

Financial Report

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Management Discussion and Analysis

OVERVIEW

	2012	2011	+ / (-) %
Selected Income Statement Items (\$ million)			
Net interest income	3,748	3,410	10
Non-interest income	2,897	2,212	31
Total core income	6,645	5,622	18
Operating expenses	(2,695)	(2,430)	11
Operating profit before allowances and amortisation	3,950	3,192	24
Amortisation of intangible assets	(60)	(61)	(2)
Allowances for loans and impairment of other assets	(271)	(221)	23
Operating profit after allowances and amortisation	3,619	2,910	24
Share of results of associates and joint ventures	27	7	271
Profit before income tax	3,646	2,917	25
Core net profit attributable to shareholders	2,825	2,280	24
Divestment gain, net of tax	1,168	32	nm
Reported net profit attributable to shareholders	3,993	2,312	73
Cash basis net profit attributable to shareholders⁽¹⁾	4,053	2,373	71
Selected Balance Sheet Items (\$ million)			
Ordinary equity	22,909	20,675	11
Total equity (excluding non-controlling interests)	25,804	22,571	14
Total assets	295,943	277,758	7
Assets excluding life assurance fund investment assets	243,672	228,670	7
Loans and bills receivable (net of allowances)	142,376	133,557	7
Deposits of non-bank customers	165,139	154,555	7
Per Ordinary Share			
Basic earnings (cents) ⁽²⁾	79.1	64.8	
Basic earnings – Cash basis (cents) ⁽²⁾	80.8	66.7	
Diluted earnings (cents) ⁽²⁾	78.9	64.7	
Net asset value – Before valuation surplus (\$)	6.68	6.02	
Net asset value – After valuation surplus (\$)	7.95	7.04	
Key Financial Ratios (%)			
Return on equity ⁽²⁾⁽³⁾	12.5	11.1	
Return on equity – Cash basis ⁽²⁾⁽³⁾	12.8	11.4	
Return on assets ⁽⁴⁾	1.19	1.09	
Return on assets – Cash basis ⁽⁴⁾	1.22	1.12	
Net interest margin	1.77	1.86	
Non-interest income to total income	43.6	39.3	
Cost to income	40.6	43.2	
Loans to deposits	86.2	86.4	
NPL ratio	0.8	0.9	
Total capital adequacy ratio	18.5	15.7	
Tier 1 ratio	16.6	14.4	

⁽¹⁾ Excludes amortisation of intangible assets.

⁽²⁾ Calculated based on core net profit less preference share dividends.

⁽³⁾ Preference equity and non-controlling interests are not included in the computation for return on equity.

⁽⁴⁾ Computation of return on assets excludes life assurance fund investment assets.

Amounts less than \$50.5 million are shown as “0”.

“nm” denotes not meaningful.

Group net profit increased 73% to S\$3.99 billion for the financial year ended 31 December 2012. Core net profit after tax, which excludes gains from the divestment of non-core assets, grew 24% to a record S\$2.83 billion, as compared to S\$2.28 billion a year ago. The results were driven by a combination of record net interest income, fee income and net trading income as well as significantly higher contributions from Great Eastern Holdings (“GEH”).

Net interest income grew to a record S\$3.75 billion, a 10% increase from S\$3.41 billion in 2011, driven by strong asset growth which more than offset a reduction in net interest margin. Average balances of non-bank customer loans grew 15%, across various industry sectors in Singapore and key overseas markets. Net interest margin, however, narrowed 9 basis points to 1.77%, due to the continued low interest rate environment, limited gapping opportunities and the re-pricing of mortgage loans in response to market competition. The ratio of current and savings deposits to total non-bank deposits increased further to 50.6%, up from 46.4% a year ago, while our loans-to-deposits ratio was maintained at 86.2%, a level comparable to a year ago. Non-interest income, excluding divestment gains, was 31% higher at S\$2.90 billion as compared to S\$2.21 billion a year ago. Fee and commission income reached a new high of S\$1.20 billion, driven by the sustained growth of the Group’s wealth management franchise, including Bank of Singapore, and supported by higher loan-related and trade-related fees. Net trading income increased to S\$515 million from S\$217 million in the previous year, largely from securities and derivatives trading. Life assurance profit from Great Eastern Holdings increased 81% to S\$692 million, from S\$383 million in 2011, led by continued underwriting income growth and improved investment performance. The Group’s divestment gains of S\$1.32 billion (S\$1.17 billion post-tax) during the year were largely attributable to the sale of its stakes in Fraser and Neave, Limited (“F&N”) and Asia Pacific Breweries Limited (“APB”) in August 2012.

Compared with total core income, which grew 18% to S\$6.65 billion, operating expenses rose 11% to S\$2.70 billion, from S\$2.43 billion a year ago. This generated a 24% increase in operating profit, to S\$3.95 billion for the year. Staff costs grew 14% to S\$1.65 billion, from S\$1.45 billion in 2011, largely from headcount growth of 8% to support the Group’s expansion in Singapore and overseas markets. The increase in staff costs was also attributable to salary increments, higher incentive compensation and sales commissions associated with stronger business volumes. The cost-to-income ratio of 40.6% improved from 43.2% in the previous year. Net allowances of S\$271 million were 23% higher as compared to S\$221 million in 2011, while the non-performing loans (“NPL”) ratio improved to 0.8%, from 0.9% a year ago.

Return on equity, based on core earnings, of 12.5% was higher as compared to 11.1% in 2011. Core earnings per share rose 22% to 79.1 cents, from 64.8 cents a year ago.

GEH reported a net profit after tax for the year of S\$1.19 billion, which included divestment gains of S\$422 million from the sale of its stakes in F&N and APB. Excluding the divestment gains, net profit reached a record of S\$768 million for the year, as compared to S\$386 million in 2011. This was underpinned by double-digit growth in underwriting profit, increased net investment income and higher mark-to-market gains. GEH’s underlying insurance business continued to register sound growth, with new business weighted premiums increasing 5%, driven by increased demand for regular premium products. In particular, the Group’s bancassurance channel reported strong growth across our key markets, reflecting the increased collaboration efforts within the Group. GEH’s contribution to the Group’s core net profit after tax, excluding divestment gains and after deducting amortisation of intangible assets and non-controlling interests, increased 109% to S\$622 million, from S\$297 million the previous year, contributing 22% of the Group’s core earnings in 2012.

OCBC Bank (Malaysia) Berhad reported a 4% increase in full year net profit to MYR811 million (S\$328 million). Broad-based revenue growth was driven by a 2% rise in net interest income, healthy Islamic Financing income growth of 34% and an increase in non-interest income of 12%. Expenses increased 14% as compared to the previous year, and net allowances fell 13%. Loans grew 12%, while the NPL ratio improved to 2.1%, from 2.6% a year ago.

Bank OCBC NISP’s net profit rose 22% to IDR915 billion (S\$122 million) from IDR753 billion (S\$108 million) a year ago. Net interest income increased 14% from 2011, underpinned by broad-based loan growth of 28%, and non-interest income was 28% higher. Expenses grew 14% for the year; while net allowances increased 17%. Asset quality remained healthy, with the NPL ratio improving to 0.9% from 1.3% a year ago, while the coverage ratio was in excess of 200%.

The Board has proposed a final tax-exempt dividend of 17 cents per share, bringing the 2012 total dividend to 33 cents per share, an increase from 30 cents in 2011. The estimated total net dividend of S\$1.13 billion for 2012 represents 40% of the Group’s core net profit after tax of S\$2.83 billion.

Management Discussion and Analysis

NET INTEREST INCOME

Average Balance Sheet

	2012			2011		
	Average Balance S\$ million	Interest S\$ million	Average Rate %	Average Balance S\$ million	Interest S\$ million	Average Rate %
Interest earning assets						
Loans and advances to non-bank customers	136,137	4,173	3.07	118,744	3,675	3.10
Placements with and loans to banks	41,890	962	2.30	34,207	850	2.48
Other interest earning assets	33,716	833	2.47	29,979	795	2.65
Total	211,743	5,968	2.82	182,930	5,320	2.91
Interest bearing liabilities						
Deposits of non-bank customers	158,564	1,715	1.08	136,485	1,444	1.06
Deposits and balances of banks	21,346	189	0.88	22,365	187	0.83
Other borrowings	17,134	316	1.84	11,262	279	2.48
Total	197,044	2,220	1.13	170,112	1,910	1.12
Net interest income/margin		3,748	1.77		3,410	1.86

Net interest income increased 10% to S\$3.75 billion, from S\$3.41 billion in 2011, led by a 16% increase in interest earning assets, which more than offset a decline in net interest margin of 9 basis points to 1.77%, from 1.86% a year ago. The margin compression was largely attributable to the continued low interest rate environment, limited gapping opportunities and the re-pricing of mortgage loans in response to market competition.

Volume and Rate Analysis

Increase/(decrease) for 2012 over 2011	Volume S\$ million	Rate S\$ million	Net change S\$ million
Interest income			
Loans and advances to non-bank customers	540	(52)	488
Placements with and loans to banks	192	(82)	110
Other interest earning assets	99	(64)	35
Total	831	(198)	633
Interest expense			
Deposits of non-bank customers	234	34	268
Deposits and balances of banks	(8)	10	2
Other borrowings	146	(111)	35
Total	372	(67)	305
Impact on net interest income	459	(131)	328
Due to change in number of days			10
Net interest income			338

NON-INTEREST INCOME

	2012 S\$ million	2011 S\$ million	+/(-) %
Fees and commissions			
Brokerage	60	69	(13)
Wealth management	322	252	28
Fund management	86	101	(15)
Credit card	51	48	6
Loan-related	251	216	16
Trade-related and remittances	213	208	2
Guarantees	18	21	(17)
Investment banking	91	95	(4)
Service charges	78	94	(17)
Others	28	33	(12)
Sub-total	1,198	1,137	5
Dividends	88	88	–
Rental income	72	76	(5)
Profit from life assurance	692	383	81
Premium income from general insurance	146	125	17
Other income			
Net trading income	515	217	137
Net gain from investment securities	91	120	(25)
Net gain from disposal/liquidation of subsidiaries and associates	–	1	(100)
Net gain from disposal of properties	25	4	497
Others	70	61	16
Sub-total	701	403	74
Total core non-interest income	2,897	2,212	31
Divestment gain	1,316	39	nm
Total non-interest income	4,213	2,251	87
Fees and commissions/Total income ⁽¹⁾	18.0%	20.2%	
Non-interest income/Total income ⁽¹⁾	43.6%	39.3%	

⁽¹⁾ Excludes gains from divestment of non-core assets.

Core non-interest income, excluding gains from the divestment of non-core assets, grew 31% to S\$2.90 billion in 2012, from S\$2.21 billion a year ago. Fees and commissions rose 5% to S\$1.20 billion, from S\$1.14 billion in 2011, led by higher wealth management income, loan-related and trade-related fees. Net trading income increased to S\$515 million from S\$217 million in the previous year, largely from securities and derivatives trading, while net gains from investment securities declined 25% to S\$91 million, as compared with S\$120 million in 2011. Profit from life assurance was S\$692 million, an increase of 81% from S\$383 million in 2011, underpinned by continued growth in underwriting profits and the strong investment performance of Great Eastern Holdings' ("GEH") Non-Participating Fund.

Management Discussion and Analysis

OPERATING EXPENSES

	2012 S\$ million	2011 S\$ million	+ /(-) %
Staff costs			
Salaries and other costs	1,516	1,338	13
Share-based expenses	10	10	(2)
Contribution to defined contribution plans	124	100	24
	1,650	1,448	14
Property and equipment			
Depreciation	184	166	11
Maintenance and hire of property, plant & equipment	87	75	16
Rental expenses	70	68	3
Others	150	142	6
	491	451	9
Other operating expenses	554	531	4
Total operating expenses	2,695	2,430	11
Group staff strength			
Period end	24,628	22,892	8
Average	23,917	22,371	7
Cost to income ratio ⁽¹⁾	40.6%	43.2%	

⁽¹⁾ Excludes gains from divestment of non-core assets.

Operating expenses increased 11% to S\$2.70 billion, from S\$2.43 billion a year ago. Staff costs rose 14% to S\$1.65 billion from S\$1.45 billion in 2011, reflecting the impact of an increase in headcount of 8% to support business growth in Singapore and overseas markets, as well as higher base salaries and incentive compensation associated with stronger business volumes. Property and equipment related expenses were 9% higher at S\$491 million, compared with S\$451 million in 2011, largely from an increase in depreciation expenses.

The cost-to-income ratio was 40.6% for 2012, an improvement compared with 43.2% a year ago.

ALLOWANCES FOR LOANS AND OTHER ASSETS

	2012 S\$ million	2011 S\$ million	+ /(-) %
Specific allowances for loans			
Singapore	87	47	86
Malaysia	14	10	48
Others	14	22	(38)
	115	79	46
Portfolio allowances for loans	148	127	16
Allowances and impairment charges for other assets	8	15	(43)
Allowances for loans and impairment of other assets	271	221	23

Allowances for loans and other assets were S\$271 million in 2012, higher as compared with S\$221 million. Specific allowances for loans, net of recoveries and writebacks were S\$115 million, up 46% from S\$79 million a year ago, with the increase coming mainly from Singapore. Specific allowances remained low at 8 basis points of loans. Portfolio allowances for loans increased 16% to S\$148 million, from S\$127 million in 2011, in line with strong loan growth.

LOANS AND ADVANCES

	2012 S\$ million	2011 S\$ million	+/(-) %
By Industry			
Agriculture, mining and quarrying	4,863	4,042	20
Manufacturing	8,197	8,424	(3)
Building and construction	22,388	20,365	10
Housing loans	37,809	32,076	18
General commerce	17,502	20,347	(14)
Transport, storage and communication	9,106	9,208	(1)
Financial institutions, investment and holding companies	22,456	18,792	19
Professionals and individuals	14,272	13,952	2
Others	7,437	7,926	(6)
	144,030	135,132	7
By Currency			
Singapore Dollar	70,141	61,198	15
United States Dollar	31,680	35,716	(11)
Malaysian Ringgit	18,404	16,724	10
Indonesian Rupiah	4,989	4,465	12
Others	18,816	17,029	10
	144,030	135,132	7
By Geography ⁽¹⁾			
Singapore	75,215	68,260	10
Malaysia	23,157	21,064	10
Indonesia	10,679	9,383	14
Greater China	17,379	19,952	(13)
Other Asia Pacific	8,253	7,873	5
Rest of the World	9,347	8,600	9
	144,030	135,132	7

⁽¹⁾ Loans by geography are based on where the credit risks reside, which may be different from the borrower's country of residence or the booking location of the loans.

Gross loans to customers grew by 7% to S\$144 billion as of 31 December 2012, from S\$135 billion a year ago. Loan growth was achieved across various industry sectors in Singapore and key overseas markets, with the largest contributions coming from housing loans, and loans to building and construction, and financial institutions, investment and holding companies.

Management Discussion and Analysis

NON-PERFORMING ASSETS

	Total NPAs ⁽¹⁾ S\$ million	Substandard S\$ million	Doubtful S\$ million	Loss S\$ million	Secured NPAs/ Total NPAs %	NPLs ⁽²⁾ S\$ million	NPL Ratio ⁽²⁾ %
Singapore							
2012	258	91	119	48	55.2	258	0.3
2011	390	205	151	34	61.7	330	0.5
Malaysia							
2012	432	251	134	47	55.7	409	1.8
2011	580	462	72	46	67.0	486	2.3
Indonesia							
2012	60	6	3	51	47.8	60	0.6
2011	77	9	10	58	50.6	77	0.8
Greater China							
2012	33	28	0	5	87.9	33	0.2
2011	42	39	3	–	73.1	42	0.2
Other Asia Pacific							
2012	281	242	39	–	73.7	281	3.4
2011	240	183	57	–	75.6	135	1.7
Rest of the World							
2012	108	99	7	2	23.3	104	1.1
2011	108	94	12	2	80.5	102	1.2
Group							
2012	1,172	717	302	153	57.4	1,145	0.8
2011	1,437	992	305	140	67.3	1,172	0.9

⁽¹⁾ Comprise non-bank loans, debt securities and contingent liabilities.

⁽²⁾ Exclude debt securities and contingent liabilities.

The Group's asset quality remained healthy. Non-performing loans ("NPLs") declined 2% to S\$1.15 billion as of 31 December 2012, compared with S\$1.17 billion a year ago. By geography, the decrease was mainly from Singapore and Malaysia, partly offset by an increase in Other Asia Pacific. By industry segment, the decrease was mainly from transport, storage and communication, financial institutions, investment and holding companies, and general commerce.

The Group's NPL ratio was 0.8%, an improvement from 0.9% a year ago.

Total non-performing assets ("NPAs") as at 31 December 2012, which include classified debt securities and contingent liabilities, were S\$1.17 billion, a decline of 18% from S\$1.44 billion a year ago. Of the total NPAs, 61% were in the substandard category and 57% were secured by collateral.

NON-PERFORMING ASSETS (continued)

	2012		2011	
	S\$ million	% of gross loans	S\$ million	% of gross loans
NPLs by Industry				
Loans and advances				
Agriculture, mining and quarrying	6	0.1	6	0.1
Manufacturing	366	4.5	294	3.5
Building and construction	199	0.9	149	0.7
Housing loans	192	0.5	188	0.6
General commerce	105	0.6	133	0.7
Transport, storage and communication	77	0.8	128	1.4
Financial institutions, investment and holding companies	88	0.4	130	0.7
Professionals and individuals	87	0.6	114	0.8
Others	25	0.3	30	0.4
Total NPLs	1,145	0.8	1,172	0.9
Classified debt securities	4		111	
Classified contingent liabilities	23		154	
Total NPAs	1,172		1,437	

	2012		2011	
	S\$ million	%	S\$ million	%
NPAs by Period Overdue				
Over 180 days	328	28	512	36
Over 90 to 180 days	81	7	85	6
30 to 90 days	160	14	204	14
Less than 30 days	10	1	25	2
Not overdue	593	50	611	42
	1,172	100	1,437	100

Management Discussion and Analysis

CUMULATIVE ALLOWANCES FOR ASSETS

	Total cumulative allowances S\$ million	Specific allowances S\$ million	Portfolio allowances S\$ million	Specific allowances as % of total NPAs %	Cumulative allowances as % of total NPAs %
Singapore					
2012	696	105	591	40.8	269.5
2011	608	71	537	18.1	155.9
Malaysia					
2012	450	133	317	30.8	104.4
2011	454	165	289	28.4	78.3
Indonesia					
2012	164	39	125	66.2	273.2
2011	138	45	93	58.4	180.1
Greater China					
2012	170	4	166	10.7	508.9
2011	162	3	159	7.7	383.0
Other Asia Pacific					
2012	112	20	92	7.1	40.0
2011	97	15	82	6.2	40.4
Rest of the World					
2012	70	10	60	8.8	64.0
2011	73	13	60	12.8	67.6
Group					
2012	1,662	311	1,351	26.6	141.8
2011	1,532	312	1,220	21.7	106.6

As at 31 December 2012, the Group's total cumulative allowances for assets were S\$1.66 billion, comprising S\$311 million in specific allowances and S\$1.35 billion in portfolio allowances. Total cumulative allowances were 142% of total NPAs and 333% of unsecured NPAs, up from 107% and 326%, respectively, as at 31 December 2011.

DEPOSITS

	2012 S\$ million	2011 S\$ million	+/()%
Deposits of non-bank customers	165,139	154,555	7
Deposits and balances of banks	25,656	21,653	18
Total deposits	190,795	176,208	8
Non-Bank Deposits By Product			
Fixed deposits	67,263	70,984	(5)
Savings deposits	30,614	28,536	7
Current account	52,904	43,118	23
Others	14,358	11,917	20
	165,139	154,555	7
Non-Bank Deposits By Currency			
Singapore Dollar	82,095	80,236	2
United States Dollar	31,455	21,969	43
Malaysian Ringgit	20,739	19,128	8
Indonesian Rupiah	5,835	5,158	13
Others	25,015	28,064	(11)
	165,139	154,555	7
Loans-to-deposits ratio (net non-bank loans/non-bank deposits)	86.2%	86.4%	

Non-bank customer deposits grew 7% to S\$165 billion as at 31 December 2012, from S\$155 billion a year ago. The increase was driven by 23% growth in current account deposits to S\$52.9 billion, from S\$43.1 billion in 2011, as well as a 7% rise in savings deposits to S\$30.6 billion, from S\$28.5 billion a year ago. The ratio of current and savings deposits to total non-bank deposits was 50.6%, an improvement compared with 46.4% a year ago.

The Group's loans-to-deposits ratio was 86.2%, compared with 86.4% a year ago.

PERFORMANCE BY BUSINESS SEGMENT

OCBC Group's businesses are presented in the following customer segments and business activities: Global Consumer/Private Banking, Global Corporate/Investment Banking, Global Treasury and Markets, and Insurance.

Operating Profit by Business Segment

	2012 S\$ million	2011 S\$ million	+ / (-) %
Global Consumer/Private Banking	589	489	20
Global Corporate/Investment Banking	1,745	1,389	26
Global Treasury and Markets	617	479	29
Insurance	825	437	89
Others ⁽¹⁾	(157)	116	(236)
Operating profit after allowances and amortisation	3,619	2,910	24

⁽¹⁾ Excludes gains from divestment of non-core assets.

Global Consumer/Private Banking

Global Consumer/Private Banking provides a full range of products and services to individual customers. At Global Consumer Banking, the products and services offered include deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards, wealth management products (unit trusts, bancassurance products and structured deposits) and brokerage services. Private Banking caters to the specialised banking needs of high net worth individuals, offering wealth management expertise, including investment advice and portfolio management services, estate and trust planning, and wealth structuring.

Operating profit after allowances increased 20% to S\$589 million from S\$489 million in 2011, driven by higher net interest income and fee income, which offset an increase in expenses and allowances.

Global Corporate/Investment Banking

Global Corporate/Investment Banking serves institutional 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 and custodian services. Investment Banking comprises a comprehensive range of financing solutions, syndicated loans and advisory services, corporate finance services for initial public offerings, secondary fund-raising, takeovers and mergers, as well as customised and structured equity-linked financing.

Global Corporate/Investment Banking's operating profit after allowances grew 26% to S\$1.75 billion, from S\$1.39 billion a year ago, underpinned by higher net interest income arising from robust loan growth, as well as lower net allowances.

Global Treasury and Markets

Global Treasury and Markets is responsible for the management of the Group's asset and liability interest rate positions, engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and offers structured treasury products and financial solutions to meet customers' investment and hedging needs. Income from treasury products and services offered to customers of other business segments, such as Global Consumer/Private Banking and Global Corporate/Investment Banking, is reflected in the respective business segments.

Global Treasury's operating profit increased by 29% to S\$617 million, from S\$479 million, largely attributable to an increase in trading income.

Insurance

The Group's insurance business, including its fund management activities, is undertaken by 87.2%-owned subsidiary GEH and its subsidiaries, which provide both life and general insurance products to its customers mainly in Singapore and Malaysia.

GEH reported significant growth in operating profit in 2012 as a result of the strong investment performance in its Non-Participating Fund and higher underwriting profits. Operating profit rose 89% to S\$825 million in 2012, from S\$437 million. After tax and non-controlling interests, GEH's contribution to the Group's core net profit was S\$622 million in 2012, higher than the S\$297 million in 2011.

Others

Others comprise mainly property holding, investment holding and items not attributable to the business segments described above.

Management Discussion and Analysis

PERFORMANCE BY GEOGRAPHICAL SEGMENT

	2012		2011	
	S\$ million	%	S\$ million	%
Total core income				
Singapore ⁽¹⁾	4,214	63	3,405	60
Malaysia ⁽¹⁾	1,305	20	1,220	22
Indonesia	466	7	417	7
Greater China ⁽¹⁾	431	7	387	7
Other Asia Pacific	150	2	140	3
Rest of the World	79	1	53	1
	6,645	100	5,622	100
Profit before income tax				
Singapore ⁽¹⁾	2,264	62	1,710	59
Malaysia ⁽¹⁾	812	22	773	26
Indonesia	159	4	125	4
Greater China ⁽¹⁾	264	7	195	7
Other Asia Pacific	94	3	92	3
Rest of the World	53	2	22	1
	3,646	100	2,917	100
Total assets				
Singapore	181,385	61	173,522	62
Malaysia	58,030	20	53,327	19
Indonesia	10,162	3	8,832	3
Greater China	28,083	9	28,878	10
Other Asia Pacific	10,426	4	8,984	4
Rest of the World	7,857	3	4,215	2
	295,943	100	277,758	100

⁽¹⁾ Gains from divestment of non-core assets of S\$1.32 billion in 2012, and S\$39 million in 2011 were not included in total core income and profit before income tax.

The geographical segment analysis is based on the location where assets or transactions are booked. For 2012, Singapore accounted for 63% of total income and 62% of pre-tax profit, while Malaysia accounted for 20% of total income and 22% of pre-tax profit.

Pre-tax profit for Singapore rose 32% to S\$2.26 billion, from S\$1.71 billion in 2011 as higher net interest income, insurance and net trading income more than offset an increase in expenses. Malaysia's pre-tax profit was 5% higher at S\$812 million in 2012, from S\$773 million a year ago, as higher net interest income and trading income was offset by an increase in operating expenses.

CAPITAL ADEQUACY RATIOS

As at 31 December 2012, the Group's Tier 1 ratio and total capital adequacy ratio ("CAR") were 16.6% and 18.5% respectively. These were well above the regulatory minimums of 6% and 10%, respectively. The Group's core Tier 1 ratio, which excludes Tier 1 preference shares, was 12.8% as compared with 11.4% as at 31 December 2011. The Group's Tier 1 ratios improved from their end-2011 levels, primarily attributable to higher earnings, the retention of the realised gains from the divestment of the Group's shareholdings in Fraser and Neave, Limited and Asia Pacific Breweries Limited, and from the issuance of preference shares and subordinated notes during the year. The Group is comfortably positioned to meet MAS' capital requirements under Basel III.

UNREALISED VALUATION SURPLUS

	2012 S\$ million	2011 S\$ million
Properties ⁽¹⁾	3,117	2,877
Equity securities ⁽²⁾	1,245	636
Total	4,362	3,513

⁽¹⁾ Includes properties classified as investment properties and assets held for sale. Property values are determined mainly based on external valuations at the end of the year.

⁽²⁾ Comprises mainly investments in quoted subsidiaries, which are valued based on their market prices at the end of the year.

The Group's unrealised valuation surplus largely represents the difference between the carrying values of its properties and investments in quoted subsidiaries and the property values and market prices of the quoted investments at the respective periods. The carrying values of subsidiaries and associates on the balance sheet are measured at cost plus post-acquisition reserves, while those of properties are measured at cost less accumulated depreciation, and impairment, if any.

The valuation surplus as at 31 December 2012 was S\$4.36 billion, an increase of 24% from S\$3.51 billion a year ago. The surplus for properties rose by 8% to S\$3.12 billion, from S\$2.88 billion in 2011 largely as a result of higher property values in Singapore. The surplus in equity securities valuation increased 96% to S\$1.25 billion, from S\$636 million a year ago mainly attributable to the Group's equity stakes in GEH and Bank OCBC NISP.

Directors' Report

For the financial year ended 31 December 2012

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 2012.

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
Fang Ai Lian
Lai Teck Poh
Lee Seng Wee
Lee Tih Shih
Colm Martin McCarthy
Neo Boon Siong
Ooi Sang Kuang (appointed on 21 February 2012)
Quah Wee Ghee
Pramukti Surjandaja
Teh Kok Peng

Mr David Conner, Dr Lee Tih Shih, Mr Pramukti Surjandaja and Professor Neo Boon Siong retire by rotation under Articles 95 and 96 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

Dr Cheong Choong Kong and Mr Lee Seng Wee 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 31.12.2012	At 1.1.2012/ Date of appointment	At 31.12.2012	At 1.1.2012/ Date of appointment
BANK				
Ordinary shares				
Cheong Choong Kong	378,373	178,373	10,831 ⁽¹⁾	10,831 ⁽¹⁾
Bobby Chin Yoke Choong	34,917	28,917	45,130 ⁽¹⁾	45,130 ⁽¹⁾
David Philbrick Conner	2,402,515	1,880,311	1,180,742 ⁽²⁾	1,754,224 ⁽³⁾
Fang Ai Lian	68,671	62,671	–	–
Lai Teck Poh	554,824	416,703	14,442 ⁽²⁾	36,070 ⁽²⁾
Lee Seng Wee	7,531,454	7,525,454	4,401,409 ⁽¹⁾	4,401,409 ⁽¹⁾
Lee Tih Shih	2,689,860	2,683,860	–	–
Colm Martin McCarthy	18,561	12,561	–	–
Neo Boon Siong	40,332	34,332	–	–
Quah Wee Ghee	–	–	473 ⁽¹⁾	473 ⁽¹⁾
Pramukti Surjandaja	18,561	12,561	–	–
Teh Kok Peng	389,506	386,991	–	–
5.1% Class B non-cumulative non-convertible preference shares				
Fang Ai Lian	1,700	1,700	–	–
Lai Teck Poh	2,500	2,500	–	–
Quah Wee Ghee	–	–	1,000 ⁽¹⁾	1,000 ⁽¹⁾
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	–	–
Teh Kok Peng	40,000	40,000	–	–
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	–	–
Quah Wee Ghee	–	–	2,100 ⁽¹⁾	2,100 ⁽¹⁾

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

⁽²⁾ Ordinary shares under OCBC Deferred Share Plan.

⁽³⁾ Comprises interest of 1,258,173 ordinary shares under OCBC Deferred Share Plan, acquisition rights of 8,022 ordinary shares under OCBC Employee Share Purchase Plan and 488,029 ordinary shares under employment contract.

None of the directors have direct or deemed interest in the 4.5% Class E and 4.0% Class M non-cumulative non-convertible preference shares. The 4.5% Class E non-cumulative non-convertible preference shares have been fully redeemed by the Bank on 28 January 2013.

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 2013.

Directors' Report

For the financial year ended 31 December 2012

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.

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 expired and ceased on 30 June 2012. In respect of the financial year ended 31 December 2012, when the agreement was applicable for the period from 1 January to 30 June 2012, Dr Cheong received payments and benefits amounting to \$547,528 and will receive a variable bonus of \$50,000 or any additional bonus as may be determined by the Remuneration Committee and the Board of Directors of the Bank. In respect of the financial year ended 31 December 2011 (full year), Dr Cheong has received aggregate payments and benefits of \$1,117,155 and a variable bonus of \$1,000,000, comprising a bonus of \$100,000 and an additional bonus of \$900,000.

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 2012 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
Quah Wee Ghee

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 Scheme

The OCBC Share Option Scheme 2001 ("2001 Scheme"), which was implemented in 2001, had been extended for another 10 years from 2011 to 2021, as approved by the shareholders. 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 2002, 2002B, 2003, 2004, 2004A, 2004B, 2005, 2005A, 2006, 2006B, 2007, 2007A, 2007B, 2007NED, 2008, 2008NED, 2009, 2009NED, 2010, 2010NED, 2011 and 2011NED were set out in the Directors' Reports for the financial years ended 31 December 2002 to 2011.

During the financial year, pursuant to the 2001 Scheme, options to acquire 5,019,795 ordinary shares at \$8.798 per ordinary share were granted to 130 eligible executives of the Group ("2012 Options"), as well as to a non-executive director of the Bank ("2012NED 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 Scheme (continued)

Details of unissued ordinary shares under the 2001 Scheme, options exercised during the financial year and options outstanding and exercisable at 31 December 2012 are as follows:

Options	Exercise period	Acquisition price (\$)	Options exercised	Treasury shares transferred	At 31.12.2012	
					Outstanding	Exercisable
2002	09.04.2003 to 08.04.2012	5.742	2,607,717	2,568,904	–	–
2002B	24.10.2003 to 23.10.2012	4.367	110,000	110,000	–	–
2003	28.03.2004 to 26.03.2013	4.067	919,689	915,425	2,497,957	2,497,957
2004	16.03.2005 to 14.03.2014	5.142	261,787	261,787	2,052,867	2,052,867
2004A	20.08.2005 to 18.08.2014	5.492	–	–	140,800	140,800
2004B	23.11.2005 to 21.11.2014	5.667	–	–	103,200	103,200
2005	15.03.2006 to 13.03.2015	5.767	234,145	226,651	2,830,745	2,830,745
2005A	09.04.2006 to 07.04.2015	5.784	252,328	252,328	227,400	227,400
2006	15.03.2007 to 13.03.2016	6.820	131,817	130,343	2,430,892	2,430,892
2006B	24.05.2007 to 22.05.2016	6.580	216,190	205,897	292,000	292,000
2007	15.03.2008 to 13.03.2017	8.590	156,780	155,816	2,710,783	2,710,783
2007A	16.01.2008 to 14.01.2017	7.600	–	–	445,000	445,000
2007B	15.03.2008 to 13.03.2017	8.590	97,000	88,799	427,000	427,000
2007NED	15.03.2008 to 13.03.2012	8.590	200,000	200,000	–	–
2008	15.03.2009 to 13.03.2018	7.520	428,907	416,343	3,568,903	3,568,903
2008NED	15.03.2009 to 13.03.2013	7.520	–	–	200,000	200,000
2009	17.03.2010 to 15.03.2019	4.138	533,814	528,380	2,485,546	2,485,546
2009NED	17.03.2010 to 15.03.2014	4.138	–	–	162,958	162,958
2010	16.03.2011 to 14.03.2020	8.762	164,613	158,333	2,596,797	1,669,923
2010NED	16.03.2011 to 14.03.2015	8.762	–	–	233,727	154,258
2011	15.03.2012 to 13.03.2021	9.350	30,885	28,351	2,268,319	734,550
2011NED	15.03.2012 to 13.03.2016	9.350	–	–	326,302	107,679
2012	15.03.2013 to 13.03.2022	8.798	–	–	4,568,665	–
2012NED	15.03.2013 to 13.03.2017	8.798	–	–	340,924	–
			6,345,672	6,247,357	30,910,785	23,242,461

(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 2012, the Bank launched its seventh offering of ESP Plan, which commenced on 1 July 2012 and will expire on 30 June 2014. Under the seventh offering, 5,994 employees enrolled to participate in the ESP Plan to acquire 7,788,738 ordinary shares at \$8.68 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 programme 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 4,508,997 ordinary shares (including 380,789 ordinary shares to directors of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2012. In addition, total awards of 400,934 ordinary shares (including 40,805 ordinary shares to directors of the Bank) were awarded to grantees pursuant to declarations of final dividend for financial year ended 31 December 2011 and interim dividend for financial year ended 31 December 2012. During the financial year, 5,389,002 deferred shares were released to grantees, of which 520,653 deferred shares were released to directors of the Bank.

Directors' Report

For the financial year ended 31 December 2012

SHARE-BASED COMPENSATION PLANS (continued)

Changes in the number of options under the 2001 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 31.12.2012	Aggregate number of options granted/rights subscribed since commencement of scheme/plan to 31.12.2012	Aggregate number of options/rights exercised/converted/lapsed since commencement of scheme/plan to 31.12.2012	Aggregate number of options/rights outstanding at 31.12.2012
2001 Scheme				
Cheong Choong Kong	340,924	1,978,711	200,000	1,778,711
David Philbrick Conner	–	4,565,000	2,232,000	2,333,000
Lai Teck Poh	–	481,000	140,000	341,000
ESP Plan				
David Philbrick Conner	–	47,593	47,593	–

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2013.

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
Ooi Sang Kuang
Teh Kok Peng

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:

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

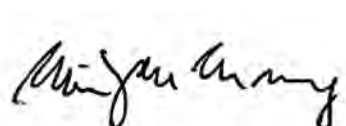
The auditors, KPMG LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,



CHEONG CHOONG KONG
Director

Singapore
14 February 2013



BOBBY CHIN YOKE CHOONG
Director

Statement by Directors

For the financial year ended 31 December 2012

In the opinion of the directors,

- (a) the financial statements set out on pages 79 to 171 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 2012, 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.

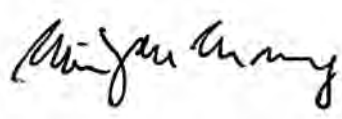
The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors,



CHEONG CHOONG KONG
Director

Singapore
14 February 2013



BOBBY CHIN YOKE CHOONG
Director

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 2012, 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 79 to 171.

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.

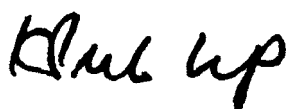
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2012, 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
14 February 2013

Income Statements

For the financial year ended 31 December 2012

	Note	GROUP		BANK	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Interest income		5,967,535	5,319,991	3,441,391	3,069,746
Interest expense		(2,219,791)	(1,909,569)	(1,190,176)	(1,053,601)
Net interest income	3	3,747,744	3,410,422	2,251,215	2,016,145
Premium income		6,254,417	6,106,288	–	–
Investment income		4,245,724	1,675,469	–	–
Net claims, surrenders and annuities		(5,376,383)	(4,530,694)	–	–
Change in life assurance fund contract liabilities		(3,065,964)	(1,697,463)	–	–
Commission and others		(1,366,075)	(1,171,072)	–	–
Profit from life assurance	4	691,719	382,528	–	–
Premium income from general insurance		145,836	125,079	–	–
Fees and commissions (net)	5	1,198,250	1,137,127	683,837	646,520
Dividends	6	88,233	88,048	469,325	339,183
Rental income		72,327	76,009	31,425	31,001
Other income	7	2,017,263	441,465	1,133,410	271,404
Non-interest income		4,213,628	2,250,256	2,317,997	1,288,108
Total income		7,961,372	5,660,678	4,569,212	3,304,253
Staff costs		(1,649,620)	(1,448,181)	(673,439)	(576,689)
Other operating expenses		(1,045,122)	(981,731)	(712,369)	(665,420)
Total operating expenses	8	(2,694,742)	(2,429,912)	(1,385,808)	(1,242,109)
Operating profit before allowances and amortisation		5,266,630	3,230,766	3,183,404	2,062,144
Amortisation of intangible assets	37	(59,903)	(61,337)	–	–
Allowances for loans and impairment for other assets	9	(271,432)	(221,406)	(180,841)	(126,632)
Operating profit after allowances and amortisation		4,935,295	2,948,023	3,002,563	1,935,512
Share of results of associates and joint ventures		26,566	7,166	–	–
Profit before income tax		4,961,861	2,955,189	3,002,563	1,935,512
Income tax expense	10	(698,912)	(476,586)	(306,543)	(200,865)
Profit for the year		4,262,949	2,478,603	2,696,020	1,734,647
Attributable to:					
Equity holders of the Bank		3,992,811	2,312,216		
Non-controlling interests		270,138	166,387		
		4,262,949	2,478,603		
Earnings per share (cents)	11				
Basic		113.1	65.8		
Diluted		112.9	65.6		

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 2012

	Note	GROUP		BANK	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit for the year		4,262,949	2,478,603	2,696,020	1,734,647
Other comprehensive income:					
Available-for-sale financial assets					
Gains/(losses) for the year		1,011,932	(156,837)	565,563	(21,013)
Reclassification of (gains)/losses to income statement					
- on disposal		(1,350,925)	(120,054)	(810,843)	(77,461)
- on impairment		18,197	(7,840)	(287)	(10,047)
Tax on net movements	20	71,808	25,878	56,542	13,066
Actuarial losses on defined benefit plans		(8,241)	–	–	–
Exchange differences on translating foreign operations		(288,083)	(2,506)	(32,159)	7,617
Other comprehensive income of associates and joint ventures		(174)	5,512	–	–
Total other comprehensive income, net of tax		(545,486)	(255,847)	(221,184)	(87,838)
Total comprehensive income for the year, net of tax		3,717,463	2,222,756	2,474,836	1,646,809
Total comprehensive income attributable to:					
Equity holders of the Bank		3,488,284	2,073,533		
Non-controlling interests		229,179	149,223		
		3,717,463	2,222,756		

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 2012

	Note	GROUP		BANK	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
EQUITY					
Attributable to equity holders of the Bank					
Share capital	13	9,953,321	9,022,918	9,953,321	9,022,918
Capital reserves	14	375,520	279,402	95,985	90,289
Fair value reserves		895,345	1,124,668	321,369	510,394
Revenue reserves	15	14,580,211	12,143,711	9,213,566	7,721,619
		25,804,397	22,570,699	19,584,241	17,345,220
Non-controlling interests	16	2,896,604	2,819,322	–	–
Total equity		28,701,001	25,390,021	19,584,241	17,345,220
LIABILITIES					
Deposits of non-bank customers	17	165,139,476	154,554,839	115,325,281	109,826,711
Deposits and balances of banks	17	25,655,587	21,653,245	21,538,856	18,880,685
Due to subsidiaries		–	–	8,257,934	5,912,981
Due to associates		161,362	178,050	148,642	164,361
Trading portfolio liabilities		1,083,334	1,655,040	1,083,334	1,655,040
Derivative payables	18	5,000,572	6,112,768	4,619,730	5,782,256
Other liabilities	19	4,323,093	4,023,408	1,542,720	1,458,675
Current tax		897,296	800,161	366,712	304,098
Deferred tax	20	1,170,303	1,123,125	65,179	120,854
Debt issued	21	11,424,427	13,063,178	11,918,895	13,797,463
		214,855,450	203,163,814	164,867,283	157,903,124
Life assurance fund liabilities	22	52,387,007	49,203,775	–	–
Total liabilities		267,242,457	252,367,589	164,867,283	157,903,124
Total equity and liabilities		295,943,458	277,757,610	184,451,524	175,248,344
ASSETS					
Cash and placements with central banks	23	16,396,833	12,896,605	9,381,653	6,985,599
Singapore government treasury bills and securities	24	13,141,224	13,250,113	11,961,420	12,592,280
Other government treasury bills and securities	24	9,156,753	7,396,804	6,098,387	3,987,623
Placements with and loans to banks	25	29,810,928	28,614,577	21,017,680	20,654,266
Loans and bills receivable	26–29	142,376,478	133,556,851	104,156,600	97,786,527
Debt and equity securities	30	14,931,990	15,081,434	9,348,412	9,721,440
Assets pledged	44	2,056,155	1,838,981	1,946,335	1,328,905
Assets held for sale	45	5,256	6,195	–	–
Derivative receivables	18	5,154,754	5,898,815	4,693,349	5,462,372
Other assets	31	3,844,627	3,191,439	1,147,341	1,186,728
Deferred tax	20	43,438	43,416	26,257	4,321
Associates and joint ventures	33	354,892	360,435	191,250	215,073
Subsidiaries	34	–	–	11,576,708	12,461,828
Property, plant and equipment	35	1,702,585	1,663,870	473,930	425,289
Investment property	36	878,240	922,335	565,026	568,917
Goodwill and intangible assets	37	3,817,902	3,947,394	1,867,176	1,867,176
		243,672,055	228,669,264	184,451,524	175,248,344
Life assurance fund investment assets	22	52,271,403	49,088,346	–	–
Total assets		295,943,458	277,757,610	184,451,524	175,248,344

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 2012

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 2012	9,022,918	279,402	1,124,668	12,143,711	22,570,699	2,819,322	25,390,021
Total comprehensive income for the year							
Profit for the year	–	–	–	3,992,811	3,992,811	270,138	4,262,949
Other comprehensive income							
Available-for-sale financial assets							
Gains for the year	–	–	963,847	–	963,847	48,085	1,011,932
Reclassification of (gains)/losses to income statement							
- on disposal	–	–	(1,286,053)	–	(1,286,053)	(64,872)	(1,350,925)
- on impairment	–	–	18,169	–	18,169	28	18,197
Tax on net movements	–	–	68,996	–	68,996	2,812	71,808
Actuarial losses on defined benefit plans	–	–	–	(7,011)	(7,011)	(1,230)	(8,241)
Exchange differences on translating foreign operations	–	–	–	(262,717)	(262,717)	(25,366)	(288,083)
Other comprehensive income of associates and joint ventures	–	–	5,718	(5,476)	242	(416)	(174)
Total other comprehensive income, net of tax	–	–	(229,323)	(275,204)	(504,527)	(40,959)	(545,486)
Total comprehensive income for the year	–	–	(229,323)	3,717,607	3,488,284	229,179	3,717,463
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Transfers	5,003	86,045	–	(91,048)	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	2,669	2,669
Distributions and dividends to non-controlling interests	–	–	–	–	–	(206,112)	(206,112)
DSP reserve from dividends on unvested shares	–	–	–	3,579	3,579	–	3,579
Ordinary and preference dividends	–	–	–	(1,175,493)	(1,175,493)	–	(1,175,493)
Preference shares issued	1,000,000	–	–	–	1,000,000	–	1,000,000
Preference shares issue expense	(175)	–	–	–	(175)	–	(175)
Share-based staff costs capitalised	–	10,699	–	–	10,699	–	10,699
Share buyback held in treasury	(162,178)	–	–	–	(162,178)	–	(162,178)
Shares issued to non-executive directors	507	–	–	–	507	–	507
Shares purchased by DSP Trust	–	(3,644)	–	–	(3,644)	–	(3,644)
Shares vested under DSP Scheme	–	39,292	–	–	39,292	–	39,292
Treasury shares transferred/sold	87,246	(36,274)	–	–	50,972	–	50,972
Total contributions by and distributions to owners	930,403	96,118	–	(1,262,962)	(236,441)	(203,443)	(439,884)
Changes in ownership interests in subsidiaries that do not result in loss of control							
Changes in non-controlling interests	–	–	–	(18,145)	(18,145)	51,546	33,401
Total changes in ownership interests in subsidiaries	–	–	–	(18,145)	(18,145)	51,546	33,401
Balance at 31 December 2012	9,953,321	375,520	895,345	14,580,211	25,804,397	2,896,604	28,701,001
Included:							
Share of reserves of associates and joint ventures	–	–	5,702	45,297	50,999	(4,822)	46,177

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

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

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 2011	8,210,550	612,826	1,374,198	10,592,671	20,790,245	2,854,919	23,645,164
Total comprehensive income for the year							
Profit for the year	–	–	–	2,312,216	2,312,216	166,387	2,478,603
Other comprehensive income							
Available-for-sale financial assets							
Losses for the year	–	–	(149,234)	–	(149,234)	(7,603)	(156,837)
Reclassification of (gains)/losses to income statement							
- on disposal	–	–	(115,792)	–	(115,792)	(4,262)	(120,054)
- on impairment	–	–	(8,089)	–	(8,089)	249	(7,840)
Tax on net movements	–	–	23,771	–	23,771	2,107	25,878
Exchange differences on translating foreign operations	–	–	–	5,811	5,811	(8,317)	(2,506)
Other comprehensive income of associates and joint ventures	–	–	(186)	5,036	4,850	662	5,512
Total other comprehensive income, net of tax	–	–	(249,530)	10,847	(238,683)	(17,164)	(255,847)
Total comprehensive income for the year	–	–	(249,530)	2,323,063	2,073,533	149,223	2,222,756
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Transfers	12,464	(345,010)	–	332,546	–	–	–
Distributions and dividends to non-controlling interests	–	–	–	–	–	(187,570)	(187,570)
DSP reserve from dividends on unvested shares	–	–	–	3,749	3,749	–	3,749
Ordinary and preference dividends paid in cash	–	–	–	(275,030)	(275,030)	–	(275,030)
Share-based staff costs capitalised	–	9,881	–	–	9,881	–	9,881
Share buyback held in treasury	(92,131)	–	–	–	(92,131)	–	(92,131)
Shares issued in-lieu of ordinary dividends	824,296	–	–	(824,296)	–	–	–
Shares issued to non-executive directors	462	–	–	–	462	–	462
Shares purchased by DSP Trust	–	(3,772)	–	–	(3,772)	–	(3,772)
Shares vested under DSP Scheme	–	29,180	–	–	29,180	–	29,180
Treasury shares transferred/sold	67,277	(23,703)	–	–	43,574	–	43,574
Total contributions by and distributions to owners	812,368	(333,424)	–	(763,031)	(284,087)	(187,570)	(471,657)
Changes in ownership interests in subsidiaries that do not result in loss of control							
Changes in non-controlling interests	–	–	–	(8,992)	(8,992)	2,750	(6,242)
Total changes in ownership interests in subsidiaries	–	–	–	(8,992)	(8,992)	2,750	(6,242)
Balance at 31 December 2011	9,022,918	279,402	1,124,668	12,143,711	22,570,699	2,819,322	25,390,021
Included:							
Share of reserves of associates and joint ventures	–	–	(16)	31,534	31,518	(3,993)	27,525

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 2012

In \$'000	Share capital	Capital reserves	Fair value reserves	Revenue reserves	Total equity
Balance at 1 January 2012	9,022,918	90,289	510,394	7,721,619	17,345,220
Total comprehensive income for the year⁽¹⁾	–	–	(189,025)	2,663,861	2,474,836
Transfers	5,003	(5,003)	–	–	–
DSP reserve from dividends on unvested shares	–	–	–	3,579	3,579
Ordinary and preference dividends	–	–	–	(1,175,493)	(1,175,493)
Preference shares issued	1,000,000	–	–	–	1,000,000
Preference shares issue expense	(175)	–	–	–	(175)
Share-based staff costs capitalised	–	10,699	–	–	10,699
Share buyback held in treasury	(162,178)	–	–	–	(162,178)
Shares issued to non-executive directors	507	–	–	–	507
Treasury shares transferred/sold	87,246	–	–	–	87,246
Balance at 31 December 2012	9,953,321	95,985	321,369	9,213,566	19,584,241
Balance at 1 January 2011	8,210,550	432,498	605,849	6,605,466	15,854,363
Total comprehensive income for the year⁽¹⁾	–	–	(95,455)	1,742,264	1,646,809
Transfers	12,464	(352,090)	–	339,626	–
Arising from merger of subsidiaries	–	–	–	129,840	129,840
DSP reserve from dividends on unvested shares	–	–	–	3,749	3,749
Ordinary and preference dividends paid in cash	–	–	–	(275,030)	(275,030)
Share-based staff costs capitalised	–	9,881	–	–	9,881
Share buyback held in treasury	(92,131)	–	–	–	(92,131)
Shares issued in-lieu of ordinary dividends	824,296	–	–	(824,296)	–
Shares issued to non-executive directors	462	–	–	–	462
Treasury shares transferred/sold	67,277	–	–	–	67,277
Balance at 31 December 2011	9,022,918	90,289	510,394	7,721,619	17,345,220

⁽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 2012

In \$'000	2012	2011
Cash flows from operating activities		
Profit before income tax	4,961,861	2,955,189
Adjustments for non-cash items:		
Allowances for loans and impairment for other assets	271,432	221,406
Amortisation of intangible assets	59,903	61,337
Change in fair value for hedging transactions and trading securities	(90,314)	69,498
Depreciation of property, plant and equipment and investment property	184,197	166,437
Net gain on disposal of government, debt and equity securities	(1,350,927)	(120,054)
Net gain on disposal of property, plant and equipment and investment property	(81,678)	(42,722)
Net gain on disposal/liquidation of subsidiaries and associates	–	(977)
Share-based staff costs	10,119	10,223
Share of results of associates and joint ventures	(26,566)	(7,166)
Items relating to life assurance fund		
Surplus before income tax	999,920	531,744
Surplus transferred from life assurance fund	(691,719)	(382,528)
Operating profit before change in operating assets and liabilities	4,246,228	3,462,387
Change in operating assets and liabilities:		
Deposits of non-bank customers	10,573,665	31,293,835
Deposits and balances of banks	4,002,342	5,144,768
Derivative payables and other liabilities	(959,673)	2,157,244
Trading portfolio liabilities	(571,706)	(79,213)
Government securities and treasury bills	(1,586,576)	(3,115,640)
Trading securities	34,164	(272,069)
Placements with and loans to banks	(1,811,345)	(10,659,563)
Loans and bills receivable	(9,030,225)	(28,789,318)
Derivative receivables and other assets	611,649	(1,377,593)
Net change in investment assets and liabilities of life assurance fund	(89,638)	58,894
Cash from/(used in) operating activities	5,418,885	(2,176,268)
Income tax paid	(639,797)	(409,296)
Net cash from/(used in) operating activities	4,779,088	(2,585,564)
Cash flows from investing activities		
Dividends from associates	7,740	6,226
Decrease/(increase) in associates and joint ventures	29,750	(106,787)
Net cash outflow from acquisition of a subsidiary/business	(11,878)	(103,657)
Purchases of debt and equity securities	(5,694,795)	(6,371,047)
Purchases of property, plant and equipment and investment property	(303,234)	(250,890)
Proceeds from disposal of an associate	–	1,776
Proceeds from disposal of debt and equity securities	6,706,526	4,798,321
Proceeds from disposal of interest in a subsidiary	–	82,006
Proceeds from disposal of property, plant and equipment and investment property	127,484	48,606
Net cash from/(used in) investing activities	861,593	(1,895,446)
Cash flows from financing activities		
Changes in non-controlling interests	33,401	(6,242)
Redemption of subordinated debt issued	(385,356)	(2,466,829)
Issue of subordinated debt	1,471,903	399,025
(Decrease)/increase in other debt issued	(2,572,383)	8,468,543
Dividends paid to equity holders of the Bank	(1,173,089)	(275,030)
Distributions and dividends paid to non-controlling interests	(206,112)	(187,570)
Net proceeds from issue of preference shares	999,825	–
Proceeds from treasury shares transferred/sold under the Bank's employee share schemes	50,972	43,574
Share buyback held in treasury	(162,178)	(92,131)
Net cash (used in)/from financing activities	(1,943,017)	5,883,340
Net currency translation adjustments	(197,436)	1,384
Net change in cash and cash equivalents	3,500,228	1,403,714
Cash and cash equivalents at 1 January	12,896,605	11,492,891
Cash and cash equivalents at 31 December	16,396,833	12,896,605

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 2012

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 14 February 2013.

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 (“MAS”).

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 revised financial reporting standards and interpretations were applied with effect from 1 January 2012:

- FRS 12 (Amendments) *Deferred Tax: Recovery of Underlying Assets*
- FRS 107 (Amendments) *Disclosures: Transfers of Financial Assets*

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. Acquisition-related costs are expensed as incurred. 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.

2.2.3 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 interests 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.2 Basis of consolidation (continued)

2.2.3 Associates and joint ventures (continued)

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.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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

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

2.6.4 Held-to-maturity investments

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

2.7 Derivative financial instruments

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

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

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

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

For qualifying cash flow hedges, the effective portion of the change in fair value of the derivative is taken to the hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve remain in equity until the forecasted transaction is recognised in the income statement. When the forecasted transaction is no longer expected to occur, the amounts accumulated in the hedge reserve is immediately transferred to the income statement.

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

2.8 Property, plant and equipment

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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 the balance sheet date and collectively form an asset class which is an integral part of the overall investment strategy for the asset-liability management of the life assurance business. The fair value of the investment properties is determined based on objective valuations undertaken by independent valuers at the reporting 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.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Impairment of assets (continued)

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 the 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 for financial assets 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:

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

2.15 Provisions and other liabilities

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

Provision for insurance agents' retirement benefits, 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 the 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, mainly the insurance subsidiaries of Great Eastern Holdings Limited ("GEH"), 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 the balance sheet date.

Certain subsidiaries within the Group, primarily Great Eastern Holdings Limited and its subsidiaries ("GEH 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:

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

The Group 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 assurance 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 based on the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above.

In the case of life policies where part of, or all the premiums are accumulated in a fund, the accumulated amounts, as declared to policyholders are shown as liabilities if the accumulated amounts are higher than the amounts 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, together with provision 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 originating from margins for adverse deviations on run-off contracts are recognised in the income statements over the lives of the contracts, whereas losses are fully recognised in the 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 policyholders accrue directly to the policyholders.

A significant portion of insurance contracts issued by subsidiaries within the Group contain discretionary participating features. 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 contracts entitle the policyholder to receive benefits, which could vary according to the investment performance of the fund. The Group does not recognise the guaranteed components separately from the discretionary participating features.

The valuation of insurance contract liabilities is determined according to:

- Singapore Insurance Act (Chapter 142), Insurance (Valuation and Capital) Regulations 2004 for insurance funds regulated in Singapore ("MAS Regulations"); and
- 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 and accounting standards to carry out a liability adequacy test using current estimates of future cash flows relating to 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 benefits and the discretionary participating features; the assumptions are based on best estimates, the basis adopted is prescribed by the insurance regulations of the respective jurisdiction in which the insurance subsidiary operates. The Group performs liability adequacy tests on its actuarial reserves to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount against 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 an 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 2012

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 ⁽¹⁾	<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 the appropriate rate of return reflecting the strategic asset allocation; 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) Guaranteed and non-guaranteed cashflows discounted at the appropriate rate of return reflecting the strategic asset allocation; and (ii) For guaranteed cashflows, Malaysia Government Securities ("MGS") zero coupon spot yields (as outlined below).
Interest rate ^{(1) (2)}	<ul style="list-style-type: none"> (i) Singapore Government Securities ("SGS") zero coupon spot yields for cash flows up to year 15, an interpolation of the 15-year Singapore Government Securities zero coupon spot yield and the Long Term Risk Free Discount Rate ("LTRFDR") for cash flows between 15 to 20 years, and the LTRFDR for cash flows year 20 and after. (ii) For the fair value hedge portfolio, Singapore Government Securities zero coupon spot yields for cash flows up to year 30, the 30-year rate for cash flows beyond 30 years. Interpolation for years where rates are unavailable. <p><i>Data source: MAS website and Bloomberg</i></p>	<p>Malaysia Government Securities yields determined based on the following:</p> <ul style="list-style-type: none"> (i) For cashflows with duration less than 15 years, Malaysia Government Securities zero coupon spot yields of matching duration. (ii) For cashflows with duration 15 years or more, Malaysia Government Securities zero coupon spot yields of 15 years to maturity. <p><i>Data source: Bond Pricing Agency Malaysia</i></p>
Mortality, Disability, Dread disease, Expenses, Lapse and surrenders ⁽¹⁾	<p>Best estimates plus provision for adverse deviation ("PADs").</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 Non-unit reserves of Investment-linked Fund: Best estimates plus PRADs.</p> <p><i>Data source: Internal experience studies</i></p>

⁽¹⁾ Refer to Note 2.23 on Critical accounting estimates and judgements.

⁽²⁾ These interest rates are with reference to the latest available MAS Regulations on Valuation of Policy Liabilities of Life Business.

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 contracts and/or business interruption contracts; 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 provisions 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 liabilities are 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 liabilities are not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contracts expire, are discharged or are cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired at the reporting date. 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 the balance sheet date is based on best estimates of the ultimate settlement cost of claims plus a provision for adverse deviation. For both Singapore and Malaysia, 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 Paid Bornhuetter-Ferguson Method, and the Incurred Bornhuetter-Ferguson Method. For Malaysia, the valuation methods used include the Link Ratio Method, the Bornhuetter-Ferguson Method and the Loss Ratio Method.

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 reporting date or more frequently when an indication of impairment arises during the financial year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive part or all outstanding amounts due under the terms of the contract.

The impairment loss is recorded in the income statements. Gains or losses 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 the 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Recognition of income and expense (continued)

2.19.1 Interest income and expense (continued)

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

2.19.2 Profit from life assurance

Profit from life assurance business 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 under 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 dates on which the policies are 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 the 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 the 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, defined benefit plans, 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 the balance sheet date.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, adjusted for unrecognised actuarial gains or losses and past service costs. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

2.19 Recognition of income and expense (continued)

2.19.7 Employee benefits (continued)

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.

2.19.8 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/Private Banking, Global Corporate/Investment Banking, Global Treasury and Markets, 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 one of the Group's critical accounting estimates. 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, lapses, 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 for the valuation of the future benefits to be paid to policyholders, and to 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 2012

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 collateral, 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Interest income				
Loans to non-bank customers ⁽¹⁾	4,173,179	3,675,623	2,324,664	2,022,344
Placements with and loans to banks ⁽¹⁾	961,844	849,715	599,692	501,243
Other interest-earning assets	832,512	794,653	517,035	546,159
	5,967,535	5,319,991	3,441,391	3,069,746
Interest expense				
Deposits of non-bank customers ⁽¹⁾	(1,715,251)	(1,443,436)	(642,750)	(563,128)
Deposits and balances of banks ⁽¹⁾	(188,696)	(186,713)	(211,603)	(190,950)
Other borrowings	(315,844)	(279,420)	(335,823)	(299,523)
	(2,219,791)	(1,909,569)	(1,190,176)	(1,053,601)
Analysed by classification of financial instruments				
Income – Assets not at fair value through profit or loss	5,788,795	5,131,372	3,297,928	2,910,895
Income – Assets at fair value through profit or loss	178,740	188,619	143,463	158,851
Expense – Liabilities not at fair value through profit or loss	(2,193,167)	(1,862,086)	(1,163,552)	(1,006,118)
Expense – Liabilities at fair value through profit or loss	(26,624)	(47,483)	(26,624)	(47,483)
Net interest income	3,747,744	3,410,422	2,251,215	2,016,145

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

Included in interest income were interest on impaired assets of \$8.2 million (2011: \$6.7 million) and \$6.3 million (2011: \$2.5 million) for the Group and Bank respectively.

4. PROFIT FROM LIFE ASSURANCE

	GROUP	
	2012 \$ million	2011 \$ million
Income		
Annual	4,960.0	4,553.2
Single	1,408.2	1,657.9
Gross premiums	6,368.2	6,211.1
Reinsurances	(113.7)	(104.8)
Premium income (net)	6,254.5	6,106.3
Investment income (net)	4,245.6	1,675.5
Total income	10,500.1	7,781.8
Expenses		
Gross claims, surrenders and annuities	(5,437.4)	(4,580.3)
Claims, surrenders and annuities recovered from reinsurers	61.0	49.6
Net claims, surrenders and annuities	(5,376.4)	(4,530.7)
Change in life assurance fund contract liabilities (Note 22)	(3,065.9)	(1,697.4)
Commission and agency expenses	(706.7)	(664.4)
Depreciation – property, plant and equipment (Note 35)	(46.7)	(45.1)
Other expenses ⁽¹⁾	(344.3)	(309.3)
Total expenses	(9,540.0)	(7,246.9)
Surplus from operations	960.1	534.9
Share of results of associates and joint ventures	39.8	(3.2)
Income tax expense	(308.2)	(149.2)
Profit from life assurance	691.7	382.5

⁽¹⁾ Included in other expenses were directors' emoluments of \$4.4 million (2011: \$3.1 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

5. FEES AND COMMISSIONS (NET)

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fee and commission income	1,255,225	1,200,407	712,540	677,390
Fee and commission expense	(56,975)	(63,280)	(28,703)	(30,870)
Fees and commissions (net)	1,198,250	1,137,127	683,837	646,520
Analysed by major sources:				
Brokerage	60,031	68,621	385	539
Credit card	50,938	48,181	51,997	45,991
Fund management	85,826	100,789	(280)	(533)
Guarantees	17,651	21,256	12,815	15,860
Investment banking	90,988	95,167	70,241	74,437
Loan-related	251,159	215,995	214,929	179,850
Service charges	78,411	93,956	54,059	77,175
Trade-related and remittances	212,615	208,141	161,219	156,883
Wealth management	322,022	252,352	111,207	92,307
Others	28,609	32,669	7,265	4,011
	1,198,250	1,137,127	683,837	646,520

6. DIVIDENDS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Subsidiaries	–	–	429,802	303,351
Associates	–	–	7,740	6,226
Trading securities	4,319	14,308	4,053	4,313
Available-for-sale securities	83,914	73,740	27,730	25,293
	88,233	88,048	469,325	339,183

7. OTHER INCOME

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Foreign exchange ⁽¹⁾	249,356	372,236	107,032	236,268
Hedging activities ⁽²⁾				
Hedging instruments	49,769	(130,442)	55,817	(126,837)
Hedged items	(51,762)	133,246	(57,484)	130,053
Fair value hedges	(1,993)	2,804	(1,667)	3,216
Interest rate and other derivatives ⁽³⁾	37,848	(199,059)	48,473	(170,110)
Trading and fair value through profit and loss securities	226,736	41,123	129,605	68,702
Others	2,741	–	2,741	–
Net trading income	514,688	217,104	286,184	138,076
Disposal of securities classified as available-for-sale	1,350,925	120,054	810,843	77,461
Disposal of securities classified as loans and receivables	2	–	2	–
Disposal/liquidation of subsidiaries and associates	–	977	–	625
Disposal of plant and equipment	482	17	(120)	(276)
Disposal of property	81,196	42,705	15,035	40,952
Computer-related services income	34,745	30,480	–	–
Property-related income	8,941	9,976	478	425
Others	26,284	20,152	20,988	14,141
	2,017,263	441,465	1,133,410	271,404

⁽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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
8.1 Staff costs				
Salaries and other costs	1,486,003	1,308,260	609,650	522,838
Share-based expenses	9,612	9,761	6,046	6,374
Contribution to defined contribution plans	124,488	100,010	49,733	36,386
	1,620,103	1,418,031	665,429	565,598
Directors' emoluments:				
Remuneration of Bank's directors ⁽¹⁾	4,532	8,785	4,502	8,762
Remuneration of directors of subsidiaries	17,411	14,685	–	–
Fees of Bank's directors ⁽¹⁾	5,535	4,220	3,508	2,329
Fees of directors of subsidiaries	2,039	2,460	–	–
	29,517	30,150	8,010	11,091
Total staff costs	1,649,620	1,448,181	673,439	576,689
8.2 Other operating expenses				
Property, plant and equipment: ⁽²⁾				
Depreciation	184,197	166,437	95,924	90,962
Maintenance and hire	86,872	75,179	35,518	28,785
Rental expenses	69,659	67,416	63,924	70,382
Others	149,932	141,941	57,583	56,865
	490,660	450,973	252,949	246,994
Auditors' remuneration				
Payable to auditors of the Bank	1,864	1,707	1,150	1,155
Payable to associated firms of auditors of the Bank	1,079	906	280	261
Payable to other auditors	1,248	1,548	28	159
	4,191	4,161	1,458	1,575
Other fees				
Payable to auditors of the Bank	1,807	474	1,178	442
Payable to associated firms of auditors of the Bank	291	334	182	199
	2,098	808	1,360	641
Hub processing charges	–	–	183,576	162,459
General insurance claims	75,223	57,669	–	–
Others	472,950	468,120	273,026	253,751
	548,173	525,789	456,602	416,210
Total other operating expenses	1,045,122	981,731	712,369	665,420
8.3 Staff costs and other operating expenses	2,694,742	2,429,912	1,385,808	1,242,109

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

⁽²⁾ Direct operating expenses on leased investment property for the Group and the Bank amounted to \$13.4 million (2011: \$14.8 million) and \$4.0 million (2011: \$4.0 million) respectively. Direct operating expenses on vacant investment property for the Group and the Bank amounted to \$4.0 million (2011: \$1.2 million) and \$3.4 million (2011: \$0.9 million) respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2012

9. ALLOWANCES FOR LOANS AND IMPAIRMENT FOR OTHER ASSETS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Specific allowances for loans (Note 28)	115,222	79,038	92,745	60,709
Portfolio allowances for loans (Note 29)	147,598	127,364	87,778	72,528
Impairment charge/(write-back) for available-for-sale securities	5,505	(36)	–	(8,993)
Write-back for collateralised debt obligations (CDOs)	(152)	(1,054)	(287)	(1,054)
Impairment charge for other assets (Note 32)	3,259	16,094	605	3,442
Net allowances and impairment	271,432	221,406	180,841	126,632

10. INCOME TAX EXPENSE

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current tax expense	756,608	526,190	344,788	237,888
Deferred tax (credit)/expense (Note 20)	(18,756)	(7,203)	(12,221)	3,266
	737,852	518,987	332,567	241,154
Over provision in prior years and tax refunds	(38,940)	(42,401)	(26,024)	(40,289)
Charge to income statements	698,912	476,586	306,543	200,865

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

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Operating profit after allowances and amortisation	4,935,295	2,948,023	3,002,563	1,935,512
Prima facie tax calculated at tax rate of 17%	839,000	501,164	510,436	329,037
Effect of different tax rates in other countries	111,697	102,686	23,251	19,908
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	3,695	2,181	1,105	296
Income not assessable for tax	(172,480)	(40,035)	(206,758)	(64,558)
Income taxed at concessionary rate	(60,137)	(57,042)	(54,783)	(54,173)
Effect of Singapore life assurance fund	(62,305)	(15,815)	–	–
Amortisation of intangibles	10,183	10,427	–	–
Non-deductible allowances/(non-taxable write-backs)	18,663	(9,152)	9,718	3
Others	49,536	24,573	49,598	10,641
	737,852	518,987	332,567	241,154

The deferred tax (credit)/expense comprised:

Accelerated tax depreciation	13,371	6,398	6,332	6,246
Write-back of allowances for assets	(26,099)	(19,462)	(13,949)	(590)
Debt and equity securities	(1,571)	2,916	–	–
Fair value on properties from business combinations	(2,499)	(1,676)	(2,230)	(1,692)
Tax losses utilised	6,232	2,070	–	–
Others	(8,190)	2,551	(2,374)	(698)
	(18,756)	(7,203)	(12,221)	3,266

11. EARNINGS PER SHARE

	GROUP	
	2012	2011
\$'000		
Profit attributable to ordinary equity holders of the Bank	3,992,811	2,312,216
Preference dividends declared in respect of the period	(108,207)	(90,125)
Profit attributable to ordinary equity holders of the Bank after preference dividends	3,884,604	2,222,091
Weighted average number of ordinary shares ('000)		
For basic earnings per share	3,435,065	3,377,218
Adjustment for assumed conversion of share options and acquisition rights	6,809	9,015
For diluted earnings per share	3,441,874	3,386,233
Earnings per share (cents)		
Basic	113.1	65.8
Diluted	112.9	65.6

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

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

12. UNAPPROPRIATED PROFIT

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit attributable to equity holders of the Bank	3,992,811	2,312,216	2,696,020	1,734,647
Add: Unappropriated profit at 1 January	11,354,893	9,814,663	6,741,859	5,763,210
Total amount available for appropriation	15,347,704	12,126,879	9,437,879	7,497,857
Appropriated as follows:				
Ordinary dividends:				
2010 final tax exempt dividend of 15 cents	–	(500,890)	–	(500,890)
2011 interim tax exempt dividend of 15 cents	–	(508,311)	–	(508,311)
2011 final tax exempt dividend of 15 cents	(516,097)	–	(516,097)	–
2012 interim tax exempt dividend of 16 cents	(549,524)	–	(549,524)	–
Preference dividends:				
Class B 5.1% tax exempt (2011: 5.1% tax exempt)	(51,140)	(51,000)	(51,140)	(51,000)
Class E 4.5% tax exempt (2011: 4.5% tax exempt)	(24,966)	(22,500)	(24,966)	(22,500)
Class G 4.2% tax exempt (2011: 4.2% tax exempt)	(16,670)	(16,625)	(16,670)	(16,625)
Class M 4.0% tax exempt	(17,096)	–	(17,096)	–
Transfer (to)/from:				
Capital reserves (Note 14)	(91,048)	332,546	–	339,626
Currency translation reserves (Note 15.2)	–	17	–	–
General reserves (Note 15.1)	4,717	3,702	4,717	3,702
Fair value reserves	–	67	–	–
Transactions with non-controlling interests	(18,145)	(8,992)	–	–
Actuarial losses on defined benefit plans	(7,011)	–	–	–
Share of an associate's non-controlling interests	35	–	–	–
	(1,286,945)	(771,986)	(1,170,776)	(755,998)
At 31 December (Note 15)	14,060,759	11,354,893	8,267,103	6,741,859

At the annual general meeting to be held, a final tax exempt dividend of 17 cents per ordinary share in respect of the financial year ended 31 December 2012, totalling \$583.3 million, will be proposed. The dividends will be accounted for as a distribution in the 2013 financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2012

13. SHARE CAPITAL

13.1 Share capital

GROUP AND BANK	2012 Shares ('000)	2011 Shares ('000)	2012 \$'000	2011 \$'000
Ordinary shares				
At 1 January	3,441,044	3,341,046	7,261,730	6,424,508
Preference shares issue expense	–	–	(175)	–
Shares issued in-lieu of ordinary dividends	–	99,950	–	824,296
Shares issued to non-executive directors	56	48	507	462
Transfer from share-based reserves for options and rights exercised (Note 14)	–	–	5,003	12,464
At 31 December	3,441,100	3,441,044	7,267,065	7,261,730
Treasury shares				
At 1 January	(3,967)	(3,270)	(134,643)	(109,789)
Share buyback	(18,242)	(10,078)	(162,178)	(92,131)
Share Option Schemes	6,248	2,723	54,649	25,283
Share Purchase Plan	1,716	4,071	14,839	38,093
Treasury shares transferred to DSP Trust	4,086	2,587	36,274	23,703
Loss on treasury shares transferred/sold	–	–	(18,516)	(19,802)
At 31 December	(10,159)	(3,967)	(209,575)	(134,643)
Preference shares				
At 1 January				
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
Class M shares issued during the year	1,000,000	–	1,000,000	–
At 31 December			2,895,831	1,895,831
Issued share capital, at 31 December			9,953,321	9,022,918

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 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, Class G and Class M non-cumulative non-convertible preference shares qualify as Tier 1 capital for the Group. The 4.5% Class E non-cumulative non-convertible preference shares have been fully redeemed by the Bank on 28 January 2013.

All issued shares are fully paid.

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	4.2%	SGD1	14 Jul 2013; dividend payment dates after 14 Jul 2013
	6 Aug 2003			
Class M	17 Jul 2012	4.0%	SGD1	17 Jan 2018; 17 Jul 2022; dividend payment dates after 17 Jul 2022

Associates of the Group did not hold shares in the capital of the Bank as at 31 December 2012 and 31 December 2011.

13. SHARE CAPITAL (continued)

13.2 Share option schemes

In March 2012, the Bank granted 5,019,795 options (2011: 2,824,281) to acquire ordinary shares in the Bank pursuant to OCBC Share Option Scheme 2001. This included 340,924 (2011: 326,302) options granted to directors of the Bank. The fair value of options granted, determined using the binomial valuation model, was \$7.0 million (2011: \$4.1 million). Significant inputs to the valuation model are set out below:

	2012	2011
Acquisition price (\$)	8.80	9.35
Average share price from grant date to acceptance date (\$)	8.89	9.40
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	20.53	18.26
Risk-free rate based on SGS bond yield at acceptance date (%)	0.56 and 1.61	1.11 and 2.45
Expected dividend yield (%)	3.38	3.09
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:

	2012		2011	
	Number of options	Average price	Number of options	Average price
At 1 January	32,836,463	\$6.610	33,106,004	\$6.344
Granted	5,019,795	\$8.798	2,824,281	\$9.350
Exercised	(6,345,672)	\$5.789	(2,824,850)	\$6.090
Forfeited/lapsed	(599,801)	\$7.281	(268,972)	\$8.165
At 31 December	30,910,785	\$7.121	32,836,463	\$6.610
Exercisable options at 31 December	23,242,461	\$6.527	26,851,822	\$6.276
Average share price underlying the options exercised		\$9.009		\$9.311

At 31 December 2012, the weighted average remaining contractual life of outstanding share options was 4.9 years (2011: 4.6 years). The aggregate outstanding number of options held by directors of the Bank was 4,452,711 (2011: 4,451,787).

13.3 Employee share purchase plan

In June 2012, the Bank launched its seventh offering of ESP Plan for Group employees, which commenced on 1 July 2012 and expire on 30 June 2014. Under the offering, the Bank granted 7,788,738 (2011: 6,721,866) rights to acquire ordinary shares in the Bank. There were no rights (2011: 3,908) granted to directors of the Bank. The fair value of rights, determined using the binomial valuation model was \$7.0 million (2011: \$5.0 million). Significant inputs to the valuation model are set out below:

	2012	2011
Acquisition price (\$)	8.68	9.21
Closing share price at valuation date (\$)	8.70	9.03
Expected volatility based on last 250 days historical volatility as of acceptance date (%)	20.59	16.70
Risk-free rate based on 2-year swap rate (%)	0.15	0.68
Expected dividend yield (%)	2.76	2.57

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

	2012		2011	
	Number of acquisition rights	Average price	Number of acquisition rights	Average price
At 1 January	10,524,336	\$9.021	9,158,682	\$7.826
Exercised and conversion upon expiry	(1,714,720)	\$8.800	(4,072,737)	\$6.356
Forfeited	(4,306,191)	\$8.863	(1,283,475)	\$7.306
Subscription	7,788,738	\$8.680	6,721,866	\$9.210
At 31 December	12,292,163	\$8.892	10,524,336	\$9.021
Average share price underlying acquisition rights exercised/converted		\$9.185		\$9.523

At 31 December 2012, the weighted average remaining contractual life of outstanding acquisition rights was 1.1 years (2011: 1.1 years). The aggregate outstanding number of rights held by a director of the Bank was nil (2011: 8,022).

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For the financial year ended 31 December 2012

13. SHARE CAPITAL (continued)

13.4 Deferred share plan

Total awards of 4,508,997 (2011: 3,288,428) ordinary shares (including 380,789 (2011: 391,349) ordinary shares to a director of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2012. The fair value of the shares at grant date was \$40.2 million (2011: \$30.1 million).

During the year, 5,389,002 (2011: 4,293,824) deferred shares were released to employees, of which 520,653 (2011: 237,619) were released to directors of the Bank. At 31 December 2012, the directors of the Bank have deemed interest of 1,195,184 (2011: 1,294,243) deferred shares.

14. CAPITAL RESERVES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	279,402	612,826	90,289	432,498
Share-based staff costs capitalised	10,699	9,881	10,699	9,881
Shares purchased by DSP Trust	(39,918)	(27,475)	–	–
Shares vested under DSP Scheme	39,292	29,180	–	–
Transfer from/(to) unappropriated profit (Note 12)	91,048	(332,546)	–	(339,626)
Transfer to share capital (Note 13.1)	(5,003)	(12,464)	(5,003)	(12,464)
At 31 December	375,520	279,402	95,985	90,289

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. As at 31 December 2011, there was no statutory reserve remaining in the Group's banking entities operating in Singapore.

Other capital reserves include the Bank's employee share schemes' reserves and deferred shares held by DSP Trust.

15. REVENUE RESERVES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Unappropriated profit (Note 12)	14,060,759	11,354,893	8,267,103	6,741,859
General reserves	1,327,161	1,328,299	1,112,861	1,113,999
Currency translation reserves	(807,709)	(539,481)	(166,398)	(134,239)
At 31 December	14,580,211	12,143,711	9,213,566	7,721,619

15.1 General reserves

At 1 January	1,328,299	1,328,252	1,113,999	984,112
Arising from merger of subsidiaries	–	–	–	129,840
DSP reserve from dividends on unvested shares	3,579	3,749	3,579	3,749
Transfer to unappropriated profits (Note 12)	(4,717)	(3,702)	(4,717)	(3,702)
At 31 December	1,327,161	1,328,299	1,112,861	1,113,999

The general reserves have not been earmarked for any specific purpose, and include merger reserves arising from common control transactions, as well as dividends on unvested shares under the DSP.

15. REVENUE RESERVES (continued)

15.2 Currency translation reserves

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	(539,481)	(550,244)	(134,239)	(141,856)
Adjustments for the year	(407,162)	24,069	(40,223)	6,860
Effective portion of hedge	138,934	(13,289)	8,064	757
Transfer to unappropriated profits (Note 12)	–	(17)	–	–
At 31 December	(807,709)	(539,481)	(166,398)	(134,239)

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	
	2012 \$'000	2011 \$'000
Non-controlling interests in subsidiaries	836,766	755,570
Preference shares issued by subsidiaries		
OCBC Bank (Malaysia) Berhad	159,838	163,752
OCBC Capital Corporation	400,000	400,000
OCBC Capital Corporation (2008)	1,500,000	1,500,000
Total non-controlling interests	2,896,604	2,819,322

OCBC Bank (Malaysia) Berhad (“OCBC Malaysia”), 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 OCBC Malaysia on 12 August 2015 and each dividend payment date thereafter. Dividends, which are subject to declaration by the Board of Directors of OCBC Malaysia, 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.

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.

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

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deposits of non-bank customers				
Current accounts	52,904,324	43,117,837	34,101,143	27,975,456
Savings deposits	30,613,913	28,535,633	26,657,367	24,643,983
Term deposits	62,437,532	65,916,607	41,596,059	45,936,240
Structured deposits	4,825,419	5,067,520	753,796	2,116,591
Certificate of deposits issued	10,764,497	7,512,795	10,670,120	7,435,934
Other deposits	3,593,791	4,404,447	1,546,796	1,718,507
	165,139,476	154,554,839	115,325,281	109,826,711
Deposits and balances of banks	25,655,587	21,653,245	21,538,856	18,880,685
	190,795,063	176,208,084	136,864,137	128,707,396

17.1 Deposits of non-bank customers

Analysed by currency

Singapore Dollar	82,095,000	80,236,413	79,849,325	78,484,291
US Dollar	31,455,033	21,968,570	19,836,978	13,223,720
Malaysian Ringgit	20,739,316	19,127,970	–	–
Indonesian Rupiah	5,834,913	5,157,478	1	1
Japanese Yen	1,427,082	1,780,801	690,662	1,642,249
Hong Kong Dollar	3,217,545	2,663,164	2,565,920	2,165,904
British Pound	3,372,211	4,095,178	2,762,784	3,460,549
Australian Dollar	8,036,384	7,498,790	6,627,545	6,055,977
Euro	1,332,197	1,638,117	487,202	559,927
Others	7,629,795	10,388,358	2,504,864	4,234,093
	165,139,476	154,554,839	115,325,281	109,826,711

17.2 Deposits and balances of banks

Analysed by currency

Singapore Dollar	932,801	1,086,459	891,820	1,083,275
US Dollar	12,648,972	11,933,941	11,555,256	10,667,568
Malaysian Ringgit	543,598	443,729	–	–
Indonesian Rupiah	298,421	89,258	–	–
Japanese Yen	746,817	–	571,851	–
Hong Kong Dollar	3,463,687	2,356,520	3,456,266	2,355,028
British Pound	532,197	1,075,070	428,865	1,075,064
Australian Dollar	3,433,504	1,902,276	3,380,545	1,840,545
Euro	635,068	1,143,998	632,505	1,138,674
Others	2,420,522	1,621,994	621,748	720,531
	25,655,587	21,653,245	21,538,856	18,880,685

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 the balance sheet date are analysed below.

GROUP (\$'000)	2012			2011		
	Principal notional amount	Derivative receivables	Derivative payables	Principal notional amount	Derivative receivables	Derivative payables
Foreign exchange derivatives ("FED")						
Forwards	45,763,528	270,015	335,886	55,616,318	477,309	275,939
Swaps	164,352,547	1,423,511	1,055,415	166,025,852	1,728,084	2,043,638
OTC options – bought	11,141,481	137,726	7,555	12,516,333	110,028	2,791
OTC options – sold	10,362,940	5,597	146,075	12,385,570	1,551	122,472
	231,620,496	1,836,849	1,544,931	246,544,073	2,316,972	2,444,840
Interest rate derivatives ("IRD")						
Swaps	292,976,242	3,058,479	3,197,069	264,945,085	3,272,682	3,342,073
OTC options – bought	1,644,674	8,967	–	1,438,617	20,509	–
OTC options – sold	7,560,785	–	40,225	6,993,040	–	42,035
Exchange traded options – bought	36,655	146	–	–	–	–
Exchange traded options – sold	36,655	–	43	–	–	–
Exchange traded futures – bought	2,142,953	57	–	3,096,729	–	–
Exchange traded futures – sold	4,051,058	–	687	7,396,281	2	56
	308,449,022	3,067,649	3,238,024	283,869,752	3,293,193	3,384,164
Equity derivatives						
Swaps	183,307	3,204	5,837	71,403	1,348	7,107
OTC options – bought	796,401	50,178	6,921	711,180	72,384	1,653
OTC options – sold	714,331	7,412	17,435	589,206	1,662	60,156
Exchange traded options – bought	–	–	–	1,507	16	–
Exchange traded futures – bought	82,927	223	310	12,578	–	59
Exchange traded futures – sold	23,041	117	6	22,730	123	112
Others	45,011	1,867	–	27,946	1,313	1,194
	1,845,018	63,001	30,509	1,436,550	76,846	70,281
Credit derivatives						
Swaps – protection buyer	9,471,841	55,594	134,974	5,857,925	160,117	44,055
Swaps – protection seller	8,825,163	125,315	48,668	5,818,064	35,638	156,132
	18,297,004	180,909	183,642	11,675,989	195,755	200,187
Other derivatives						
Precious metals – bought	64,536	746	482	87,528	656	1,454
Precious metals – sold	68,000	3,194	2	91,717	4,874	341
OTC options – bought	87,141	1,484	169	698,090	8,307	–
OTC options – sold	108,135	–	1,892	768,836	–	9,289
Others	194,653	922	921	329,051	2,212	2,212
	522,465	6,346	3,466	1,975,222	16,049	13,296
Total	560,734,005	5,154,754	5,000,572	545,501,586	5,898,815	6,112,768
Included items designated for hedges:						
Fair value hedge – FED ⁽¹⁾	1,819,211	89,673	14,816	–	–	–
Fair value hedge – IRD	4,713,400	81,714	84,507	4,188,354	95,659	69,785
Hedge of net investments – FED ⁽¹⁾	4,305,244	4,170	5,892	944,606	1,956	12,268
	10,837,855	175,557	105,215	5,132,960	97,615	82,053

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

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18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

BANK (\$'000)	2012			2011		
	Principal notional amount	Derivative receivables	Derivative payables	Principal notional amount	Derivative receivables	Derivative payables
Foreign exchange derivatives ("FED")						
Forwards	32,563,466	182,594	243,852	42,673,585	368,602	196,780
Swaps	139,435,895	1,254,259	953,905	153,333,529	1,599,855	1,966,943
OTC options – bought	7,839,724	91,888	4,988	6,002,185	70,950	314
OTC options – sold	7,093,459	3,029	101,956	6,047,459	4	90,943
	186,932,544	1,531,770	1,304,701	208,056,758	2,039,411	2,254,980
Interest rate derivatives ("IRD")						
Swaps	262,370,562	2,974,155	3,109,184	252,626,122	3,181,866	3,265,082
OTC options – bought	1,578,234	7,802	–	1,254,396	18,053	–
OTC options – sold	6,070,818	–	35,545	6,102,731	–	41,607
Exchange traded options – bought	36,655	146	–	–	–	–
Exchange traded options – sold	36,655	–	43	–	–	–
Exchange traded futures – bought	2,139,712	54	–	3,096,729	–	–
Exchange traded futures – sold	4,051,058	–	687	7,396,281	2	56
	276,283,694	2,982,157	3,145,459	270,476,259	3,199,921	3,306,745
Equity derivatives						
Swaps	80,811	264	2,898	42,208	1,138	6,897
OTC options – bought	114,482	15,118	220	198,238	14,656	568
OTC options – sold	148,569	1,117	3,363	111,167	577	2,770
Exchange traded options – bought	–	–	–	1,507	16	–
Exchange traded futures – bought	82,927	223	310	12,578	–	59
Exchange traded futures – sold	21,532	117	–	18,223	123	72
Others	44,433	1,661	–	10,396	190	1
	492,754	18,500	6,791	394,317	16,700	10,367
Credit derivatives						
Swaps – protection buyer	8,734,288	48,974	116,205	5,715,665	155,723	44,055
Swaps – protection seller	8,291,104	106,424	44,537	5,774,056	35,638	153,883
	17,025,392	155,398	160,742	11,489,721	191,361	197,938
Other derivatives						
Precious metals – bought	34,845	749	102	86,526	656	1,408
Precious metals – sold	41,958	2,838	4	90,715	4,829	341
OTC options – bought	121,841	1,663	169	698,090	8,307	–
OTC options – sold	107,573	–	1,490	768,938	–	9,290
Others	175,523	274	272	310,374	1,187	1,187
	481,740	5,524	2,037	1,954,643	14,979	12,226
Total	481,216,124	4,693,349	4,619,730	492,371,698	5,462,372	5,782,256
Included items designated for hedges:						
Fair value hedge – FED ⁽¹⁾	1,819,211	89,673	14,816	535,759	–	10,381
Fair value hedge – IRD	4,120,886	78,808	76,853	3,736,078	89,124	67,626
Hedge of net investments – FED ⁽¹⁾	560,081	52	796	278,689	1,863	1,724
	6,500,178	168,533	92,465	4,550,526	90,987	79,731

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

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Derivative receivables:				
Analysed by counterparty				
Banks	3,163,444	4,136,075	2,936,461	3,969,927
Other financial institutions	1,265,592	906,935	1,185,303	897,500
Corporates	602,709	610,382	493,476	507,700
Individuals	52,256	177,054	8,096	19,598
Others	70,753	68,369	70,013	67,647
	5,154,754	5,898,815	4,693,349	5,462,372
Analysed by geography				
Singapore	2,176,972	2,658,728	2,163,142	2,668,930
Malaysia	182,101	251,686	35,558	34,932
Indonesia ⁽¹⁾	24,605	22,046	6,243	8,274
Greater China	371,671	334,200	208,962	255,500
Other Asia Pacific ⁽¹⁾	250,271	163,701	215,965	134,501
Rest of the World	2,149,134	2,468,454	2,063,479	2,360,235
	5,154,754	5,898,815	4,693,349	5,462,372

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

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

19. OTHER LIABILITIES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Bills payable	525,451	407,123	382,817	262,953
Interest payable	501,265	451,806	291,829	254,798
Sundry creditors	2,261,839	2,027,199	420,182	512,841
Others	1,034,538	1,137,280	447,892	428,083
	4,323,093	4,023,408	1,542,720	1,458,675

At 31 December 2012, reinsurance liabilities included in "Others" amounted to \$24.3 million (2011: \$24.1 million).

20. DEFERRED TAX

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	1,079,709	1,048,012	116,533	124,823
Currency translation and others	(306)	(4,706)	478	(14)
Net (credit)/expense to income statements (Note 10)	(18,756)	(7,203)	(12,221)	3,266
(Over)/under provision in prior years	(11,274)	55,291	(9,326)	1,524
Deferred tax on fair value change taken to other comprehensive income	(71,808)	(25,878)	(56,542)	(13,066)
Net change in life assurance fund tax	149,300	14,193	–	–
At 31 December	1,126,865	1,079,709	38,922	116,533

Notes to the Financial Statements

For the financial year ended 31 December 2012

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred tax liabilities				
Accelerated tax depreciation	74,950	63,706	38,788	32,457
Debt and equity securities	315,997	374,233	27,688	84,136
Fair value on properties from business combinations	67,024	69,523	61,698	63,928
Provision for policy liabilities	735,448	607,227	–	–
Unremitted income and others	74,873	87,294	485	2,039
	1,268,292	1,201,983	128,659	182,560
Amount offset against deferred tax assets	(97,989)	(78,858)	(63,480)	(61,706)
	1,170,303	1,123,125	65,179	120,854
Deferred tax assets				
Allowances for assets	(93,697)	(78,581)	(73,497)	(50,144)
Tax losses	(697)	(8,324)	–	–
Others	(47,033)	(35,369)	(16,240)	(15,883)
	(141,427)	(122,274)	(89,737)	(66,027)
Amount offset against deferred tax liabilities	97,989	78,858	63,480	61,706
	(43,438)	(43,416)	(26,257)	(4,321)
Net deferred tax liabilities	1,126,865	1,079,709	38,922	116,533

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 2012, unutilised tax losses for which no deferred income tax asset has been recognised amounted to \$24.3 million (2011: \$15.9 million) and nil (2011: nil) for the Group and Bank respectively.

21. DEBT ISSUED

	GROUP	
	2012 \$'000	2011 \$'000
Subordinated debt (unsecured) [Note 21.1]	5,126,972	4,079,820
Fixed and floating rate notes (unsecured) [Note 21.2]	3,021,787	659,261
Commercial papers (unsecured) [Note 21.3]	2,832,523	8,292,837
Structured notes (unsecured) [Note 21.4]	443,145	31,260
	11,424,427	13,063,178

21. DEBT ISSUED (continued)

21.1 Subordinated debt (unsecured)

	Note	Issue Date	Maturity Date	2012 \$'000	GROUP 2011 \$'000
Issued by the Bank:					
SGD225 million 3.78% notes	(a)	28 Nov 2007	28 Nov 2017	–	230,254
MYR1 billion 4.60% bonds	(b)	27 Mar 2008	27 Mar 2018	399,583	409,295
MYR600 million 4.60% bonds	(b)	6 Jun 2008	6 Jun 2018	242,019	253,894
SGD711.93 million 5.60% notes	(c)	27 Mar 2009	27 Mar 2019	725,458	733,507
USD500 million 4.25% notes	(d)	18 Nov 2009	18 Nov 2019	634,463	679,813
USD500 million 3.75% notes	(e)	15 Nov 2010	15 Nov 2022	641,394	664,465
USD1 billion 3.15% notes	(f)	11 Sep 2012	11 Mar 2023	1,218,077	–
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
				5,760,994	4,871,228
Subordinated debt issued to/held by subsidiaries				(1,900,000)	(2,019,800)
Net subordinated debt issued by the Bank				3,860,994	2,851,428
Issued by OCBC Bank (Malaysia) Berhad (“OCBC Malaysia”):					
MYR200 million 5.40% Islamic bonds	(i)	24 Nov 2006	24 Nov 2021	79,919	81,876
MYR400 million 4.55% bonds	(j)	30 Nov 2007	30 Nov 2017	–	165,800
MYR400 million 6.75% Innovative Tier 1 Capital Securities	(k)	17 Apr 2009	Not applicable	159,838	163,752
MYR500 million 4.20% bonds	(l)	4 Nov 2010	4 Nov 2020	202,504	208,649
MYR600 million 4.00% bonds	(m)	15 Aug 2012	15 Aug 2022	239,141	–
				681,402	620,077
Issued by PT Bank OCBC NISP Tbk (“OCBC NISP”):					
IDR600 billion 11.10% Subordinated Bonds II	(n)	12 Mar 2008	11 Mar 2018	75,570	85,008
IDR880 billion 11.35% Subordinated Bonds III	(o)	30 Jun 2010	30 Jun 2017	110,305	124,207
				185,875	209,215
Issued by The Great Eastern Life Assurance Company Limited (“GEL”):					
SGD400 million 4.60% notes	(p)	19 Jan 2011	19 Jan 2026	399,200	399,100
Subordinated debt held by the Bank				(499)	–
Net subordinated debt issued by GEL				398,701	399,100
Total subordinated debt				5,126,972	4,079,820

- (a) The subordinated notes were fully redeemed and cancelled on 28 November 2012.
- (b) The subordinated bonds are redeemable in whole at the option of the Bank on the 5th anniversary of the issue date and each interest payment date thereafter. Interest is payable semi-annually at 4.60% per annum for the first 5 years, and thereafter at 5.60% per annum if the redemption option is not exercised. The interest 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.
- (c) The subordinated notes are redeemable in whole at the option of the Bank on 27 March 2014. 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 if the redemption option is not exercised. 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

21. DEBT ISSUED (continued)

21.1 Subordinated debt (unsecured) (continued)

- (d) The subordinated notes are redeemable in whole at the option of the Bank on 18 November 2014. 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 then relevant 5-year US Treasury benchmark rate plus 2.997% if the redemption option is not exercised. 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) The subordinated notes are redeemable in whole at the option of the Bank on 15 November 2017. 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 3-month US Dollar London Interbank Offer Rate plus 1.848% if the redemption option is not exercised. 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) The subordinated notes are redeemable in whole at the option of the Bank on 11 March 2018. Interest is payable semi-annually on 11 March and 11 September each year at 3.15% per annum up to 11 March 2018, and thereafter at a fixed rate per annum equal to the then prevailing 5-year US Dollar Swap Rate plus 2.279% if the redemption option is not exercised. 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). The subordinated note is redeemable at the option of the Bank on 20 March 2015 and each interest payment date thereafter. 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% if the redemption option is not exercised.
- (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). The subordinated note is redeemable at the option of the Bank on 20 September 2018 and each interest payment date thereafter. Interest will, if payable, be made 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.
- (i) The Islamic subordinated bonds are redeemable in whole at the option of OCBC Malaysia on 24 November 2016 and each profit payment date thereafter. The subordinated bonds were issued under the Mudharabah (profit sharing) principle with a projected constant rate of 5.40% per annum, payable semi-annually on 24 May and 24 November each year, up to 24 November 2016, and thereafter at 6.40% per annum if the redemption option is not exercised. 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) The subordinated bonds were fully redeemed and cancelled on 30 November 2012.
- (k) The Innovative Tier 1 ("IT1") Capital Securities are redeemable in whole at the option of OCBC Malaysia on 17 April 2019 and each interest payment date thereafter. 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 equal to the 6-month Kuala Lumpur Interbank Offer Rate plus 3.32% if the redemption option is not exercised. 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.
- (l) The subordinated bonds are redeemable in whole at the option of OCBC Malaysia on 4 November 2015 and each interest payment date thereafter. Interest is payable semi-annually on 4 May and 4 November each year at 4.20% per annum. In addition, 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. OCBC Malaysia 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) The subordinated bonds are redeemable in whole at the option of OCBC Malaysia on 15 August 2017 and each interest payment date thereafter. Interest is payable semi-annually on 15 February and 15 August each year at 4.00% per annum. OCBC Malaysia had entered into interest rate swaps to partially 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.
- (n) The subordinated bonds are redeemable in whole at the option of OCBC NISP on 12 March 2013. Interest is payable quarterly on 11 March, 11 June, 11 September and 11 December each year at 11.10% per annum up to 12 March 2013, and thereafter at 19.10% per annum if the redemption option is not exercised.

21. DEBT ISSUED (continued)

21.1 Subordinated debt (unsecured) (continued)

- (o) 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.
- (p) The subordinated notes are redeemable in whole at the option of GEL on 19 January 2021. Interest is payable semi-annually on 19 January and 19 July each year at 4.60% per annum up to 19 January 2021, and thereafter at a fixed rate per annum equal to the then prevailing 5-year Singapore Swap Offer Rate plus 1.35% if the redemption option is not exercised.

21.2 Fixed and floating rate notes (unsecured)

	Note	Issue Date	Maturity Date	GROUP AND BANK	
				2012 \$'000	2011 \$'000
Issued by the Bank:					
AUD500 million floating rate notes	(a)	14 Jul 2011	14 Jul 2014	635,230	659,261
HKD1 billion 2.2% fixed rate notes	(b)	19 Jan 2012	19 Jan 2017	160,381	–
AUD600 million floating rate notes	(c)	5 Mar 2012	5 Mar 2015	763,846	–
USD1 billion 1.625% fixed rate bonds	(d)	13 Mar 2012	13 Mar 2015	1,221,467	–
USD125 million floating rate notes	(e)	23 May 2012	23 May 2013	152,731	–
Other fixed and floating rate notes		13 Aug 2012 – 10 Dec 2012	13 Aug 2015 – 18 Dec 2019	88,132	–
				3,021,787	659,261

- (a) Interest is payable quarterly on 14 January, 14 April, 14 July and 14 October each year at a floating rate per annum equal to the 3-month Bank Bill Swap reference rate plus 0.83%.
- (b) Interest is payable quarterly on 19 January, 19 April, 19 July and 19 October each year at 2.20% per annum.
- (c) Interest is payable quarterly on 5 March, 5 June, 5 September and 5 December each year at a floating rate per annum equal to the 3-month Bank Bill Swap reference rate plus 1.25%.
- (d) Interest is payable semi-annually on 13 March and 13 September each year at 1.625% per annum.
- (e) Interest is payable quarterly on 23 February, 23 May, 23 August and 23 November each year at a floating rate per annum equal to the 3-month US Dollar London Interbank Offer Rate.

21.3 Commercial papers (unsecured)

	Note	GROUP	
		2012 \$'000	2011 \$'000
Issued by the Bank	(a)	2,692,969	8,235,714
Issued by a subsidiary	(b)	139,554	57,123
		2,832,523	8,292,837

- (a) The commercial papers were issued by the Bank under its ECP programme and USCP programme. The notes outstanding at 31 December 2012 were issued between 26 April 2012 (2011: 20 April 2011) and 27 December 2012 (2011: 23 December 2011), and mature between 2 January 2013 (2011: 3 January 2012) and 27 June 2013 (2011: 16 November 2012), yielding between 0.15% and 3.50% (2011: 0.21% and 4.77%).
- (b) The commercial papers were issued by the Group's leasing subsidiary under its MYR500 million 7-year CP/MTN programme expiring in 2018 (2011: MYR200 million 7-year CP/MTN programme expiring in 2012). The notes outstanding as at 31 December 2012 were issued between 23 May 2012 (2011: 14 June 2011) and 21 December 2012 (2011: 9 December 2011), and mature between 3 January 2013 (2011: 5 January 2012) and 1 March 2013 (2011: 23 March 2012), with interest rate ranging from 3.33% to 3.65% (2011: 3.42% to 3.90%).

Notes to the Financial Statements

For the financial year ended 31 December 2012

21. DEBT ISSUED (continued)

21.4 Structured notes (unsecured)

	Issue Date	Maturity Date	GROUP AND BANK	
			2012 \$'000	2011 \$'000
Issued by the Bank:				
Credit linked notes	17 Nov 2008 - 21 Dec 2012	20 Dec 2013 - 15 Jan 2019	287,348	8,000
Equity-linked notes	8 Aug 2012 - 31 Dec 2012	4 Jan 2013 - 8 Aug 2013	41,540	8,219
Fixed Rate Notes	17 Feb 2012 - 27 Dec 2012	17 Feb 2017 - 28 Dec 2037	114,257	15,041
			443,145	31,260

The structured notes were issued by the Bank under its Structured Note and Global Medium Term Notes Programmes and are carried at amortised cost, except for \$211.3 million included under credit linked notes as at 31 December 2012 which were held at fair value through profit or loss.

22. LIFE ASSURANCE FUND LIABILITIES AND INVESTMENT ASSETS

	GROUP	
	2012 \$ million	2011 \$ million
Life assurance fund liabilities		
Movements in life assurance fund		
At 1 January	44,420.8	43,267.9
Currency translation	(498.4)	(335.9)
Fair value reserve movements	69.6	(208.6)
Change in life assurance fund contract liabilities (Note 4)	3,065.9	1,697.4
At 31 December	47,057.9	44,420.8
Policy benefits	2,512.5	2,262.0
Others	2,816.6	2,521.0
	52,387.0	49,203.8
Life assurance fund investment assets		
Deposits with banks and financial institutions	2,857.1	5,950.3
Loans	3,316.1	3,409.4
Securities	43,663.8	37,470.1
Investment property	1,531.6	1,406.7
Others ⁽¹⁾	902.8	851.8
	52,271.4	49,088.3

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

Operating lease commitments	4.6	4.4
Capital commitment authorised and contracted	81.1	89.7
Derivative financial instruments (principal notional amount)	8,248.4	7,142.6
Derivative receivables	488.6	435.4
Derivative payables	41.8	60.9
Minimum lease rental receivables under non-cancellable operating leases	75.0	78.7

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

23. CASH AND PLACEMENTS WITH CENTRAL BANKS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash on hand	664,261	745,966	515,718	597,336
Balances with central banks	5,557,298	4,451,328	3,382,850	2,342,603
Money market placements and reverse repos	10,175,274	7,699,311	5,483,085	4,045,660
	16,396,833	12,896,605	9,381,653	6,985,599

Balances with central banks include mandatory reserve deposits of \$4,703.6 million (2011: \$4,414.4 million) and \$2,548.2 million (2011: \$2,336.6 million) for the Group and Bank respectively.

24. GOVERNMENT TREASURY BILLS AND SECURITIES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Singapore government treasury bills and securities				
Trading, at fair value	1,387,525	2,333,350	1,387,525	2,333,350
Available-for-sale, at fair value	11,492,379	10,631,867	10,692,392	10,258,930
Fair value at initial recognition	379,817	284,896	–	–
Gross securities	13,259,721	13,250,113	12,079,917	12,592,280
Assets pledged (Note 44)	(118,497)	–	(118,497)	–
	13,141,224	13,250,113	11,961,420	12,592,280
Other government treasury bills and securities				
Trading, at fair value	1,785,956	1,574,626	1,740,293	1,330,129
Available-for-sale, at fair value	7,390,484	6,029,475	4,377,781	2,717,047
Gross securities	9,176,440	7,604,101	6,118,074	4,047,176
Assets pledged (Note 44)	(19,687)	(207,297)	(19,687)	(59,553)
	9,156,753	7,396,804	6,098,387	3,987,623
Gross securities analysed by geography				
Singapore	13,259,721	13,250,113	12,079,917	12,592,280
Malaysia	2,238,012	2,374,067	92,561	–
Indonesia ⁽¹⁾	1,040,060	1,202,719	182,635	300,814
Greater China	1,418,577	2,282,848	1,418,576	2,011,906
Other Asia Pacific ⁽¹⁾	3,883,811	1,693,846	3,876,061	1,687,795
Rest of the World	595,980	50,621	548,241	46,661
	22,436,161	20,854,214	18,197,991	16,639,456

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

25. PLACEMENTS WITH AND LOANS TO BANKS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At fair value:				
Certificate of deposits purchased (Trading)	207,747	231,789	207,747	231,789
Certificate of deposits purchased (Available-for-sale)	10,062,287	4,483,876	9,209,132	3,811,245
Forfeiting loans (Trading)	–	484	–	484
	10,270,034	4,716,149	9,416,879	4,043,518
At amortised cost:				
Placements with and loans to banks	17,879,608	17,392,038	11,191,660	12,682,638
Market bills purchased	1,873,608	4,862,982	1,873,608	4,759,605
Reverse repos	484,982	1,889,453	–	–
	20,238,198	24,144,473	13,065,268	17,442,243
Balances with banks				
Assets pledged (Note 44)	(1,464,467)	(831,495)	(1,464,467)	(831,495)
Bank balances of life assurance fund	767,163	585,450	–	–
	29,810,928	28,614,577	21,017,680	20,654,266

Notes to the Financial Statements

For the financial year ended 31 December 2012

25. PLACEMENTS WITH AND LOANS TO BANKS (continued)

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balances with banks analysed:				
By currency				
Singapore Dollar	391,763	260,894	317,212	66,857
US Dollar	14,891,213	11,698,780	12,691,586	11,196,286
Malaysian Ringgit	1,385,740	1,118,778	109	151
Indonesian Rupiah	67,971	62,184	1	101
Japanese Yen	442,471	490,164	363,518	405,235
Hong Kong Dollar	1,271,101	688,384	1,268,729	683,736
British Pound	1,013,516	715,858	1,009,478	689,897
Australian Dollar	2,134,185	1,712,067	2,004,248	1,555,755
Euro	1,171,912	756,012	1,165,627	751,811
Others	7,738,360	11,357,501	3,661,639	6,135,932
	30,508,232	28,860,622	22,482,147	21,485,761
By geography				
Singapore	1,305,918	1,365,382	1,234,655	1,198,078
Malaysia	2,967,583	2,093,138	669,244	357,350
Indonesia ⁽¹⁾	382,339	684,479	315,001	666,614
Greater China	17,666,708	18,714,267	12,664,937	13,779,204
Other Asia Pacific ⁽¹⁾	4,814,495	3,319,350	4,736,746	3,193,397
Rest of the World	3,371,189	2,684,006	2,861,564	2,291,118
	30,508,232	28,860,622	22,482,147	21,485,761

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

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

26. LOANS AND BILLS RECEIVABLE

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Gross loans	144,030,440	135,132,036	105,301,591	98,822,338
Specific allowances (Note 28)	(303,498)	(302,383)	(133,926)	(106,340)
Portfolio allowances (Note 29)	(1,350,464)	(1,219,577)	(1,011,065)	(929,471)
Net loans	142,376,478	133,610,076	104,156,600	97,786,527
Assets pledged (Note 44)	–	(53,225)	–	–
	142,376,478	133,556,851	104,156,600	97,786,527
Bills receivable	9,874,156	11,312,408	8,337,025	9,182,377
Loans	132,502,322	122,297,668	95,819,575	88,604,150
Net loans	142,376,478	133,610,076	104,156,600	97,786,527
26.1 Analysed by currency				
Singapore Dollar	70,141,316	61,198,143	68,376,147	59,834,591
US Dollar	31,680,402	35,716,290	23,532,756	27,932,634
Malaysian Ringgit	18,403,794	16,723,707	166	114
Indonesian Rupiah	4,989,282	4,464,640	–	–
Japanese Yen	1,919,733	2,877,286	599,359	1,197,351
Hong Kong Dollar	5,110,505	5,592,007	4,377,786	4,375,942
British Pound	2,300,292	1,169,916	1,461,780	760,163
Australian Dollar	3,698,219	3,496,733	3,529,736	3,407,014
Euro	1,133,721	777,402	797,400	549,602
Others	4,653,176	3,115,912	2,626,461	764,927
	144,030,440	135,132,036	105,301,591	98,822,338

26. LOANS AND BILLS RECEIVABLE (continued)

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
26.2 Analysed by product				
Overdrafts	6,945,516	6,686,300	1,175,550	1,300,696
Short-term and revolving loans	21,110,339	20,172,859	10,956,105	10,760,554
Syndicated and term loans	57,140,246	53,777,005	47,075,382	44,062,514
Housing and commercial property loans	40,190,539	34,390,670	31,879,500	27,392,669
Car, credit card and share margin loans	2,794,648	2,711,093	2,036,468	2,027,198
Others	15,849,152	17,394,109	12,178,586	13,278,707
	144,030,440	135,132,036	105,301,591	98,822,338
26.3 Analysed by industry				
Agriculture, mining and quarrying	4,862,736	4,041,522	3,097,650	2,494,209
Manufacturing	8,196,914	8,424,119	3,337,780	3,457,550
Building and construction	22,387,826	20,365,431	17,841,981	16,109,518
Housing	37,809,235	32,075,535	29,337,663	25,462,979
General commerce	17,502,298	20,347,142	13,011,458	16,208,458
Transport, storage and communication	9,105,774	9,208,265	7,529,643	7,891,091
Financial institutions, investment and holding companies ⁽¹⁾	22,456,318	18,792,209	17,517,562	14,488,483
Professionals and individuals	14,272,201	13,952,117	8,075,516	7,260,515
Others ⁽¹⁾	7,437,138	7,925,696	5,552,338	5,449,535
	144,030,440	135,132,036	105,301,591	98,822,338

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

26.4 Analysed by interest rate sensitivity

Fixed

Singapore	6,129,952	6,839,067	6,030,387	6,726,555
Malaysia	1,926,261	1,366,498	–	–
Indonesia ⁽¹⁾	1,733,716	1,241,644	–	–
Greater China	1,460,677	2,224,825	1,460,671	2,200,890
Other Asia Pacific ⁽¹⁾	56,858	307,539	56,858	307,539
Rest of the World	573	682	573	682
	11,308,037	11,980,255	7,548,489	9,235,666

Variable

Singapore	91,078,172	81,963,244	81,835,401	73,296,770
Malaysia	21,416,456	20,319,264	3,898,853	3,764,880
Indonesia ⁽¹⁾	4,980,906	4,722,566	–	–
Greater China	9,130,289	9,849,327	5,904,265	6,232,804
Other Asia Pacific ⁽¹⁾	4,360,967	4,527,804	4,358,970	4,522,642
Rest of the World	1,755,613	1,769,576	1,755,613	1,769,576
	132,722,403	123,151,781	97,753,102	89,586,672

Total	144,030,440	135,132,036	105,301,591	98,822,338
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⁽¹⁾ Comparatives have been restated to conform to current year's presentation.

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

26.5 Analysed by geography

Singapore	75,215,488	68,259,948	72,887,754	66,647,296
Malaysia	23,157,061	21,063,792	3,417,694	2,926,056
Indonesia ⁽¹⁾	10,678,702	9,383,017	5,553,187	3,036,634
Greater China	17,378,849	19,952,336	13,369,404	15,064,753
Other Asia Pacific ⁽¹⁾	8,253,418	7,873,178	5,486,114	7,013,250
Rest of the World	9,346,922	8,599,765	4,587,438	4,134,349
	144,030,440	135,132,036	105,301,591	98,822,338

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

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						
2012						
Classified loans	698	298	149	1,145	(300)	845
Classified debt securities	–	3	1	4	(3)	1
Classified contingents	19	1	3	23	(2)	21
Total classified assets	717	302	153	1,172	(305)	867
2011						
Classified loans	796	240	136	1,172	(295)	877
Classified debt securities	101	9	1	111	(10)	101
Classified contingents	95	56	3	154	(8)	146
Total classified assets	992	305	140	1,437	(313)	1,124
BANK						
2012						
Classified loans	461	158	49	668	(134)	534
Classified debt securities	–	#	#	#	(#)	–
Classified contingents	1	–	–	1	–	1
Total classified assets	462	158	49	669	(134)	535
2011						
Classified loans	406	168	35	609	(102)	507
Classified debt securities	100	7	#	107	(7)	100
Classified contingents	94	54	–	148	(4)	144
Total classified assets	600	229	35	864	(113)	751

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

	GROUP		BANK	
	2012 \$ million	2011 \$ million	2012 \$ million	2011 \$ million
27.1 Analysed by period overdue				
Over 180 days	328	512	50	191
Over 90 days to 180 days	81	85	40	45
30 days to 90 days	160	204	116	160
Less than 30 days	10	25	7	7
No overdue	593	611	456	461
	1,172	1,437	669	864
27.2 Analysed by collateral type				
Property	563	620	317	348
Fixed deposit	3	4	1	1
Stock and shares	#	89	#	#
Motor vehicles	4	2	3	2
Secured – Others	104	252	67	193
Unsecured – Corporate and other guarantees	147	236	147	235
Unsecured – Clean	351	234	134	85
	1,172	1,437	669	864

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

27. NON-PERFORMING LOANS (“NPLS”), DEBT SECURITIES AND CONTINGENTS (continued)

	GROUP		BANK	
	2012 \$ million	2011 \$ million	2012 \$ million	2011 \$ million
27.3 Analysed by industry				
Agriculture, mining and quarrying	6	6	#	#
Manufacturing	383	378	215	245
Building and construction	204	317	151	178
Housing	192	188	79	75
General commerce	105	136	29	51
Transport, storage and communication	77	128	63	116
Financial institutions, investment and holding companies ⁽¹⁾	92	140	85	131
Professionals and individuals	87	114	43	64
Others ⁽¹⁾	26	30	4	4
	1,172	1,437	669	864

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

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

27.4 Analysed by geography

\$ million	2012				2011			
	Singapore	Malaysia	Rest of the World	Total	Singapore	Malaysia	Rest of the World	Total
GROUP								
Substandard	91	251	375	717	205	462	325	992
Doubtful	119	134	49	302	151	72	82	305
Loss	48	47	58	153	34	46	60	140
	258	432	482	1,172	390	580	467	1,437
Specific allowances	(105)	(127)	(73)	(305)	(71)	(164)	(78)	(313)
	153	305	409	867	319	416	389	1,124
BANK								
Substandard	91	10	361	462	205	91	304	600
Doubtful	119	–	39	158	151	12	66	229
Loss	48	–	1	49	34	–	1	35
	258	10	401	669	390	103	371	864
Specific allowances	(105)	(3)	(26)	(134)	(71)	(14)	(28)	(113)
	153	7	375	535	319	89	343	751

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

27.5 Restructured/renewed 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 16.7% (2011: 14.4%) and 27.8% (2011: 21.8%) for the Group and the Bank respectively.

	2012		2011	
	Amount \$ million	Allowance \$ million	Amount \$ million	Allowance \$ million
GROUP				
Substandard	173	10	186	11
Doubtful	22	33	19	16
Loss	#	#	2	2
	195	43	207	29
BANK				
Substandard	168	8	174	9
Doubtful	18	28	15	12
Loss	#	#	#	#
	186	36	189	21

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

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28. SPECIFIC ALLOWANCES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	302,383	328,130	106,340	83,661
Currency translation	(12,426)	2,869	(3,548)	339
Bad debts written off	(93,471)	(101,341)	(55,350)	(35,793)
Recovery of amounts previously provided for	(42,605)	(49,479)	(27,590)	(32,028)
Allowances for loans	157,827	128,517	120,335	92,737
Net allowances charged to income statements (Note 9)	115,222	79,038	92,745	60,709
Interest recognition on impaired loans	(8,210)	(6,729)	(6,261)	(2,542)
Transfer from/(to) other accounts	–	416	–	(34)
At 31 December (Note 26)	303,498	302,383	133,926	106,340

Analysed by industry

	Cumulative specific allowances		Specific allowances charged/ (write-back) to income statements	
	2012 \$ million	2011 \$ million	2012 \$ million	2011 \$ million
GROUP				
Agriculture, mining and quarrying	2	1	#	(#)
Manufacturing	87	90	26	30
Building and construction	23	25	1	(9)
Housing	36	39	4	5
General commerce	44	47	9	9
Transport, storage and communication	26	15	17	7
Financial institutions, investment and holding companies	9	11	(3)	4
Professionals and individuals	57	51	56	30
Others	19	23	5	3
	303	302	115	79
BANK				
Agriculture, mining and quarrying	#	#	(#)	(1)
Manufacturing	57	43	24	30
Building and construction	6	4	3	1
Housing	#	#	#	(3)
General commerce	7	7	6	2
Transport, storage and communication	20	10	17	6
Financial institutions, investment and holding companies	5	11	(3)	4
Professionals and individuals	36	29	43	21
Others	3	2	3	1
	134	106	93	61

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

29. PORTFOLIO ALLOWANCES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	1,219,577	1,094,529	929,471	856,047
Currency translation	(16,711)	(1,901)	(6,184)	896
Allowances charged to income statements (Note 9)	147,598	127,364	87,778	72,528
Transfer to other accounts	–	(415)	–	–
At 31 December (Note 26)	1,350,464	1,219,577	1,011,065	929,471

30. DEBT AND EQUITY SECURITIES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trading securities				
Quoted debt securities	1,119,217	1,420,376	887,544	1,038,387
Unquoted debt securities	804,105	483,736	632,331	280,515
Quoted equity securities	156,944	94,703	155,176	83,784
Quoted investment funds	9,815	757	9,815	404
Unquoted investment funds	22,587	43,190	22,587	43,190
	2,112,668	2,042,762	1,707,453	1,446,280
Available-for-sale securities				
Quoted debt securities	6,505,733	6,764,556	4,782,004	5,026,798
Unquoted debt securities	3,700,210	3,027,200	2,178,439	1,887,297
Quoted equity securities	2,138,506	2,694,921	555,006	984,399
Unquoted equity securities	161,374	234,187	21,560	49,414
Quoted investment funds	192,577	183,072	20,044	15,646
Unquoted investment funds	19,186	77,099	9,392	14,324
	12,717,586	12,981,035	7,566,445	7,977,878
Securities classified as loans and receivables				
Unquoted debt, at amortised cost	555,240	811,686	418,198	741,963
Allowance for impairment (Note 32)	–	(7,085)	–	(6,824)
Net carrying value	555,240	804,601	418,198	735,139
Total debt and equity securities				
Debt securities – gross	12,684,505	12,507,554	8,898,516	8,974,960
Allowance for impairment (Note 32)	–	(7,085)	–	(6,824)
Debt securities – net	12,684,505	12,500,469	8,898,516	8,968,136
Equity securities	2,456,824	3,023,811	731,742	1,117,597
Investment funds	244,165	304,118	61,838	73,564
Total securities	15,385,494	15,828,398	9,692,096	10,159,297
Assets pledged (Note 44)	(453,504)	(746,964)	(343,684)	(437,857)
	14,931,990	15,081,434	9,348,412	9,721,440
Debt securities analysis:				
By credit rating				
Investment grade (AAA to BBB)	7,276,041	7,790,806	5,875,389	5,964,527
Non-investment grade (BB to C)	235,782	239,208	200,950	214,466
Non-rated	5,172,682	4,470,455	2,822,177	2,789,143
	12,684,505	12,500,469	8,898,516	8,968,136
By credit quality				
Pass	12,671,322	12,399,580	8,885,964	8,867,450
Special mention	12,552	–	12,552	–
Substandard	–	100,644	–	100,644
Doubtful	631	7,330	–	6,866
Loss	–	–	–	–
Allowance for impairment (Note 32)	–	(7,085)	–	(6,824)
	12,684,505	12,500,469	8,898,516	8,968,136

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30. DEBT AND EQUITY SECURITIES (continued)

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Debt and equity securities – Concentration risks:				
By industry				
Agriculture, mining and quarrying	408,254	443,888	345,867	361,460
Manufacturing	585,160	1,389,955	182,031	590,919
Building and construction	1,520,989	1,444,350	881,715	1,031,834
General commerce	361,637	231,727	252,660	124,453
Transport, storage and communication	921,623	670,912	574,366	485,725
Financial institutions, investment and holding companies	9,212,423	9,885,261	6,437,240	6,871,704
Others	2,375,408	1,762,305	1,018,217	693,202
	15,385,494	15,828,398	9,692,096	10,159,297
By issuer				
Public sector	1,545,949	1,284,896	1,265,405	1,044,093
Banks	5,933,112	6,624,941	4,257,900	4,592,837
Corporations	7,212,368	7,664,369	4,131,557	4,484,598
Others	694,065	254,192	37,234	37,769
	15,385,494	15,828,398	9,692,096	10,159,297
By geography				
Singapore	3,689,248	4,351,971	2,458,037	2,821,259
Malaysia	1,994,262	1,866,345	446,604	453,951
Indonesia ⁽¹⁾	395,504	259,151	187,132	83,303
Greater China	3,623,488	2,930,528	1,908,758	1,366,101
Other Asia Pacific ⁽¹⁾	3,365,215	3,081,820	2,925,217	2,780,453
Rest of the World ⁽¹⁾	2,317,777	3,338,583	1,766,348	2,654,230
	15,385,494	15,828,398	9,692,096	10,159,297

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

The analysis by geography is determined based on country of incorporation.

Debt securities are 82% (2011: 79%) and 92% (2011: 88%) of total securities, for the Group and the Bank respectively.

31. OTHER ASSETS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Interest receivable	737,162	705,015	466,891	475,878
Sundry debtors (net)	2,068,349	1,527,042	20,229	180,820
Deposits and prepayments	299,003	316,523	175,190	184,626
Others	740,113	642,859	485,031	345,404
	3,844,627	3,191,439	1,147,341	1,186,728

At 31 December 2012, reinsurance assets included in "Others" amounted to \$111.0 million (2011: \$113.1 million).

32. ALLOWANCES FOR IMPAIRMENT OF SECURITIES AND OTHER ASSETS

GROUP (\$'000)	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
At 1 January 2011	7,019	67,196	7,076	13,476	94,767
Currency translation	66	(255)	(107)	(14)	(310)
Amounts written off	–	(31)	(53)	(1,034)	(1,118)
(Write-back)/impairment charge to income statements (Note 9)	–	(699)	(243)	17,036	16,094
Acquisition of a business	–	–	–	6,157	6,157
Transfers from/(to) other accounts	–	217	(217)	(45)	(45)
At 31 December 2011/1 January 2012	7,085	66,428	6,456	35,576	115,545
Currency translation	(417)	(304)	(72)	(1,846)	(2,639)
Amounts written off	(6,450)	–	(914)	(18,783)	(26,147)
(Write-back)/impairment charge to income statements (Note 9)	(218)	–	(552)	4,029	3,259
Transfers (to)/from other accounts	–	–	(977)	3,605	2,628
At 31 December 2012	–	66,124	3,941	22,581	92,646
	(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 2011	13,578	6,753	948	4,836	1,637	27,752
Currency translation	–	71	–	(68)	125	128
Amounts written off	(8,291)	–	–	(53)	–	(8,344)
Impairment charge to income statements (Note 9)	–	–	–	–	3,442	3,442
Transfers (to)/from other accounts	–	–	(2)	2	(9)	(9)
At 31 December 2011/1 January 2012	5,287	6,824	946	4,717	5,195	22,969
Currency translation	–	(414)	–	(38)	(388)	(840)
Amounts written off	–	(6,450)	–	(914)	–	(7,364)
Impairment charge to income statements (Note 9)	–	40	–	111	454	605
Transfers to other accounts	–	–	–	(607)	–	(607)
At 31 December 2012	5,287	–	946	3,269	5,261	14,763
	(Notes 33-34)	(Note 30)	(Note 35)	(Note 36)		

33. ASSOCIATES AND JOINT VENTURES

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Unquoted equity securities, at cost	308,677	332,500	193,449	217,272
Allowance for impairment (Note 32)	–	–	(2,199)	(2,199)
Net carrying value	308,677	332,500	191,250	215,073
Share of post-acquisition reserves	46,177	27,525	–	–
Amount due from associates (unsecured)	38	410	–	–
	354,892	360,435	191,250	215,073

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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	2012	2011
At 31 December:		
Assets	1,126,771	1,037,417
Liabilities	(229,496)	(209,223)
Contingent liabilities	1,323	1,176
For the year ended:		
Total income	387,452	242,538
Profit/(loss)	140,379	58,938

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

Name of associate	Country of incorporation	Effective % interest held	
		2012	2011
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	2012	2011
At 31 December:		
Share of current assets	151.1	141.1
Share of non-current assets	45.3	41.2
Share of current liabilities	(38.0)	(32.1)
Share of non-current liabilities	(90.9)	(76.3)
For the year ended:		
Share of income	39.0	32.6
Share of expenses	(42.3)	(41.1)

34. SUBSIDIARIES

	2012	BANK
	\$'000	2011
		\$'000
Investments in subsidiaries, at cost		
Quoted security	1,895,642	1,895,642
Unquoted securities	3,872,896	3,794,156
Allowance for impairment (Note 32)	(3,088)	(3,088)
Net carrying value	5,765,450	5,686,710
Unsecured loans and receivables	4,744,058	5,706,918
Secured loans and receivables	1,067,200	1,068,200
Amount due from subsidiaries	5,811,258	6,775,118
Investments in and amount due from subsidiaries	11,576,708	12,461,828

At 31 December 2012, the fair values of the Group's interests in its quoted subsidiaries, Great Eastern Holdings Limited and PT Bank OCBC NISP Tbk, were \$6,461.0 million (2011: \$5,190.3 million) and \$1,246.3 million (2011: \$918.6 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⁾	
		2012	2011
Banking			
Singapore Island Bank Limited	Singapore	100	100
Bank of Singapore Limited	Singapore	100	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
PT Bank OCBC NISP Tbk ⁽¹⁾ (Note 34.2)	Indonesia	85	85
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
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.

34.2 Acquisition of non-controlling interests

During the financial year, a subsidiary of the Bank, OCBC Overseas Investments Pte. Ltd., subscribed for a total of 1,283,463,881 new shares pursuant to the rights issue undertaken by PT Bank OCBC NISP Tbk ("OCBC NISP"), at an issue price of IDR1,000 per share. The aggregate consideration for the rights issue subscription amounted to \$176 million. Consequently, the Group's interest in OCBC NISP increased from 85.06% to 85.08%.

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35. PROPERTY, PLANT AND EQUIPMENT

GROUP (\$'000)	2012				2011			
	Property-related	Computer-related	Others	Total	Property-related	Computer-related	Others	Total
Cost								
At 1 January	1,457,560	1,121,832	435,781	3,015,173	1,462,406	976,754	397,347	2,836,507
Currency translation	(16,438)	(18,249)	(9,675)	(44,362)	(5,025)	(5,224)	(1,585)	(11,834)
Acquisition of a subsidiary/business	–	521	300	821	4,913	150	311	5,374
Additions	20,053	204,969	60,877	285,899	16,192	173,514	47,840	237,546
Disposals and other transfers	(6,425)	(36,684)	(7,012)	(50,121)	(23,772)	(23,362)	(9,583)	(56,717)
Transfer from investment property (Note 36)	14,807	–	–	14,807	2,846	–	1,451	4,297
At 31 December	1,469,557	1,272,389	480,271	3,222,217	1,457,560	1,121,832	435,781	3,015,173
Accumulated depreciation								
At 1 January	(310,696)	(692,867)	(281,312)	(1,284,875)	(294,960)	(590,339)	(259,275)	(1,144,574)
Currency translation	4,444	11,344	6,696	22,484	927	3,403	1,184	5,514
Acquisition of a subsidiary	–	(144)	(121)	(265)	–	–	–	–
Disposals and other transfers	231	18,499	9,103	27,833	11,250	21,858	19,515	52,623
Depreciation charge	(14,112)	(111,968)	(41,305)	(167,385)	(14,249)	(101,912)	(36,251)	(152,412)
Depreciation charge to profit from life assurance (Note 4)	(13,636)	(27,051)	(6,057)	(46,744)	(13,683)	(25,877)	(5,553)	(45,113)
Transfer (from)/to investment property (Note 36)	(4,556)	–	–	(4,556)	19	–	(932)	(913)
At 31 December	(338,325)	(802,187)	(312,996)	(1,453,508)	(310,696)	(692,867)	(281,312)	(1,284,875)
Accumulated impairment losses (Note 32)								
At 1 January	(65,829)	(63)	(536)	(66,428)	(65,856)	(63)	(1,277)	(67,196)
Currency translation	304	–	–	304	244	–	11	255
Disposals	–	–	–	–	–	–	31	31
Write-back to income statements	–	–	–	–	–	–	699	699
Transfer from investment property (Note 36)	–	–	–	–	(217)	–	–	(217)
At 31 December	(65,525)	(63)	(536)	(66,124)	(65,829)	(63)	(536)	(66,428)
Net carrying value, at 31 December	1,065,707	470,139	166,739	1,702,585	1,081,035	428,902	153,933	1,663,870
Freehold property	310,289				309,890			
Leasehold property	755,418				771,145			
Net carrying value	1,065,707				1,081,035			
Market value	2,368,792				2,236,041			

35. PROPERTY, PLANT AND EQUIPMENT (continued)

BANK (\$'000)	2012				2011			
	Property-related	Computer-related	Others	Total	Property-related	Computer-related	Others	Total
Cost								
At 1 January	245,797	506,747	116,142	868,686	258,836	407,672	111,238	777,746
Currency translation	(12)	(123)	(457)	(592)	(19)	2	29	12
Additions	–	107,191	22,804	129,995	–	107,201	11,360	118,561
Disposals and other transfers	–	(5,673)	(1,472)	(7,145)	–	(8,128)	(6,485)	(14,613)
Transfer from/(to) investment property (Note 36)	10,405	–	–	10,405	(13,020)	–	–	(13,020)
At 31 December	256,190	608,142	137,017	1,001,349	245,797	506,747	116,142	868,686
Accumulated depreciation								
At 1 January	(60,458)	(304,818)	(77,175)	(442,451)	(59,074)	(244,798)	(72,299)	(376,171)
Currency translation	6	104	284	394	9	(6)	(21)	(18)
Disposals	–	5,311	1,321	6,632	–	8,121	5,990	14,111
Depreciation charge	(4,837)	(70,836)	(13,111)	(88,784)	(4,726)	(68,135)	(10,845)	(83,706)
Transfer (from)/to investment property (Note 36)	(2,264)	–	–	(2,264)	3,333	–	–	3,333
At 31 December	(67,553)	(370,239)	(88,681)	(526,473)	(60,458)	(304,818)	(77,175)	(442,451)
Accumulated impairment losses (Note 32)								
At 1 January	(946)	–	–	(946)	(948)	–	–	(948)
Transfer to investment property (Note 36)	–	–	–	–	2	–	–	2
At 31 December	(946)	–	–	(946)	(946)	–	–	(946)
Net carrying value, at 31 December	187,691	237,903	48,336	473,930	184,393	201,929	38,967	425,289
Freehold property	36,422				37,092			
Leasehold property	151,269				147,301			
Net carrying value	187,691				184,393			
Market value	403,429				354,618			

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36. INVESTMENT PROPERTY

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cost				
At 1 January	1,119,631	910,346	665,780	639,841
Currency translation	(13,829)	2,236	(1,127)	83
Additions	17,335	13,344	16,180	13,016
Acquisition of a subsidiary/business	–	203,329	–	–
Disposals	(18,850)	(965)	(2,801)	(180)
Transfer (to)/from:				
Property, plant and equipment (Note 35)	(14,807)	(4,297)	(10,405)	13,020
Assets held for sale	(10,560)	(4,362)	(3,857)	–
At 31 December	1,078,920	1,119,631	663,770	665,780
Accumulated depreciation				
At 1 January	(190,840)	(170,377)	(92,146)	(81,518)
Currency translation	1,400	(158)	332	(73)
Acquisition of a subsidiary	–	(8,026)	–	–
Disposals	2,516	782	427	34
Depreciation charge	(16,812)	(14,025)	(7,140)	(7,256)
Transfer to/(from):				
Property, plant and equipment (Note 35)	4,556	913	2,264	(3,333)
Assets held for sale	2,441	51	788	–
At 31 December	(196,739)	(190,840)	(95,475)	(92,146)
Accumulated impairment losses (Note 32)				
At 1 January	(6,456)	(7,076)	(4,717)	(4,836)
Currency translation	72	107	38	68
Disposals	914	53	914	53
Write-back/(impairment charge) to income statements	552	243	(111)	–
Transfer to/(from):				
Property, plant and equipment (Note 35)	–	217	–	(2)
Assets held for sale	977	–	607	–
At 31 December	(3,941)	(6,456)	(3,269)	(4,717)
Net carrying value				
Freehold property	339,193	348,796	188,021	174,897
Leasehold property	539,047	573,539	377,005	394,020
At 31 December	878,240	922,335	565,026	568,917
Market value	2,881,727	2,800,977	1,476,676	1,406,036

37. GOODWILL AND INTANGIBLE ASSETS

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Goodwill				
At 1 January	3,237,995	3,226,578	1,867,176	1,867,176
Acquisition of a subsidiary/interests in a business	1,009	7,568	–	–
Currency translation	(63,807)	3,849	–	–
At 31 December	3,175,197	3,237,995	1,867,176	1,867,176
Intangible assets				
At 1 January	709,399	769,903		
Amortisation charged to income statements:				
– Customer relationships ⁽¹⁾	(13,267)	(14,701)		
– Life assurance business ⁽²⁾	(46,636)	(46,636)		
Currency translation	(6,791)	833		
At 31 December	642,705	709,399		
Total goodwill and intangible assets	3,817,902	3,947,394	1,867,176	1,867,176
Analysed as follows:				
Goodwill from acquisition of subsidiaries/business	3,175,197	3,237,995	1,867,176	1,867,176
Intangible assets, at cost	1,063,485	1,071,915	–	–
Accumulated amortisation for intangible assets	(420,780)	(362,516)	–	–
	3,817,902	3,947,394	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. At 31 December 2012, these have a remaining useful life of 8 years (2011: 9 years).

⁽²⁾ The value of in-force assurance business of the Group is amortised over a useful life of 20 years. At 31 December 2012, the intangible asset has a remaining useful life of 12 years (2011: 13 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	
		2012 \$'000	2011 \$'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	531,113	565,346
Lion Global Investors Limited	Value-in-use	29,437	29,437
PT Bank OCBC NISP Tbk	Value-in-use	233,377	262,713
Others	Value-in-use	15,313	14,542
		3,175,197	3,237,995

Notes to the Financial Statements

For the financial year ended 31 December 2012

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 2012, the discount rates used ranged from 10.2% to 10.4% (2011: 10.2% to 12.4%). 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% (2011: 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% (2011: 8.0%) and 9.5% (2011: 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 5.12%, 4.0% and 6.0% (2011: 5.25%, 4.0% and 7.0%) for Singapore's participating fund, non-participating fund and linked fund respectively and 6.0%, 5.0% and 7.0% (2011: 6.0%, 5.0% and 7.0%) for Malaysia's participating fund, non-participating fund and linked fund respectively.

38. SEGMENT INFORMATION

38.1 Business segments

\$ million	Global Consumer/ Private Banking	Global Corporate/ Investment Banking	Global Treasury and Markets	Insurance	Others	Group
Year ended 31 December 2012						
Total income	1,949	2,658	842	1,537	975	7,961
Operating profit before allowances and amortisation	697	1,813	619	1,346	791	5,266
Amortisation of intangible assets	(13)	–	–	(47)	–	(60)
Allowances and impairment for loans and other assets	(95)	(68)	(2)	(#)	(106)	(271)
Operating profit after allowances and amortisation	589	1,745	617	1,299	685	4,935
Other information:						
Capital expenditure	26	4	#	52	221	303
Depreciation	34	10	2	3	135	184
At 31 December 2012						
Segment assets	66,779	93,494	66,600	60,617	19,030	306,520
Unallocated assets						90
Elimination						(10,667)
Total assets						295,943
Segment liabilities	73,848	88,563	43,268	53,226	16,937	275,842
Unallocated liabilities						2,067
Elimination						(10,667)
Total liabilities						267,242
Other information:						
Gross non-bank loans	55,384	86,188	1,440	398	620	144,030
NPAs (include debt securities)	267	887	–	3	15	1,172

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

38. SEGMENT INFORMATION (continued)

38.1 Business segments (continued)

\$ million	Global Consumer/ Private Banking	Global Corporate/ Investment Banking	Global Treasury and Markets	Insurance	Others	Group
Year ended 31 December 2011						
Total income	1,698	2,336	693	672	262	5,661
Operating profit before allowances and amortisation	574	1,554	484	488	130	3,230
Amortisation of intangible assets (Allowances and impairment)/ write-back for loans and other assets	(14) (71)	– (165)	– (5)	(47) (4)	– 24	(61) (221)
Operating profit after allowances and amortisation	489	1,389	479	437	154	2,948
Other information:						
Capital expenditure	23	2	#	42	184	251
Depreciation	31	9	1	3	122	166
At 31 December 2011						
Segment assets	57,331	94,630	60,684	56,579	17,203	286,427
Unallocated assets						71
Elimination						(8,740)
Total assets						277,758
Segment liabilities	65,592	87,064	37,935	50,227	18,367	259,185
Unallocated liabilities						1,923
Elimination						(8,740)
Total liabilities						252,368
Other information:						
Gross non-bank loans	48,810	83,952	1,287	373	710	135,132
NPAs (include debt securities)	292	1,121	–	3	21	1,437

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

OCBC Group's businesses are presented in the following customer segments and business activities: Global Consumer/Private Banking, Global Corporate/Investment Banking, Global Treasury and Markets, and Insurance. The presentation has been revised in 2012 with the Global Consumer/Private Banking segment covering consumer banking, private banking and retail brokerage services, and Global Corporate/Investment Banking encompassing corporate banking, corporate finance and capital markets solutions. The Global Treasury and Markets segment reflects the management of the Group's asset and liability positions as well as trading activities, with income from products and services offered to customers reflected in the respective business segments. Comparative figures have been restated to conform to the current presentation.

Global Consumer/Private Banking

Global Consumer/Private Banking provides a full range of products and services to individual customers. At Global Consumer Banking, the products and services offered include deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards, wealth management products (unit trusts, bancassurance products and structured deposits) and brokerage services. Private Banking caters to the specialised banking needs of high net worth individuals, offering wealth management expertise, including investment advice and portfolio management services, estate and trust planning, and wealth structuring.

Global Corporate/Investment Banking

Global Corporate/Investment Banking serves institutional 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 and custodian services. Investment Banking comprises a comprehensive range of financing solutions, syndicated loans and advisory services, corporate finance services for initial public offerings, secondary fund-raising, takeovers and mergers, as well as customised and structured equity-linked financing.

Notes to the Financial Statements

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38. SEGMENT INFORMATION (continued)

38.1 Business segments (continued)

Global Treasury and Markets

Global Treasury and Markets is responsible for the management of the Group's asset and liability interest rate positions, engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and offers structured treasury products and financial solutions to meet customers' investment and hedging needs. Income from treasury products and services offered to customers of other business segments, such as Global Consumer/Private Banking and Global Corporate/Investment Banking, is reflected in the respective business segments.

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

Others comprise property holding, investment holding and items not attributable to the business segments described above.

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:

- income and expenses are attributable to each segment based on the internal management reporting policies;
- in determining the segment results, balance sheet items are internally transfer priced; and
- 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.

38.2 Geographical segments

\$ million	Total income	Profit before income tax	Capital expenditure	Total assets	Total liabilities
2012					
Singapore	5,472	3,521	212	181,385	169,409
Malaysia	1,307	815	66	58,030	49,047
Indonesia	466	159	15	10,162	8,558
Greater China	487	320	9	28,083	21,473
Other Asia Pacific	150	94	1	10,426	8,520
Rest of the World	79	53	#	7,857	10,235
	7,961	4,962	303	295,943	267,242
2011					
Singapore ⁽¹⁾	3,444	1,748	179	173,522	166,407
Malaysia ⁽¹⁾	1,220	773	42	53,327	44,498
Indonesia ⁽¹⁾	417	125	20	8,832	7,527
Greater China	387	195	9	28,878	20,403
Other Asia Pacific ⁽¹⁾	140	92	1	8,984	6,705
Rest of the World	53	22	#	4,215	6,828
	5,661	2,955	251	277,758	252,368

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

⁽²⁾ # 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.

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	
	2012	2011	2012	2011
Credit risk exposure of on-balance sheet assets:				
Loans and bills receivable	142,376	133,557	136,117	118,695
Placements with and loans to banks	29,811	28,615	32,577	25,786
Government treasury bills and securities	22,298	20,647	21,458	18,029
Debt securities	12,231	11,754	11,393	11,231
Amount due from associates	#	#	#	1
Assets pledged	2,056	1,839	1,879	1,191
Derivative receivables	5,155	5,899	5,622	5,665
Other assets, comprise interest receivables and sundry debtors	2,806	2,232	2,738	2,656
	216,733	204,543	211,784	183,254
Credit risk exposure of off-balance sheet items:				
Contingent liabilities	9,100	10,345	9,178	9,410
Credit commitments	66,294	63,577	65,124	58,408
	75,394	73,922	74,302	67,818
Total maximum credit risk exposure	292,127	278,465	286,086	251,072

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

Collateral

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 derivatives, cash and securities;
- For car loans, charges over the vehicles financed;
- For share margin financing, listed securities including those of Singapore, Malaysia and Hong Kong; and
- For other loans, charges over business assets such as premises, inventories, trade receivables or deposits.

75% of the loans and bills receivables as at 31 December 2012 are backed by collateral and credit enhancements. The financial effect of collateral and credit enhancements held for the remaining on-balance sheet financial assets is expected to be not significant.

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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	
	2012	2011	2012	2011
Neither past due nor impaired	30,508	28,861	142,763	133,645
Not impaired	–	–	487	593
Impaired	–	–	431	544
Past due loans	–	–	918	1,137
Impaired but not past due	–	–	349	350
Gross loans	30,508	28,861	144,030	135,132
Specific allowances	–	–	(303)	(302)
Portfolio allowances	–	–	(1,351)	(1,220)
Net loans	30,508	28,861	142,376	133,610

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	
	2012	2011	2012	2011
Grades				
Satisfactory and special mention	30,508	28,861	142,526	133,487
Substandard but not impaired	–	–	237	158
Neither past due nor impaired	30,508	28,861	142,763	133,645

Past due loans

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

\$ million	Bank loans		Non-bank loans	
	2012	2011	2012	2011
By industry				
Agriculture, mining and quarrying	–	–	28	9
Manufacturing	–	–	159	249
Building and construction	–	–	56	62
General commerce	–	–	84	113
Transport, storage and communication	–	–	34	28
Financial institutions, investment and holding companies	–	–	82	3
Professionals and individuals (include housing)	–	–	438	628
Others	–	–	37	45
	–	–	918	1,137
By geography				
Singapore	–	–	128	401
Malaysia	–	–	501	523
Rest of the World	–	–	289	213
	–	–	918	1,137

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	2012	2011
Past due		
Less than 30 days	144	128
30 to 90 days	303	382
Over 90 days	40	83
Past due but not impaired	487	593

Impaired loans and allowances

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

\$ million	2012	2011
Business segment		
Global Consumer Financial Services	176	172
Global Corporate Banking	574	698
Others	15	11
Individually impaired loans	765	881

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.

Collateral and other credit enhancements obtained

The assets obtained by the Group during the year by taking possession of collateral held as security, or by calling upon other credit enhancements and held at the reporting date are as follows:

\$ million	2012	2011
Properties	—	1
Others	—	#
Carrying amount of assets	—	1

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2012

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 2012					
People's Republic of China	11,448	163	2,469	14,080	5.8
Hong Kong SAR	5,535	–	4,632	10,167	4.2
Malaysia	3,127	15	4,698	7,840	3.2
Indonesia	1,436	229	5,279	6,944	2.8
British Virgin Islands	–	–	5,130	5,130	2.1
United Kingdom	3,289	70	1,276	4,635	1.9
United States	963	477	1,343	2,783	1.1
Australia	1,942	–	715	2,657	1.1
31 December 2011					
People's Republic of China	13,034	289	2,323	15,646	6.8
Malaysia	2,902	17	4,295	7,214	3.2
Hong Kong SAR	2,646	–	4,660	7,306	3.2
Indonesia	1,646	285	4,237	6,168	2.7
United Kingdom	3,435	–	711	4,146	1.8
British Virgin Islands	–	–	4,133	4,133	1.8
United States	1,159	–	2,528	3,687	1.6
Australia	2,514	–	665	3,179	1.4

⁽¹⁾ Assets (excluding life assurance fund investment assets) of \$243,672 million (2011: \$228,669 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.

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
2012								
Cash and placements with central banks	4,296	3,014	1,869	1,730	–	683	4,805	16,397
Placements with and loans to banks	7,754	4,690	8,117	9,286	50	#	611	30,508
Loans and bills receivable ⁽¹⁾	27,109	29,862	63,623	15,333	3,756	3,113	(420)	142,376
Securities ⁽²⁾	533	2,715	6,031	6,956	7,916	10,537	3,134	37,822
Other assets ⁽³⁾	1	3	17	205	423	45	8,305	8,999
Financial assets	39,693	40,284	79,657	33,510	12,145	14,378	16,435	236,102
Deposits of non-bank customers	41,325	25,185	48,850	22,569	1,199	894	25,117	165,139
Deposits and balances of banks	12,831	6,442	3,826	282	56	–	2,219	25,656
Trading portfolio liabilities	–	–	–	306	150	596	31	1,083
Other liabilities ⁽³⁾	15	7	62	65	12	–	9,324	9,485
Debt issued	832	618	2,970	687	2,674	3,602	41	11,424
Financial liabilities	55,003	32,252	55,708	23,909	4,091	5,092	36,732	212,787
On-balance sheet sensitivity gap	(15,310)	8,032	23,949	9,601	8,054	9,286		
Off-balance sheet sensitivity gap	294	(34)	(2,308)	1,013	1,921	(886)		
Net interest sensitivity gap	(15,016)	7,998	21,641	10,614	9,975	8,400		
2011								
Cash and placements with central banks	3,555	2,953	871	1,189	–	579	3,750	12,897
Placements with and loans to banks	3,794	4,541	8,968	10,595	285	1	677	28,861
Loans and bills receivable ⁽¹⁾	12,222	41,104	52,845	21,534	4,091	2,223	(409)	133,610
Securities ⁽²⁾	640	3,078	8,551	4,074	6,745	9,980	3,615	36,683
Other assets ⁽³⁾	1	9	5	178	8	16	8,874	9,091
Financial assets	20,212	51,685	71,240	37,570	11,129	12,799	16,507	221,142
Deposits of non-bank customers	34,669	27,368	45,090	23,574	2,145	412	21,297	154,555
Deposits and balances of banks	8,097	6,411	3,470	601	81	–	2,993	21,653
Trading portfolio liabilities	–	–	384	171	695	336	69	1,655
Other liabilities ⁽³⁾	12	5	84	65	–	12	10,136	10,314
Debt issued	472	2,615	5,111	930	1,595	2,322	18	13,063
Financial liabilities	43,250	36,399	54,139	25,341	4,516	3,082	34,513	201,240
On-balance sheet sensitivity gap	(23,038)	15,286	17,101	12,229	6,613	9,717		
Off-balance sheet sensitivity gap	(94)	(1,144)	(7,025)	4,110	4,332	(179)		
Net interest sensitivity gap	(23,132)	14,142	10,076	16,339	10,945	9,538		

⁽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 significant 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.

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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 using a variety of risk metrics at a frequency that is commensurate with the changes in structural risk profile. The impact on net interest income of the banking book is simulated under various interest rate scenarios and 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 \$386 million (2011: \$298 million). The corresponding impact from a 100 bp decrease is an estimated reduction of \$148 million (2011: \$146 million) in net interest income. As a percentage of reported net interest income, the maximum exposure for significant currencies would be -3.7% (2011: -4.4%).

The 1% rate shock impact on net interest income is based on simplified scenarios, 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
2012					
Cash and placements with central banks	5,176	1,048	4,224	5,949	16,397
Placements with and loans to banks	392	14,891	1,386	13,839	30,508
Loans and bills receivable	69,250	31,555	18,041	23,530	142,376
Securities ⁽¹⁾	17,300	4,990	3,480	12,052	37,822
Other assets ⁽²⁾	5,447	1,910	710	932	8,999
Financial assets	97,565	54,394	27,841	56,302	236,102
Deposits of non-bank customers	82,095	31,455	20,739	30,850	165,139
Deposits and balances of banks	933	12,649	543	11,531	25,656
Trading portfolio liabilities	1,052	9	–	22	1,083
Other liabilities ⁽²⁾	5,145	1,854	875	1,611	9,485
Debt issued	1,168	6,536	1,463	2,257	11,424
Financial liabilities	90,393	52,503	23,620	46,271	212,787
Net financial assets exposure⁽³⁾	7,172	1,891	4,221	10,031	
2011					
Cash and placements with central banks	4,887	723	3,328	3,959	12,897
Placements with and loans to banks	261	11,699	1,119	15,782	28,861
Loans and bills receivable	60,277	35,660	16,365	21,308	133,610
Securities ⁽¹⁾	18,287	3,908	3,509	10,979	36,683
Other assets ⁽²⁾	5,185	1,904	827	1,175	9,091
Financial assets	88,897	53,894	25,148	53,203	221,142
Deposits of non-bank customers	80,236	21,969	19,128	33,222	154,555
Deposits and balances of banks	1,086	11,934	444	8,189	21,653
Trading portfolio liabilities	1,586	16	–	53	1,655
Other liabilities ⁽²⁾	5,938	2,037	952	1,387	10,314
Debt issued	1,285	6,873	1,340	3,565	13,063
Financial liabilities	90,131	42,829	21,864	46,416	201,240
Net financial (liabilities)/assets exposure⁽³⁾	(1,234)	11,065	3,284	6,787	

⁽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⁾ Net exposure without taking into account effect of offsetting derivative exposure.

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	2012 Hedging financial instruments	Net structural currency exposure	Structural currency exposure	2011 Hedging financial instruments	Net structural currency exposure
US Dollar	1,911	1,812	99	2,025	1,886	139
Malaysian Ringgit	1,959	1,180	779	1,919	468	1,451
Others	3,974	1,184	2,790	3,600	185	3,415
Total	7,844	4,176	3,668	7,544	2,539	5,005

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 the 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
2012							
Cash and placements with central banks	5,081	3,014	1,869	1,730	–	4,703	16,397
Placements with and loans to banks	6,214	5,301	8,156	10,518	319	–	30,508
Loans and bills receivable	10,428	12,533	13,384	16,008	25,425	64,598	142,376
Securities ⁽¹⁾	364	1,811	3,927	6,706	9,187	15,827	37,822
Other assets ⁽²⁾	1,599	1,189	1,764	3,449	659	339	8,999
Financial assets	23,686	23,848	29,100	38,411	35,590	85,467	236,102
Deposits of non-bank customers	92,637	25,233	21,575	23,174	1,386	1,134	165,139
Deposits and balances of banks	14,612	6,708	3,973	307	56	–	25,656
Trading portfolio liabilities	–	–	31	306	150	596	1,083
Other liabilities ⁽²⁾	2,291	1,559	2,026	2,792	442	375	9,485
Debt issued	833	645	1,478	717	4,073	3,678	11,424
Financial liabilities	110,373	34,145	29,083	27,296	6,107	5,783	212,787
Net liquidity gap – financial assets less financial liabilities	(86,687)	(10,297)	17	11,115	29,483	79,684	
2011							
Cash and placements with central banks	3,309	2,953	1,147	1,073	–	4,415	12,897
Placements with and loans to banks	4,380	4,362	8,591	11,020	429	79	28,861
Loans and bills receivable	10,250	10,527	13,209	17,735	22,817	59,072	133,610
Securities ⁽¹⁾	285	2,134	6,615	4,721	8,642	14,286	36,683
Other assets ⁽²⁾	1,068	1,514	1,962	3,490	685	372	9,091
Financial assets	19,292	21,490	31,524	38,039	32,573	78,224	221,142
Deposits of non-bank customers	82,061	26,086	19,304	24,408	2,036	660	154,555
Deposits and balances of banks	10,415	6,559	3,939	661	79	–	21,653
Trading portfolio liabilities	–	–	453	170	695	337	1,655
Other liabilities ⁽²⁾	1,723	1,833	2,140	3,523	537	558	10,314
Debt issued	468	2,620	4,453	779	730	4,013	13,063
Financial liabilities	94,667	37,098	30,289	29,541	4,077	5,568	201,240
Net liquidity gap – financial assets less financial liabilities	(75,375)	(15,608)	1,235	8,498	28,496	72,656	

⁽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⁾ Excluded from the tables are non-financial liabilities comprising of current and non-current liabilities. Current liabilities include current tax liabilities of \$897 million (2011: \$800 million). Non-current liabilities include deferred tax liabilities of \$1,170 million (2011: \$1,123 million).

⁽⁴⁾ Excluded from the tables are non-financial assets comprising of non-current assets. Non-current assets include deferred tax assets of \$43 million (2011: \$43 million), property, plant and equipment of \$1,703 million (2011: \$1,664 million), investment property of \$878 million (2011: \$922 million), and goodwill and intangible assets of \$3,818 million (2011: \$3,947 million).

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For the financial year ended 31 December 2012

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 43. 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
2012							
Deposits of non-bank customers ⁽¹⁾	92,661	25,354	21,732	23,535	1,478	1,262	166,022
Deposits and balances of banks ⁽¹⁾	14,619	6,721	3,979	311	56	–	25,686
Trading portfolio liabilities	–	–	31	306	150	596	1,083
Other liabilities ⁽²⁾	1,875	628	261	442	423	99	3,728
Debt issued	833	661	1,548	914	4,421	4,187	12,564
Net settled derivatives							
Trading	376	119	283	778	1,485	740	3,781
Hedging	3	6	3	17	39	25	93
Gross settled derivatives							
Trading – Outflow	23,375	38,597	48,532	43,091	5,809	4,310	163,714
Trading – Inflow	(23,395)	(38,736)	(48,568)	(43,218)	(5,750)	(4,333)	(164,000)
Hedging – Outflow	588	1,352	578	11	852	940	4,321
Hedging – Inflow	(587)	(1,354)	(582)	(31)	(891)	(1,032)	(4,477)
	110,348	33,348	27,797	26,156	8,072	6,794	212,515
2011							
Deposits of non-bank customers ⁽¹⁾	82,130	26,155	19,422	24,778	2,082	682	155,249
Deposits and balances of banks ⁽¹⁾	10,418	6,572	3,948	665	80	–	21,683
Trading portfolio liabilities	–	–	453	170	695	337	1,655
Other liabilities ⁽²⁾	1,272	701	265	638	356	305	3,537
Debt issued	469	2,640	4,492	947	1,116	4,913	14,577
Net settled derivatives							
Trading	388	156	376	947	1,375	835	4,077
Hedging	#	2	4	17	35	20	78
Gross settled derivatives							
Trading – Outflow	23,286	41,939	63,585	59,732	6,400	2,719	197,661
Trading – Inflow	(23,271)	(41,675)	(63,670)	(59,768)	(6,464)	(2,703)	(197,551)
Hedging – Outflow	–	–	890	–	–	–	890
Hedging – Inflow	–	–	(880)	–	–	–	(880)
	94,692	36,490	28,885	28,126	5,675	7,108	200,976

⁽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.

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 Enterprise Risk Management Framework for GEH 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.

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

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. The Capital Adequacy Ratios of GEH Group's insurance subsidiaries in both Singapore and Malaysia remained well above the minimum regulatory ratios of 120% and 130% under the Risk based Capital Frameworks regulated by the Monetary Authority of Singapore and Bank Negara, Malaysia respectively.

GEH Group's approach to capital management requires sufficient capital to be held to cover statutory requirements, including any additional amounts required by the respective regulators. This involves managing assets, liabilities and risks in a coordinated way by assessing and monitoring available and required capital (by each regulated entity) on a regular basis and, where appropriate, taking suitable actions to influence the capital position of GEH Group in light of changes in economic conditions and risk characteristics.

The primary source of capital used by GEH Group is share capital and issued debt. Available capital of the consolidated Singapore insurance subsidiaries as at 31 December 2012 amounted to \$8.6 billion (31 December 2011: \$8.1 billion) while available capital of the consolidated Malaysia insurance subsidiaries as at 31 December 2012 amounted to \$0.7 billion (31 December 2011: \$0.7 billion).

Dividend

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

Notes to the Financial Statements

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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 a minimum 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 GEH 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.

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)	2012	2011
(a) By class of business		
Whole life	23,527	21,271
Endowment	14,900	15,244
Term	383	348
Accident and health	1,088	963
Annuity	648	644
Others	938	820
Total	41,484	39,290
(b) By country		
Singapore	25,779	24,524
Malaysia	15,400	14,450
Others	305	316
Total	41,484	39,290

The sensitivity analysis 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 analysis 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
2012							
Gross impact	(74.8)	19.9	71.8	(82.8)	53.9	(67.8)	(27.4)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(74.8)	19.9	71.8	(82.8)	53.9	(67.8)	(27.4)
2011							
Gross impact	(58.1)	17.2	70.3	(78.4)	53.7	(67.6)	(26.1)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(58.1)	17.2	70.3	(78.4)	53.7	(67.6)	(26.1)

Notes to the Financial Statements

For the financial year ended 31 December 2012

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
2012							
Gross impact	(63.6)	55.7	(14.1)	11.6	1.3	(1.2)	(7.5)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(63.6)	55.7	(14.1)	11.6	1.3	(1.2)	(7.5)
2011							
Gross impact	(53.6)	54.2	(13.2)	10.7	(0.8)	1.8	(6.1)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	(53.6)	54.2	(13.2)	10.7	(0.8)	1.8	(6.1)

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 analysis on reinsurance ceded for the 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.

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	Gross premium liabilities	2012 Reinsured premium liabilities	Net premium liabilities	Gross premium liabilities	2011 Reinsured premium liabilities	Net premium liabilities
(a) By class of business						
Fire	21	(13)	8	23	(13)	10
Motor	39	(3)	36	33	(5)	28
Marine and aviation	1	(#)	1	2	(1)	1
Workmen's compensation	8	(3)	5	6	(2)	4
Personal accident and health	23	(2)	21	23	(1)	22
Miscellaneous	28	(18)	10	25	(16)	9
Total	120	(39)	81	112	(38)	74
(b) By country						
Singapore	56	(20)	36	53	(21)	32
Malaysia	64	(19)	45	59	(17)	42
Total	120	(39)	81	112	(38)	74
(a) By class of business						
Fire	23	(17)	6	30	(23)	7
Motor	87	(15)	72	87	(13)	74
Marine and aviation	5	(3)	2	7	(5)	2
Workmen's compensation	14	(5)	9	10	(3)	7
Personal accident and health	12	(2)	10	11	(1)	10
Miscellaneous	38	(21)	17	38	(22)	16
Total	179	(63)	116	183	(67)	116
(b) By country						
Singapore	62	(29)	33	58	(30)	28
Malaysia	117	(34)	83	125	(37)	88
Total	179	(63)	116	183	(67)	116

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

Notes to the Financial Statements

For the financial year ended 31 December 2012

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 2012

\$ million	2005	2006	2007	2008	2009	2010	2011	2012	Total
(a) Estimate of cumulative claims									
Accident Year	59	49	61	57	75	77	127	118	
One year later	65	52	65	58	80	96	104	–	
Two years later	63	50	59	58	106	93	–	–	
Three years later	62	49	60	84	102	–	–	–	
Four years later	61	49	87	82	–	–	–	–	
Five years later	60	89	85	–	–	–	–	–	
Six years later	92	87	–	–	–	–	–	–	
Seven years later	92	–	–	–	–	–	–	–	
Current estimate of cumulative claims	92	87	85	82	102	93	104	118	
(b) Cumulative payments									
Accident Year	21	20	22	23	32	31	40	37	
One year later	50	38	43	45	57	66	73	–	
Two years later	53	42	49	50	86	76	–	–	
Three years later	54	44	51	73	89	–	–	–	
Four years later	56	45	77	75	–	–	–	–	
Five years later	56	83	80	–	–	–	–	–	
Six years later	88	84	–	–	–	–	–	–	
Seven years later	88	–	–	–	–	–	–	–	
Cumulative payments	88	84	80	75	89	76	73	37	
(c) Non-life gross claim liabilities	4	3	5	7	13	17	31	81	161
Reserve for prior years									17
Unallocated surplus									1
General Insurance Fund Contract Liabilities, gross									179

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 2012

\$ million	2005	2006	2007	2008	2009	2010	2011	2012	Total
(a) Estimate of cumulative claims									
Accident Year	26	29	32	36	43	52	84	87	
One year later	27	29	33	37	47	68	67	–	
Two years later	26	28	32	37	68	66	–	–	
Three years later	26	28	32	57	65	–	–	–	
Four years later	25	27	55	53	–	–	–	–	
Five years later	25	61	53	–	–	–	–	–	
Six years later	51	59	–	–	–	–	–	–	
Seven years later	51	–	–	–	–	–	–	–	
Current estimate of cumulative claims	51	59	53	53	65	66	67	87	
(b) Cumulative payments									
Accident Year	11	12	13	17	22	24	28	30	
One year later	20	22	25	29	36	50	50	–	
Two years later	22	24	28	32	54	55	–	–	
Three years later	23	25	28	48	57	–	–	–	
Four years later	24	25	50	49	–	–	–	–	
Five years later	24	57	50	–	–	–	–	–	
Six years later	49	57	–	–	–	–	–	–	
Seven years later	49	–	–	–	–	–	–	–	
Cumulative payments	49	57	50	49	57	55	50	30	
(c) Non-life net claim liabilities	2	2	3	4	8	11	17	57	104
Reserve for prior years									11
Unallocated surplus									1
General Insurance Fund Contract Liabilities, net									116

Key assumptions

Non-life insurance contract 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

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
2012					
Provision for adverse deviation margin	+20%	3	2	(2)	(2)
Loss ratio	+20%	107	82	(82)	(63)
Claims handling expenses	+20%	#	2	(2)	(2)
2011					
Provision for adverse deviation margin	+20%	2	2	(2)	(1)
Loss ratio	+20%	115	83	(83)	(63)
Claims handling expenses	+20%	#	2	(2)	(2)

⁽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.

GEH 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.

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)

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. Under Singapore regulations governed by the MAS, the liability cash flows with durations less than 20 years are discounted using zero-coupon spot yield of SGS while liability cash flows with duration more than 20 years for Singapore funds are discounted using the Long Term Risk Free Discount Rate ("LTRFDR"). As a result, the Singapore Non Participating funds could have negative earnings impact when the LTRFDR decreases.

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 zero-coupon spot yield of the SGS of a matching duration (and not the LTRFDR mentioned above). The long dated liabilities which do not fall within the matching programme will still be subject to the LTRFDR requirement.

Under Malaysia regulations governed by BNM, the liability cash flows with durations less than 15 years are discounted using zero-coupon spot yield of MGS with matching duration while the liability cash flows with durations of 15 years or more are discounted using zero-coupon spot yield of MGS with 15 years term to maturity. As a result, the Malaysia non-participating fund could have negative earnings impact when the zero-coupon spot yield of MGS decreases.

(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's financial assets and liabilities by major currencies.

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For the financial year ended 31 December 2012

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
2012					
Available-for-sale securities					
Equity securities	1,711	3,968	870	2,997	9,546
Debt securities	10,433	13,951	5,231	199	29,814
Other investments	435	168	717	236	1,556
Securities at fair value through profit or loss					
Equity securities	250	839	148	914	2,151
Debt securities	27	338	277	182	824
Other investments	609	71	162	197	1,039
Derivative assets and financial instruments with embedded derivatives	1,318	784	116	168	2,386
Loans	646	438	–	–	1,084
Insurance receivables	941	1,619	3	19	2,582
Other debtors and interfund balances	1,366	512	4	21	1,903
Cash and cash equivalents	2,812	809	464	128	4,213
Financial assets	20,548	23,497	7,992	5,061	57,098
Other creditors and interfund balances	1,759	664	5	34	2,462
Insurance payables	842	1,935	2	12	2,791
Derivative payables	25	–	13	4	42
Provision for agents' retirement benefits	–	245	–	–	245
Debt issued	399	–	–	–	399
General insurance fund contract liabilities	62	117	–	–	179
Life assurance fund contract liabilities	25,415	15,400	396	273	41,484
Financial liabilities	28,502	18,361	416	323	47,602
2011					
Available-for-sale securities					
Equity securities	2,641	3,906	1,169	2,346	10,062
Debt securities	7,874	11,900	3,810	439	24,023
Other investments ⁽¹⁾	332	106	737	233	1,408
Securities at fair value through profit or loss					
Equity securities	231	695	180	798	1,904
Debt securities	27	229	280	184	720
Other investments	637	50	74	182	943
Derivative assets and financial instruments with embedded derivatives	1,153	6	165	207	1,531
Loans	958	245	–	–	1,203
Insurance receivables	939	1,598	2	19	2,558
Other debtors and interfund balances	1,033	457	3	24	1,517
Cash and cash equivalents	4,610	2,153	361	125	7,249
Financial assets	20,435	21,345	6,781	4,557	53,118
Other creditors and interfund balances	1,678	649	2	36	2,365
Insurance payables	842	1,660	2	13	2,517
Derivative payables	7	8	33	14	62
Provision for agents' retirement benefits	–	231	–	#	231
Amount due to joint venture	–	–	–	#	#
Debt issued	399	–	–	–	399
General insurance fund contract liabilities	58	125	–	–	183
Life assurance fund contract liabilities	24,320	14,450	237	283	39,290
Financial liabilities	27,304	17,123	274	346	45,047

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

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

GEH Group has no significant concentration of foreign currency risk.

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' Fund 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

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 which are presented based on contractual undiscounted cash flow basis, except for insurance contract liabilities which are presented based on net cash outflows resulting from recognised liabilities.

\$ million	Less than 1 year	1 to 5 years	Over 5 years	No maturity date	Total
2012					
Available-for-sale securities					
Equity securities	–	–	–	9,546	9,546
Debt securities	2,694	9,438	27,061	–	39,193
Other investments	–	–	–	1,556	1,556
Securities at fair value through profit or loss					
Equity securities	–	–	–	2,151	2,151
Debt securities	128	239	755	–	1,122
Other investments	–	–	–	1,039	1,039
Financial instruments with embedded derivatives	434	1,282	592	12	2,320
Loans	163	986	76	–	1,225
Insurance receivables	264	1	–	2,317	2,582
Other debtors and interfund balances	1,794	27	38	44	1,903
Cash and cash equivalents	4,213	–	–	–	4,213
Financial assets	9,690	11,973	28,522	16,665	66,850
Other creditors and interfund balances	2,251	175	36	–	2,462
Insurance payables	2,365	408	2	16	2,791
Provision for agents' retirement benefits	64	47	134	–	245
Debt issued	18	74	464	–	556
General insurance fund contract liabilities	159	4	–	16	179
Life assurance fund contract liabilities	5,674	5,722	30,088	–	41,484
Financial liabilities	10,531	6,430	30,724	32	47,717
2011					
Available-for-sale securities					
Equity securities	–	–	–	10,062	10,062
Debt securities	3,851	9,192	21,736	–	34,779
Other investments	–	–	–	1,408	1,408
Securities at fair value through profit or loss					
Equity securities	–	–	–	1,904	1,904
Debt securities	74	276	698	–	1,048
Other investments	–	–	–	943	943
Financial instruments with embedded derivatives	239	1,114	329	5	1,687
Loans	367	844	101	–	1,312
Insurance receivables	255	1	–	2,302	2,558
Other debtors and interfund balances	1,367	120	13	17	1,517
Cash and cash equivalents	7,249	–	–	–	7,249
Financial assets	13,402	11,547	22,877	16,641	64,467
Other creditors and interfund balances	2,074	276	15	–	2,365
Insurance payables ⁽¹⁾	2,052	459	2	4	2,517
Provision for agents' retirement benefits	60	44	127	–	231
Amount due to joint venture	#	–	–	–	#
Debt issued	18	74	483	–	575
General insurance fund contract liabilities	153	15	#	15	183
Life assurance fund contract liabilities	6,686	6,652	25,952	–	39,290
Financial liabilities	11,043	7,520	26,579	19	45,161

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

⁽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)

(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
2012				
Cash and cash equivalents	3,767	–	446	4,213
Other debtors and interfund balances	1,222	610	71	1,903
Insurance receivables	313	2,269	–	2,582
Loans	141	943	–	1,084
Investments, including derivative instruments	7,060	36,136	4,120	47,316
Assets held for sale	3	–	–	3
Associates and joint ventures	–	323	–	323
Goodwill	–	34	–	34
Property, plant and equipment	–	711	–	711
Investment properties	–	1,532	–	1,532
Assets	12,506	42,558	4,637	59,701
Insurance payables	2,363	410	18	2,791
Other creditors and interfund balances	2,065	236	161	2,462
Unexpired risk reserve	120	–	–	120
Derivative payables	4	34	4	42
Income tax	480	–	8	488
Provision for agents' retirement benefits	64	181	–	245
Deferred tax	–	1,057	13	1,070
Debt issued	–	399	–	399
General insurance fund	159	27	–	186
Life assurance fund	1,168	41,375	4,515	47,058
Liabilities	6,423	43,719	4,719	54,861
2011				
Cash and cash equivalents	6,756	–	493	7,249
Other debtors and interfund balances	935	541	41	1,517
Insurance receivables	306	2,252	–	2,558
Loans	353	850	–	1,203
Investments, including derivative instruments	6,764	30,244	3,583	40,591
Assets held for sale	4	–	–	4
Associates and joint ventures	–	320	–	320
Goodwill	–	26	–	26
Property, plant and equipment	–	722	–	722
Investment properties	–	1,412	–	1,412
Assets	15,118	36,367	4,117	55,602
Insurance payables	2,042	460	15	2,517
Other creditors and interfund balances	2,129	172	64	2,365
Unexpired risk reserve	112	–	–	112
Derivative payables	24	34	4	62
Income tax	412	–	6	418
Provision for agents' retirement benefits	60	171	–	231
Amount due to joint venture	#	–	–	#
Deferred tax	–	937	9	946
Debt issued	–	399	–	399
General insurance fund	153	36	–	189
Life assurance fund	2,606	37,733	4,082	44,421
Liabilities	7,538	39,942	4,180	51,660

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2012

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 GEH 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 collateral, with a maximum loan to value ratio 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 collateral, held by GEH Group as lender, for which it is entitled to sell or pledge in the event of default is as follows:

\$ million	2012		2011	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Type of collateral				
Policy loans – Cash value of policies	2,268	4,444	2,251	4,352
Secured loans				
Properties	1,081	2,625	1,201	3,161
Others	2	1	1	1
	3,351	7,070	3,453	7,514

As at 31 December 2012 and 31 December 2011, there were no investments lent and collateral received under securities lending arrangements. As at the balance sheet date, no investments (2011: 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.

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 risk 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 GEH 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			
	(AAA–BBB)	(BB–C)				
2012						
Available-for-sale securities						
Equity securities	–	–	–	9,546	–	9,546
Debt securities	26,158	192	3,464	–	–	29,814
Other investments	–	–	–	1,556	–	1,556
Securities at fair value through profit or loss						
Equity securities	–	–	–	2,151	–	2,151
Debt securities	–	–	2	822	–	824
Other investments	–	–	–	1,039	–	1,039
Derivative assets and financial instruments						
with embedded derivatives	1,174	2	1,100	110	–	2,386
Loans	–	–	1,084	–	–	1,084
Insurance receivables	1	–	2,547	–	34	2,582
Other debtors and interfund balances	–	–	1,831	71	1	1,903
Cash and cash equivalents	3,585	–	182	446	–	4,213
Financial assets	30,918	194	10,210	15,741	35	57,098
2011						
Available-for-sale securities						
Equity securities	–	–	–	10,062	–	10,062
Debt securities ⁽¹⁾	21,754	204	2,065	–	–	24,023
Other investments	–	–	–	1,408	–	1,408
Securities at fair value through profit or loss						
Equity securities	–	–	–	1,904	–	1,904
Debt securities	–	–	2	718	–	720
Other investments	–	–	–	943	–	943
Derivative assets and financial instruments						
with embedded derivatives	656	14	802	59	–	1,531
Loans	–	–	1,203	–	–	1,203
Insurance receivables	1	–	2,531	–	26	2,558
Other debtors and interfund balances	–	–	1,474	40	3	1,517
Cash and cash equivalents	6,587	–	169	493	–	7,249
Financial assets	28,998	218	8,246	15,627	29	53,118

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

⁽²⁾ [®] based on public ratings assigned by external rating agencies including S&P, Moody's, RAM and MARC.

⁽³⁾ * An ageing analysis for financial assets past due is provided below.

Notes to the Financial Statements

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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)

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			
2012						
Insurance receivables	27	6	1	34	8	42
Other debtors and interfund balances	1	–	#	1	#	1
Total	28	6	1	35	8	43
2011						
Insurance receivables	23	3	#	26	13	39
Other debtors and interfund balances	3	#	#	3	–	3
Total	26	3	#	29	13	42

⁽¹⁾ @ for assets to be classified as “past due and impaired”, contractual payments must be in arrears for more than 90 days. These receivables are not secured by any collateral or credit enhancements.

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

(i) Concentration risk

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

GEH Group actively manages its product mix to ensure that there is no significant concentration of credit risk.

39. FINANCIAL RISK MANAGEMENT (continued)

39.5 Insurance-related risk management (continued)

Market and credit risk (continued)

(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 value and/or amortised cost 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 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 valuation 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' Fund.

Market risk sensitivity analysis

\$ million	Impact on profit after tax		Impact on equity	
	2012	2011	2012	2011
Change in variables:				
(a) Interest rate				
+100 basis points	(156.9)	(77.7)	(255.6)	(121.2)
-100 basis points	(2.7)	(45.0)	73.4	(13.0)
(b) LTRFDR				
+10 basis points	16.9	16.0	16.9	16.0
-10 basis points	(17.5)	(16.7)	(17.5)	(16.7)
(c) Foreign currency				
Market value of assets in foreign currency +5%	13.3	12.3	51.2	45.3
Market value of assets in foreign currency -5%	(13.3)	(12.3)	(51.2)	(45.3)
(d) Equity				
Market indices +20%				
STI	14.6	1.3	34.9	93.1
KLCI	0.4	0.4	16.9	13.8
Market indices -20%				
STI	(14.6)	(1.3)	(34.9)	(93.1)
KLCI	(0.4)	(0.4)	(16.9)	(13.8)
(e) Credit				
Spread +100 basis points	(263.1)	(197.2)	(312.7)	(227.2)
Spread -100 basis points	263.1	197.2	312.7	227.2
(f) Alternative investments ⁽¹⁾				
Market value of all alternative investments +10%	15.9	17.8	22.5	21.8
Market value of all alternative investments -10%	(15.9)	(17.8)	(22.5)	(21.8)

⁽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.

Notes to the Financial Statements

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40. FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

\$ million	GROUP					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables/ amortised cost	Available-for-sale	Insurance contracts	
2012						
Cash and placements with central banks	–	–	16,397	–	–	16,397
Singapore government treasury bills and securities	1,314	380	–	11,447	–	13,141
Other government treasury bills and securities	1,786	–	–	7,371	–	9,157
Placements with and loans to banks	208	–	21,005	8,598	–	29,811
Debt and equity securities	2,030	–	555	12,347	–	14,932
Loans and bills receivable	–	–	142,376	–	–	142,376
Assets pledged	155	–	–	1,901	–	2,056
Other assets ⁽¹⁾	5,155	–	3,733	–	111	8,999
Financial assets	10,648	380	184,066	41,664	111	236,869
Non-financial assets						6,803
						243,672
LAF financial assets ⁽²⁾	2,134	4,014	6,828	37,515	–	50,491
LAF non-financial assets ⁽²⁾						1,780
Total assets						295,943
Deposits of non-bank customers	–	–	165,139	–	–	165,139
Deposits and balances of banks	–	–	25,656	–	–	25,656
Trading portfolio liabilities	1,083	–	–	–	–	1,083
Other liabilities ⁽¹⁾	5,001	–	4,161	–	323	9,485
Debt issued	–	211	11,213	–	–	11,424
Financial liabilities	6,084	211	206,169	–	323	212,787
Non-financial liabilities						2,068
						214,855
LAF financial liabilities ⁽²⁾	–	–	5,156	–	41,484	46,640
LAF non-financial liabilities ⁽²⁾						5,747
Total liabilities						267,242

⁽¹⁾ Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

⁽²⁾ "LAF" refers to Life Assurance Fund.

40. FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION (continued)

\$ million	GROUP					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables/ amortised cost	Available-for-sale	Insurance contracts	
2011						
Cash and placements with central banks	–	–	12,897	–	–	12,897
Singapore government treasury bills and securities	2,333	285	–	10,632	–	13,250
Other government treasury bills and securities	1,427	–	–	5,970	–	7,397
Placements with and loans to banks	232	–	24,730	3,653	–	28,615
Debt and equity securities	1,795	–	805	12,481	–	15,081
Loans and bills receivable	–	–	133,557	–	–	133,557
Assets pledged	395	–	53	1,391	–	1,839
Other assets ⁽¹⁾	5,899	–	3,079	–	113	9,091
Financial assets	12,081	285	175,121	34,127	113	221,727
Non-financial assets						6,943
						228,670
LAF financial assets ⁽²⁾	1,300	3,545	9,973	32,625	–	47,443
LAF non-financial assets ⁽²⁾						1,645
Total assets						277,758
Deposits of non-bank customers	–	–	154,555	–	–	154,555
Deposits and balances of banks	–	–	21,653	–	–	21,653
Trading portfolio liabilities	1,655	–	–	–	–	1,655
Other liabilities ⁽¹⁾	6,113	–	3,885	–	316	10,314
Debt issued	–	–	13,063	–	–	13,063
Financial liabilities	7,768	–	193,156	–	316	201,240
Non-financial liabilities						1,924
						203,164
LAF financial liabilities ⁽²⁾⁽³⁾	–	–	4,677	–	39,290	43,967
LAF non-financial liabilities ⁽²⁾⁽³⁾						5,237
Total liabilities						252,368

⁽¹⁾ Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

⁽²⁾ "LAF" refers to Life Assurance Fund.

⁽³⁾ Comparatives have been restated to conform to current year's presentation.

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40. FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION (continued)

\$ million	Held for trading	Designated at fair value through profit or loss	BANK Loans and receivables/ amortised cost	Available-for-sale	Total
2012					
Cash and placements with central banks	–	–	9,382	–	9,382
Singapore government treasury bills and securities	1,314	–	–	10,647	11,961
Other government treasury bills and securities	1,740	–	–	4,358	6,098
Placements with and loans to banks	208	–	13,065	7,745	21,018
Debt and equity securities	1,707	–	418	7,223	9,348
Loans and bills receivable	–	–	104,157	–	104,157
Placements with and advances to subsidiaries	–	–	5,811	–	5,811
Assets pledged	73	–	–	1,873	1,946
Other assets ⁽¹⁾	4,693	–	1,147	–	5,840
Financial assets	9,735	–	133,980	31,846	175,561
Non-financial assets					8,891
Total assets					184,452
Deposits of non-bank customers	–	–	115,325	–	115,325
Deposits and balances of banks	–	–	21,539	–	21,539
Deposits and balances of subsidiaries	–	–	8,258	–	8,258
Trading portfolio liabilities	1,083	–	–	–	1,083
Other liabilities ⁽¹⁾	4,620	–	1,691	–	6,311
Debt issued	–	211	11,708	–	11,919
Financial liabilities	5,703	211	158,521	–	164,435
Non-financial liabilities					432
Total liabilities					164,867
2011					
Cash and placements with central banks	–	–	6,986	–	6,986
Singapore government treasury bills and securities	2,333	–	–	10,259	12,592
Other government treasury bills and securities	1,330	–	–	2,658	3,988
Placements with and loans to banks	232	–	17,441	2,981	20,654
Debt and equity securities	1,446	–	735	7,540	9,721
Loans and bills receivable	–	–	97,787	–	97,787
Placements with and advances to subsidiaries	–	–	6,775	–	6,775
Assets pledged	–	–	–	1,329	1,329
Other assets ⁽¹⁾	5,462	–	1,187	–	6,649
Financial assets	10,803	–	130,911	24,767	166,481
Non-financial assets					8,767
Total assets					175,248
Deposits of non-bank customers	–	–	109,827	–	109,827
Deposits and balances of banks	–	–	18,881	–	18,881
Deposits and balances of subsidiaries	–	–	5,913	–	5,913
Trading portfolio liabilities	1,655	–	–	–	1,655
Other liabilities ⁽¹⁾	5,782	–	1,623	–	7,405
Debt issued	–	–	13,797	–	13,797
Financial liabilities	7,437	–	150,041	–	157,478
Non-financial liabilities					425
Total liabilities					157,903

⁽¹⁾ Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

41. FAIR VALUES OF FINANCIAL INSTRUMENTS

41.1 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.

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.

41.2 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) in active markets 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

41.2 Fair value hierarchy (continued)

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

\$ million	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GROUP								
Assets measured at fair value								
Placements with and loans to banks	–	8,806	–	8,806	–	3,885	#	3,885
Debt and equity securities ⁽¹⁾	9,866	4,196	315	14,377	10,885	3,084	307	14,276
Derivative receivables	24	5,033	98	5,155	17	5,806	76	5,899
Government treasury bills and securities	21,448	850	–	22,298	20,647	–	–	20,647
Life Assurance Fund investment assets ⁽¹⁾	28,337	15,326	–	43,663	24,734	12,736	–	37,470
Other financial assets	248	1,808	–	2,056	207	1,579	–	1,786
Total	59,923	36,019	413	96,355	56,490	27,090	383	83,963
Liabilities measured at fair value								
Derivative payables	28	4,905	68	5,001	19	6,026	68	6,113
Trading portfolio liabilities	1,083	–	–	1,083	1,655	–	–	1,655
Other financial liabilities	–	211	–	211	–	–	–	–
Total	1,111	5,116	68	6,295	1,674	6,026	68	7,768
BANK								
Assets measured at fair value								
Placements with and loans to banks	–	7,953	–	7,953	–	3,213	#	3,213
Debt and equity securities ⁽¹⁾	6,170	2,717	43	8,930	7,181	1,731	74	8,986
Derivative receivables	3	4,644	46	4,693	1	5,419	42	5,462
Government treasury bills and securities	17,210	849	–	18,059	16,580	–	–	16,580
Other financial assets	138	1,808	–	1,946	60	1,269	–	1,329
Total	23,521	17,971	89	41,581	23,822	11,632	116	35,570
Liabilities measured at fair value								
Derivative payables	6	4,580	34	4,620	2	5,749	31	5,782
Trading portfolio liabilities	1,083	–	–	1,083	1,655	–	–	1,655
Other financial liabilities	–	211	–	211	–	–	–	–
Total	1,089	4,791	34	5,914	1,657	5,749	31	7,437

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

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

41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

41.2 Fair value hierarchy (continued)

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

GROUP \$ million	2012				2011			
	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	242	65	76	383	387	91	102	580
Purchases	45	–	27	72	25	–	200	225
Settlements/disposals	(45)	(#)	(7)	(52)	(112)	(1)	(1)	(114)
Transfers in/(out) of Level 3	–	# ⁽¹⁾	–	#	(103) ⁽²⁾	–	–	(103)
Gains/(losses) recognised in								
- profit or loss	(12)	49	3	40	23	(25)	(225)	(227)
- other comprehensive income	(29)	(#)	(1)	(30)	22	#	#	22
At 31 December	201	114	98	413	242	65	76	383
Total gains/(losses) included in profit or loss for assets held at the end of the year	(17)	49	19	51	10	(25)	8	(7)

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

\$ million	2012				2011			
	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	1	50	(11)	40	1	(250)	22	(227)
Total gains/(losses) included in profit or loss for assets held at the end of the year	–	68	(17)	51	–	(17)	10	(7)

⁽¹⁾ Relates to transfers to Level 3 due to unavailability of market observable inputs.

⁽²⁾ Relates to transfers to Level 1 for debt securities converted to quoted equity securities and Level 2 for debt securities due to availability of market observable inputs.

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

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For the financial year ended 31 December 2012

41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

41.2 Fair value hierarchy (continued)

BANK \$ million	2012				2011			
	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	74	#	42	116	153	1	105	259
Purchases	4	–	9	13	14	–	177	191
Settlements/disposals	(31)	(#)	–	(31)	(100)	(1)	–	(101)
Transfers out of Level 3	–	–	–	–	(6) ⁽¹⁾	–	–	(6)
Gains/(losses) recognised in								
- profit or loss	5	(#)	(5)	(#)	20	(#)	(240)	(220)
- other comprehensive income	(9)	(#)	–	(9)	(7)	#	–	(7)
At 31 December	43	–	46	89	74	#	42	116
Total gains/(losses) included in profit or loss for assets held at the end of the year	#	(#)	9	9	10	(#)	(3)	7

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

\$ million	2012				2011			
	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	#	(7)	7	(#)	1	(240)	19	(220)
Total gains/(losses) included in profit or loss for assets held at the end of the year	–	9	#	9	–	(3)	10	7

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

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

41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

41.2 Fair value hierarchy (continued)

\$ million	GROUP				BANK			
	2012		2011		2012		2011	
	Derivative payables	Total	Derivative payables	Total	Derivative payables	Total	Derivative payables	Total
Liabilities measured at fair value								
At 1 January	68	68	92	92	31	31	77	77
Issues	21	21	223	223	12	12	199	199
Settlements/disposals	(12)	(12)	(8)	(8)	–	–	–	–
Losses/(gains) recognised in								
- profit or loss	(8)	(8)	(239)	(239)	(9)	(9)	(245)	(245)
- other comprehensive income	(1)	(1)	(#)	(#)	–	–	(#)	(#)
At 31 December	68	68	68	68	34	34	31	31
Total losses included in profit or loss for liabilities held at the end of the year	(7)	(7)	(24)	(24)	(6)	(6)	(14)	(14)

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

\$ million	GROUP				BANK			
	2012		2011		2012		2011	
	Trading income	Total	Trading income	Total	Trading income	Total	Trading income	Total
Total gains included in profit or loss for the year ended	8	8	239	239	9	9	245	245
Total losses included in profit or loss for liabilities held at the end of the year	(7)	(7)	(24)	(24)	(6)	(6)	(14)	(14)

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

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42. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Guarantees and standby letters of credit:				
Term to maturity of one year or less	3,484,131	3,941,393	2,955,362	3,378,077
Term to maturity of more than one year	2,719,085	2,930,989	2,369,053	2,550,905
	6,203,216	6,872,382	5,324,415	5,928,982
Acceptances and endorsements	915,270	1,306,778	188,433	317,521
Documentary credits and other short term trade-related transactions	1,981,694	1,909,785	1,466,867	1,330,637
Others	–	256,272	–	–
	9,100,180	10,345,217	6,979,715	7,577,140

42.1 Analysed by industry

Agriculture, mining and quarrying	285,983	226,636	42,474	29,432
Manufacturing	1,756,473	1,325,228	1,415,868	944,678
Building and construction	1,648,358	1,621,289	1,300,388	1,209,827
General commerce	2,944,882	3,373,159	2,112,801	2,105,000
Transport, storage and communication	594,564	587,446	582,844	562,405
Financial institutions, investment and holding companies	460,575	1,537,763	523,985	1,522,267
Professionals and individuals	321,770	344,865	74,311	75,536
Others	1,087,575	1,328,831	927,044	1,127,995
	9,100,180	10,345,217	6,979,715	7,577,140

42.2 Analysed by geography

Singapore	5,650,283	6,093,754	5,836,483	6,231,479
Malaysia	1,107,766	1,404,322	248,115	365,409
Indonesia ⁽¹⁾	868,412	802,062	–	–
Greater China	1,153,510	1,723,377	551,454	624,661
Other Asia Pacific ⁽¹⁾	240,054	175,710	263,508	209,599
Rest of the World	80,155	145,992	80,155	145,992
	9,100,180	10,345,217	6,979,715	7,577,140

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

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

43. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
43.1 Credit commitments				
Undrawn credit facilities:				
Term to maturity of one year or less	52,530,534	46,856,993	30,804,258	29,684,812
Term to maturity of more than one year	13,763,878	16,718,428	11,306,082	13,901,960
	66,294,412	63,575,421	42,110,340	43,586,772
Undrawn note issuance and revolving underwriting facilities	–	2,047	–	–
	66,294,412	63,577,468	42,110,340	43,586,772
43.2 Other commitments				
Operating lease (non-cancellable) commitments:				
Within 1 year	49,841	47,566	17,640	18,236
After 1 year but within 5 years	55,867	75,974	16,188	26,375
Over 5 years	27	1,325	–	720
	105,735	124,865	33,828	45,331
Capital commitment authorised and contracted	140,413	101,001	83,236	63,814
Forward deposits and assets purchase	499,498	1,088,891	440,058	1,084,186
	745,646	1,314,757	557,122	1,193,331
43.3 Total commitments	67,040,058	64,892,225	42,667,462	44,780,103
43.4 Credit commitments analysed by industry				
Agriculture, mining and quarrying	1,342,297	1,109,307	724,808	620,126
Manufacturing	5,531,068	5,477,230	2,700,456	2,848,397
Building and construction	4,848,792	5,228,580	3,734,292	4,050,765
General commerce	10,501,410	8,702,481	8,527,585	7,004,059
Transport, storage and communication	3,171,384	2,596,716	2,866,893	2,185,642
Financial institutions, investment and holding companies ⁽¹⁾	13,685,566	13,028,988	8,410,817	8,864,768
Professionals and individuals	21,033,097	21,643,749	11,721,431	14,862,655
Others ⁽¹⁾	6,180,798	5,790,417	3,424,058	3,150,360
	66,294,412	63,577,468	42,110,340	43,586,772
43.5 Credit commitments analysed by geography				
Singapore	50,312,328	48,678,969	36,002,730	38,091,141
Malaysia	6,337,313	6,291,633	139,053	167,950
Indonesia ⁽¹⁾	2,661,544	2,359,548	–	–
Greater China	4,884,744	4,598,806	3,863,263	3,672,129
Other Asia Pacific ⁽¹⁾	1,466,409	1,041,084	1,473,220	1,048,124
Rest of the World	632,074	607,428	632,074	607,428
	66,294,412	63,577,468	42,110,340	43,586,772

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

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

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44. ASSETS PLEDGED

	GROUP		BANK	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Government treasury bills and securities (Note 24)				
- Singapore	118,497	–	118,497	–
- Others	19,687	207,297	19,687	59,553
Placements with and loans to banks (Note 25)	1,464,467	831,495	1,464,467	831,495
Loans and bills receivable (Note 26)	–	53,225	–	–
Debt securities (Note 30)	453,504	746,964	343,684	437,857
	2,056,155	1,838,981	1,946,335	1,328,905
Repo balances for assets pledged	1,858,816	1,736,590	1,751,402	1,238,373

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 \$1,515.8 million (2011: \$1,193.9 million), of which nil (2011: nil) 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.

45. 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.

46. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within 1 year	44,079	46,648	18,222	20,996
After 1 year but within 5 years	49,218	56,115	8,289	16,128
Over 5 years	80	3,896	–	–
	93,377	106,659	26,511	37,124

47. 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.

47.1 Related party balances at the 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 2012	#	1	16	–
Net (decrease)/increase	(#)	6	(1)	119
At 31 December 2012	#	7	15	119
(b) Deposits, borrowings and other payables				
At 1 January 2012	178	104	34	1,206
Net (decrease)/increase	(17)	(2)	6	2
At 31 December 2012	161	102	40	1,208
(c) Off-balance sheet credit facilities ⁽¹⁾				
At 1 January 2012	–	312	9	#
Net increase/(decrease)	–	–	14	(#)
At 31 December 2012	–	312	23	#
(d) Income statement transactions				
Year ended 31 December 2012:				
Interest income	–	#	#	#
Interest expense	1	1	#	13
Rental income	#	2	–	#
Fee and commission and other income	#	1	1	89
Rental and other expenses	3	#	#	#
Year ended 31 December 2011:				
Interest income	–	#	#	#
Interest expense	1	1	#	5
Rental income	#	3	–	#
Fee and commission and other income	#	1	#	73
Rental and other expenses	3	#	#	3

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2012

47. RELATED PARTY TRANSACTIONS (continued)

BANK (\$ million)	Subsidiaries	Associates	Directors	Key management	Life assurance fund
(a) Loans, placements and other receivables					
At 1 January 2012	6,775	–	#	10	–
Net (decrease)/increase	(963)	–	2	2	119
At 31 December 2012	5,812	–	2	12	119
(b) Deposits, borrowings and other payables					
At 1 January 2012	7,933	164	85	33	524
Net increase/(decrease)	2,225	(15)	(5)	5	(114)
At 31 December 2012	10,158	149	80	38	410
(c) Off-balance sheet credit facilities ⁽¹⁾					
At 1 January 2012	1,150	–	312	1	#
Net (decrease)/increase	(507)	–	–	13	–
At 31 December 2012	643	–	312	14	#
(d) Income statement transactions					
Year ended 31 December 2012:					
Interest income	95	–	#	#	#
Interest expense	160	1	#	#	1
Rental income	7	–	–	–	–
Fee and commission and other income	23	–	#	#	89
Rental and other expenses	235	3	#	#	#
Year ended 31 December 2011:					
Interest income	77	–	#	#	#
Interest expense	134	1	#	#	1
Rental income	6	–	–	–	–
Fee and commission and other income	17	–	#	#	72
Rental and other expenses	222	3	#	#	#

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

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

47.2 Key management personnel compensation

	BANK	
	2012 \$ million	2011 \$ million
Key management personnel compensation is as follows:		
Short-term employee benefits	36	35
Share-based benefits	12	14
	48	49

Certain performance-related payments to key management personnel of the Bank in relation to the performance year 2012 included in the above table are subject to the approval of the Remuneration Committee.

48. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

As of the balance sheet date, certain new standards, amendments and interpretations to existing accounting standards have been published. For the Group, the following relevant new/revised financial reporting standards and interpretations are mandatory with effect from the annual period commencing 1 January 2013:

FRS 1 (Amendments)	<i>Presentation of Items of Other Comprehensive Income</i>
FRS 19 (Amendments)	<i>Employee Benefits</i>
FRS 107 (Amendments)	<i>Disclosures: Offsetting Financial Assets and Financial Liabilities</i>
FRS 113	<i>Fair Value Measurements</i>
Improvements to FRSs 2012	

FRS 113 replaces the fair value measurement guidance contained in individual FRSs with a single source of fair value measurement guidance. It provides a definition of fair value, establishes a framework for measuring fair value and sets out the disclosure requirements for fair value measurements. FRS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

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.

Group's Major Properties

As at 31 December 2012

	Purpose	Effective stake (%)	Gross floor area (sq ft)	Carrying value S\$'000	Market value ⁽¹⁾ S\$'000
Singapore					
65 Chulia Street, OCBC Centre	Office	100	993,089	28,859	915,000
63 Chulia Street, OCBC Centre East	Office	100	242,385	101,507	325,000
18 Church Street, OCBC Centre South	Office	100	118,909	74,631	142,200
63 Market Street, Bank Of Singapore Centre	Office	100	248,996	294,250	397,000
11 Tampines Central 1	Office	100	115,824	62,890	85,000
31 Tampines Avenue 4	Office	100	97,572	48,180	64,000
105 Cecil Street, #01-00, #02-01 to 04, #04-01 to 04, #14-01 to 04, #15-01 to 04, #17-01 to 04 The Octagon Building	Office	100	34,563 ⁽²⁾	36,838	49,000
260 Tanjong Pagar Road	Office	100	44,940	7,098	42,300
101 Cecil Street #01-01/02, Tong Eng Building	Office	100	16,146 ⁽²⁾	1,769	22,400
110 Robinson Road	Office	100	22,120	4,351	21,000
460 North Bridge Road	Office	100	26,576	2,908	27,000
Block 9 & 13 Tanjong Rhu Road, The Waterside	Residential	100	251,889	39,651	264,220
2 Mt Elizabeth Link	Residential	100	104,377	21,467	177,700
6, 6A to 6H, 6J to 6N, 6P to 6U Chancery Hill Road, The Compass at Chancery	Residential	100	54,739	13,247	49,250
257 River Valley Road, #02-00 to #10-00, Valley Lodge	Residential	100	23,920	2,637	21,000
277 Orchard Road	Land under development	100	72,910 ⁽³⁾	128,323	537,000
				868,606	3,139,070
Malaysia					
18 Jalan Tun Perak, Kuala Lumpur, Menara OCBC	Office	100	243,262	23,356	49,949
Indonesia					
Jl Dr. Satrio, Casablanca, Jakarta, Bank NISP Tower	Office	85	362,313	11,128	27,721
People's Republic of China					
1155 Yuanshen Road, Pudong Shanghai, 华侨银行大厦	Office	100	249,161	174,096	184,452
Other properties in					
Singapore				138,834	583,270
Malaysia				64,905	175,289
Indonesia				33,119	47,976
Greater China				58,928	234,932
Other Asia Pacific				13,547	46,680
Rest of the World				2,014	12,812
				311,347	1,100,959
Total⁽⁴⁾				1,388,533	4,502,151

⁽¹⁾ Valuations were made by independent firms of professional valuers.

⁽²⁾ Refers to strata floor area.

⁽³⁾ Refers to land area.

⁽⁴⁾ Does not include properties held by GEH Group's insurance subsidiaries under their life assurance funds.