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39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(j) Sensitivity analysis on financial risks (continued)

Market risk sensitivity analysis \$ million	Impact on profit after tax		Impact on equity	
	2010	2009	2010	2009
Change in variables:				
Interest rate				
+100 basis points	(119.9)	(122.8)	(172.9)	(145.7)
-100 basis points	39.4	56.6	84.1	73.9
LTRFDR				
+10 basis points	11.5	14.0	11.5	14.0
-10 basis points	(11.5)	(14.0)	(11.5)	(14.0)
Foreign currency				
Market value of assets in foreign currency +5%	24.4	13.6	47.9	23.1
Market value of assets in foreign currency -5%	(24.4)	(13.6)	(47.9)	(23.1)
Equity				
Market value of all equities +20%	42.4	24.7	241.7	135.4
Market value of all equities -20%	(42.4)	(24.7)	(241.7)	(135.4)
Credit				
Spread +100 basis points	(178.3)	(139.9)	(202.9)	(157.4)
Spread -100 basis points	178.3	139.9	202.9	157.4
Alternative investments ⁽¹⁾				
Market value of all alternative investments +10%	17.2	16.6	22.5	21.9
Market value of all alternative investments -10%	(17.2)	(16.6)	(22.5)	(21.9)

⁽¹⁾ Alternative investments comprise investments in real estate, private equity, infrastructure and hedge funds.

The method for deriving sensitivity information and significant variables did not change from the previous year.

40. FAIR VALUES OF FINANCIAL INSTRUMENTS

40.1 Fair values

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. For financial assets and liabilities not carried at fair value on the financial statements, the Group has determined that their fair values were not materially different from the carrying amounts at the reporting date. The carrying amounts and fair values of financial instruments of the Group are described below.

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 and debt and equity securities 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.

40. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**40.1 Fair values (continued)****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.

40.2 Fair value hierarchy

The Group determines the fair values of its financial assets and liabilities using various measurements. The different levels of fair value measurements are as follows:

- Level 1 – quoted prices (unadjusted) for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable market data either directly (i.e. as prices) or indirectly (i.e. derived from observable market data); and
- Level 3 – inputs for the valuation that are not based on observable market data.

The following table summarises the Group's financial assets and liabilities recorded at fair value by level of the fair value hierarchies:

\$ million	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
CDs purchased	–	3,233	–	3,233	–	4,371	–	4,371
Debt and equity securities	3,099	10,081	387	13,567	2,640	8,167	325	11,132
Derivative receivables	22	4,713	102	4,837	25	3,837	111	3,973
Government treasury bills and securities	16,316	785	–	17,101	15,366	1,121	–	16,487
LAF investment assets ⁽¹⁾	19,144	20,103	–	39,247	16,478	18,043	–	34,521
Other financial assets	74	739	1	814	267	187	19	473
Total	38,655	39,654	490	78,799	34,776	35,726	455	70,957
Liabilities measured at fair value								
Derivative payables	23	4,448	92	4,563	18	3,747	153	3,918
Trading portfolio liabilities	1,734	–	–	1,734	2,015	1	–	2,016
Other financial liabilities	–	5,463	–	5,463	–	5,026	–	5,026
Total	1,757	9,911	92	11,760	2,033	8,774	153	10,960

⁽¹⁾ "LAF" refers to Life Assurance Fund.

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40. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

40.2 Fair value hierarchy (continued)

Movements in the Group's Level 3 financial assets and liabilities are as follows:

\$ million	2010				2009			
	Available-for-sale assets	Assets held for trading	Derivative receivables	Total	Available-for-sale assets	Assets held for trading	Derivative receivables	Total
Assets measured at fair value								
At 1 January	325	19	111	455	404	203	148	755
Purchases	116	–	11	127	62	–	15	77
Settlements/disposals	(75)	(17)	#	(92)	(175)	(200)	–	(375)
Transfers out of Level 3	(8) ⁽¹⁾	–	(32) ⁽²⁾	(40)	(17)	–	–	(17)
Gains/(losses) recognised in								
- profit or loss	30	1	12	43	97	(2)	(52)	43
- other comprehensive income	(1)	(2)	#	(3)	(46)	18	(#)	(28)
At 31 December	387	1	102	490	325	19	111	455
Total gains/(losses) included in profit or loss for assets held at the end of the year	26	2	48	76	104	1	27	132

Gains/(losses) included in profit or loss are presented in the income statement as follows:

\$ million	2010				2009			
	Net interest income	Trading income	Other income	Total	Net interest income	Trading income	Other income	Total
Total gains/(losses) included in profit or loss for the year ended	(2)	12	33	43	2	(61)	102	43
Total gains/(losses) included in profit or loss for assets held at the end of the year	–	50	26	76	–	28	104	132

⁽¹⁾ Relates to transfers to Level 1 for unquoted debt securities converted to quoted equity securities.

⁽²⁾ Relates to transfers to Level 2 for interest rate derivatives due to availability of in-house pricing model with significant market observable inputs.

⁽³⁾ # represents amounts less than \$0.5 million.

40. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**40.2 Fair value hierarchy (continued)**

\$ million	2010		2009	
	Derivative payables	Total	Derivative payables	Total
Liabilities measured at fair value				
At 1 January	153	153	237	237
Issues	30	30	35	35
Settlements/disposals	(26)	(26)	–	–
Transfers out of Level 3	(25) ⁽¹⁾	(25)	–	–
(Gains)/losses recognised in				
- profit or loss	(37)	(37)	(118)	(118)
- other comprehensive income	(3)	(3)	(1)	(1)
At 31 December	92	92	153	153
Total gains/(losses) included in profit or loss for liabilities held at the end of the year	16	16	35	35

Gains/(losses) included in profit or loss are presented in the income statement as follows:

\$ million	Trading income		Trading income	
	income	Total	income	Total
Total gains/(losses) included in profit or loss for the year ended	37	37	118	118
Total gains/(losses) included in profit or loss for liabilities held at the end of the year	16	16	35	35

⁽¹⁾ Relates to transfers to Level 2 for interest rate derivatives due to availability of in-house pricing model with significant market observable inputs.

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. 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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Guarantees and standby letters of credit:				
Term to maturity of one year or less	3,590,253	3,339,108	2,994,756	3,405,231
Term to maturity of more than one year	2,700,481	2,491,301	2,620,649	2,090,373
	6,290,734	5,830,409	5,615,405	5,495,604
Acceptances and endorsements	613,800	349,865	172,699	223,996
Documentary credits and other short term trade-related transactions	1,440,679	1,022,010	1,047,224	738,890
Others	168,197	111,495	–	–
	8,513,410	7,313,779	6,835,328	6,458,490

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41. CONTINGENT LIABILITIES (continued)

	GROUP		BANK	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
41.1 Analysed by industry				
Agriculture, mining and quarrying	178,182	48,297	6,706	62,377
Manufacturing	1,312,676	1,642,199	1,015,067	1,277,677
Building and construction	1,572,053	1,523,120	1,098,861	1,160,331
General commerce	2,381,917	1,514,031	1,723,021	1,279,712
Transport, storage and communication	576,553	336,472	531,037	274,665
Financial institutions, investment and holding companies	1,079,824	976,218	1,353,713	1,093,792
Professionals and individuals	237,197	143,320	81,600	91,815
Others	1,175,008	1,130,122	1,025,323	1,218,121
	8,513,410	7,313,779	6,835,328	6,458,490

41.2 Analysed by geography

Singapore	5,450,559	5,007,544	5,482,467	5,150,988
Malaysia	1,301,831	973,650	600,168	632,285
Other ASEAN	673,689	647,036	51,225	59,400
Greater China	911,133	335,454	501,585	265,722
Other Asia Pacific	81,615	121,524	105,299	121,524
Rest of the World	94,583	228,571	94,584	228,571
	8,513,410	7,313,779	6,835,328	6,458,490

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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
42.1 Credit commitments				
Undrawn credit facilities:				
Term to maturity of one year or less	41,818,564	29,988,824	28,963,549	23,885,129
Term to maturity of more than one year	12,866,744	12,566,092	10,934,717	10,579,441
	54,685,308	42,554,916	39,898,266	34,464,570
Undrawn note issuance and revolving underwriting facilities	64,150	29,030	–	–
	54,749,458	42,583,946	39,898,266	34,464,570
42.2 Other commitments				
Operating lease (non-cancellable) commitments:				
Within 1 year	38,307	27,017	13,931	12,951
After 1 year but within 5 years	63,414	32,287	21,985	20,299
Over 5 years	4,372	2,560	1,489	2,465
	106,093	61,864	37,405	35,715
Capital commitment authorised and contracted	77,694	70,843	52,648	45,266
Forward deposits and assets purchase ⁽¹⁾	139,440	126,301	154,283	107,230
	323,227	259,008	244,336	188,211
42.3 Total commitments	55,072,685	42,842,954	40,142,602	34,652,781

⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

42. COMMITMENTS (continued)

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
42.4 Credit commitments analysed by industry				
Agriculture, mining and quarrying	807,464	609,108	413,369	357,346
Manufacturing	4,270,266	3,809,559	2,278,921	2,229,011
Building and construction	4,250,177	4,268,718	2,916,466	3,069,930
General commerce	7,183,980	5,543,581	5,743,120	4,144,054
Transport, storage and communication	3,333,523	3,368,352	3,185,596	3,128,796
Financial institutions, investment and holding companies	6,703,227	6,226,394	7,077,193	6,237,469
Professionals and individuals	22,927,368	13,586,083	15,300,268	12,871,327
Others	5,273,453	5,172,151	2,983,333	2,426,637
	54,749,458	42,583,946	39,898,266	34,464,570

42.5 Credit commitments analysed by geography

Singapore	42,115,455	32,085,702	35,040,589	31,536,390
Malaysia	5,931,435	6,430,556	261,933	382,337
Other ASEAN	1,765,361	1,374,920	321,292	242,752
Greater China	3,527,224	935,895	2,857,436	544,217
Other Asia Pacific	935,512	1,189,860	942,545	1,191,861
Rest of the World	474,471	567,013	474,471	567,013
	54,749,458	42,583,946	39,898,266	34,464,570

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

43. ASSETS PLEDGED

	GROUP		BANK	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government treasury bills and securities (Note 24)				
Singapore	–	260,367	–	260,367
Others	74,398	6,498	74,398	6,498
Placements with and loans to banks (Note 25)	218,069	–	218,069	–
Loans and bills receivable (Note 26)	37,566	12,266	–	–
Debt securities (Note 30)	415,704	–	415,704	–
	745,737	279,131	708,171	266,865
Repo balances for assets pledged	654,439	273,320	616,872	261,054

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 \$947.5 million (2009: \$1,049.4 million), of which \$31.1 million (2009: \$280.7 million) have been sold or re-pledged. 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.

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 period.

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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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Within 1 year	48,077	40,792	18,654	15,410
After 1 year but within 5 years	74,985	38,563	21,289	4,913
Over 5 years	5,918	7,749	–	–
	128,980	87,104	39,943	20,323

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 2010	5	2	2	#
	Net increase/(decrease)	(3)	(1)	10	(#)
	At 31 December 2010	2	1	12	#
(b)	Deposits, borrowings and other payables				
	At 1 January 2010	119	202	30	462
	Net increase/(decrease)	20	(54)	(4)	42
	At 31 December 2010	139	148	26	504
(c)	Off-balance sheet credit facilities ⁽¹⁾				
	At 1 January 2010	–	45	–	–
	Net decrease	–	(45)	–	–
	At 31 December 2010	–	–	–	–
(d)	Income statement transactions				
	Year ended 31 December 2010:				
	Interest income	–	#	#	#
	Interest expense	1	1	#	7
	Rental income	#	4	–	1
	Fee and commission and other income	#	1	1	61
	Rental and other expenses	4	#	#	3
	Year ended 31 December 2009:				
	Interest income	–	#	#	#
	Interest expense	1	2	#	9
	Rental income	#	4	–	#
	Fee and commission and other income	#	1	#	41
	Rental and other expenses	3	#	#	3

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

⁽²⁾ # represents amounts less than \$0.5 million.

46. RELATED PARTY TRANSACTIONS (continued)

BANK (\$ million)	Subsidiaries	Associates	Directors	Key management	Life assurance fund
(a) Loans, placements and other receivables					
At 1 January 2010	4,266	–	2	2	–
Net increase/(decrease)	(168)	–	(1)	2	–
At 31 December 2010	4,098	–	1	4	–
(b) Deposits, borrowings and other payables					
At 1 January 2010	3,269	118	187	29	333
Net (decrease)/increase	3,255	–	(72)	(5)	2
At 31 December 2010	6,524	118	115	24	335
(c) Off-balance sheet credit facilities ⁽¹⁾					
At 1 January 2010	780	–	45	–	–
Net (decrease)/increase	45	–	(45)	–	–
At 31 December 2010	825	–	–	–	–
(d) Income statement transactions					
Year ended 31 December 2010:					
Interest income	50	–	#	#	#
Interest expense	114	#	#	#	1
Rental income	4	–	–	–	–
Fee and commission and other income	12	–	#	#	46
Rental and other expenses	220	4	#	#	#
Year ended 31 December 2009:					
Interest income	46	–	#	#	#
Interest expense	104	1	1	#	1
Rental income	4	–	–	–	–
Fee and commission and other income	4	–	#	#	29
Rental and other expenses	184	3	#	#	#

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

⁽²⁾ # represents amounts less than \$0.5 million.

46.2 Key management personnel compensation

	BANK	
	2010	2009
	\$ million	\$ million
Key management personnel compensation is as follows:		
Short-term employee benefits	34	32
Share-based benefits	12	11
	46	43

Certain performance-related payments to key management personnel of the Bank in relation to the performance year 2010 included in the above table are subject to the approval of the Remuneration Committee.

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47. SUBSEQUENT EVENT

47.1 Merger of PT Bank OCBC Indonesia and PT Bank OCBC NISP TBK

On 1 January 2011, OCBC Bank has completed the merger of its two licensed bank subsidiaries in Indonesia, PT Bank OCBC Indonesia ("BOI") and PT Bank OCBC NISP TBK ("OCBC NISP"). From this date, both subsidiaries have been combined and are operating as a merged bank named PT Bank OCBC NISP TBK ("OCBC NISP").

As a result of the merger, OCBC Bank has received 1,215,094,637 new OCBC NISP shares. In addition, OCBC Bank purchased 12,273,683 new OCBC NISP shares issued to OCBC NISP itself as a result of the exchange of its 1% shareholding in BOI, at a consideration of approximately IDR18,460 million (\$2.6 million). OCBC Bank's direct and indirect shareholding in OCBC NISP has increased to 85.06%.

As OCBC Bank was the ultimate holding company of BOI and OCBC NISP immediately before and immediately after the merger, the merger has been accounted for as a common control transaction.

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 2011:

- | | |
|-----------------------------|--|
| • FRS 24 (Revised) | <i>Related Party Disclosures</i> |
| • INT FRS 114 (Amendments) | <i>Prepayment of a Minimum Funding Requirement</i> |
| • INT FRS 119 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> |
| • Improvements to FRSs 2010 | |

The revised FRS 24 requires disclosure of transactions in all direct relationships involving control, joint control or significant influence and excludes the need to disclose transactions between two entities in which a person has significant influence over one entity, and a close family member of that person has significant influence over the other entity.

The initial application of the above standards (including their consequential amendments) and interpretations are not expected to have any material impact on the Group's financial statements.