Directors' Report

For the financial year ended 31 December 2007

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

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

	Holdings in which directors have a direct interest		Holdings in which directors are deemed to have an interest	
	At 31.12.2007	**At 1.1.2007**	**At 31.12.2007**	**At 1.1.2007**
BANK				
Ordinary shares				
Cheong Choong Kong	**97,179**	88,471	**69,487** [(1)]	76,522 [(2)]
Michael Wong Pakshong	**131,998**	127,198	**59,998** [(5)]	59,998 [(5)]
Bobby Chin Yoke Choong	**4,800**	–	**40,000** [(5)]	40,000 [(5)]
David Conner	**1,009,393**	573,919	**288,018** [(3)]	285,145 [(4)]
Giam Chin Toon	**9,600**	4,800	**–**	–
Lee Seng Wee	**6,649,194**	6,644,394	**3,901,094** [(5)]	3,901,094 [(5)]
Lee Tih Shih	**2,357,952**	2,353,152	**–**	–
Nasruddin Bin Bahari	**14,400**	9,600	**–**	–
Neo Boon Siong	**9,600**	4,800	**–**	–
Tsao Yuan	**14,400**	9,600	**936** [(5)]	936 [(5)]
David Wong Cheong Fook	**21,600**	16,800	**–**	–
Wong Nang Jang	**379,746**	344,946	**165,322** [(5)]	145,322 [(5)]
Patrick Yeoh Khwai Hoh	**14,400**	9,600	**–**	–
4.2% Non-Cumulative Non-Convertible Class G Preference Shares				
Cheong Choong Kong	**15,000**	15,000	**–**	–
Michael Wong Pakshong	**22,000**	22,000	**–**	–
Bobby Chin Yoke Choong	**–**	–	**8,227** [(5)]	8,227 [(5)]
David Conner	**50,000**	50,000	**–**	–
Lee Seng Wee	**800,000**	800,000	**600,000** [(5)]	600,000 [(5)]
Lee Tih Shih	**240,000**	240,000	**–**	–
Tsao Yuan	**–**	–	**7,000** [(5)]	7,000 [(5)]
Wong Nang Jang	**38,216**	38,216	**21,372** [(5)]	21,372 [(5)]

(1) Comprises deemed interest of 9,600 ordinary shares held by spouse and 59,887 ordinary shares under the OCBC Deferred Share Plan.
(2) Comprises deemed interest of 9,600 ordinary shares held by spouse and 66,922 ordinary shares under the OCBC Deferred Share Plan.
(3) Comprises deemed interest of 276,856 ordinary shares under the OCBC Deferred Share Plan and acquisition rights of 11,162 ordinary shares under the OCBC Employee Share Purchase Plan.
(4) Comprises deemed interest of 273,983 ordinary shares under the OCBC Deferred Share Plan and acquisition rights of 11,162 ordinary shares under the OCBC Employee Share Purchase Plan.
(5) Ordinary shares/preference shares held by spouse.

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

Directors' Report

For the financial year ended 31 December 2007

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

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

Name of Director	Number of unissued ordinary shares At 31.12.2007	At 1.1.2007
Cheong Choong Kong	**714,800**	514,800
David Conner	**3,395,000**	3,464,000
Wong Nang Jang	**393,600**	573,600

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

The directors' interests in shares and share options in the Bank as at 21 January 2008 were the same as those as at 31 December 2007.

DIRECTORS' CONTRACTUAL BENEFITS

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

On 12 June 2006, an agreement was made between Dr Cheong Choong Kong ("Dr Cheong"), non-executive director and Chairman of the Bank, and OCBC Management Services Private Limited, a wholly-owned subsidiary of the Bank, under which Dr Cheong is appointed as consultant to oversee and supervise the strategic planning of the Bank and its subsidiaries with respect to customer service, talent identification, and the development and succession of senior management within the group. Under the agreement, in respect of the financial year ended 31 December 2007, Dr Cheong has received payments and benefits amounting to $1,090,562, and will receive a variable bonus of $100,000, or any additional bonus as may be determined by the Remuneration Committee and the Board of Directors of the Bank. In respect of financial year ended 31 December 2006, Dr Cheong received (on a pro-rated basis for the period July to December 2006) aggregate payments and benefits of $556,071 and variable bonus of a total amount of $325,860 comprising pro-rated bonus of $50,000 and additional bonus of $275,860.

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 (payments, benefits, variable bonus, directors' fees and share options) for the financial year ended 31 December 2007 is reflected in the Directors' Remuneration table in the Corporate Governance Section of the Annual Report.

SHARE OPTIONS

(a) OCBC Share Option Schemes

(i) OCBC Executives' Share Option Scheme 1994

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

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

(ii) OCBC Share Option Scheme 2001

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

Particulars of the 2002 Options, 2002A Options, 2002B Options, 2003 Options, 2004 Options, 2004A Options, 2004B Options, 2005 Options, 2005A Options, 2006 Options, 2006A Options and 2006B Options were set out in the directors' reports for the financial years ended 31 December 2002 to 2006.

Directors' Report

For the financial year ended 31 December 2007

The directors present their report to the members together with the audited consolidated financial statements of the Group and the income statement, balance sheet and statement of changes in equity of the Bank for the financial year ended 31 December 2007.

DIRECTORS

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

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

Dr Cheong Choong Kong, Dr Lee Tih Shih, Professor Neo Boon Siong and Mr Wong Nang Jang retire by rotation under Articles 95 and 96 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

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

Mr Michael Wong Pakshong and Tan Sri Dato Nasruddin Bin Bahari, who retire pursuant to section 153 of the Companies Act, Cap. 50, have expressed their wish to retire at this forthcoming annual general meeting and will not offer themselves for re-appointment.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

Directors' Report

For the financial year ended 31 December 2007

SHARE OPTIONS (CONTINUED)

(a) OCBC Share Option Schemes (continued)

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

Michael Wong Pakshong, Chairman
Cheong Choong Kong
Lee Tih Shih
Nasruddin Bin Bahari
Tsao Yuan

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

(b) Share options issued during the financial year

During the financial year, pursuant to the 2001 Scheme, 5,510,350 ordinary shares were granted to 540 officers of the Group in consideration of the payment of $1 by each officer for options granted. These included options granted to the following directors of the Bank:

Name of Director	Designation at the time of granting the options	Number of options	Acquisition price per share	Exercise period
Cheong Choong Kong	Chairman	200,000	$8.590	15.3.2008 to 13.3.2012
David Conner	Chief Executive Officer	551,000	$8.590	15.3.2008 to 13.3.2017

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

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

Statutory and other information regarding the Options issued in 2007 are as follows:

(i) Options issued on 14 March 2007 ("2007 Options" and "2007B Options") to Group executives (including executive directors) will expire on 13 March 2017. The exercise period is from 15 March 2008 to 13 March 2017, both dates inclusive. The acquisition price is $8.59 per ordinary share.

(ii) Options issued on 14 March 2007 ("2007NED Options") to a non-executive director will expire on 13 March 2012. The exercise period is from 15 March 2008 to 13 March 2012, both dates inclusive. The acquisition price is $8.59 per ordinary share.

(iii) Options issued on 15 January 2007 ("2007A Options") to a senior executive will expire on 14 January 2017. The exercise period is from 16 January 2008 to 14 January 2017, both dates inclusive. The acquisition price is $7.60 per ordinary share.

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

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

(vi) Options may be exercised in whole or in part, by giving notice in accordance with the provisions of Rule 9 of the 2001 Scheme. Under Rule 9.2, grantees must elect one of the following alternatives when exercising options:

(1) All share election – receive shares in full with remittance of the aggregate acquisition cost in accordance with Rule 9.4;
(2) Partial share election – receive shares representing the notional profit if all ordinary shares had been sold on his behalf in accordance with Rule 9.5 and no remittance is required;
(3) Cash election – receive in cash the profit derived from the sale of all shares in accordance with Rule 9.6 and no remittance is required.

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

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

Directors' Report

For the financial year ended 31 December 2007

SHARE OPTIONS (CONTINUED)

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

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

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

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

(c) Share options outstanding

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

Name of Director	Options granted during the financial year	Aggregate options granted since commencement of Schemes to end of financial year	Aggregate options exercised since commencement of Schemes to end of financial year	Aggregate options outstanding as at end of financial year
Cheong Choong Kong	200,000 (2007NED Options)	714,800	–	714,800
David Conner	551,000 (2007 Options)	4,115,000	720,000	3,395,000
Wong Nang Jang	–	927,539	533,939	393,600

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

OCBC Share Options	At 31.12.2007	Acquisition price per share	Exercise period
1998 Replacement Options	296,328	\$2.675	22.01.2001 to 21.01.2008
1999 Replacement Options	1,456,142	\$3.139	10.12.2001 to 09.12.2008
2000 Options	2,682,795	\$4.542	06.12.2002 to 05.12.2009
2001 Options	4,318,486	\$5.367	05.12.2003 to 04.12.2010
2002 Options	6,501,303	\$5.742	09.04.2003 to 08.04.2012
2002A Options	720,000	\$5.692	23.04.2003 to 22.04.2012
2002B Options	180,000	\$4.367	24.10.2003 to 23.10.2012
2003 Options	5,301,677	\$4.067	28.03.2004 to 26.03.2013
2004 Options	4,716,205	\$5.142	16.03.2005 to 14.03.2014
2004A Options	160,800	\$5.492	20.08.2005 to 18.08.2014
2004B Options	103,200	\$5.667	23.11.2005 to 21.11.2014
2005 Options	4,714,251	\$5.767	15.03.2006 to 13.03.2015
2005A Options	1,924,596	\$5.784	09.04.2006 to 07.04.2015
2006 Options	3,773,621	\$6.820	15.03.2007 to 13.03.2016
2006A Options	12,400	\$6.780	24.01.2007 to 22.01.2016
2006B Options	1,198,670	\$6.580	24.05.2007 to 22.05.2016
2007 Options	3,666,750	\$8.590	15.03.2008 to 13.03.2017
2007A Options	445,000	\$7.600	16.01.2008 to 14.01.2017
2007B Options	1,040,000	\$8.590	15.03.2008 to 13.03.2017
2007NED Options	200,000	\$8.590	15.03.2008 to 13.03.2012
	43,412,224		

Directors' Report

For the financial year ended 31 December 2007

OCBC DEFERRED SHARE PLAN

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

The Remuneration Committee had in January 2007, amended the rules governing the DSP for unvested deferred shares to be entitled to dividends. In the event that the Bank declares any dividend or other distributions in respect of the ordinary shares, the number of unvested deferred shares may be adjusted at the absolute discretion of the Remuneration Committee.

During the financial year, total awards of 1,438,600 ordinary shares (including an award of 80,287 ordinary shares granted to an executive director of the Bank) were granted to eligible executives under the DSP.

During the financial year, total awards of 109,421 ordinary shares (including awards of 9,417 ordinary shares granted to directors of the Bank) were awarded to grantees pursuant to declarations of final dividend for financial year ended 31 December 2006 and interim dividend for financial year ended 31 December 2007.

During the financial year, 868,964 deferred shares were released to grantees, of which 93,866 deferred shares were released to directors of the Bank.

OCBC EMPLOYEE SHARE PURCHASE PLAN

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

The second offering of ESP Plan commenced on 1 July 2006 and will expire on 30 June 2008. The acquisition price is $6.45 per ordinary share. Under the second offering, 3,338 employees (including a director of the Bank) enrolled to participate in the ESP Plan to acquire 8,222,248 ordinary shares. During the financial year, 1,411,607 treasury shares were transferred to participants upon the exercise of acquisition rights.

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

(a) Other information regarding acquisition rights of ESP Plan

- (i) Each offering period consists of a 24-month period (or such other period not exceeding 10 years as the Remuneration Committee may prescribe), except that the commencement date of an offering period shall not fall during the period of 30 days immediately preceding the date of announcement of the Bank's financial results for its financial year or the period of 14 days immediately preceding the date of announcement of the Bank's financial results for the first three quarters of its financial year, and provided further that no offering period may commence on any date during which another offering period is outstanding.
- (ii) The acquisition price is equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange Securities Trading Limited over the five consecutive trading days immediately preceding the price fixing date for the acquisition price of the ordinary shares (as determined by the Remuneration Committee).
- (iii) A participant may participate in the ESP Plan for an offering period by making contributions in cash by means of monthly deductions from his monthly base salary and/or his designated account; and/or by monthly debits from his CPF Ordinary Account to his ESP Plan account.
- (iv) Termination of employment of a participant for any reason, including retirement and death and the bankruptcy of a participant, shall be treated as automatic withdrawal from the ESP Plan under Rule 8.4. However, the transfer of employment of a participant between companies within the Group shall not be treated as termination of employment.

Directors' Report
For the financial year ended 31 December 2007

OCBC EMPLOYEE SHARE PURCHASE PLAN (CONTINUED)
(a) Other information regarding acquisition rights of ESP Plan (continued)

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

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

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

(b) Acquisition rights outstanding

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

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

As at 31 December 2007, the number of shares to be issued under the ESP Plan was 5,483,991 (including the participation of an executive director).

EXERCISE OF OPTIONS AND ACQUISITION RIGHTS PURSUANT TO OPTION SCHEMES AND EMPLOYEE SHARE PURCHASE PLAN
During the financial year, the Bank transferred treasury shares pursuant to the Share Option Schemes and ESP Plan upon the exercise of options and acquisition rights:

	Acquisition price per share	Number of ordinary shares transferred
1997 Replacement Options	$3.168	328,804
1998 Replacement Options	$2.675	572,539
1999 Replacement Options	$3.139	349,812
2000 Options	$4.542	1,119,459
2001 Options	$5.367	2,605,774
2002 Options	$5.742	3,164,914
2003 Options	$4.067	2,467,770
2004 Options	$5.142	2,155,180
2005 Options	$5.767	1,002,009
2005A Options	$5.784	740,076
2006 Options	$6.820	281,043
2006B Options	$6.580	164,046
Employee Share Purchase Plan	$6.450	1,411,607
		16,363,033

Directors' Report

For the financial year ended 31 December 2007

AUDIT COMMITTEE

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

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

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

The Audit Committee also reviewed the following:

(a) response of the Bank's management and the assistance provided by officers of the Bank to the external and internal auditors; and

(b) financial statements of the Group and the Bank and the auditors' report thereon prior to their submission to the Board of Directors.

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

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

AUDITORS

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

On behalf of the Board of Directors,

CHEONG CHOONG KONG	**DAVID PHILBRICK CONNER**
Director	Director

Singapore
21 February 2008

Statement by Directors

For the financial year ended 31 December 2007

In the opinion of the directors,

(a) the financial statements set out on pages 80 to 162 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2007, the results and changes in equity of the Group and of the Bank for the financial year ended on that date, and cash flows of the Group for the financial year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

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

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
21 February 2008

Independent Auditors' Report

To The Members of Oversea-Chinese Banking Corporation Limited

We have audited the accompanying financial statements of Oversea-Chinese Banking Corporation Limited ("the Bank") and its subsidiaries ("the Group"), which comprise the balance sheets of the Group and the Bank as at 31 December 2007, the income statements and statements of changes in equity of the Group and the Bank and cash flow statement of the Group for the year then ended; a summary of significant accounting policies and other explanatory notes set out on pages 80 to 162.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion,

(a) the consolidated financial statements of the Group and the financial statements of the Bank are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning by Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore, so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2007, the results and changes in equity of the Group and of the Bank and cash flows of the Group for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Bank and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG
Certified Public Accountants

Singapore
21 February 2008

Income Statements
For the financial year ended 31 December 2007

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Interest income		**5,265,312**	4,516,313	**3,814,182**	3,282,635
Interest expense		**(3,021,103)**	(2,722,255)	**(2,353,201)**	(2,132,883)
Net interest income	3	**2,244,209**	1,794,058	**1,460,981**	1,149,752
Premium income		**5,793,155**	5,225,491	**–**	–
Investment income		**3,075,450**	2,271,996	**–**	–
Net claims, surrenders and annuities		**(4,843,439)**	(4,939,969)	**–**	–
Change in life assurance fund contract liabilities [1]		**(2,543,523)**	(805,496)	**–**	–
Commission and others [1]		**(972,438)**	(1,375,859)	**–**	–
Profit from life assurance	4	**509,205**	376,163	**–**	–
Premium income from general insurance		**64,939**	59,409	**–**	–
Fees and commissions (net)	5	**808,036**	597,352	**427,613**	328,085
Dividends	6	**55,405**	128,911	**618,302**	427,736
Rental income		**62,182**	77,924	**23,282**	21,669
Other income	7	**536,640**	805,724	**238,346**	387,232
Non-interest income		**2,036,407**	2,045,483	**1,307,543**	1,164,722
Total income		**4,280,616**	3,839,541	**2,768,524**	2,314,474
Staff costs		**(946,010)**	(721,613)	**(457,683)**	(342,298)
Other operating expenses		**(733,644)**	(609,531)	**(535,946)**	(459,898)
Total operating expenses	8	**(1,679,654)**	(1,331,144)	**(993,629)**	(802,196)
Operating profit before allowances and amortisation		**2,600,962**	2,508,397	**1,774,895**	1,512,278
Amortisation of intangible assets	38	**(46,391)**	(43,732)	**–**	–
(Allowances and impairment)/ write-back for loans and other assets	9	**(36,164)**	(2,426)	**(328)**	26,926
Operating profit after allowances and amortisation		**2,518,407**	2,462,239	**1,774,567**	1,539,204
Share of results of associates and joint ventures		**20,937**	13,651	**–**	–
Profit before income tax		**2,539,344**	2,475,890	**1,774,567**	1,539,204
Income tax expense	10	**(356,104)**	(369,818)	**(153,653)**	(203,262)
Profit for the year		**2,183,240**	2,106,072	**1,620,914**	1,335,942
Attributable to:					
Equity holders of the Bank		**2,070,754**	2,002,192		
Minority interests		**112,486**	103,880		
		2,183,240	2,106,072		
Earnings per share (cents)	11				
Basic		**66**	63		
Diluted		**66**	63		

Note:
[1] 2006 comparatives have been restated for the effect of the new tax basis on par fund policy liabilities amounting to $617.4 million.

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 2007

		GROUP		BANK	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
EQUITY					
Attributable to equity holders of the Bank					
Share capital	13	**5,520,141**	5,480,943	**5,520,141**	5,480,943
Capital reserves	14	**55,962**	103,262	**94,077**	83,162
Statutory reserves	15	**1,676,216**	2,027,811	**1,358,504**	1,698,130
Fair value reserves		**1,725,964**	667,712	**430,074**	405,102
Revenue reserves	16	**6,699,307**	5,124,544	**3,709,757**	2,561,840
		15,677,590	13,404,272	**11,112,553**	10,229,177
Minority interests	17	**1,161,222**	1,086,631	**–**	–
Total equity		**16,838,812**	14,490,903	**11,112,553**	10,229,177
LIABILITIES					
Deposits of non-bank customers	18	**88,788,394**	75,114,981	**70,415,116**	59,363,176
Deposits and balances of banks	18	**14,726,082**	11,869,252	**13,023,929**	11,233,918
Due to subsidiaries		**–**	–	**1,189,337**	1,083,021
Due to associates		**59,500**	119,637	**47,157**	3,353
Trading portfolio liabilities		**171,993**	421,795	**171,993**	421,795
Derivative payables	19	**2,696,546**	2,113,796	**2,589,755**	2,050,881
Other liabilities	20	**3,313,170**	2,577,510	**1,064,705**	1,119,749
Current tax		**648,669**	599,046	**319,513**	286,653
Deferred tax (1)	21	**1,162,693**	991,066	**123,130**	136,887
Debts issued	22	**4,969,577**	5,130,673	**5,032,021**	5,359,096
		116,536,624	98,937,756	**93,976,656**	81,058,529
Life assurance fund liabilities (1)	23	**41,231,856**	37,791,012	**–**	–
Total liabilities		**157,768,480**	136,728,768	**93,976,656**	81,058,529
Total equity and liabilities		**174,607,292**	151,219,671	**105,089,209**	91,287,706
ASSETS					
Cash and placements with central banks	24	**8,396,398**	5,741,343	**5,493,125**	3,207,583
Singapore government treasury bills and securities	25	**8,762,171**	8,146,956	**8,208,665**	7,645,498
Other government treasury bills and securities	25	**3,445,746**	2,194,998	**571,865**	285,702
Placements with and loans to banks	26	**15,105,109**	17,750,089	**13,210,696**	16,409,952
Loans and bills receivable	27–30	**71,316,000**	59,309,000	**54,490,406**	46,478,716
Debt and equity securities	31	**13,624,912**	7,558,241	**8,800,396**	5,380,272
Assets pledged	44	**888,654**	1,896,579	**888,654**	523,771
Assets held for sale	45	**912**	6,506	**2**	805
Derivative receivables	19	**2,937,082**	2,414,434	**2,817,939**	2,353,842
Other assets	32	**2,981,856**	2,524,217	**1,312,620**	1,201,134
Deferred tax	21	**45,449**	48,188	**666**	1,966
Associates and joint ventures	34	**243,416**	309,214	**96,416**	96,593
Subsidiaries	35	**–**	–	**6,510,411**	5,122,029
Property, plant and equipment (2)	36	**1,611,698**	1,542,044	**326,886**	299,048
Investment property (2)	37	**666,732**	644,276	**493,286**	413,619
Goodwill and intangible assets	38	**3,444,420**	3,520,949	**1,867,176**	1,867,176
		133,470,555	113,607,034	**105,089,209**	91,287,706
Life assurance fund investment assets (2)	23	**41,136,737**	37,612,637	**–**	–
Total assets		**174,607,292**	151,219,671	**105,089,209**	91,287,706
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	42	**8,861,142**	6,819,168	**7,137,357**	5,153,705
Commitments	43	**45,050,761**	37,075,988	**36,279,739**	31,267,255
Derivative financial instruments	19	**339,925,452**	242,467,119	**319,968,864**	227,403,447

Notes:
(1) 2006 comparatives have been restated for the effect of the new tax basis on par fund policy liabilities amounting to $488.8 million.
(2) 2006 comparatives have been restated for the reclassification of life assurance fund's property, plant and equipment of $810.6 million from life assurance fund investment assets to be consistent with the current year's presentation, and the implementation of FRS 40 *Investment Property*.

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 2007

In $'000	Attributable to equity holders of the Bank							
	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total	Minority interest	Total equity
Balance at 1 January 2007	5,480,943	103,262	2,027,811	667,712	5,124,544	13,404,272	1,086,631	14,490,903
Movements in fair value reserves:								
Gains taken to equity	–	–	–	1,232,861	–	1,232,861	14,908	1,247,769
Transferred to income statements on sale	–	–	–	(192,374)	–	(192,374)	(9,777)	(202,151)
Tax on net movements	–	–	–	17,765	–	17,765	(107)	17,658
Currency translation	–	–	–	–	(60,120)	(60,120)	(15,745)	(75,865)
Net gain/(loss) recognised in equity	–	–	–	1,058,252	(60,120)	998,132	(10,721)	987,411
Profit for the year	–	–	–	–	2,070,754	2,070,754	112,486	2,183,240
Total recognised gains for the financial year	–	–	–	1,058,252	2,010,634	3,068,886	101,765	3,170,651
Transfers	–	(53,229)	(351,595)	–	404,824	–	–	–
Dividends paid to minority interests	–	–	–	–	–	–	(59,036)	(59,036)
Ordinary and preference dividends	–	–	–	–	(840,695)	(840,695)	–	(840,695)
Rights issue by a subsidiary and change in minority interests	–	–	–	–	–	–	31,862	31,862
Share-based staff costs capitalised	–	10,915	–	–	–	10,915	–	10,915
Share buyback – held in treasury	(43,491)	–	–	–	–	(43,491)	–	(43,491)
Shares issued to non-executive directors	502	–	–	–	–	502	–	502
Shares purchased by DSP Trust	–	(10,540)	–	–	–	(10,540)	–	(10,540)
Shares vested under DSP Scheme	–	5,554	–	–	–	5,554	–	5,554
Treasury shares transferred to employees	82,187	–	–	–	–	82,187	–	82,187
Balance at 31 December 2007	5,520,141	55,962	1,676,216	1,725,964	6,699,307	15,677,590	1,161,222	16,838,812
Included:								
Share of reserves of associates and joint ventures	–	2,934	–	125	28,600	31,659	(147)	31,512

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

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

Statement of Changes in Equity – Group

For the financial year ended 31 December 2007

In $'000	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total	Minority interest	Total equity
	Attributable to equity holders of the Bank							
Balance at 1 January 2006	1,561,177	4,292,000	1,959,332	617,819	3,907,553	12,337,881	1,148,978	13,486,859
Movements in fair value reserves:								
Gains taken to equity	–	–	–	367,579	–	367,579	25,081	392,660
Transferred to income statements on sale	–	–	–	(312,990)	–	(312,990)	(9,699)	(322,689)
Tax on net movements	–	–	–	(4,696)	–	(4,696)	(3,823)	(8,519)
Currency translation	–	–	–	–	(20,526)	(20,526)	(1,350)	(21,876)
Net gain/(loss) recognised in equity	–	–	–	49,893	(20,526)	29,367	10,209	39,576
Profit for the year	–	–	–	–	2,002,192	2,002,192	103,880	2,106,072
Total recognised gains for the financial year	–	–	–	49,893	1,981,666	2,031,559	114,089	2,145,648
Transfers	–	(24,102)	68,479	–	(44,377)	–	–	–
Acquisition of additional interests in subsidiaries	40,635	–	–	–	–	40,635	(121,577)	(80,942)
Dividends paid to minority interests	–	–	–	–	–	–	(54,859)	(54,859)
Effect of Companies (Amendment) Act 2005	4,185,344	(4,185,344)	–	–	–	–	–	–
Ordinary and preference dividends	–	–	–	–	(677,032)	(677,032)	–	(677,032)
Share-based staff costs capitalised	–	10,643	–	–	–	10,643	–	10,643
Share buyback – cancelled	(2,577)	2,577	–	–	(43,266)	(43,266)	–	(43,266)
Share buyback – held in treasury	(392,374)	–	–	–	–	(392,374)	–	(392,374)
Shares issued to non-executive directors	324	–	–	–	–	324	–	324
Shares issued pursuant to the Bank's employee share schemes	52,345	9,967	–	–	–	62,312	–	62,312
Shares purchased by DSP Trust	–	(7,616)	–	–	–	(7,616)	–	(7,616)
Shares vested under DSP Scheme	–	5,137	–	–	–	5,137	–	5,137
Treasury shares transferred to employees	36,069	–	–	–	–	36,069	–	36,069
Balance at 31 December 2006	5,480,943	103,262	2,027,811	667,712	5,124,544	13,404,272	1,086,631	14,490,903
Included:								
Share of reserves of associates and joint ventures	–	1,404	–	–	51,740	53,144	(15)	53,129

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

Statement of Changes in Equity – Bank

For the financial year ended 31 December 2007

In $'000	Share capital	Capital reserves	Statutory reserves	Fair value reserves	Revenue reserves	Total equity
Balance at 1 January 2007	**5,480,943**	**83,162**	**1,698,130**	**405,102**	**2,561,840**	**10,229,177**
Movements in fair value reserves:						
Gains taken to equity	**–**	**–**	**–**	**108,594**	**–**	**108,594**
Transferred to income statements on sale	**–**	**–**	**–**	**(99,394)**	**–**	**(99,394)**
Tax on net movements	**–**	**–**	**–**	**15,772**	**–**	**15,772**
Currency translation	**–**	**–**	**–**	**–**	**28,072**	**28,072**
Net gain recognised in equity	**–**	**–**	**–**	**24,972**	**28,072**	**53,044**
Profit for the year	**–**	**–**	**–**	**–**	**1,620,914**	**1,620,914**
Total recognised gains for the financial year	**–**	**–**	**–**	**24,972**	**1,648,986**	**1,673,958**
Transfers	**–**	**–**	**(339,626)**	**–**	**339,626**	**–**
Ordinary and preference dividends	**–**	**–**	**–**	**–**	**(840,695)**	**(840,695)**
Share-based staff costs capitalised	**–**	**10,915**	**–**	**–**	**–**	**10,915**
Share buyback – held in treasury	**(43,491)**	**–**	**–**	**–**	**–**	**(43,491)**
Shares issued to non-executive directors	**502**	**–**	**–**	**–**	**–**	**502**
Treasury shares transferred to employees	**82,187**	**–**	**–**	**–**	**–**	**82,187**
Balance at 31 December 2007	**5,520,141**	**94,077**	**1,358,504**	**430,074**	**3,709,757**	**11,112,553**
Balance at 1 January 2006	1,561,177	4,245,319	1,631,330	396,285	2,033,360	9,867,471
Movements in fair value reserves:						
Gains taken to equity	–	–	–	223,360	–	223,360
Transferred to income statements on sale	–	–	–	(226,040)	–	(226,040)
Tax on net movements	–	–	–	11,497	–	11,497
Currency translation	–	–	–	–	(20,364)	(20,364)
Net gain/(loss) recognised in equity	–	–	–	8,817	(20,364)	(11,547)
Profit for the year	–	–	–	–	1,335,942	1,335,942
Total recognised gains for the financial year	–	–	–	8,817	1,315,578	1,324,395
Transfers	–	–	66,800	–	(66,800)	–
Acquisition of additional interests in a subsidiary	40,635	–	–	–	–	40,635
Effect of Companies (Amendment) Act 2005	4,185,344	(4,185,344)	–	–	–	–
Ordinary and preference dividends	–	–	–	–	(677,032)	(677,032)
Share-based staff costs capitalised	–	10,643	–	–	–	10,643
Share buyback – cancelled	(2,577)	2,577	–	–	(43,266)	(43,266)
Share buyback – held in treasury	(392,374)	–	–	–	–	(392,374)
Shares issued to non-executive directors	324	–	–	–	–	324
Shares issued pursuant to the Bank's employee share schemes	52,345	9,967	–	–	–	62,312
Treasury shares transferred to employees	36,069	–	–	–	–	36,069
Balance at 31 December 2006	5,480,943	83,162	1,698,130	405,102	2,561,840	10,229,177

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

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

Consolidated Cash Flow Statement

For the financial year ended 31 December 2007

	2007 $'000	2006 $'000
Cash flows from operating activities		
Profit before income tax	**2,539,344**	2,475,890
Adjustments for non-cash items:		
Amortisation of intangible assets	**46,391**	43,732
Allowances and impairment for loans and other assets	**36,164**	2,426
Change in fair value of hedging transactions and trading securities	**(3,383)**	14,023
Depreciation of property, plant and equipment and investment property	**104,095**	103,593
Net gain on disposal of government, debt and equity securities	**(202,151)**	(323,673)
Net gain on disposal of property, plant and equipment and investment property	**(97,187)**	(278,573)
Share-based staff costs	**10,018**	9,695
Share of results of associates and joint ventures	**(20,937)**	(13,651)
Write-off of plant and equipment	**9,521**	14,284
Items relating to life assurance fund		
Excess of inflow over outflow before income tax	**794,366**	1,093,581
Surplus transferred from life assurance fund	**(509,205)**	(376,163)
Operating profit before change in operating assets and liabilities	**2,707,036**	2,765,164
Change in operating assets and liabilities:		
Deposits of non-bank customers	**13,611,656**	11,126,086
Deposits and balances of banks	**2,856,830**	1,561,820
Derivative payables and other liabilities	**1,280,294**	601,013
Trading portfolio liabilities	**(249,802)**	(34,101)
Government securities and treasury bills	**(989,494)**	(1,649,947)
Trading securities	**(953,734)**	(178,675)
Placements with and loans to banks	**2,853,564**	(5,611,154)
Loans and bills receivable	**(11,896,898)**	(4,191,401)
Derivative receivables and other assets	**(952,151)**	(696,407)
Net change in investment assets and liabilities of life assurance fund	**(122,900)**	(750,786)
Cash from operating activities	**8,144,401**	2,941,612
Income tax paid	**(286,560)**	(249,335)
Net cash from operating activities	**7,857,841**	2,692,277
Cash flows from investing activities		
Acquisition of additional interests in subsidiaries	**–**	(302,603)
Dividends from associates	**35,950**	8,432
Decrease/(increase) in associates and joint ventures	**49,108**	(117,772)
Purchases of debt and equity securities	**(6,920,902)**	(2,856,498)
Purchases of property, plant and equipment and investment property	**(237,580)**	(252,142)
Proceeds from disposal of an associate	**–**	67
Proceeds from disposal of debt and equity securities	**2,686,071**	3,179,777
Proceeds from disposal of property, plant and equipment and investment property	**156,670**	377,114
Net cash (used in)/from investing activities	**(4,230,683)**	36,375
Cash flows from financing activities		
Dividends paid to equity holders of the Bank	**(840,695)**	(677,032)
Dividends paid to minority interests	**(59,036)**	(54,859)
Decrease in debts issued	**(113,618)**	(77,910)
Proceeds from exercise of options and rights under the Bank's employee share schemes	**82,187**	98,381
Proceeds from minority interests on subscription of shares in a subsidiary	**32,325**	–
Share buyback	**(43,491)**	(435,640)
Net cash used in financing activities	**(942,328)**	(1,147,060)
Net currency translation adjustments	**(29,775)**	(22,307)
Net change in cash and cash equivalents	**2,655,055**	1,559,285
Cash and cash equivalents at 1 January	**5,741,343**	4,182,058
Cash and cash equivalents at 31 December	**8,396,398**	5,741,343

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 2007

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 21 February 2008.

1. GENERAL

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Companies Act ("the Act"), including the modification to FRS 39 *Financial Instruments: Recognition and Measurement* requirement on loan loss provisioning under Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore.

The financial statements are presented in Singapore Dollar, which is the Bank's functional currency. All financial information presented has been 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 judgment when applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. 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 judgment or complexity, are disclosed in Note 2.23.

The following FRS and Interpretations to FRS ("INT FRS") were applied with effect from 1 January 2007:

FRS	Title
FRS 1 (issued in 2006)	Presentation of Financial Statements (Capital Disclosures)
FRS 40 (issued in 2005)	Investment Property
FRS 107 (issued in 2006)	Financial Instruments: Disclosures
INT FRS 108 (issued in 2006)	Scope of FRS 102 Share-based Payment
INT FRS 109 (issued in 2006)	Reassessment of Embedded Derivatives
INT FRS 110 (issued in 2006)	Interim Financial Reporting and Impairment

Under FRS 40, investment property may be measured using the fair value model or the cost model. The Group has adopted the cost model for its investment properties, except for investment properties held under life assurance funds which are measured using the fair value model. In accordance with the transitional provisions under FRS 40, the revaluation gains of $147.7 million on the life assurance fund's investment properties (net of deferred tax of $6.2 million) has been taken to the life assurance fund liabilities as of 1 January 2007. The comparatives have not been restated, as permitted by FRS 40. Investment properties held under life assurance funds are included in life assurance fund investment assets, consistent with last year's presentation. All other investment properties of the Group are now shown separately from property, plant and equipment and the relevant amounts of cost, accumulated depreciation and impairment, including prior year comparatives, have been reclassified accordingly.

The INT FRS 108 and INT FRS 109 are mainly clarifications on the application of FRS 102 *Share-based Payment* and FRS 39 *Financial Instruments: Recognition and Measurement* in respect of accounting for embedded derivatives and have no significant impact on the Group's financial statements.

The INT FRS 110 prohibits the reversal of an impairment loss recognised in an interim period during the financial year in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. This standard does not have any significant impact on the Group's financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation

2.2.1 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Bank, directly or indirectly, has power to govern the financial and operating policies, generally accompanied by a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Bank controls another entity.

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

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

Minority interests represent the portion of net results of operations and of net assets in subsidiaries that do not belong to equity holders of the Bank. They are disclosed separately in the Group income statement and balance sheet accordingly.

2.2.2 Associates and joint ventures

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

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting, and include goodwill identified on acquisition, where applicable.

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

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

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

2.2.3 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.

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (continued)

2.2.4 Accounting for subsidiaries and associates by the Bank

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

2.3 Currency translation

2.3.1 Foreign currency transactions

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

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

2.3.2 Foreign operations

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

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

2.4 Cash and cash equivalents

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

2.5 Financial instruments

2.5.1 Recognition

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

2.5.2 De-recognition

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

2.5.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the amounts and an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards.

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

Repurchase agreements ("repos") are regarded as collateralised borrowing. The securities sold under repos are treated as pledged assets and remain as assets on the balance sheets. The amount borrowed is recorded as a liability. Reverse repos are treated as collateralised lending and the amount of securities purchased is included in placements with central banks, loans to banks and non-bank customers. The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Financial instruments (continued)

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

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

2.6 Non-derivative financial assets

Non-derivative financial assets are classified according to the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is irrevocable.

2.6.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised at acquisition cost and subsequently measured at amortised cost using the effective interest method, less impairment allowance.

2.6.2 Available-for-sale financial assets

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

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

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

2.6.3 Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are acquired by the trading business units of the Group for the purpose of selling them in the near term.

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

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

2.6.4 Held-to-maturity investments

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

2.7 Derivative financial instruments

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Derivative financial instruments (continued)

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

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

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

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

2.8 Property, plant and equipment

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

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

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

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

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

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.

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment property (continued)

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

2.10 Goodwill and intangible assets

2.10.1 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets and liabilities of the acquiree. Goodwill is stated at cost less impairment loss. Impairment test is carried out annually, or when there is indication that the goodwill may be impaired.

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

2.10.2 Intangible assets

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

2.11 Non-current assets held for sale

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

2.12 Impairment of assets

Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.12.1 Loans and receivables/financial assets carried at amortised cost

Loans are assessed for impairment on a loan-by-loan basis except for homogeneous loans below a certain materiality threshold, which are grouped together according to their risk characteristics and collectively assessed, taking into account the historical loss experience on such loans.

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

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

2.12.2 Other non-derivative financial assets

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of assets (continued)

Other assets

2.12.3 Goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's Cash Generating Units ("CGU") expected to benefit from synergies of the business combination. The Group's CGUs correspond with the business segments identified in the primary segment report.

An impairment loss is recognised in the income statement when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of CGU is the higher of the CGU's fair value less cost to sell and its value in use. Impairment loss on goodwill cannot be reversed in subsequent periods.

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

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

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

2.13 Outstanding premiums

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

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

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

2.14 Financial liabilities

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

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

2.15 Provisions and other liabilities

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Provisions and other liabilities (continued)

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

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

2.16 Insurance contracts

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

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

(b) General Insurance Fund contract liabilities
(c) Reinsurance contracts

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

Life Assurance Fund contract liabilities

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

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

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

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Insurance contracts (continued)

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

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

The valuation of insurance contract liabilities is determined according to:

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

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

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

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

* Refer to Note 2.23 on Critical accounting estimates and judgments

Notes to the Financial Statements
For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Insurance contracts (continued)

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

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

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

General Insurance Fund contract liabilities

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

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

Reinsurance contracts

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

2.17 Unexpired risk reserve

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Unexpired risk reserve (continued)

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

2.18 Share capital and dividend

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

Where share capital recognised as equity is repurchased (treasury shares), the amount of the consideration paid, including directly attributable costs, is presented as a deduction from equity. Treasury shares which are subsequently reissued, sold or cancelled, is recognised as a change in equity.

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

2.19 Recognition of income and expense

2.19.1 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount. When calculating the effective interest rate, significant fees and transaction costs integral to the effective interest rate, as well as premiums or discounts, are considered.

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

2.19.2 Profit from life assurance

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

(a) Participating Fund

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

(b) Non-participating Fund

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

(c) Investment-linked Fund

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Recognition of income and expense (continued)

2.19.2 Profit from life assurance (continued)

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

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

2.19.3 Premium income from general insurance

Premiums from the general insurance business are recognised as revenue upon commencement of insurance cover. Premiums pertaining to periods after reporting date are adjusted through the unexpired risk reserve (Note 2.17). The commission expense is accrued in full upon the risk underwritten as reflected in the premium recognised.

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

2.19.4 Fees and commissions

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

2.19.5 Dividends

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

2.19.6 Rental

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

2.19.7 Employee benefits

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

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

At each balance sheet date, the Group revises its estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Recognition of income and expense (continued)

2.19.8 Lease payments

Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the term of the lease. When a lease is terminated before its expiry, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when the termination takes place.

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

2.20 Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax computation. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that does not affect accounting or taxable profit, and differences relating to investments in subsidiaries, associated and joint ventures companies to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available 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: Consumer Banking, Business Banking, Treasury, Insurance and Others. In determining the segment results, balance sheet items are internally transfer priced and revenues and expenses are attributed to each segment based on internal management reporting policies. Transactions between business segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

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

2.23 Critical accounting estimates and judgments

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

2.23.1 Liabilities of insurance business

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Critical accounting estimates and judgments (continued)

2.23.1 Liabilities of insurance business (continued)

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

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

2.23.2 Impairment of goodwill and intangible assets

The Group performs an annual review of the carrying value of its goodwill and intangible assets, against the recoverable amounts of the CGU to which the goodwill and intangible assets have been allocated. Recoverable amounts of CGUs are determined based on the present value of estimated future cash flows expected to arise from the respective CGUs' continuing operations. Management exercises its judgment 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 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 either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised when the transaction matures or is closed out.

2.23.4 Income taxes

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

2.23.5 Impairment of loans

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Critical accounting estimates and judgments (continued)

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 judgment. 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 judgment about the level of insurance risk transferred. Typically, these contracts contain a significant savings component. The level of insurance risk is assessed by considering whether the Group is required to pay significant additional benefits in excess of amount payable upon when the insured event occurred. These additional amounts include claims liability and assessment costs, but exclude the loss of ability to charge the holder of the contract 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, which the Group does not consider them to contain significant insurance risk

3. NET INTEREST INCOME

	GROUP		BANK	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Interest income				
Loans to non-bank customers	**3,534,958**	3,109,263	**2,491,126**	2,210,070
Placements with and loans to banks	**862,837**	744,312	**713,480**	637,947
Other interest-earning assets	**867,517**	662,738	**609,576**	434,618
	5,265,312	4,516,313	**3,814,182**	3,282,635
Interest expense				
Deposits of non-bank customers	**(2,174,716)**	(1,966,178)	**(1,568,490)**	(1,412,977)
Deposits and balances of banks	**(569,071)**	(473,263)	**(510,969)**	(437,629)
Other borrowings	**(277,316)**	(282,814)	**(273,742)**	(282,277)
	(3,021,103)	(2,722,255)	**(2,353,201)**	(2,132,883)
Analysed by classification of financial instruments:				
Income – Assets not at fair value through profit or loss	**5,132,777**	4,417,506	**3,716,980**	3,199,049
Income – Assets at fair value through profit or loss	**132,535**	98,807	**97,202**	83,586
Expense – Liabilities not at fair value through profit or loss	**(3,009,333)**	(2,706,886)	**(2,341,431)**	(2,117,514)
Expense – Liabilities at fair value through profit or loss	**(11,770)**	(15,369)	**(11,770)**	(15,369)
Net interest income	**2,244,209**	1,794,058	**1,460,981**	1,149,752

Included in interest income were interest on impaired assets of $37.4 million (2006: $45.6 million) and $21.0 million (2006: $28.5 million) for the Group and Bank respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2007

4. PROFIT FROM LIFE ASSURANCE

	Note	GROUP 2007 $ million	GROUP 2006 $ million
Income			
Annual		**3,494.2**	3,289.4
Single		**2,378.5**	2,009.3
Gross premiums		**5,872.7**	5,298.7
Reassurances		**(79.6)**	(73.2)
Premium income (net)		**5,793.1**	5,225.5
Investment income		**3,075.5**	2,272.0
Total inflow		**8,868.6**	7,497.5
Expenses			
Gross claims, surrenders and annuities		**(4,874.9)**	(4,969.5)
Claims, surrenders and annuities recovered from reinsurers		**31.5**	29.6
Net claims, surrenders and annuities		**(4,843.4)**	(4,939.9)
Change in life assurance fund contract liabilities	23	**(2,543.5)**	(805.5)
Commission and agency expenses		**(491.0)**	(430.4)
Depreciation – property, plant and equipment	36	**(43.1)**	(34.4)
Depreciation – investment property		**–**	(5.9)
Other expenses [1]		**(218.6)**	(195.9)
Total outflow		**(8,139.6)**	(6,412.0)
Excess of inflow over outflow from operations		**729.0**	1,085.5
Share of results of associates and joint ventures		**65.3**	8.1
Income tax expense		**(285.1)**	(717.4)
Profit from life assurance		**509.2**	376.2

[1] Included in other expenses are directors' emoluments of $3.9 million (2006: $3.1 million).

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

5. FEES AND COMMISSIONS (NET)

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Fee and commission income	**891,546**	648,809	**434,917**	335,776
Fee and commission expense	**(83,510)**	(51,457)	**(7,304)**	(7,691)
Fees and commissions (net)	**808,036**	597,352	**427,613**	328,085
Analysed by major sources:				
Brokerage	**136,391**	72,215	**1,763**	1,091
Credit card	**56,406**	48,182	**42,083**	35,871
Fund management	**85,894**	71,771	**(263)**	(531)
Guarantees	**22,536**	23,633	**18,295**	21,106
Investment banking	**41,372**	30,890	**38,308**	26,684
Loan-related	**123,902**	80,779	**87,239**	50,810
Service charges	**44,017**	32,966	**32,191**	23,849
Trade-related and remittances	**115,064**	92,332	**73,698**	60,421
Wealth management	**163,281**	128,604	**132,732**	106,522
Others	**19,173**	15,980	**1,567**	2,262
	808,036	597,352	**427,613**	328,085

Notes to the Financial Statements
For the financial year ended 31 December 2007

6. DIVIDENDS

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Subsidiaries	**–**	–	**563,110**	378,132
Associates	**–**	–	**31,686**	8,578
Trading securities	**6,536**	835	**6,386**	794
Available-for-sale securities	**48,869**	128,076	**17,120**	40,232
	55,405	128,911	**618,302**	427,736

7. OTHER INCOME

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Foreign exchange [1]	**186,003**	143,689	**151,026**	114,746
Hedging activities [2]				
Hedging instruments	**(96,384)**	(237,076)	**(93,453)**	(237,075)
Hedged items	**89,415**	218,450	**86,485**	218,450
Fair value hedges	**(6,969)**	(18,626)	**(6,968)**	(18,625)
Ineffective portion of investment hedge in foreign operations	**–**	–	**–**	–
Interest rate and other derivatives [3]	**(63,028)**	(661)	**(83,416)**	(4,416)
Trading securities	**57,652**	20,034	**50,623**	13,186
Net trading income	**173,658**	144,436	**111,265**	104,891
Disposal of securities classified as available-for-sale	**202,151**	322,689	**99,394**	226,040
Disposal of securities classified as loans	**–**	984	**–**	887
Disposal/liquidation of subsidiaries	**–**	(6,136)	**4,680**	38,098
Disposal of plant and equipment	**(220)**	2,150	**(216)**	1,582
Disposal of property	**97,407**	276,423	**1,928**	1,486
Computer-related services income	**36,903**	34,181	**–**	–
Property-related income	**8,059**	11,231	**464**	368
Others	**18,682**	19,766	**20,831**	13,880
	536,640	805,724	**238,346**	387,232

(1) "Foreign exchange" includes gains and losses from spot and forward contracts and translation of foreign currency assets and liabilities.
(2) "Hedging activities" arise from the use of derivatives to hedge exposures to interest rate and foreign exchange risks, which are inherent in the underlying "Hedged items".
(3) "Interest rate and other derivatives" include mainly gains and losses from interest rate, equity options and other derivative instruments.

Notes to the Financial Statements
For the financial year ended 31 December 2007

8. STAFF COSTS AND OTHER OPERATING EXPENSES

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
8.1 Staff costs				
Salaries and other costs	**846,136**	642,092	**412,628**	306,287
Share-based expenses	**9,516**	9,371	**7,044**	6,351
Contribution to defined contribution plans	**68,040**	53,461	**29,889**	22,964
	923,692	704,924	**449,561**	335,602
Directors' emoluments: (1)				
Remuneration of Bank's directors	**7,560**	6,169	**5,923**	5,353
Remuneration of directors of subsidiaries	**8,717**	6,698	**–**	–
Fees of Bank's directors (2)	**3,395**	2,204	**2,199**	1,343
Fees of directors of subsidiaries	**2,646**	1,618	**–**	–
	22,318	16,689	**8,122**	6,696
Total staff costs	**946,010**	721,613	**457,683**	342,298
8.2 Other operating expenses				
Property, plant and equipment: (3)				
Depreciation (4)	**104,095**	103,593	**51,145**	54,821
Maintenance and hire	**65,532**	61,450	**25,796**	25,166
Rental expenses	**30,433**	24,292	**35,456**	31,110
Write-off of plant and equipment	**9,521**	14,284	**8,839**	14,284
Others	**91,535**	73,752	**52,929**	42,157
	301,116	277,371	**174,165**	167,538
Auditors' remuneration				
Payable to auditors of the Bank	**1,120**	1,035	**823**	738
Payable to associated firms of auditors of the Bank	**565**	565	**398**	398
Payable to other auditors	**1,435**	1,431	**39**	136
	3,120	3,031	**1,260**	1,272
Other fees				
Payable to auditors of the Bank	**407**	157	**407**	94
Payable to associated firms of auditors of the Bank	**787**	130	**30**	93
	1,194	287	**437**	187
Hub processing charges	**–**	–	**130,170**	121,326
General insurance claims	**37,663**	32,919	**–**	–
Others (5)	**390,551**	295,923	**229,914**	169,575
Total other operating expenses	**733,644**	609,531	**535,946**	459,898
8.3 Staff costs and other operating expenses	**1,679,654**	1,331,144	**993,629**	802,196

Notes:
(1) Directors' emoluments pertaining to life assurance fund are disclosed in Note 4 – Profit from life assurance.
(2) Included share-based payment $0.5 million (2006: $0.3 million) made to non-executive directors.
(3) Direct operating expenses on leased investment property for the Group and the Bank amounted to $14.4 million (2006: $16.3 million) and $3.9 million (2006: $3.4 million) respectively. Direct operating expenses on vacant investment property for the Group and the Bank amounted to $0.6 million (2006: $0.4 million) and $0.2 million (2006: $0.2 million) respectively.
(4) Included depreciation for investment property of $12.2 million (2006: $14.7 million) and $7.2 million (2006: $7.6 million) for the Group and Bank respectively.
(5) Others included professional fees paid to a firm which is related to a director, the amount paid was less than $0.2 million for 2007 and 2006 respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2007

9. ALLOWANCES AND IMPAIRMENT/(WRITE-BACK) FOR LOANS AND OTHER ASSETS

		GROUP		BANK	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(Write-back)/allowances for loans	29	**(107,763)**	21,214	**(78,191)**	(16,587)
Impairment charge for available-for-sale securities		**3,632**	2,529	**47**	1,389
Allowances for CDOs		**230,888**	–	**226,249**	–
Write-back of impairment charge for other assets	33	**(90,593)**	(21,317)	**(147,777)**	(11,728)
Net allowances and impairment/(write-back)		**36,164**	2,426	**328**	(26,926)

Following the sub-prime market shakeout and the current conditions of the Collateralised Debt Obligation ("CDO") market, allowances were made on the Bank's CDO portfolio. The amount of allowance was derived from a third party valuation model, inputs to which were based on observable housing market data.

10. INCOME TAX EXPENSE

		GROUP		BANK	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current tax expense		**458,248**	377,133	**261,021**	219,637
Deferred tax expense/(credit)	21	**14,899**	1,979	**8,438**	(4,651)
		473,147	379,112	**269,459**	214,986
Over provision in prior years/tax refunds		**(117,043)**	(9,294)	**(115,806)**	(11,724)
Charge to income statements		**356,104**	369,818	**153,653**	203,262

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

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Operating profit after allowances and amortisation	**2,518,407**	2,462,239	**1,774,567**	1,539,204
Prima facie tax calculated at tax rate of 18% (2006: 20%)	**453,313**	492,448	**319,422**	307,841
Effect of change in tax rates	**(3,194)**	–	**(4,262)**	–
Effects of different tax rates in other countries	**84,559**	49,535	**14,021**	6,676
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	**725**	406	**725**	391
Income not assessable for tax	**(14,466)**	(82,662)	**(39,791)**	(54,283)
Income taxed at concessionary rate	**(21,627)**	(41,532)	**(25,730)**	(41,532)
Tax on Singapore life assurance profit	**(38,397)**	(37,813)	**–**	–
Amortisation of intangibles	**8,350**	8,746	**–**	–
Non-taxable write-back	**(8,816)**	(14,719)	**(1,730)**	(710)
Others	**12,700**	4,703	**6,804**	(3,397)
	473,147	379,112	**269,459**	214,986

Notes to the Financial Statements

For the financial year ended 31 December 2007

11. EARNINGS PER SHARE

	GROUP 2007	GROUP 2006
$'000		
Profit attributable to ordinary equity holders of the Bank	**2,070,754**	2,002,192
Preference dividends paid	**(39,125)**	(39,125)
Profit attributable to ordinary equity holders of the Bank after preference dividends	**2,031,629**	1,963,067
Weighted average number of ordinary shares ('000)		
For basic earnings per share	**3,081,324**	3,096,408
Adjustment for assumed conversion of share options and acquisition rights	**16,794**	12,160
For diluted earnings per share	**3,098,118**	3,108,568
Earnings per share (cents)		
Basic	**66**	63
Diluted	**66**	63

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

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

12. UNAPPROPRIATED PROFIT

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Profit attributable to equity holders of the Bank		**2,070,754**	2,002,192	**1,620,914**	1,335,942
Add: Unappropriated profit at 1 January		**4,120,811**	2,814,386	**1,680,138**	1,131,294
Total amount available for appropriation		**6,191,565**	4,816,578	**3,301,052**	2,467,236
Appropriated as follows:					
Ordinary dividends:					
2005 final dividend of 12 cents less tax at 20%		**–**	(298,172)	**–**	(298,172)
2006 interim tax exempt dividend of 11 cents		**–**	(339,735)	**–**	(339,735)
2006 final tax exempt dividend of 12 cents		**(369,746)**	–	**(369,746)**	–
2007 interim net dividend of 14 cents less Malaysia tax		**(431,824)**	–	**(431,824)**	–
Preference dividends:					
Class E 4.5% tax exempt (2006: net of Singapore tax)		**(22,500)**	(22,500)	**(22,500)**	(22,500)
Class G 4.2% net of Malaysia tax (2006: net of Singapore tax)		**(16,625)**	(16,625)	**(16,625)**	(16,625)
Share buyback	13.1(a)	**–**	(43,266)	**–**	(43,266)
Transfer from/(to):					
Capital reserves	14	**53,229**	24,102	**–**	–
Statutory reserves	15	**351,595**	(68,479)	**339,626**	(66,800)
General reserves	16.1	**–**	68,908	**–**	–
		(435,871)	(695,767)	**(501,069)**	(787,098)
At 31 December	16	**5,755,694**	4,120,811	**2,799,983**	1,680,138

At the annual general meeting to be held, a final tax-exempt dividend of 14 cents per ordinary share in respect of the financial year ended 31 December 2007, totalling $432.1 million, will be proposed. The dividends will be accounted for as a distribution in the 2008 financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2007

13. SHARE CAPITAL

13.1 Issued share capital

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.

The Class E non-cumulative and non-convertible preference shares were issued on 29 January 2003 with a liquidation preference of $100 per share and have a fixed dividend rate of 4.5% per annum (net of tax) payable semi-annually in arrears on 20 June and 20 December, subject to directors' approval. The preference shares may be redeemed at the option of the Bank five years after issue, ten years after issue and on each dividend payment date thereafter.

The Class G non-cumulative and non-convertible preference shares were issued on 14 July 2003 and 6 August 2003 with a liquidation preference of $1 per share and have a fixed dividend rate of 4.2% per annum (net of tax), payable semi-annually in arrears on 20 June and 20 December, subject to directors' approval. The preference shares may be redeemed at the option of the Bank five and half years after issue, ten years after issue and on each dividend payment date thereafter.

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

GROUP AND BANK	Note	2007 Shares ('000)	2006 Shares ('000)	2007 $'000	2006 $'000
Ordinary shares					
At 1 January		**3,126,460**	3,114,338	**4,941,417**	1,557,169
Share buyback – cancelled	13.1(a)	**–**	(7,008)	**–**	(2,577)
Share Option Schemes	13.1(b)	**–**	11,334	**–**	44,491
Share Purchase Plan	13.1(c)	**–**	1,728	**–**	7,854
Shares issued to non-executive directors	13.1(d)	**53**	48	**502**	324
Acquisition of additional interests in a subsidiary	13.1(e)	**–**	6,020	**–**	40,635
Transfer from share premium	14(a)	**–**	–	**–**	3,227,243
Transfer from capital redemption reserve	14(b)	**–**	–	**–**	66,278
At 31 December		**3,126,513**	3,126,460	**4,941,919**	4,941,417
Treasury shares					
At 1 January		**(51,669)**	–	**(356,305)**	–
Share buyback – held in treasury	13.1(f)	**(4,986)**	(59,265)	**(43,491)**	(392,374)
Share Options Schemes					
All share and cash election	13.1(b)	**14,451**	5,338	**97,233**	35,164
Partial share election	13.1(b)	**500**	–	**3,383**	–
Share Purchase Plan	13.1(c)	**1,412**	2,258	**9,641**	14,899
Loss on transfer of shares to employees		**–**	–	**(28,070)**	(13,994)
At 31 December		**(40,292)**	(51,669)	**(317,609)**	(356,305)
Class E preference shares					
At 1 January		**5,000**	5,000	**500,000**	50
Transfer from share premium	14(a)	**–**	–	**–**	499,950
At 31 December		**5,000**	5,000	**500,000**	500,000
Class G preference shares					
At 1 January		**395,831**	395,831	**395,831**	3,958
Transfer from share premium	14(a)	**–**	–	**–**	391,873
At 31 December		**395,831**	395,831	**395,831**	395,831
Issued capital, at 31 December				**5,520,141**	5,480,943

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13. SHARE CAPITAL (CONTINUED)

13.1 Issued share capital (continued)

At 31 December 2007, associate companies of the Group held 420 (2006: 420) ordinary shares and 2,500 (2006: 2,500) Class E preference shares in the capital of the Bank.

(a) In 2006, the Bank purchased 6,407,103 ordinary shares by way of market acquisitions at an average price of $6.75 per share, which amounted to total cash distribution of $43.3 million (Note 12) and cancelled 7,007,747 re-purchased ordinary shares.

(b) During the financial year, the Bank transferred 14,951,426 ordinary shares held in treasury to employees upon their exercise of 15,368,896 options. In 2006, the Bank issued 11,333,946 ordinary shares and transferred 5,337,628 ordinary shares held in treasury to employees upon their exercise of options.

(c) During the financial year, the Bank transferred 1,411,607 ordinary shares held in treasury to employees upon their exercise of acquisition rights under the Bank's Share Purchase Plan. In 2006, the Bank issued 1,728,000 ordinary shares to employees upon their exercise of acquisition rights and transferred 2,258,382 ordinary shares held in treasury to employees from the conversion of rights under the Share Purchase Plan upon its expiry on 30 June 2006.

(d) At an Extraordinary General Meeting held during the financial year, shareholders of the Bank approved the issue of 52,800 (2006: 48,000) ordinary shares as payment in part of the non-executive directors' fees. The fair value of the shares at date of issue was $0.5 million (2006: $0.3 million).

(e) In 2006, the Bank purchased 2,570,000 ordinary shares or 0.54% shareholdings in Great Eastern Holdings Limited from certain individuals under a conditional share purchase agreement. The consideration was settled by the issue of 6,019,968 new ordinary shares in the Bank at fair value of $40.6 million.

(f) During the financial year, the Bank purchased 4,985,870 (2006: 59,264,806) ordinary shares out of its capital, by way of market acquisition at an average price of $8.72 (2006: $6.62) per share, which amounted to total cash consideration of $43.5 million (2006: $392.4 million).

(g) Under the Singapore Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital were abolished and the amount previously in the share premium and capital redemption reserve accounts as at 30 January 2006 became part of the Bank's share capital.

13.2 Share option schemes

During the year, certain alterations were made to the Bank's Share Option Schemes. These alterations enable option holders to select one of the following alternatives when exercising their options:

(a) All share election – an election to receive in full the number of ordinary shares upon full payment of the aggregate acquisition cost in respect of the options exercised;

(b) Partial share election – an election to receive ordinary shares representing the notional profit which would have been derived if the ordinary shares in respect of the options exercised had been sold; or

(c) Cash election – an election to receive in cash the profit derived from the sale by the Bank on behalf of the employee of all ordinary shares in respect of the options exercised.

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For the financial year ended 31 December 2007

13. SHARE CAPITAL (CONTINUED)

13.2 Share option schemes (continued)

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

	Note	2007 Number of options	2007 Average price	2006 Number of options	2006 Average price
At 1 January		**53,868,989**	**$5.231**	66,100,780	$4.968
Granted		**5,510,350**	**$8.510**	5,846,476	$6.762
Exercised – Issue of new shares	13.1(b)	**–**	**–**	(11,333,946)	$4.736
Exercised – Treasury shares					
All share and cash election	13.1(b)	**(14,451,345)**	**$5.054**	(5,337,628)	$4.621
Partial share election	13.1(b)	**(917,551)**	**$4.206**	–	–
Forfeited/lapsed		**(598,219)**	**$6.670**	(1,406,693)	$5.540
At 31 December		**43,412,224**	**$5.708**	53,868,989	$5.231
Exercisable options at 31 December		**31,550,155**	**$5.107**	39,126,902	$4.931
Average share price underlying the options exercised during the financial year			**$8.904**		$6.840

Details of the options outstanding as at 31 December 2007 are as follows:

Grant Year	Grant date	Exercise period	Acquisition price ($)	2007 Outstanding	2007 Exercisable
1998R	25.05.1999	22.01.2001 – 21.01.2008	2.675	296,328	296,328
1999R	25.05.1999	10.12.2001 – 09.12.2008	3.139	1,456,142	1,456,142
2000	06.03.2000	06.12.2002 – 05.12.2009	4.542	2,682,795	2,682,795
2001	05.03.2001	05.12.2003 – 04.12.2010	5.367	4,318,486	4,318,486
2002	08.04.2002	09.04.2003 – 08.04.2012	5.742	6,501,303	6,501,303
2002A	22.04.2002	23.04.2003 – 22.04.2012	5.692	720,000	720,000
2002B	23.10.2002	24.10.2003 – 23.10.2012	4.367	180,000	180,000
2003	27.03.2003	28.03.2004 – 26.03.2013	4.067	5,301,677	5,301,677
2004	15.03.2004	16.03.2005 – 14.03.2014	5.142	4,716,205	4,716,205
2004A	19.08.2004	20.08.2005 – 18.08.2014	5.492	160,800	160,800
2004B	22.11.2004	23.11.2005 – 21.11.2014	5.667	103,200	103,200
2005	14.03.2005	15.03.2006 – 13.03.2015	5.767	4,714,251	2,776,695
2005A	08.04.2005	09.04.2006 – 07.04.2015	5.784	1,924,596	939,684
2006	14.03.2006	15.03.2007 – 13.03.2016	6.820	3,773,621	1,107,958
2006A	23.01.2006	24.01.2007 – 22.01.2016	6.780	12,400	4,092
2006B	23.05.2006	24.05.2007 – 22.05.2016	6.580	1,198,670	284,790
2007	14.03.2007	15.03.2008 – 13.03.2017	8.590	3,666,750	–
2007A	15.01.2007	16.01.2008 – 14.01.2017	7.600	445,000	–
2007B	14.03.2007	15.03.2008 – 13.03.2017	8.590	1,040,000	–
2007NED	14.03.2007	15.03.2008 – 13.03.2012	8.590	200,000	–
				43,412,224	31,550,155

At 31 December 2007, the weighted average remaining contractual life of outstanding share options was 5.7 years (2006: 6.0 years). The aggregate outstanding number of options granted to directors of the Bank was 4,503,400 (2006: 4,552,400).

During the year, the Bank granted options of 5,510,350 (2006: 5,846,476), of which 751,000 (2006: 795,600) were granted to directors of the Bank. The fair value of options granted determined using the binomial valuation model was $9.4 million (2006: $6.4 million). There are no market conditions or non-market performance conditions associated with the share option grants. Service conditions are not taken into account in the measurement of the fair value of the services to be received at the grant date.

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For the financial year ended 31 December 2007

13. SHARE CAPITAL (CONTINUED)

13.2 Share option schemes (continued)

Significant inputs that were used to determine the fair value of options granted were set out below:

	2007	2006
Acquisition price ($)	**7.60 – 8.59**	6.58 – 6.82
Average share price from grant date to acceptance date ($)	**7.75 – 9.00**	6.25 – 6.74
Expected volatility based on last 250 days historical price volatility as of acceptance date (%)	**17.15 – 20.21**	16.04 – 17.25
Risk-free rate based on SGS bond yield at acceptance date (%)	**2.73 – 3.11**	3.85 – 3.94
Expected dividend yield (%)	**2.56 – 2.97**	2.85 – 3.07
Exercise multiple (times)	**1.57**	1.57
Option life (years)	**5 and 10**	10

13.3 Deferred share plan

During the year, 1,438,600 (2006: 1,444,490) ordinary shares were granted to executives of the Group, of which 80,287 (2006: 119,907 granted to two directors) were granted to a director of the Bank. Fair value of the shares at grant date was $12.4 million (2006: $9.8 million).

During the year, 868,964 (2006: 886,918) deferred shares were released to employees, of which 93,866 (2006: 68,462) were released to directors. At 31 December 2007, the directors of the Bank have deemed interest of 336,743 (2006: 340,905) deferred ordinary shares.

13.4 Employee share purchase plan

The ESP Plan, administered by the Remuneration Committee, is offered to employees who have attained the age of 21 years and have at least six months of service with the Group. The ESP Plan provides employees with an opportunity to increase their equity interest in the Bank. An employee participates in the plan by making monthly contributions to his ESP Plan account.

The fair value of the rights under the second offering of the ESP Plan launched in June 2006, determined using the binomial valuation model was $5.9 million. Significant inputs into the model were average share price of $6.40, expected volatility of 17.22%, dividend yield of 3.0% and annual risk-free rate based on 2-year swap rate of 3.49%. The expected volatility is based on Bloomberg's 250-day historical price volatility as of acceptance date.

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

		2007		2006	
	Note	Number of acquisition rights	Acquisition price	Number of acquisition rights	Acquisition price
At 1 January		**7,640,257**	**$6.450**	4,072,657	$5.050
Subscriptions on commencement of plan		**–**	**–**	8,222,248	$6.450
Exercised – Issue of new shares	13.1(c)	**–**	**–**	(1,728,000)	$5.050
Exercised – Treasury shares	13.1(c)	**(1,411,607)**	**$6.450**	(2,258,382)	$5.050
Forfeited		**(744,659)**	**$6.450**	(668,266)	$6.269
At 31 December		**5,483,991**	**$6.450**	7,640,257	$6.450
Average share price underlying acquisition rights exercised during the year			**$8.963**		$6.526

At 31 December 2007, a director of the Bank has 11,162 (2006: 11,162) acquisition rights under the Plan.

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For the financial year ended 31 December 2007

14. CAPITAL RESERVES

	Note	GROUP AND BANK 2007 $'000	2006 $'000
(a) Share premium			
At 1 January		**–**	4,109,099
Share Option Schemes		**–**	9,095
Share Purchase Plan		**–**	872
Transfer to ordinary share capital	13.1	**–**	(3,227,243)
Transfer to Class E preference share capital	13.1	**–**	(499,950)
Transfer to Class G preference share capital	13.1	**–**	(391,873)
At 31 December		**–**	–
(b) Capital redemption reserve			
At 1 January		**–**	63,701
Share buyback – cancelled	13.1(a)	**–**	2,577
Transfer to ordinary share capital	13.1	**–**	(66,278)
At 31 December		**–**	–

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
(c) Other capital reserves					
At 1 January		**103,262**	119,200	**83,162**	72,519
Share-based staff costs capitalised		**10,915**	10,643	**10,915**	10,643
Shares purchased by DSP Trust		**(10,540)**	(7,616)	**–**	–
Shares vested under DSP Scheme		**5,554**	5,137	**–**	–
Transfer to unappropriated profit	12	**(53,229)**	(24,102)	**–**	–
At 31 December		**55,962**	103,262	**94,077**	83,162
(d) Total capital reserves, at 31 December		**55,962**	103,262	**94,077**	83,162

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

15. STATUTORY RESERVES

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
At 1 January		**2,027,811**	1,959,332	**1,698,130**	1,631,330
Transfer (to)/from unappropriated profit	12	**(351,595)**	68,479	**(339,626)**	66,800
At 31 December		**1,676,216**	2,027,811	**1,358,504**	1,698,130

Statutory reserves are 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. The Banking (Reserve Fund) (Transitional Provision) Regulation 2007 provides that a bank in Singapore may distribute or utilise in any manner any amount in its reserve fund maintained under the repealed section 22(1) of the Banking Act (Cap. 19), subject to a cap of 20% of the reserve fund as of 30 March 2007 for each calendar year.

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16. REVENUE RESERVES

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Unappropriated profit	12	**5,755,694**	4,120,811	**2,799,983**	1,680,138
General reserves		**1,320,155**	1,320,155	**976,000**	976,000
Currency translation reserves		**(376,542)**	(316,422)	**(66,226)**	(94,298)
		6,699,307	5,124,544	**3,709,757**	2,561,840
16.1 General reserves					
At 1 January		**1,320,155**	1,389,063	**976,000**	976,000
Transfer to unappropriated profit	12	**–**	(68,908)	**–**	–
At 31 December		**1,320,155**	1,320,155	**976,000**	976,000
16.2 Currency translation reserves					
At 1 January		**(316,422)**	(295,896)	**(94,298)**	(73,934)
Adjustments for the year		**(94,531)**	(20,526)	**16,457**	(20,364)
Effective portion of hedge		**34,411**	–	**11,615**	–
At 31 December		**(376,542)**	(316,422)	**(66,226)**	(94,298)

General reserves comprise balances set aside by subsidiaries under their Articles of Association and the merger reserve of a subsidiary (arising from shares issued for acquisition). 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.

17. MINORITY INTERESTS

	Note	GROUP 2007 $'000	GROUP 2006 $'000
Minority interests in subsidiaries		**587,334**	512,593
Preference shares issued by subsidiaries			
OCBC Capital Corporation	(a)	**400,000**	400,000
OCBC Bank (Malaysia) Berhad	(b)	**173,888**	174,038
Total minority interests		**1,161,222**	1,086,631

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

The preference shares are redeemable in whole but not in part, at the option of OCC on 20 March 2015 and on each dividend payment date thereafter. Dividends, if declared by the Board of Directors of OCC, are payable semi-annually on or prior to 20 March 2015 at 3.93% per annum and thereafter, payable quarterly at a floating rate equal to the 3-month Singapore swap offer rate plus 1.85%.

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

The preference shares are redeemable at the option of OBMB on the 10th anniversary from the issue date or on each dividend payment date. Dividends, payable at the discretion of the Board of Directors of OBMB, shall be made in arrears on 20 March and 20 September in each calendar year. On or prior to the 10th anniversary of the issue date, the preference shares carry a net cash dividend of 4.51% per annum of the liquidation preference value. Thereafter, gross dividend is at a floating rate determined at each dividend payment period, equal to the 6-month Kuala Lumpur Interbank Offered Rate ("KLIBOR") plus 1.9%.

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

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deposits of non-bank customers				
Current accounts	**12,538,308**	10,034,856	**9,759,688**	8,085,901
Savings deposits	**12,999,311**	11,214,703	**11,291,823**	9,792,956
Term deposits	**54,993,992**	46,374,949	**44,724,063**	37,850,153
Structured deposits	**3,770,988**	3,822,247	**3,505,284**	3,214,376
Certificate of deposits issued	**1,015,258**	1,655,132	**905,252**	205,493
Other deposits	**3,470,537**	2,013,094	**229,006**	214,297
	88,788,394	75,114,981	**70,415,116**	59,363,176
Deposits and balances of banks	**14,726,082**	11,869,252	**13,023,929**	11,233,918
	103,514,476	86,984,233	**83,439,045**	70,597,094

18.1 Deposits of non-bank customers

Analysed by currency

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Singapore Dollar	**52,873,226**	46,018,074	**52,689,903**	45,936,329
US Dollar	**11,472,660**	8,352,471	**10,359,859**	7,700,609
Malaysian Ringgit	**13,632,898**	11,956,743	**–**	–
Indonesian Rupiah	**2,903,460**	2,956,749	**–**	–
Japanese Yen	**846,667**	884,490	**835,834**	862,164
Hong Kong Dollar	**1,243,826**	634,416	**1,243,742**	634,416
British Pound	**1,298,226**	1,273,763	**1,282,650**	1,265,280
Australian Dollar	**2,591,494**	1,682,189	**2,502,868**	1,633,604
Euro	**757,884**	655,218	**736,698**	639,623
Others	**1,168,053**	700,868	**763,562**	691,151
	88,788,394	75,114,981	**70,415,116**	59,363,176

18.2 Deposits and balances of banks

Analysed by currency

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Singapore Dollar	**3,645,225**	2,503,955	**3,645,225**	2,503,955
US Dollar	**7,608,540**	6,347,522	**6,682,017**	6,128,352
Malaysian Ringgit	**408,221**	264,739	**–**	–
Indonesian Rupiah	**41,607**	149,522	**–**	–
Japanese Yen	**170**	28,074	**170**	28,074
Hong Kong Dollar	**1,038,959**	778,726	**1,038,959**	778,726
British Pound	**174,903**	481,605	**174,693**	481,605
Australian Dollar	**362,011**	251,079	**361,179**	249,209
Euro	**843,720**	816,120	**843,720**	816,120
Others	**602,726**	247,910	**277,966**	247,877
	14,726,082	11,869,252	**13,023,929**	11,233,918

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19. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2007			2006		
GROUP ($'000)	Principal notional amount	Derivative receivables	Derivative payables	Principal notional amount	Derivative receivables	Derivative payables
Foreign exchange derivatives "FED"						
Forwards	**34,330,587**	**245,798**	**267,185**	4,862,473	28,791	29,531
Swaps	**69,512,048**	**1,091,064**	**1,051,689**	43,788,583	842,666	814,613
OTC options – bought	**6,214,438**	**83,752**	**1,933**	5,572,300	19,926	6,588
OTC options – sold	**4,645,703**	**1,933**	**51,225**	5,294,058	12,044	10,143
Exchange traded options – bought	**55**	**13**	**–**	–	–	–
Exchange traded options – sold	**55**	**–**	**13**	–	–	–
	114,702,886	**1,422,560**	**1,372,045**	59,517,414	903,427	860,875
Interest rate derivatives "IRD"						
Forwards	**3,500,000**	**1,074**	**1,310**	6,575,000	534	539
Swaps	**209,638,207**	**1,403,750**	**1,197,833**	170,524,268	1,463,274	1,219,397
OTC options – bought	**5,034,437**	**24,499**	**7**	2,179,437	10,651	1,923
OTC options – sold	**2,287,761**	**7**	**9,519**	1,754,078	1,201	7,967
Exchange traded futures – bought	**2,173,864**	**1,208**	**298**	260,482	13	471
Exchange traded futures – sold	**590,617**	**1,198**	**625**	154,112	617	628
	223,224,886	**1,431,736**	**1,209,592**	181,447,377	1,476,290	1,230,925
Equity derivatives						
Forwards	**5,489**	**292**	**–**	–	–	–
Swaps	**86,505**	**2,769**	**2,769**	–	–	–
OTC options – bought	**357,177**	**47,283**	**–**	281,192	12,840	331
OTC options – sold	**332,698**	**–**	**62,828**	30,978	504	2,889
Exchange traded futures – bought	**4,160**	**6**	**61**	–	–	–
Exchange traded futures – sold	**11,003**	**89**	**50**	–	–	–
	797,032	**50,439**	**65,708**	312,170	13,344	3,220
Credit derivatives						
Credit default swaps – seller	**275,262**	**319**	**17,331**	293,455	3,426	830
Other derivatives						
Precious metals – bought	**10,263**	**214**	**–**	2,138	8	–
Precious metals – sold	**4,556**	**–**	**23**	2,431	–	7
OTC options – bought	**12,297**	**695**	**–**	–	–	–
OTC options – sold	**12,308**	**–**	**728**	–	–	–
Others	**885,962**	**31,119**	**31,119**	892,134	17,939	17,939
	925,386	**32,028**	**31,870**	896,703	17,947	17,946
Total	**339,925,452**	**2,937,082**	**2,696,546**	242,467,119	2,414,434	2,113,796
Included items designated for hedges:						
Fair value hedge – FED	**2,462,989**	**266,471**	**518,770**	3,515,575	247,683	492,195
Fair value hedge – IRD	**5,156,237**	**172,012**	**28,087**	5,167,356	164,251	15,407
Investment hedge – FED	**2,892,430**	**20,317**	**7,288**	–	–	–
	10,511,656	**458,800**	**554,145**	8,682,931	411,934	507,602

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19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

BANK ($'000)	2007 Principal notional amount	2007 Derivative receivables	2007 Derivative payables	2006 Principal notional amount	2006 Derivative receivables	2006 Derivative payables
Foreign exchange derivatives "FED"						
Forwards	**29,663,538**	**220,914**	**239,986**	3,720,308	23,094	22,050
Swaps	**65,970,598**	**1,056,739**	**1,014,341**	42,516,657	827,814	798,082
OTC options – bought	**5,385,253**	**79,868**	**1,604**	2,769,789	16,747	2,675
OTC options – sold	**4,075,097**	**1,604**	**47,017**	2,515,529	7,010	7,028
	105,094,486	**1,359,125**	**1,302,948**	51,522,283	874,665	829,835
Interest rate derivatives "IRD"						
Forwards	**3,500,000**	**1,074**	**1,310**	6,575,000	534	539
Swaps	**200,402,230**	**1,364,831**	**1,172,321**	163,884,676	1,433,628	1,189,172
OTC options – bought	**4,349,764**	**20,104**	**–**	1,896,620	10,176	–
OTC options – sold	**2,021,469**	**–**	**8,616**	1,628,352	–	7,977
Exchange traded futures – bought	**2,169,546**	**1,196**	**298**	260,482	13	471
Exchange traded futures – sold	**581,992**	**1,198**	**625**	154,112	617	628
	213,025,001	**1,388,403**	**1,183,170**	174,399,242	1,444,968	1,198,787
Equity derivatives						
Forwards	**5,489**	**292**	**–**	–	–	–
Swaps	**86,505**	**2,769**	**2,769**	–	–	–
OTC options – bought	**284,215**	**34,914**	**–**	266,170	12,607	330
OTC options – sold	**271,469**	**–**	**51,561**	28,514	233	3,157
Exchange traded futures – bought	**4,160**	**6**	**61**	–	–	–
Exchange traded futures – sold	**11,003**	**89**	**50**	–	–	–
	662,841	**38,070**	**54,441**	294,684	12,840	3,487
Credit derivatives						
Credit default swaps – seller	**275,262**	**319**	**17,331**	293,455	3,426	830
Other derivatives						
Precious metals – bought	**9,657**	**209**	**–**	678	4	–
Precious metals – sold	**3,950**	**–**	**18**	971	–	3
OTC options – bought	**5,847**	**694**	**–**	–	–	–
OTC options – sold	**5,858**	**–**	**728**	–	–	–
Others	**885,962**	**31,119**	**31,119**	892,134	17,939	17,939
	911,274	**32,022**	**31,865**	893,783	17,943	17,942
Total	**319,968,864**	**2,817,939**	**2,589,755**	227,403,447	2,353,842	2,050,881
Included items designated for hedges:						
Fair value hedge – FED	**2,668,538**	**266,471**	**519,874**	3,515,575	247,683	492,195
Fair value hedge – IRD	**5,027,630**	**171,984**	**25,245**	5,167,356	164,251	15,407
Investment hedge – FED	**451,842**	**4,001**	**–**	–	–	–
	8,148,010	**442,456**	**545,119**	8,682,931	411,934	507,602

Notes to the Financial Statements

For the financial year ended 31 December 2007

20. OTHER LIABILITIES

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Bills payable	**313,548**	297,616	**177,297**	179,692
Interest payable	**622,388**	625,027	**508,850**	528,679
Sundry creditors	**1,951,756**	1,253,466	**211,315**	210,788
Others	**425,478**	401,401	**167,243**	200,590
	3,313,170	2,577,510	**1,064,705**	1,119,749

At 31 December 2007, reinsurance liabilities included in "Others" amounted to $16.1 million (2006: $12.9 million).

21. DEFERRED TAX

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
At 1 January					
As reported		**942,878**	364,626	**134,921**	146,267
Effect of FRS 40 adoption		**6,179**	–	**–**	–
As restated		**949,057**	364,626	**134,921**	146,267
Currency translation and others		**(477)**	1,410	**44**	48
Charge/(credit) to income statements		**18,093**	1,979	**12,700**	(4,651)
Effect of change in tax rates		**(3,194)**	–	**(4,262)**	–
Net charge/(credit) to income statements	10	**14,899**	1,979	**8,438**	(4,651)
(Over)/under provision in prior years		**(5,167)**	5,731	**(5,167)**	4,754
Deferred tax on fair value changes		**(4,060)**	8,519	**(7,095)**	(11,497)
Effect of change in tax rates		**(13,598)**	–	**(8,677)**	–
Net deferred tax change taken to equity		**(17,658)**	8,519	**(15,772)**	(11,497)
Change in life assurance fund tax		**53,802**	71,808	**–**	–
Provision against future policyholders' bonus		**122,788**	612,189	**–**	–
Deferred tax on fair value changes to income statement		**–**	5,200	**–**	–
Write-back of deferred tax on fair value reserve		**–**	(128,584)	**–**	–
Net change in life assurance fund tax [1]		**176,590**	560,613	**–**	–
At 31 December		**1,117,244**	942,878	**122,464**	134,921

Note:

(1) In 2006, the Inland Revenue Authority of Singapore issued a circular on the new basis for the taxation of the Life Participating Fund in Singapore which was subsequently enacted in 2007. Under this new basis, the surplus of the participating fund would be taxed on actual distribution to policyholders and shareholders. With this change, a deferred tax liability of $735.0 million has been recognised on the future policyholders' bonus at 31 December 2007. The comparative amount of $612.2 million at 31 December 2006, previously taken up as part of the insurance contract liabilities, has been accordingly reclassified and recognised separately. Deferred tax of $128.6 million previously provided on the fair value reserve of Singapore participating fund has been written back.

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 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Deferred tax liabilities	**1,162,693**	991,066	**123,130**	136,887
Deferred tax assets	**(45,449)**	(48,188)	**(666)**	(1,966)
	1,117,244	942,878	**122,464**	134,921

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21. DEFERRED TAX (CONTINUED)

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deferred tax assets and liabilities (prior to offsetting within the same tax jurisdiction) comprise:				
Deferred tax liabilities				
Accelerated tax depreciation	**43,710**	35,690	**15,746**	13,891
Debt and equity securities	**348,618**	269,803	**77,958**	94,740
Fair value on properties from business combinations	**77,281**	77,040	**71,957**	69,924
Provision for policy liabilities	**734,977**	612,189	**–**	–
Unremitted income and others	**9,587**	44,923	**360**	6
	1,214,173	1,039,645	**166,021**	178,561
Deferred tax assets				
Allowances for assets	**(88,686)**	(81,707)	**(40,467)**	(39,222)
Tax losses	**(973)**	(1,383)	**(639)**	(481)
Others	**(7,270)**	(13,677)	**(2,451)**	(3,937)
	(96,929)	(96,767)	**(43,557)**	(43,640)
Net deferred tax liabilities	**1,117,244**	942,878	**122,464**	134,921
Tax charge/(credit) in the income statements comprised:				
Accelerated tax depreciation	**4,273**	907	**1,855**	(781)
Allowances for assets	**(2,148)**	1,671	**3,922**	–
Debt and equity securities	**5,993**	6,994	**(985)**	1,022
Fair value on properties from business combinations	**241**	(1,496)	**2,034**	(1,270)
Tax losses	**2,254**	842	**1,686**	(497)
Others	**4,286**	(6,939)	**(74)**	(3,125)
	14,899	1,979	**8,438**	(4,651)

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 2007, unutilised tax losses for which no deferred income tax asset has been recognised amounted to $22.5 million (2006: $40.5 million) and $1.4 million (2006: $2.0 million) for the Group and Bank respectively.

22. DEBTS ISSUED

		GROUP		BANK	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Subordinated debts (unsecured)	22.1	**4,365,919**	4,012,479	**4,428,363**	4,240,902
Floating rate notes (unsecured)	22.2	**–**	766,376	**–**	766,376
Euro commercial papers (unsecured)	22.3	**574,910**	321,170	**574,910**	321,170
Structured notes (unsecured)	22.4	**28,748**	30,648	**28,748**	30,648
		4,969,577	5,130,673	**5,032,021**	5,359,096

22.1 Subordinated debts (unsecured)

Issued by Bank:					
EUR 400 million 7.25% notes		**874,598**	853,226	**874,598**	853,226
SGD 975 million 5% notes		**1,002,903**	987,037	**1,002,903**	987,037
USD 1.25 billion 7.75% notes		**1,925,764**	2,000,639	**1,925,764**	2,000,639
Tier-2 subordinated notes 2011	(a)	**3,803,265**	3,840,902	**3,803,265**	3,840,902
Tier-2 SGD 225 million 3.78% notes 2017	(b)	**225,098**	–	**225,098**	–
Tier-1 SGD 400 million 3.93% note 2055	(c)	**–**	–	**400,000**	400,000
		4,028,363	3,840,902	**4,428,363**	4,240,902

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22. DEBTS ISSUED (CONTINUED)

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
22.1 Subordinated debts (unsecured) (continued)					
Issued by OCBC Bank (Malaysia) Berhad:					
MYR 200 million Islamic bond	(d)	**86,944**	87,019		
Tier-2 MYR 400 million bonds	(e)	**173,920**	–		
		260,864	87,019		
Issued by P.T. Bank NISP Tbk:					
Series A – IDR 455 billion		**69,506**	76,905		
Series B – USD 5 million		**7,186**	7,653		
Subordinated Bonds I	(f)	**76,692**	84,558		
Total subordinated debts		**4,365,919**	4,012,479	**4,428,363**	4,240,902

(a) The tier-2 subordinated notes 2011 were issued on 6 July 2001, and mature on 6 September 2011. Interest is payable at fixed interest rates, semi-annually for the SGD and USD notes and annually for the EUR notes. The Bank has entered into interest rate and currency swaps to manage the interest rate and foreign exchange risks of the Tier-2 subordinated notes. The cumulative fair value change of the risks hedged is included in the carrying value.

(b) The tier-2 subordinated notes due 2017 callable with step-up in 2012 were issued on 28 November 2007 and mature on 28 November 2017. Interest is payable semi-annually at 3.78% per annum. If the notes are not called by 28 November 2012 (the "Step-up" date), interest payment will be made quarterly and the interest rate will be reset to the 3-month swap offer rate plus 1.72% per annum. The Bank has entered into interest rate swaps to hedge the risk of the subordinated notes. The cumulative fair value change of the risk hedged is included in the carrying value.

(c) The tier-1 subordinated notes were issued by the Bank to its wholly-owned subsidiary, OCBC Capital Corporation, on 2 February 2005 and mature on 20 March 2055. Interest is payable semi-annually on or prior to 20 March 2015 at 3.93% per annum and thereafter, payable quarterly at a floating rate equal to the 3-month Singapore swap offer rate plus 1.85%.

(d) OCBC Bank (Malaysia) Berhad ("OBMB") issued the redeemable Islamic subordinated bonds on 24 November 2006 under the Mudharabah (profit sharing) principle with a projected constant rate of 5.40% for the first 10 years and a step-up of 100 basis points from the 11th year, subject to the availability of profits and investors' entitlement under the profit sharing ratio. The bonds are based on a 15-year non-call 10 year structure and mature on 24 November 2021. These bonds shall be redeemed in 5 equal and consecutive annual payments from the 11th year, unless the call option is exercised by OBMB. Each annual redemption shall be subject to the prior approval of Bank Negara Malaysia ("BNM").

(e) The subordinated bonds were issued on 30 November 2007 and mature on 30 November 2017. Interest is payable semi-annually at 4.55%. OBMB may, at its option, subject to the prior approval of BNM, redeem in whole, but not in part, the subordinated bonds on the date of the 5th anniversary and on every coupon payment date thereafter at 100% of the principal amount outstanding together with accrued coupon payment. If the call option is not exercised by OBMB, the subordinated bonds shall be redeemed in full by 5 equal and consecutive annual payments. The first redemption is to commence on the 6th anniversary of the issue date, and subsequent redemption shall be at consecutive annual intervals from that date. The final redemption date shall be 30 November 2017. OBMB has entered into interest rate swaps to manage the risks of the subordinated bonds. The cumulative fair value changes of the risks hedged are included in the carrying value.

(f) The subordinated bonds were issued on 10 March 2003 and mature on 12 March 2013 or earlier on 12 March 2008 if the option to buy is exercised by PT Bank NISP. The 10-year bonds comprise Series A and Series B bonds with interest payable quarterly. Series A bonds have fixed interest rate at 17.125% per annum for the first 5 years, and thereafter at 26% per annum. Series B bonds have fixed interest rate at 10.25% per annum for the first 5 years, and thereafter interest rate will be based on the 5-year US treasury rate plus 11.25% per annum.

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22. DEBTS ISSUED (CONTINUED)

22.2 Floating rate notes (unsecured)
The notes were issued by the Bank on 18 June 2004 and matured on 18 June 2007. Interest was payable quarterly based on 3-month LIBOR plus 0.10%.

22.3 Euro commercial papers (unsecured)
The zero coupon Euro Commercial Papers ("ECP") were issued by the Bank under its USD 2 billion ECP programme established in 2004. The outstanding notes at 31 December 2007 were issued between 28 June 2007 (2006: 18 October 2006) and 28 December 2007 (2006: 29 December 2006), and mature between 2 January 2008 (2006: 9 January 2007) and 28 February 2008 (2006: 19 March 2007), yielding between 2.25% to 9.20% (2006: 4.12% to 5.29%).

22.4 Structured notes (unsecured)

	GROUP AND BANK	
	2007 $'000	**2006 $'000**
Callable range accrual notes	**28,748**	30,648

The callable range accrual notes comprise two series of USD10 million each. These were issued on 19 October 2004 and 11 April 2005 and mature on 19 October 2014 and 11 April 2015 respectively. The Bank has the right to call both notes at par on any interest payment dates, commencing 19 October 2005 and 11 October 2005 respectively. For the 2004 series, interest is payable quarterly, at 7.5% for the first 5 years and 12.5% for the next 5 years. For the 2005 series, interest is payable quarterly, at 3-month LIBOR plus 2.5% for the first 5 years and 3-month LIBOR plus 4.0% for the next 5 years. For both of the notes, no interest will be paid if the 30-year USD swap rate is lower than the 10-year USD swap rate.

23. LIFE ASSURANCE FUND LIABILITIES AND INVESTMENT ASSETS

	GROUP	
	2007 $ million	**2006 $ million**
Life assurance fund liabilities		
Movements in life assurance fund		
At 1 January		
As reported	**34,995.2**	33,286.2
Effect of FRS 40	**147.7**	–
As restated	**35,142.9**	33,286.2
Currency translation	**(83.0)**	(123.9)
Fair value reserve movements	**640.3**	898.4
Increase in life assurance fund contract liabilities	**2,543.5**	805.5
Transfer of contract liabilities (Dependant Protection Scheme) from CPF Board	**–**	124.1
Property revaluation reserve	**–**	4.9
At 31 December	**38,243.7**	34,995.2
Policy benefits	**1,645.2**	1,474.4
Others	**1,342.9**	1,321.4
	41,231.8	37,791.0
Life assurance fund investment assets		
Deposits with banks and financial institutions	**1,998.6**	2,673.5
Loans	**3,325.9**	2,974.8
Securities	**33,709.2**	30,714.9
Investment property	**1,178.3**	640.2
Others (1)	**924.7**	609.2
	41,136.7	37,612.6

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For the financial year ended 31 December 2007

23. LIFE ASSURANCE FUND LIABILITIES AND INVESTMENT ASSETS (CONTINUED)

	GROUP	
	2007 $ million	2006 $ million
The following contracts were entered into under the life assurance fund:		
Operating lease commitments	**2.8**	1.9
Capital commitment authorised and contracted	**87.1**	302.4
Derivative financial instruments (principal notional amount)	**6,939.0**	5,504.4
Derivative receivables	**149.9**	59.4
Derivative payables	**22.4**	12.2
Minimum lease rental receivables under non-cancellable operating leases	**61.5**	64.6

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

24. CASH AND PLACEMENTS WITH CENTRAL BANKS

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash on hand	**497,080**	412,611	**359,796**	324,518
Balances with central banks	**2,422,801**	1,817,686	**1,707,389**	1,175,739
Money market placements and reverse repos	**5,476,517**	3,511,046	**3,425,940**	1,707,326
	8,396,398	5,741,343	**5,493,125**	3,207,583

Balances with central banks include mandatory reserve deposits of $2,272.7 million (2006: $1,814.4 million) and $1,564.0 million (2006: $1,174.1 million) for the Group and Bank respectively.

25. GOVERNMENT TREASURY BILLS AND SECURITIES

		GROUP		BANK	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Singapore government treasury bills and securities					
Trading, at fair value		**3,264,361**	2,161,935	**3,264,361**	2,161,935
Available-for-sale, at fair value		**6,016,988**	6,476,777	**5,463,482**	5,975,319
		9,281,349	8,638,712	**8,727,843**	8,137,254
Assets under repurchase agreements	44	**(519,178)**	(491,756)	**(519,178)**	(491,756)
		8,762,171	8,146,956	**8,208,665**	7,645,498
Other government treasury bills and securities					
Trading, at fair value		**1,115,928**	171,986	**383,379**	90,370
Available-for-sale, at fair value		**2,337,069**	2,802,236	**195,737**	199,116
		3,452,997	2,974,222	**579,116**	289,486
Assets under repurchase agreements	44	**(7,251)**	(779,224)	**(7,251)**	(3,784)
		3,445,746	2,194,998	**571,865**	285,702
Analysed by geographical sector					
Singapore		**9,281,349**	8,638,712	**8,727,843**	8,137,254
Malaysia		**2,096,412**	1,777,919	**–**	–
Other ASEAN		**1,007,464**	1,065,307	**250,394**	178,553
Asia Pacific		**313,779**	64,243	**312,212**	64,243
Rest of the World		**35,342**	66,753	**16,510**	46,690
		12,734,346	11,612,934	**9,306,959**	8,426,740

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26. PLACEMENTS WITH AND LOANS TO BANKS

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
At fair value:					
Certificate of deposits purchased (Trading)		**–**	68,966	**–**	68,966
Certificate of deposits purchased (Available-for-sale)		**1,907,118**	1,935,705	**1,635,419**	1,472,329
Forfaiting loans (Trading)		**222,398**	–	**222,398**	–
		2,129,516	2,004,671	**1,857,817**	1,541,295
At amortised cost:					
Placements with and loans to banks		**11,696,611**	15,478,502	**10,829,803**	14,316,151
Market bills purchased		**1,290,500**	532,574	**885,301**	531,222
Reverse repos		**–**	49,515	**–**	49,515
		12,987,111	16,060,591	**11,715,104**	14,896,888
Balances with banks		**15,116,627**	18,065,262	**13,572,921**	16,438,183
Assets under repurchase agreements	44	**(362,225)**	(577,583)	**(362,225)**	(28,231)
Bank balances of life assurance fund		**350,707**	262,410	**–**	–
		15,105,109	17,750,089	**13,210,696**	16,409,952
Balances with banks analysed by currency					
Singapore Dollar		**403,998**	580,633	**328,591**	260,250
US Dollar		**6,966,504**	12,063,983	**5,934,551**	11,436,798
Malaysian Ringgit		**310,043**	579,153	**65**	189
Indonesian Rupiah		**1,225**	13,633	**15**	17
Japanese Yen		**145,693**	317,674	**110,118**	259,810
Hong Kong Dollar		**278,971**	190,130	**278,762**	190,017
British Pound		**2,915,013**	1,584,079	**2,914,714**	1,583,687
Australian Dollar		**2,042,605**	890,192	**2,034,951**	882,994
Euro		**453,250**	1,479,587	**434,738**	1,462,648
Others		**1,599,325**	366,198	**1,536,416**	361,773
		15,116,627	18,065,262	**13,572,921**	16,438,183

27. LOANS AND BILLS RECEIVABLE

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Gross loans		**72,774,864**	61,132,358	**55,544,593**	47,790,875
Specific allowances	29	**(498,918)**	(862,259)	**(264,204)**	(505,023)
Portfolio allowances	30	**(959,946)**	(961,099)	**(789,983)**	(807,136)
Net loans		**71,316,000**	59,309,000	**54,490,406**	46,478,716
Net loans comprise:					
Bills receivable		**1,176,680**	738,012	**455,190**	320,821
Loans		**70,139,320**	58,570,988	**54,035,216**	46,157,895
		71,316,000	59,309,000	**54,490,406**	46,478,716

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27. LOANS AND BILLS RECEIVABLE (CONTINUED)

	GROUP		BANK	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
27.1 Analysed by currency				
Singapore Dollar	**42,616,719**	37,113,901	**41,728,171**	36,382,225
US Dollar	**9,416,538**	7,989,924	**7,335,929**	6,922,179
Malaysian Ringgit	**10,868,691**	9,043,539	**72**	87
Indonesian Rupiah	**2,401,928**	2,322,941	**–**	–
Japanese Yen	**847,967**	441,278	**802,834**	350,896
Hong Kong Dollar	**1,838,140**	1,040,798	**1,826,804**	1,040,460
British Pound	**852,916**	906,949	**851,702**	906,534
Australian Dollar	**1,872,154**	1,169,923	**1,870,267**	1,148,656
Euro	**540,391**	282,783	**512,371**	257,740
Others	**1,519,420**	820,322	**616,443**	782,098
	72,774,864	61,132,358	**55,544,593**	47,790,875
27.2 Analysed by product				
Overdrafts	**3,773,234**	4,034,251	**1,960,485**	2,187,381
Short-term and revolving loans	**11,932,681**	9,697,261	**8,449,382**	7,426,158
Syndicated and term loans	**27,671,742**	20,120,883	**21,601,871**	16,139,836
Housing and commercial property loans	**21,019,337**	19,931,267	**17,514,007**	16,702,220
Car, credit card and share margin loans	**3,512,982**	3,523,825	**2,526,914**	2,733,814
Others	**4,864,888**	3,824,871	**3,491,934**	2,601,466
	72,774,864	61,132,358	**55,544,593**	47,790,875
27.3 Analysed by interest rate sensitivity				
Fixed				
Singapore	**7,518,671**	7,312,876	**7,395,784**	7,240,539
Malaysia	**1,148,349**	884,471	**49,425**	26,316
Other ASEAN	**185,960**	256,751	**31,337**	8,009
Greater China	**92,833**	100,066	**479**	100,066
Other Asia Pacific	**208,115**	789	**208,115**	789
Rest of the World	**15,291**	71,529	**15,291**	71,529
	9,169,219	8,626,482	**7,700,431**	7,447,248
Variable				
Singapore	**40,547,397**	34,959,191	**39,731,727**	34,214,422
Malaysia	**11,512,555**	9,651,184	**1,330,602**	890,901
Other ASEAN	**3,542,281**	2,866,286	**373,534**	209,089
Greater China	**3,685,633**	2,064,338	**2,090,520**	2,064,338
Other Asia Pacific	**2,558,229**	1,296,665	**2,558,229**	1,296,665
Rest of the World	**1,759,550**	1,668,212	**1,759,550**	1,668,212
	63,605,645	52,505,876	**47,844,162**	40,343,627
Total	**72,774,864**	61,132,358	**55,544,593**	47,790,875

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

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27. LOANS AND BILLS RECEIVABLE (CONTINUED)

	GROUP		BANK	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
27.4 Analysed by industry				
Agriculture, mining and quarrying	**1,116,239**	985,851	**214,016**	279,034
Manufacturing	**6,277,880**	5,042,794	**2,262,535**	2,492,860
Building and construction	**13,652,614**	9,332,117	**11,106,762**	7,637,868
Housing	**19,247,165**	18,148,552	**15,678,412**	14,822,563
General commerce	**6,942,776**	5,811,574	**5,080,803**	4,447,794
Transport, storage and communication	**3,921,919**	2,537,180	**3,470,143**	2,195,264
Financial institutions, investment and holding companies	**10,609,594**	8,416,371	**10,146,287**	7,800,276
Professionals and individuals	**7,385,310**	7,330,336	**5,964,694**	6,195,951
Others	**3,621,367**	3,527,583	**1,620,941**	1,919,265
	72,774,864	61,132,358	**55,544,593**	47,790,875
27.5 Analysed by geographical sector				
Singapore	**45,310,606**	39,490,672	**44,442,452**	38,759,198
Malaysia	**12,101,623**	10,416,738	**829,445**	902,345
Other ASEAN	**4,446,496**	3,737,191	**1,106,925**	815,807
Greater China	**5,133,159**	3,102,768	**3,438,576**	3,036,257
Other Asia Pacific	**3,072,651**	1,866,086	**3,050,609**	1,789,694
Rest of the World	**2,710,329**	2,518,903	**2,676,586**	2,487,574
	72,774,864	61,132,358	**55,544,593**	47,790,875

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

28. NON-PERFORMING LOANS ("NPLS") AND DEBT SECURITIES

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

	GROUP		BANK	
	2007 $ million	2006 $ million	2007 $ million	2006 $ million
Classified loans to customers				
Substandard	**586**	854	**232**	437
Doubtful	**350**	558	**262**	445
Loss	**302**	392	**153**	238
	1,238	1,804	**647**	1,120
Classified debt securities				
Substandard	**6**	#	**–**	#
Doubtful	**100**	25	**100**	25
Loss	**10**	–	**–**	–
	116	25	**100**	25
Total classified assets	**1,354**	1,829	**747**	1,145
Substandard	**52**	81	**40**	51
Doubtful	**393**	536	**295**	394
Loss	**166**	225	**30**	77
Specific allowances made for classified assets	**611**	842	**365**	522

Amount less than $0.5 million

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28. NON-PERFORMING LOANS ("NPLS") AND DEBT SECURITIES (CONTINUED)

	GROUP		BANK	
	2007 $ million	**2006 $ million**	**2007 $ million**	**2006 $ million**
28.1 Analysed by period overdue				
Over 180 days	**696**	1,043	**324**	617
Over 90 days to 180 days	**190**	215	**125**	162
30 days to 90 days	**137**	164	**71**	106
Less than 30 days	**191**	76	**98**	74
No overdue	**140**	331	**129**	186
	1,354	1,829	**747**	1,145
28.2 Analysed by collateral type				
Property	**744**	963	**380**	597
Fixed deposit	**3**	7	**2**	6
Stock and shares	**23**	39	**7**	16
Motor vehicles	**6**	3	**4**	2
Secured – Others	**48**	36	**28**	18
Unsecured – Corporate and other guarantees	**229**	331	**226**	331
Unsecured – Clean	**301**	450	**100**	175
	1,354	1,829	**747**	1,145
28.3 Analysed by industry				
Agriculture, mining and quarrying	**12**	14	**1**	1
Manufacturing	**275**	365	**105**	179
Building and construction	**187**	251	**92**	134
Housing	**301**	380	**194**	291
General commerce	**146**	304	**54**	166
Transport, storage and communication	**23**	21	**14**	15
Financial institutions, investment and holding companies	**179**	178	**152**	128
Professionals and individuals	**170**	253	**110**	195
Others	**61**	63	**25**	36
	1,354	1,829	**747**	1,145

28.4 Analysed by geographical sector

GROUP ($ million)	**Singapore**	**Malaysia**	**Rest of the World**	**Total**
2007				
Substandard	**185**	**336**	**71**	**592**
Doubtful	**185**	**114**	**151**	**450**
Loss	**142**	**98**	**72**	**312**
	512	**548**	**294**	**1,354**
Specific allowances	**(201)**	**(230)**	**(180)**	**(611)**
	311	**318**	**114**	**743**
2006				
Substandard	381	401	72	854
Doubtful	337	143	103	583
Loss	232	108	52	392
	950	652	227	1,829
Specific allowances	(393)	(307)	(142)	(842)
	557	345	85	987

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

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28. NON-PERFORMING LOANS ("NPLS") AND DEBT SECURITIES (CONTINUED)

28.5 Restructured/renegotiated loans

The table below is an analysis of restructured loans into loan classification and the related specific allowances as at reporting date. The restructured loans as a percentage of total NPLs were 13.7% (2006: 20.2%) and 13.1% (2006: 20.0%) for the Group and the Bank respectively.

	2007		2006	
	Amount $ million	**Allowance $ million**	**Amount $ million**	**Allowance $ million**
GROUP				
Substandard	**95**	**5**	216	40
Doubtful	**59**	**69**	120	125
Loss	**32**	**14**	33	33
	186	**88**	369	198
BANK				
Substandard	**55**	**5**	129	14
Doubtful	**40**	**50**	96	103
Loss	**3**	**1**	4	2
	98	**56**	229	119

29. SPECIFIC ALLOWANCES

		GROUP		BANK	
	Note	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
At 1 January		**862,259**	1,097,404	**505,023**	726,487
Currency translation		**(10,520)**	(21,515)	**(4,475)**	(11,312)
Bad debts written off		**(200,819)**	(186,690)	**(127,994)**	(162,386)
Recovery of amounts previously provided for		**(55,057)**	(45,698)	**(43,401)**	(32,892)
(Write-back)/allowances for loans		**(52,706)**	66,912	**(34,790)**	16,305
Net (write-back)/allowances	9	**(107,763)**	21,214	**(78,191)**	(16,587)
Interest recognition on impaired loans		**(36,526)**	(45,110)	**(20,698)**	(28,135)
Interest capitalised as allowance for restructured loans		**–**	1,167	**–**	1,167
Transfer from/(to):					
Available-for-sale securities		**(7,713)**	(4,488)	**(6,063)**	(4,488)
Portfolio allowances	30	**–**	342	**–**	342
Allowances for impairment of securities and other assets	33	**–**	(15)	**–**	(15)
Other provisions		**–**	(50)	**–**	(50)
Subsidiary upon incorporation		**–**	–	**(3,398)**	–
At 31 December	27	**498,918**	862,259	**264,204**	505,023

30. PORTFOLIO ALLOWANCES

		GROUP		BANK	
	Note	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
At 1 January		**961,099**	962,122	**807,136**	808,614
Currency translation		**(1,153)**	(681)	**(430)**	(1,136)
Transfer to subsidiary upon incorporation		**–**	–	**(16,723)**	–
Transfer to specific allowances for loans	29	**–**	(342)	**–**	(342)
At 31 December	27	**959,946**	961,099	**789,983**	807,136

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31. DEBT AND EQUITY SECURITIES

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Trading securities					
Quoted debt securities		**663,553**	258,511	**648,848**	244,034
Unquoted debt securities		**532,670**	167,286	**–**	–
Quoted equity securities		**241,290**	46,531	**231,257**	38,370
		1,437,513	472,328	**880,105**	282,404
Available-for-sale securities					
Quoted debt securities		**5,936,281**	3,962,882	**4,919,451**	3,252,238
Unquoted debt securities		**3,056,470**	1,477,191	**2,177,755**	1,076,995
Quoted equity securities		**2,770,556**	1,260,308	**560,033**	549,581
Unquoted equity securities		**162,891**	227,367	**26,805**	31,761
		11,926,198	6,927,748	**7,684,044**	4,910,575
Securities classified as loans and receivables					
Unquoted debt, at amortised cost		**286,789**	224,721	**258,861**	204,928
Allowance for impairment		**(25,588)**	(18,540)	**(22,614)**	(17,635)
Net carrying value		**261,201**	206,181	**236,247**	187,293
Total debt and equity securities					
Debt securities – gross		**10,475,763**	6,090,591	**8,004,915**	4,778,195
Allowance for impairment	33	**(25,588)**	(18,540)	**(22,614)**	(17,635)
Debt securities – net		**10,450,175**	6,072,051	**7,982,301**	4,760,560
Equity securities		**3,174,737**	1,534,206	**818,095**	619,712
Total securities		**13,624,912**	7,606,257	**8,800,396**	5,380,272
Assets pledged	44	**–**	(48,016)	**–**	–
		13,624,912	7,558,241	**8,800,396**	5,380,272
DEBT SECURITIES ANALYSIS					
By credit rating					
Investment grade (AAA to BBB)		**6,018,370**	3,391,388	**4,244,234**	2,471,812
Non-investment grade (BB to C)		**748,172**	571,700	**677,078**	563,235
Non-rated		**3,683,633**	2,108,963	**3,060,989**	1,725,513
		10,450,175	6,072,051	**7,982,301**	4,760,560
By credit quality					
Pass		**10,290,536**	5,826,067	**7,826,928**	4,517,981
Special mention		**155,327**	235,670	**155,327**	235,670
Substandard		**3,333**	329	**–**	329
Doubtful		**22,660**	24,215	**22,660**	24,215
Loss		**3,907**	4,310	**–**	–
Allowance for impairment	33	**(25,588)**	(18,540)	**(22,614)**	(17,635)
		10,450,175	6,072,051	**7,982,301**	4,760,560

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31. DEBT AND EQUITY SECURITIES (CONTINUED)

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
TOTAL DEBT AND EQUITY SECURITIES – CONCENTRATION RISKS				
By industry				
Agriculture, mining and quarrying	**183,407**	104,287	**40,264**	32,998
Manufacturing	**1,224,089**	1,143,402	**730,393**	812,829
Building and construction	**1,502,022**	1,014,093	**968,110**	649,114
General commerce	**282,651**	278,270	**166,543**	224,024
Transport, storage and communication	**949,579**	600,649	**756,135**	500,090
Financial institutions, investment and holding companies	**7,209,320**	3,400,371	**5,156,258**	2,626,590
Others	**2,273,844**	1,065,185	**982,693**	534,627
	13,624,912	7,606,257	**8,800,396**	5,380,272
By issuer				
Public sector	**995,003**	308,141	**890,526**	220,632
Banks	**3,426,985**	1,296,007	**2,984,297**	918,471
Corporations	**9,004,891**	5,816,897	**4,905,836**	4,215,446
Others	**198,033**	185,212	**19,737**	25,723
	13,624,912	7,606,257	**8,800,396**	5,380,272
By geographical sector				
Singapore	**4,214,487**	3,055,335	**2,601,311**	2,068,258
Malaysia	**1,556,542**	863,570	**334,698**	260,942
Other ASEAN	**200,912**	166,982	**156,719**	118,869
Greater China	**1,655,758**	543,408	**431,412**	371,249
Other Asia Pacific	**1,683,239**	905,937	**1,523,302**	794,832
Rest of the World	**4,313,974**	2,071,025	**3,752,954**	1,766,122
	13,624,912	7,606,257	**8,800,396**	5,380,272

Debt securities are 77% (2006: 80%) and 91% (2006: 88%) of total securities, for the Group and the Bank respectively. Included in debt securities is an amount of $0.2 billion (2006: $0.3 billion) relating to credit linked notes and collateralised debt with credit default swaps where the Bank acts as the protection seller. Derivative receivables and payables arising from these credit default swaps are included in Note 19.

32. OTHER ASSETS

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Interest receivable	**1,082,265**	1,040,681	**946,791**	926,861
Sundry debtors (net)	**1,344,128**	1,103,240	**42,777**	20,997
Deposits and prepayments	**163,261**	137,504	**104,465**	95,712
Others	**392,202**	242,792	**218,587**	157,564
	2,981,856	2,524,217	**1,312,620**	1,201,134

At 31 December 2007, reinsurance assets included in "Others" amounted to $65.6 million (2006: $54.3 million) for the Group.

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33. ALLOWANCES FOR IMPAIRMENT OF SECURITIES AND OTHER ASSETS

GROUP ($'000)	Note	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
2007						
At 1 January						
As previously reported		**18,540**	**155,690**	**–**	**25,523**	**199,753**
Effect of FRS 40		**–**	**(103,614)**	**103,614**	**–**	**–**
Reclassification		**–**	**66,334**	**–**	**–**	**66,334**
As restated		**18,540**	**118,410**	**103,614**	**25,523**	**266,087**
Currency translation		**(1,602)**	**(69)**	**313**	**(1,100)**	**(2,458)**
Amounts written off		**–**	**(2,910)**	**(5,763)**	**(2,622)**	**(11,295)**
(Write-back)/impairment charge	9	**9,312**	**(16,675)**	**(86,445)**	**3,215**	**(90,593)**
Interest recognition on net NPLs		**(662)**	**–**	**–**	**–**	**(662)**
Transfer from/(to):						
Assets held for sale		**–**	**–**	**(475)**	**–**	**(475)**
Life assurance fund investment assets		**–**	**(11,193)**	**–**	**–**	**(11,193)**
Other accounts		**–**	**(6,254)**	**6,254**	**–**	**–**
At 31 December		**25,588**	**81,309**	**17,498**	**25,016**	**149,411**
		(Note 31)	(Note 36)	(Note 37)		
2006						
At 1 January						
As previously reported		50,240	176,392	–	22,036	248,668
Effect of FRS 40		–	(106,669)	106,669	–	–
Reclassification		–	66,562	–	–	66,562
As restated		50,240	136,285	106,669	22,036	315,230
Currency translation		(1,776)	(231)	11	(273)	(2,269)
Amounts written off		(21,458)	(59)	(400)	(2,446)	(24,363)
(Write-back)/impairment charge	9	(8,069)	(18,620)	99	5,273	(21,317)
Write-back to profit from life assurance		–	(48)	–	–	(48)
Interest recognition on net NPLs		(397)	–	–	–	(397)
Transfer from/(to):						
Specific allowances for loans	29	–	–	–	15	15
Assets held for sale		–	–	(1,682)	–	(1,682)
Other accounts		–	1,083	(1,083)	918	918
At 31 December		18,540	118,410	103,614	25,523	266,087
		(Note 31)	(Note 36)	(Note 37)		

BANK ($'000)	Note	Associates and subsidiaries	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
2007							
At 1 January							
As previously reported		**149,832**	**17,635**	**130,935**	**–**	**35,939**	**334,341**
Effect of FRS 40		**–**	**–**	**(95,984)**	**95,984**	**–**	**–**
As restated		**149,832**	**17,635**	**34,951**	**95,984**	**35,939**	**334,341**
Currency translation		**–**	**(1,366)**	**–**	**277**	**–**	**(1,089)**
Amounts written off		**(2,754)**	**–**	**–**	**–**	**(744)**	**(3,498)**
(Write-back)/impairment charge	9	**(17,969)**	**6,616**	**(15,423)**	**(85,926)**	**(35,075)**	**(147,777)**
Interest recognition on net NPLs		**–**	**(271)**	**–**	**–**	**–**	**(271)**
At 31 December		**129,109**	**22,614**	**19,528**	**10,335**	**120**	**181,706**

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33. ALLOWANCES FOR IMPAIRMENT OF SECURITIES AND OTHER ASSETS (CONTINUED)

BANK ($'000)	Note	Associates and subsidiaries	Government and debt securities	Property, plant and equipment	Investment property	Other assets	Total
2006							
At 1 January							
As previously reported		158,431	28,087	137,976	–	39,759	364,253
Effect of FRS 40		–	–	(100,035)	100,035	–	–
As restated		158,431	28,087	37,941	100,035	39,759	364,253
Currency translation		–	(1,526)	–	54	(13)	(1,485)
Amounts written off		(14,989)	118	(58)	(245)	(1,143)	(16,317)
(Write-back)/impairment charge	9	6,390	(8,647)	(1,458)	(5,334)	(2,679)	(11,728)
Interest recognition on net NPLs		–	(397)	–	–	–	(397)
Transfer from/(to):							
Specific allowances for loans	29	–	–	–	–	15	15
Other accounts		–	–	(1,474)	1,474	–	–
At 31 December		149,832	17,635	34,951	95,984	35,939	334,341
		(Notes 34–35)	(Note 31)	(Note 36)	(Note 37)		

34. ASSOCIATES AND JOINT VENTURES

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Investment securities, at cost					
Quoted equities		**87,384**	87,484	**85,556**	85,556
Unquoted equities		**108,654**	150,933	**14,561**	17,561
Allowance for impairment	33	**–**	–	**(3,701)**	(6,524)
Net carrying value		**196,038**	238,417	**96,416**	96,593
Share of post-acquisition reserves		**31,512**	53,129	**–**	–
Amount due from associates (unsecured)		**15,866**	17,668	**–**	–
		243,416	309,214	**96,416**	96,593
Fair value of quoted associates		**98,699**	119,438	**72,197**	96,106

34.1 Associates

The summarised financial information of associates is as follows:

$'000	2007	2006
At 31 December:		
Assets	**1,891,590**	1,831,066
Liabilities	**271,837**	244,650
Share of contingent liabilities	**14,195**	50,471
For the year ended:		
Total income	**337,606**	311,787
Profit	**112,456**	128,790

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34. ASSOCIATES AND JOINT VENTURES (CONTINUED)

34.1 Associates (continued)

Details of significant associates of the Group are as follows:

Name of associates	Country of incorporation	Effective % interest held by the Group 2007	2006
Quoted			
British and Malayan Trustees Limited [1]	Singapore	**43**	43
PacificMas Berhad [1]	Malaysia	**28**	28
Unquoted			
Fairfield Investment Fund Ltd [2][3]	British Virgin Islands	**30**	40
Fairfield Lion Investment Fund (Asia) Ltd [4]	Cayman Islands	**37**	59
Network For Electronic Transfers (Singapore) Pte Ltd [2]	Singapore	**33**	33

Notes:
(1) Audited by Ernst & Young.
(2) Audited by PricewaterhouseCoopers.
(3) Held by The Great Eastern Life Assurance Company Limited under shareholders' and life assurance funds.
(4) Audited by KPMG. Held by The Great Eastern Life Assurance Company Limited under life assurance fund. Fairfield Lion Investment Fund (Asia) Ltd had not been accounted for as a subsidiary in 2006 as the Group does not have control over the financial and operating policies of the investee.

34.2 Joint ventures

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

$ million	2007	2006
Share of current assets	**10.9**	18.7
Share of non-current assets	**22.6**	9.1
Share of current liabilities	**(6.6)**	(0.7)
Share of non-current liabilities	**(1.8)**	(0.2)
Share of income	**4.4**	0.9
Share of expenses	**(6.4)**	(3.0)

35. SUBSIDIARIES

	Note	BANK 2007 $'000	BANK 2006 $'000
Investments in subsidiaries, at cost			
Quoted security		**2,187,919**	2,187,919
Unquoted securities		**1,703,235**	1,561,556
Allowance for impairment	33	**(125,408)**	(143,308)
Net carrying value		**3,765,746**	3,606,167
Amount due from subsidiaries			
Unsecured		**2,261,965**	1,433,175
Secured		**482,700**	82,687
		2,744,665	1,515,862
Investments in and amount due from subsidiaries		**6,510,411**	5,122,029

At 31 December 2007, the fair value of the Bank's quoted subsidiary, Great Eastern Holdings Limited, was $6,620.5 million (2006: $6,700.8 million).

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35. SUBSIDIARIES (CONTINUED)

35.1 List of significant subsidiaries

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

Name of subsidiaries	Country of incorporation	Effective % interest held by the Group 2007	2006
Banking			
Bank of Singapore Limited	Singapore	**100**	100
OCBC Bank (Malaysia) Berhad	Malaysia	**100**	100
OCBC Bank (China) Limited (1)	People's Republic of China	**100**	–
P.T. Bank NISP Tbk (2)	Indonesia	**72**	72
P.T. Bank OCBC Indonesia (2)	Indonesia	**100**	100
Insurance			
Great Eastern Life Assurance (Malaysia) Berhad (3)	Malaysia	**87**	87
Overseas Assurance Corporation (Malaysia) Berhad (3)	Malaysia	**87**	87
The Great Eastern Life Assurance Company Limited (3)	Singapore	**87**	87
The Overseas Assurance Corporation Limited (3)	Singapore	**87**	87
Asset management and investment holding			
Lion Capital Management Limited (3)	Singapore	**91**	91
Great Eastern Holdings Limited (3)	Singapore	**87**	87
Stockbroking			
OCBC Securities Private Limited	Singapore	**100**	100

Notes:
Unless otherwise indicated, the significant subsidiaries listed above are audited by KPMG Singapore and its associated firms.
(1) With the incorporation of the new subsidiary in China on 1 August 2007, branches of the Bank in Shanghai, Chengdu, Tianjin and Xiamen became branches of the subsidiary.
(2) Audited by PricewaterhouseCoopers
(3) Audited by Ernst & Young

35.2 Acquisition of additional interests in subsidiary

During the year, a subsidiary of the Bank, OCBC Overseas Investments Pte. Ltd., subscribed for a total of 639,064,478 new shares pursuant to the rights issue undertaken by P.T. Bank NISP Tbk, at an issue price of IDR800 per share. The aggregate consideration for the rights issue subscription amounted to $87.5 million and goodwill arising thereon was $0.2 million (Note 38). Consequently, the Group's interest in NISP increased from 72.35% to 72.40%.

36. PROPERTY, PLANT AND EQUIPMENT

GROUP ($'000)	2007 Property -related	2007 Computer -related	2007 Others	2007 Total	2006 Property -related	2006 Computer -related	2006 Others	2006 Total
Cost								
At 1 January								
As previously reported	**1,565,946**	**381,094**	**248,757**	**2,195,797**	1,637,018	390,288	233,188	2,260,494
Effect of FRS 40 (Note 37)	**(899,961)**	**–**	**–**	**(899,961)**	(988,492)	–	–	(988,492)
Reclassification (1)	**746,785**	**261,117**	**73,405**	**1,081,307**	740,036	224,469	38,572	1,003,077
As restated	**1,412,770**	**642,211**	**322,162**	**2,377,143**	1,388,562	614,757	271,760	2,275,079
Currency translation	**(7,779)**	**(3,710)**	**(3,299)**	**(14,788)**	(5,481)	(2,270)	(1,076)	(8,827)
Additions	**26,435**	**139,411**	**61,261**	**227,107**	52,167	121,266	74,679	248,112
Disposals and other transfers	**(704)**	**(100,062)**	**(21,979)**	**(122,745)**	(28,479)	(91,542)	(23,201)	(143,222)
Transfer from/(to):								
Investment property (Note 37)	**22,247**	**–**	**(29,760)**	**(7,513)**	9,146	–	–	9,146
Life assurance fund assets	**(25,953)**	**–**	**–**	**(25,953)**	(3,145)	–	–	(3,145)
At 31 December	**1,427,016**	**677,850**	**328,385**	**2,433,251**	1,412,770	642,211	322,162	2,377,143

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36. PROPERTY, PLANT AND EQUIPMENT

GROUP ($'000)	2007 Property -related	2007 Computer -related	2007 Others	2007 Total	2006 Property -related	2006 Computer -related	2006 Others	2006 Total
Accumulated depreciation								
At 1 January								
As previously reported	**(274,726)**	**(212,472)**	**(177,160)**	**(664,358)**	(252,499)	(234,588)	(168,359)	(655,446)
Effect of FRS 40 (Note 37)	**152,071**	**–**	**–**	**152,071**	144,732	–	–	144,732
Reclassification [1]	**(47,571)**	**(116,504)**	**(40,327)**	**(204,402)**	(52,766)	(97,697)	(23,991)	(174,454)
As restated	**(170,226)**	**(328,976)**	**(217,487)**	**(716,689)**	(160,533)	(332,285)	(192,350)	(685,168)
Currency translation	**1,000**	**2,157**	**2,168**	**5,325**	466	1,104	683	2,253
Disposals and other transfers	**358**	**77,550**	**17,179**	**95,087**	6,835	73,165	15,466	95,466
Depreciation charge (Note 8)	**(15,292)**	**(55,381)**	**(21,223)**	**(91,896)**	(15,542)	(49,312)	(24,023)	(88,877)
Depreciation charge to profit from life assurance (Note 4)	**(12,719)**	**(22,547)**	**(7,866)**	**(43,132)**	4,485	(21,648)	(17,263)	(34,426)
Transfer to/(from):								
Investment property (Note 37)	**(6,537)**	**–**	**28,675**	**22,138**	(497)	–	–	(497)
Life assurance fund assets	**(11,077)**	**–**	**–**	**(11,077)**	(5,440)	–	–	(5,440)
At 31 December	**(214,493)**	**(327,197)**	**(198,554)**	**(740,244)**	(170,226)	(328,976)	(217,487)	(716,689)
Accumulated impairment losses (Note 33)								
At 1 January								
As previously reported	**(151,799)**	**–**	**(3,891)**	**(155,690)**	(175,609)	–	(783)	(176,392)
Effect of FRS 40 (Note 37)	**103,614**	**–**	**–**	**103,614**	106,669	–	–	106,669
Reclassification [1]	**(66,334)**	**–**	**–**	**(66,334)**	(66,562)	–	–	(66,562)
As restated	**(114,519)**	**–**	**(3,891)**	**(118,410)**	(135,502)	–	(783)	(136,285)
Currency translation	**68**	**–**	**1**	**69**	222	–	9	231
Disposals and other transfers	**–**	**20**	**2,890**	**2,910**	59	151	(151)	59
Write-back/(impairment charge) to income statements	**16,695**	**(20)**	**–**	**16,675**	21,785	(151)	(2,966)	18,668
Transfer to/(from):								
Investment property (Note 37)	**6,254**	**–**	**–**	**6,254**	(1,083)	–	–	(1,083)
Life assurance fund assets	**11,193**	**–**	**–**	**11,193**	–	–	–	–
At 31 December	**(80,309)**	**–**	**(1,000)**	**(81,309)**	(114,519)	–	(3,891)	(118,410)
Net carrying value, at 31 December	**1,132,214**	**350,653**	**128,831**	**1,611,698**	1,128,025	313,235	100,784	1,542,044
Freehold property	**339,658**				337,330			
Leasehold property	**792,556**				790,695			
Net carrying value	**1,132,214**				1,128,025			
Market value	**2,039,516**				1,476,291			

[1] The property, plant and equipment of the Group's life assurance funds which were previously included under life assurance fund investment assets, were reclassified to be consistent with the current year's presentation.

Notes to the Financial Statements

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36. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2007				2006			
BANK ($'000)	**Property -related**	**Computer -related**	**Others**	**Total**	**Property -related**	**Computer -related**	**Others**	**Total**
Cost								
At 1 January								
As previously reported	**832,379**	**212,281**	**77,844**	**1,122,504**	841,778	243,398	90,328	1,175,504
Effect of FRS 40 (Note 37)	**(567,689)**	**–**	**–**	**(567,689)**	(558,456)	–	–	(558,456)
As restated	**264,690**	**212,281**	**77,844**	**554,815**	283,322	243,398	90,328	617,048
Currency translation	**134**	**4**	**(262)**	**(124)**	(199)	(242)	(481)	(922)
Additions	**221**	**57,633**	**12,521**	**70,375**	48	51,291	6,413	57,752
Disposals	**–**	**(36,939)**	**(4,537)**	**(41,476)**	(1,249)	(82,166)	(18,416)	(101,831)
Transfer to:								
Subsidiary upon incorporation	**(4,547)**	**(1,099)**	**(3,136)**	**(8,782)**	–	–	–	–
Investment property (Note 37)	**(1,753)**	**–**	**–**	**(1,753)**	(17,232)	–	–	(17,232)
At 31 December	**258,745**	**231,880**	**82,430**	**573,055**	264,690	212,281	77,844	554,815
Accumulated depreciation								
At 1 January								
As previously reported	**(101,292)**	**(112,660)**	**(64,950)**	**(278,902)**	(92,045)	(151,618)	(64,903)	(308,566)
Effect of FRS 40 (Note 37)	**58,086**	**–**	**–**	**58,086**	49,628	–	–	49,628
As restated	**(43,206)**	**(112,660)**	**(64,950)**	**(220,816)**	(42,417)	(151,618)	(64,903)	(258,938)
Currency translation	**(51)**	**(7)**	**243**	**185**	79	73	457	609
Disposals	**–**	**28,950**	**4,105**	**33,055**	572	69,517	10,994	81,083
Depreciation charge	**(4,942)**	**(33,016)**	**(5,998)**	**(43,956)**	(5,117)	(30,632)	(11,498)	(47,247)
Transfer to:								
Subsidiary upon incorporation	**2,020**	**837**	**1,482**	**4,339**	–	–	–	–
Investment property (Note 37)	**552**	**–**	**–**	**552**	3,677	–	–	3,677
At 31 December	**(45,627)**	**(115,896)**	**(65,118)**	**(226,641)**	(43,206)	(112,660)	(64,950)	(220,816)
Accumulated impairment losses (Note 33)								
At 1 January								
As previously reported	**(130,935)**	**–**	**–**	**(130,935)**	(137,976)	–	–	(137,976)
Effect of FRS 40 (Note 37)	**95,984**	**–**	**–**	**95,984**	100,035	–	–	100,035
As restated	**(34,951)**	**–**	**–**	**(34,951)**	(37,941)	–	–	(37,941)
Disposals	**–**	**–**	**–**	**–**	58	–	–	58
Write-back to income statements	**15,423**	**–**	**–**	**15,423**	1,458	–	–	1,458
Transfer to investment property (Note 37)	**–**	**–**	**–**	**–**	1,474	–	–	1,474
At 31 December	**(19,528)**	**–**	**–**	**(19,528)**	(34,951)	–	–	(34,951)
Net carrying value, at 31 December	**193,590**	**115,984**	**17,312**	**326,886**	186,533	99,621	12,894	299,048
Freehold property	**31,294**				32,858			
Leasehold property	**162,296**				153,675			
Net carrying value	**193,590**				186,533			
Market value	**308,950**				253,411			

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For the financial year ended 31 December 2007

37. INVESTMENT PROPERTY

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Cost					
At 1 January – as previously reported		**–**	–	**–**	–
Effect of FRS 40	36	**899,961**	988,492	**567,689**	558,456
At 1 January – restated		**899,961**	988,492	**567,689**	558,456
Currency translation		**(3,098)**	(5,088)	**(689)**	(1,834)
Additions		**10,473**	4,035	**4,191**	7
Disposals		**(92,238)**	(66,587)	**(2,384)**	(5,367)
Transfer from/(to):					
Assets held for sale		**(2,294)**	(11,745)	**(2)**	(805)
Property, plant and equipment	36	**7,513**	(9,146)	**1,753**	17,232
Subsidiary upon incorporation		**–**	–	**(4,093)**	–
At 31 December		**820,317**	899,961	**566,465**	567,689
Accumulated depreciation					
At 1 January – as previously reported		**–**	–	**–**	–
Effect of FRS 40	36	**(152,071)**	(144,732)	**(58,086)**	(49,628)
At 1 January – restated		**(152,071)**	(144,732)	**(58,086)**	(49,628)
Currency translation		**281**	385	**259**	376
Disposals		**49,616**	2,938	**1,510**	2,417
Depreciation charge		**(12,199)**	(14,716)	**(7,189)**	(7,574)
Transfer (from)/to:					
Assets held for sale		**424**	3,557	**–**	–
Property, plant and equipment	36	**(22,138)**	497	**(552)**	(3,677)
Subsidiary upon incorporation		**–**	–	**1,214**	–
At 31 December		**(136,087)**	(152,071)	**(62,844)**	(58,086)
Accumulated impairment losses	33				
At 1 January – as previously reported		**–**	–	**–**	–
Effect of FRS 40	36	**(103,614)**	(106,669)	**(95,984)**	(100,035)
At 1 January – restated		**(103,614)**	(106,669)	**(95,984)**	(100,035)
Currency translation		**(313)**	(11)	**(277)**	(54)
Disposals		**5,763**	400	**–**	245
Write-back/(impairment charge) to income statements		**86,445**	(99)	**85,926**	5,334
Transfer (from)/to:					
Assets held for sale		**475**	1,682	**–**	–
Property, plant and equipment	36	**(6,254)**	1,083	**–**	(1,474)
At 31 December		**(17,498)**	(103,614)	**(10,335)**	(95,984)
Net carrying value					
Freehold property		**205,932**	234,139	**70,474**	68,988
Leasehold property		**460,800**	410,137	**422,812**	344,631
At 31 December		**666,732**	644,276	**493,286**	413,619
Market value		**2,448,219**	1,812,146	**1,436,090**	822,854

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38. GOODWILL AND INTANGIBLE ASSETS

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Goodwill				
At 1 January	**2,699,829**	2,586,257	**1,867,176**	1,867,176
Acquisition of additional interests in:				
GEH	**–**	111,659	**–**	–
NISP	**206**	132	**–**	–
Currency translation	**(30,344)**	1,781	**–**	–
At 31 December	**2,669,691**	2,699,829	**1,867,176**	1,867,176
Intangible asset [1]				
At 1 January	**821,120**	757,298		
Acquisition of additional interests in GEH	**–**	107,554		
Amortisation charged to income statements	**(46,391)**	(43,732)		
At 31 December	**774,729**	821,120		
Total goodwill and intangible assets	**3,444,420**	3,520,949	**1,867,176**	1,867,176
Analysed as follows:				
Goodwill from acquisition of subsidiaries/business	**2,669,691**	2,699,829	**1,867,176**	1,867,176
Intangible asset, at cost	**927,814**	927,814	**–**	–
Accumulated amortisation for intangible asset	**(153,085)**	(106,694)	**–**	–
	3,444,420	3,520,949	**1,867,176**	1,867,176

Note:
[1] The value of in-force life assurance business of the Group is amortised over a useful life of 20 years. At 31 December 2007, the intangible asset has a remaining useful life of 17 years (2006: 18 years).

Impairment tests for goodwill

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

Cash Generating Units	Basis of determining recoverable value	Carrying value 2007 $'000	Carrying value 2006 $'000
Goodwill attributed to Banking CGU			
Consumer Banking		**844,497**	844,497
Business Banking		**570,000**	570,000
Treasury		**524,000**	524,000
	Value-in-use	**1,938,497**	1,938,497
Great Eastern Holdings Limited ("GEH")	Appraisal value	**426,385**	426,385
P.T. Bank NISP Tbk ("NISP")	Value-in-use	**275,390**	305,528
Straits Lion Asset Management Limited ("SLAM")	Value-in-use	**29,419**	29,419
		2,669,691	2,699,829

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 2007, the discount rates used ranged from 8.5% to 15% (2006: 10% to 19%). Cash flows beyond the fifth year are extrapolated using the estimated terminal growth rates (weighted average growth rate to extrapolate cash flows beyond the projected years). The terminal growth rates ranged from 2% to 10% (2006: 2% to 11%). 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.

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38. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The Group's insurance CGU applies the appraisal value technique for its value-in-use calculation. This technique is commonly used to determine the economic value of an insurance business, which comprises two components: embedded value of in-force business and existing structural value (value of future sales). The embedded value of the life assurance business is the present value of projected distributable profits (cash flows) of the in-force business. The cash flows represent a deterministic approach based on assumptions as to future operating experience discounted at a risk adjusted rate of 8.0% (2006: 9.0%) and 9.5% (2006: 10%) for Singapore and Malaysia respectively. The assumptions take into account the recent experience of, and expected future outlook for the life assurance business of the CGU. Investment returns assumed are based on long term strategic asset mix and their expected future returns. The existing structural value is the value of projected distributable profits from new businesses, which is calculated based on new businesses sold for the nine months ended up to 30 September and applying a new business multiplier to the value of future sales. The returns assumed, after investment expenses, are 5.15% – 5.25%, 4.25% and 7% (2006: 5.25%, 4.25% and 7%) for Singapore's participating fund, non-participating fund and linked fund respectively and 6.5%, 6.0% and 7.0% (2006: 7%, 6.5% and 7.5%) for Malaysia's participating fund, non-participating fund and linked fund respectively.

39. SEGMENT INFORMATION

39.1 Business segments

$ million	Consumer Banking	Business Banking	Treasury	Insurance	Others	Group
Financial year ended 31 December 2007						
Total income	1,209	1,373	448	812	439	4,281
Operating profit before allowances and amortisation	649	936	313	687	16	2,601
Amortisation of intangible assets	–	–	–	(46)	–	(46)
(Allowances and impairment)/write-back for loans and other assets	(18)	62	–	(5)	(75)	(36)
Operating profit/(loss) after allowances and amortisation	631	998	313	636	(59)	2,519
Other information:						
Capital expenditure	15	7	–	84	132	238
Depreciation	8	4	–	2	90	104
At 31 December 2007						
Segment assets	26,586	51,075	35,039	47,727	18,767	179,194
Unallocated assets						87
Elimination						(4,674)
Total assets						174,607
Segment liabilities	39,470	43,258	24,656	41,911	11,336	160,631
Unallocated liabilities						1,811
Elimination						(4,674)
Total liabilities						157,768
Other information:						
Gross non–bank loans	24,928	43,715	382	252	3,498	72,775
NPLs (includes debt securities)	387	802	–	8	157	1,354

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39. SEGMENT INFORMATION (CONTINUED)

39.1 Business segments (continued)

$ million	Consumer Banking	Business Banking	Treasury	Insurance	Others	Group
Financial year ended 31 December 2006						
Total income	1,010	1,124	261	659	786	3,840
Operating profit before allowances and amortisation	542	765	176	559	466	2,508
Amortisation of intangible assets	–	–	–	(44)	–	(44)
(Allowances and impairment)/ write-back for loans and other assets	(66)	18	–	–	46	(2)
Operating profit after allowances and amortisation	476	783	176	515	512	2,462
Other information:						
Capital expenditure	5	3	–	117	127	252
Depreciation	12	6	–	2	84	104
At 31 December 2006						
Segment assets	25,084	38,936	30,565	43,288	16,571	154,444
Unallocated assets						106
Elimination						(3,330)
Total assets						151,220
Segment liabilities	35,378	34,280	19,320	37,975	11,516	138,469
Unallocated liabilities						1,590
Elimination						(3,330)
Total liabilities						136,729
Other information:						
Gross non-bank loans	23,851	33,610	–	385	3,286	61,132
NPLs (includes debt securities)	509	1,254	–	–	66	1,829

OCBC Group is organised along four groupings covering customers, products, support functions and geography. Customer, product and support function heads have global responsibility for their respective areas, while geographic heads have stewardship responsibility. For the purpose of financial reporting of business segment results, the Group's businesses are presented under five main segments representing the key customer and product groups: Consumer Banking, Business Banking, Treasury, Insurance and Others.

Consumer Banking

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

Business Banking

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

Treasury

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

39. SEGMENT INFORMATION (CONTINUED)

39.1 Business segments (continued)

Insurance

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

Others

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

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

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

Where there are material changes in the organisational structure and management reporting methodologies, segment information for prior periods is restated to allow comparability. There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as income tax and borrowings.

39.2 Geographical segments

$ million	Total income	Profit before income tax	Capital expenditure	Total assets	Total liabilities
2007					
Singapore	**2,810**	**1,805**	**128**	**117,833**	**109,271**
Malaysia	**961**	**554**	**64**	**36,309**	**32,698**
Other ASEAN	**315**	**93**	**39**	**5,940**	**4,864**
Greater China	**117**	**40**	**6**	**7,150**	**6,453**
Other Asia Pacific	**40**	**23**	**–**	**3,801**	**2,004**
Rest of the World	**38**	**24**	**1**	**3,574**	**2,478**
	4,281	**2,539**	**238**	**174,607**	**157,768**
2006					
Singapore	2,714	1,842	103	105,706	97,109
Malaysia	747	498	108	31,275	27,677
Other ASEAN	239	71	39	5,126	4,308
Greater China	71	21	1	4,650	3,366
Other Asia Pacific	33	21	1	1,699	1,064
Rest of the World	36	23	–	2,764	3,205
	3,840	2,476	252	151,220	136,729

The Group's operations are in six main geographical areas. With the exception of Singapore and Malaysia, no other individual country contributed more than 10% of consolidated total income and total assets.

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

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40. FINANCIAL RISK MANAGEMENT

40.1 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.

40.2 Credit risk

Maximum exposure to credit risk

The following table presents the Group's maximum exposure to credit risk for balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit-related commitments, the maximum exposure to credit risk is the full amount of the facilities granted to customers.

$ million	Note	2007	2006
Credit risk exposure relating to on-balance sheet assets:			
Singapore government treasury bills and securities	25	**8,762**	8,147
Other government treasury bills and securities	25	**3,446**	2,195
Placements with and loans to banks	26	**15,105**	17,750
Loans and bills receivable	27	**71,316**	59,309
Debt securities	31	**10,450**	6,072
Trading		**1,196**	426
Available-for-sale		**8,993**	5,440
Loans and bills receivable		**261**	206
Amount due from associates	34	**16**	18
Assets pledged	44	**889**	1,897
Derivative receivables		**2,937**	2,414
Other assets, comprising interest receivables and sundry debtors	32	**2,426**	2,144
		115,347	99,946
Credit risk exposure relating to off-balance sheet items:			
Financial guarantees		**6,385**	4,707
Loan commitments and other credit-related liabilities		**47,372**	39,084
Total maximum credit risk exposure		**169,104**	143,737

As presented in the above table, the Group's maximum exposure to credit risk comprise 51% (2006: 54%) derived primarily from its lending activities to banks and customers and 13% (2006: 11%) from its investments in government and debt securities.

Collaterals

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

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

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)
40.2 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.

	Bank loans		Non-Bank loans	
$ million	**2007**	**2006**	**2007**	**2006**
Neither past due nor impaired	**15,117**	18,065	**70,620**	58,532
Past due but not impaired	**–**	–	**1,045**	902
Impaired	**–**	–	**1,110**	1,698
Gross loans	**15,117**	18,065	**72,775**	61,132
Specific allowances	**–**	–	**(499)**	(862)
Portfolio allowances	**–**	–	**(960)**	(961)
Net loans	**15,117**	18,065	**71,316**	59,309

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:

	Bank loans		Non-Bank loans	
$ million	**2007**	**2006**	**2007**	**2006**
Grades				
Satisfactory and special mention	**15,117**	18,065	**70,581**	58,494
Substandard but not impaired	**–**	–	**39**	38
Neither past due nor impaired	**15,117**	18,065	**70,620**	58,532

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	**2007**	**2006**
Past due		
Less than 30 days	**579**	186
30 to 90 days	**407**	686
Over 90 days	**59**	30
Past due but not impaired	**1,045**	902

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

$ million	**2007**	**2006**
Business segment		
Consumer Banking	**339**	441
Business Banking	**727**	1,190
Others	**30**	55
Individually impaired loans	**1,096**	1,686

Details on non-performing loans are set out in Note 28. The movements of specific and portfolio allowances account for loans and advances are set out in Notes 29 and 30 respectively.

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For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)
40.2 Credit risk (continued)
Renegotiated loans
Loans that would have been past due or impaired had they not been renegotiated amounted to $55.9 million for the year ended 31 December 2007 (2006: $49.3 million).

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

$ million	2007	2006
Properties	**18**	3
Others	**#**	25
Carrying amount of assets obtained in financial year	**18**	28

Amount less than $0.5 million

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

Credit risk concentration
Please refer to the Risk Management Section for details on management of credit concentration. Analyses of non-bank loans by industry and geographical sector are set out in Note 27. Information on the concentration risk for securities is provided in Notes 25 and 31.

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:

Exposure [1]	Banks	Government and official institutions	Loans to financial institutions and customers	Total exposure	As % of assets
2007					
Malaysia	**4,163**	**190**	**2,886**	**7,239**	**5.4**
United Kingdom	**6,485**	**3**	**323**	**6,811**	**5.1**
Hong Kong SAR	**2,402**	**–**	**1,026**	**3,428**	**2.6**
Indonesia	**1,320**	**121**	**1,715**	**3,156**	**2.4**
China	**2,051**	**1**	**1,021**	**3,073**	**2.3**
South Korea	**1,591**	**274**	**854**	**2,719**	**2.0**
Australia	**1,285**	**16**	**814**	**2,115**	**1.6**
United States	**1,060**	**18**	**791**	**1,869**	**1.4**
Japan	**1,020**	**–**	**502**	**1,522**	**1.1**
2006					
Malaysia	3,901	283	1,827	6,011	5.3
United Kingdom	5,163	3	133	5,299	4.7
Hong Kong SAR	2,040	10	989	3,039	2.7
Indonesia	1,301	33	1,236	2,570	2.3
China	1,702	–	644	2,346	2.1
France	1,795	–	151	1,946	1.7
South Korea	1,242	–	164	1,406	1.2
Australia	899	–	446	1,345	1.2
Germany	1,195	24	75	1,294	1.1

[1] Assets (excluding life assurance fund investment assets) of $133,471 million (2006: $113,607 million).

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For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk and asset liability management (continued)

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.

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
2007								
Cash and placements with central banks	**1,400**	**1,701**	**2,030**	**646**	**–**	**–**	**2,619**	**8,396**
Placements with and loans to banks	**1,213**	**3,123**	**5,692**	**5,077**	**3**	**–**	**9**	**15,117**
Loans and bills receivable [1]	**4,612**	**24,481**	**29,372**	**7,916**	**2,937**	**2,898**	**(900)**	**71,316**
Securities [2]	**691**	**2,456**	**5,493**	**4,389**	**3,792**	**6,527**	**3,011**	**26,359**
Other assets [3]	**7**	**9**	**–**	**–**	**–**	**–**	**5,919**	**5,935**
Financial assets	**7,923**	**31,770**	**42,587**	**18,028**	**6,732**	**9,425**	**10,658**	**127,123**
Deposits of non-bank customers	**18,739**	**21,213**	**26,320**	**13,894**	**557**	**394**	**7,671**	**88,788**
Deposits and balances of banks	**7,167**	**3,205**	**3,079**	**1,096**	**179**	**–**	**–**	**14,726**
Trading portfolio liabilities	**1**	**–**	**–**	**–**	**94**	**73**	**4**	**172**
Other liabilities [3]	**3**	**23**	**26**	**6**	**–**	**–**	**6,011**	**6,069**
Debts issued	**24**	**540**	**117**	**–**	**–**	**4,289**	**–**	**4,970**
Financial liabilities	**25,934**	**24,981**	**29,542**	**14,996**	**830**	**4,756**	**13,686**	**114,725**
On–balance sheet sensitivity gap	**(18,011)**	**6,789**	**13,045**	**3,032**	**5,902**	**4,669**		
Off–balance sheet sensitivity gap	**(1,020)**	**5,799**	**(3,909)**	**(1,173)**	**(1,059)**	**1,362**		
Net interest sensitivity gap	**(19,031)**	**12,588**	**9,136**	**1,859**	**4,843**	**6,031**		
2006								
Cash and placements with central banks	1,367	768	996	643	–	–	1,967	5,741
Placements with and loans to banks	1,561	2,754	5,087	8,618	15	–	30	18,065
Loans and bills receivable [1]	3,037	18,218	26,650	6,974	2,985	2,408	(963)	59,309
Securities [2]	164	1,513	4,025	1,945	4,292	5,762	1,518	19,219
Other assets [3]	8	9	–	–	–	–	4,941	4,958
Financial assets	6,137	23,262	36,758	18,180	7,292	8,170	7,493	107,292
Deposits of non-bank customers	17,061	17,123	21,296	12,294	465	773	6,103	75,115
Deposits and balances of banks	4,991	3,532	1,794	1,432	120	–	–	11,869
Trading portfolio liabilities	4	112	91	124	10	81	–	422
Other liabilities [3]	21	17	25	49	5	–	4,694	4,811
Debts issued	31	207	881	–	–	4,012	–	5,131
Financial liabilities	22,108	20,991	24,087	13,899	600	4,866	10,797	97,348
On–balance sheet sensitivity gap	(15,971)	2,271	12,671	4,281	6,692	3,304		
Off–balance sheet sensitivity gap	(1,797)	(3,491)	280	3,689	(439)	1,758		
Net interest sensitivity gap	(17,768)	(1,220)	12,951	7,970	6,253	5,062		

[1] The negative balance represents mainly portfolio allowances for loans.
[2] Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
[3] Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk and asset liability management (continued)

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

The impact of standard scenarios of a 100bp parallel fall or rise in yield curves on the Group's exposure to major currencies, i.e. Singapore Dollar, US Dollar and Malaysian Ringgit, on the next 12-months' net interest income is simulated to determine the maximum loss. As a percentage of reported net interest income, the maximum exposure would be -2.16% (2006: -1.91%).

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 Group Treasury or the business units to mitigate the impact of this interest rate risk. In reality, Group Treasury seeks proactively to change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections also assume a constant balance sheet position and that all positions run to maturity.

Currency risk

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

$ million	SGD	USD	MYR	Others	Total
2007					
Cash and placements with central banks	**4,741**	**53**	**2,315**	**1,287**	**8,396**
Placements with and loans to banks	**404**	**6,967**	**310**	**7,436**	**15,117**
Loans and bills receivable	**41,647**	**9,336**	**10,543**	**9,790**	**71,316**
Securities [1]	**13,836**	**3,762**	**3,378**	**5,383**	**26,359**
Other assets [2]	**3,633**	**1,717**	**590**	**(5)**	**5,935**
Financial assets	**64,261**	**21,835**	**17,136**	**23,891**	**127,123**
Deposits of non-bank customers	**52,873**	**11,473**	**13,633**	**10,809**	**88,788**
Deposits and balances of banks	**3,645**	**7,609**	**408**	**3,064**	**14,726**
Trading portfolio liabilities	**168**	**–**	**–**	**4**	**172**
Other liabilities [2]	**3,529**	**1,335**	**637**	**568**	**6,069**
Debts issued	**4,044**	**393**	**261**	**272**	**4,970**
Financial liabilities	**64,259**	**20,810**	**14,939**	**14,717**	**114,725**
Net financial assets/(liabilities) exposure	**2**	**1,025**	**2,197**	**9,174**	
2006					
Cash and placements with central banks	2,788	32	2,201	720	5,741
Placements with and loans to banks	581	12,064	579	4,841	18,065
Loans and bills receivable	35,916	7,877	8,619	6,897	59,309
Securities [1]	11,625	2,779	2,429	2,386	19,219
Other assets [2]	3,286	1,026	416	230	4,958
Financial assets	54,196	23,778	14,244	15,074	107,292
Deposits of non-bank customers	46,019	8,352	11,957	8,787	75,115
Deposits and balances of banks	2,504	6,347	264	2,754	11,869
Trading portfolio liabilities	422	–	–	–	422
Other liabilities [2]	2,104	1,581	570	556	4,811
Debts issued	3,841	951	87	252	5,131
Financial liabilities	54,890	17,231	12,878	12,349	97,348
Net financial assets/(liabilities) exposure	(694)	6,547	1,366	2,725	

(1) Securities comprise trading and investment portfolio of government, debt and equity securities (including assets pledged).
(2) Other assets/liabilities include derivative receivables/payables and amount due from/to associates and joint ventures.

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 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.

	2007			2006		
$ million	Structural currency exposure	Hedging financial instruments	Net structural currency exposure	Structural currency exposure	Hedging financial instruments	Net structural currency exposure
US Dollar	343	357	(14)	271	–	271
Malaysian Ringgit	1,059	–	1,059	940	–	940
Others	1,678	437	1,241	1,346	–	1,346
Total	3,080	794	2,286	2,557	–	2,557

Liquidity risk

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

$ million	Within 1 week	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2007							
Cash and placements with central banks	3,675	1,627	1,720	956	–	418	8,396
Placements with and loans to banks	1,215	2,884	5,318	5,488	187	25	15,117
Loans and bills receivable	5,959	6,178	6,685	7,332	12,040	33,122	71,316
Securities (1)	817	1,467	2,819	4,005	5,450	11,801	26,359
Other assets (2)	1,016	1,555	927	1,447	432	558	5,935
Financial assets	12,682	13,711	17,469	19,228	18,109	45,924	127,123
Deposits of non-bank customers	40,261	20,389	11,896	12,690	2,587	965	88,788
Deposits and balances of banks	7,213	3,159	3,079	1,096	179	–	14,726
Trading portfolio liabilities	5	–	–	–	94	73	172
Other liabilities (2)	1,436	1,259	1,095	1,547	253	479	6,069
Debts issued	167	368	117	–	–	4,318	4,970
Financial liabilities	49,082	25,175	16,187	15,333	3,113	5,835	114,725
Net liquidity gap – financial assets less financial liabilities	(36,400)	(11,464)	1,282	3,895	14,996	40,089	

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk and asset liability management (continued)

$ 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
2006							
Cash and placements with central banks	2,966	758	997	643	–	377	5,741
Placements with and loans to banks	1,582	2,645	4,820	8,845	173	–	18,065
Loans to customers	5,510	4,130	4,332	6,364	10,881	28,092	59,309
Securities [(1)]	372	1,008	2,761	1,562	5,566	7,950	19,219
Other assets [(2)]	904	1,528	795	1,372	232	127	4,958
Financial assets	11,334	10,069	13,705	18,786	16,852	36,546	107,292
Deposits of non-bank customers	34,880	16,245	8,949	11,027	1,802	2,212	75,115
Deposits and balances of banks	4,991	3,532	1,794	1,433	119	–	11,869
Trading portfolio liabilities	4	112	91	124	10	81	422
Other liabilities [(2)]	1,245	1,232	852	1,238	189	55	4,811
Debts issued	–	207	115	766	–	4,043	5,131
Financial liabilities	41,120	21,328	11,801	14,588	2,120	6,391	97,348
Net liquidity gap – financial assets less financial liabilities	(29,786)	(11,259)	1,904	4,198	14,732	30,155	

(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.

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 18) 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
2007							
Deposits of non-bank customers [(1)]	**40,290**	**20,519**	**12,022**	**13,016**	**2,724**	**1,029**	**89,600**
Deposits and balances of banks [(1)]	**7,216**	**3,178**	**3,123**	**1,119**	**189**	**–**	**14,825**
Trading portfolio liabilities	**172**	**–**	**–**	**–**	**–**	**–**	**172**
Other liabilities [(2)]	**1,256**	**365**	**256**	**167**	**223**	**411**	**2,678**
Debts issued	**167**	**369**	**211**	**178**	**546**	**4,567**	**6,038**
Net settled derivatives							
Trading	**202**	**62**	**136**	**332**	**416**	**253**	**1,401**
Hedging	**–**	**(1)**	**–**	**10**	**21**	**5**	**35**
Gross settled derivatives							
Trading – Outflow	**15,748**	**18,531**	**33,044**	**24,571**	**204**	**658**	**92,756**
Trading – Inflow	**(15,817)**	**(18,632)**	**(33,112)**	**(24,611)**	**(194)**	**(686)**	**(93,052)**
Hedging – Outflow	**1,673**	**513**	**343**	**481**	**246**	**3,066**	**6,322**
Hedging – Inflow	**(1,680)**	**(517)**	**(342)**	**(533)**	**(317)**	**(2,840)**	**(6,229)**
	49,227	**24,387**	**15,681**	**14,730**	**4,058**	**6,463**	**114,546**

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.3 Market risk and asset liability management (continued)

$ 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
2006							
Deposits of non-bank customers [1]	34,911	16,350	9,051	11,367	2,020	2,358	76,057
Deposits and balances of banks [1]	4,994	3,567	1,825	1,479	135	–	12,000
Trading portfolio liabilities	422	–	–	–	–	–	422
Other liabilities [2]	1,113	443	152	182	129	18	2,037
Debts issued	–	208	225	941	526	4,485	6,385
Net settled derivatives							
Trading	231	73	159	213	364	251	1,291
Hedging	–	(1)	2	3	11	5	20
Gross settled derivatives							
Trading – Outflow	10,008	8,821	10,527	14,498	383	396	44,633
Trading – Inflow	(10,013)	(8,904)	(10,643)	(14,582)	(352)	(415)	(44,909)
Hedging – Outflow	–	–	83	943	274	3,214	4,514
Hedging – Inflow	–	–	(79)	(903)	(372)	(3,124)	(4,478)
	41,666	20,557	11,302	14,141	3,118	7,188	97,972

(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.

40.4 Other risk areas

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

40.5 Insurance-related risk management

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

Governance framework

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

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

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

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

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

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

Regulatory framework

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

Risk and capital management framework

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

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

Regulatory capital

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

In Singapore, the minimum capital requirement under the Risk-based Capital Framework regulated by the Monetary Authority of Singapore is 120% for each insurance entity. The capital requirements included capital residing in the participating fund which is not fungible. Regulated capital of the consolidated Singapore insurance subsidiaries as at 31 December 2007 comprised available capital of $7.45 billion (2006: $6.60 billion), risk capital of $2.92 billion (2006: $2.71 billion) and capital adequacy ratio 255% (2006: 246%).

In Malaysia and other subsidiaries, margins of solvency are prescribed. Assets are not marked to market under this regime. A proxy for measurement of financial soundness and strength is the ratio of fund surplus computed under margin of solvency rules over the long term actuarial liabilities whose valuation are prescribed by the insurance regulations. In Malaysia, the ratio on marked to market basis was 36% as at 31 December 2007 (2006: 32%) based on actuarial liability reserve of $10.9 billion (2006: $9.8 billion).

Dividend

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

Financial risk management

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

Notes to the Financial Statements
For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)
40.5 Insurance-related risk management (continued)
Insurance risk

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

The Group works closely with reinsurers to put in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Group's reinsurance management strategy and policy is reviewed annually by RiC and SMT. Retention limits for mortality risk per life are set up to $700,000 in Singapore and MYR350,000 in Malaysia. Retention limits for critical illness per life are set up to $400,000 in Singapore and MYR250,000 in Malaysia. Catastrophe reinsurance is procured to limit catastrophic losses. The Group's exposure to group insurance business is not significant, thus there is no material concentration in insurance risk.

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

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

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

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

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

Table 40.5(A): Exposure of life assurance risks

Concentration of insurance risk	2007		2006	
$ million	**Singapore**	**Malaysia**	**Singapore**	**Malaysia**
Gross sum at risk	**92,722**	**72,208**	89,950	65,723
Reinsurance ceded	**13,737**	**21,844**	6,702	17,044
Net sum at risk	**78,985**	**50,364**	83,248	48,679

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

Table 40.5(B1): Profit after tax sensitivity for the Singapore segment
Impact on 1-year's profit after tax

$ million	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2007							
Gross impact	**(4.2)**	**(46.1)**	**109.9**	**(138.6)**	**25.9**	**(37.0)**	**(20.6)**
Reinsurance ceded	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net impact	**(4.2)**	**(46.1)**	**109.9**	**(138.6)**	**25.9**	**(37.0)**	**(20.6)**
2006							
Gross impact	1.4	(56.1)	48.1	(60.9)	22.7	(31.7)	(19.3)
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	1.4	(56.1)	48.1	(60.9)	22.7	(31.7)	(19.3)

Table 40.5(B2): Profit after tax sensitivity for the Malaysia segment
Impact on 1–year's profit after tax

$ million	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2007 and 2006							
Gross impact	–	–	–	–	–	–	–
Reinsurance ceded	–	–	–	–	–	–	–
Net impact	–	–	–	–	–	–	–

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

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

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

Market and credit risk

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

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

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

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For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

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

The Group is exposed to interest rate risk through (i) investments in fixed income instruments in both the Shareholders' Fund as well as the Insurance Funds and (ii) policy liabilities in the Insurance Funds. Since the Shareholders' Fund has exposure to investments in fixed income instruments but no exposure to insurance policy liabilities, it will incur an economic loss when interest rates rise. Given the long duration of policy liabilities and the uncertainty of the cash flows of the Insurance Funds, it is not possible to hold assets that will perfectly match the policy liabilities. This results in a net interest rate risk or asset liability mismatch risk which is managed and monitored by Group ALC and local ALCs. The Insurance Funds will incur an economic loss when interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income assets. With the use of the Long Term Risk Free Discount Rate ("LTRFDR") formulated under the Singapore regulations governed by MAS to discount liability cash flows with duration of more than 15 years, the Singapore non-participating funds could have negative earnings impact when the LTRFDR decrease. The management of asset liability mismatch is guided by the Asset-Liability Management Framework.

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

$ million	Fixed rate	Floating rate	Non-interest sensitive	Total
2007				
Equities and collective investments	**–**	**–**	**12,485**	**12,485**
Quoted government securities, loan stocks and bonds	**13,281**	**1,514**	**–**	**14,795**
Other unquoted investments	**6,767**	**613**	**–**	**7,380**
Derivatives and embedded derivatives	**–**	**–**	**1,400**	**1,400**
Loans (net of allowances)	**562**	**806**	**–**	**1,368**
Policy loans	**2,101**	**–**	**–**	**2,101**
Reinsurance assets	**–**	**–**	**79**	**79**
Outstanding premiums	**–**	**–**	**169**	**169**
Other debtors and interfund balances	**–**	**–**	**1,366**	**1,366**
Cash and cash equivalents	**2,768**	**–**	**–**	**2,768**
Financial assets	**25,479**	**2,933**	**15,499**	**43,911**
Other creditors and interfund balances	**–**	**–**	**1,444**	**1,444**
Reinsurance liabilities	**–**	**–**	**68**	**68**
Unexpired risk reserve	**–**	**–**	**60**	**60**
Policy benefits	**1,645**	**–**	**–**	**1,645**
Claims admitted or intimated	**–**	**–**	**165**	**165**
Agents' retirement benefits	**–**	**–**	**184**	**184**
General insurance fund contract liabilities	**–**	**–**	**101**	**101**
Life assurance fund contract liabilities	**10,798**	**2,812**	**19,232**	**32,842**
Financial liabilities	**12,443**	**2,812**	**21,254**	**36,509**
2006				
Equities and collective investments	–	–	10,600	10,600
Quoted government securities, loan stocks and bonds	12,585	1,366	–	13,951
Other unquoted investments	5,614	572	–	6,186
Derivatives and embedded derivatives	–	–	1,331	1,331
Loans (net of allowances)	707	227	–	934
Policy loans	2,044	–	–	2,044
Reinsurance assets	–	–	57	57
Outstanding premiums	–	–	154	154
Other debtors and interfund balances	–	–	878	878
Cash and cash equivalents	3,824	–	–	3,824
Financial assets	24,774	2,165	13,020	39,959

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

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

$ million	Fixed rate	Floating rate	Non-interest sensitive	Total
2006				
Other creditors and interfund balances	–	–	997	997
Reinsurance liabilities	–	–	50	50
Unexpired risk reserve	–	–	56	56
Policy benefits	1,475	–	–	1,475
Claims admitted or intimated	–	–	149	149
Agents' retirement benefits	–	–	168	168
General insurance fund contract liabilities	–	–	83	83
Life assurance fund contract liabilities	9,781	2,759	18,338	30,878
Financial liabilities	11,256	2,759	19,841	33,856

(b) Foreign currency risk

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

The Group is also exposed to foreign exchange movement on net investment in its foreign subsidiaries. The major item for the Group is in respect of its Malaysia subsidiaries. The Insurance and Shareholders' Funds in Malaysia are predominantly held in Malaysian Ringgit, as prescribed by Bank Negara, Malaysia. The Group does not hedge against this exposure.

The table below shows the foreign exchange position of GEH Group by major currencies:

$ million	SGD	MYR	USD	Others	Total
2007					
Equities and collective investments	**3,650**	**3,764**	**2,001**	**3,070**	**12,485**
Quoted government securities, loan stocks and bonds	**7,918**	**3,918**	**1,854**	**1,105**	**14,795**
Other unquoted investments	**1,572**	**5,383**	**287**	**138**	**7,380**
Derivatives and embedded derivatives	**3,947**	**40**	**(1,914)**	**(673)**	**1,400**
Loans (net of allowances)	**946**	**420**	**–**	**2**	**1,368**
Policy loans	**860**	**1,240**	**–**	**1**	**2,101**
Reinsurance assets	**41**	**38**	**–**	**#**	**79**
Outstanding premiums	**79**	**90**	**–**	**#**	**169**
Other debtors and interfund balances	**970**	**396**	**–**	**#**	**1,366**
Cash and cash equivalents	**1,589**	**853**	**205**	**121**	**2,768**
Financial assets	**21,572**	**16,142**	**2,433**	**3,764**	**43,911**
Other creditors and interfund balances	**992**	**451**	**–**	**1**	**1,444**
Reinsurance liabilities	**33**	**35**	**–**	**#**	**68**
Unexpired risk reserve	**27**	**33**	**–**	**–**	**60**
Policy benefits	**792**	**853**	**–**	**#**	**1,645**
Claims admitted or intimated	**45**	**119**	**–**	**1**	**165**
Agents' retirement benefits	**2**	**182**	**–**	**–**	**184**
General insurance fund contract liabilities	**39**	**62**	**–**	**–**	**101**
Life assurance fund contract liabilities	**21,642**	**10,798**	**140**	**262**	**32,842**
Financial liabilities	**23,572**	**12,533**	**140**	**264**	**36,509**

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(b) Foreign currency risk (continued)

$ million	SGD	MYR	USD	Others	Total
2006					
Equities and collective investments	2,665	3,410	1,426	3,099	10,600
Quoted government securities, loan stocks and bonds	7,557	3,665	1,563	1,166	13,951
Other unquoted investments	1,437	4,274	306	169	6,186
Derivatives and embedded derivatives	3,544	16	(1,521)	(708)	1,331
Loans (net of allowances)	474	460	–	–	934
Policy loans	876	1,168	–	#	2,044
Reinsurance assets	23	34	–	–	57
Outstanding premiums	65	89	–	#	154
Other debtors and interfund balances	555	321	–	2	878
Cash and cash equivalents	3,113	500	125	86	3,824
Financial assets	20,309	13,937	1,899	3,814	39,959
Other creditors and interfund balances	739	258	–	#	997
Reinsurance liabilities	26	24	–	#	50
Unexpired risk reserve	24	32	–	–	56
Policy benefits	741	734	–	#	1,475
Claims admitted or intimated	58	91	–	#	149
Agents' retirement benefits	1	167	–	–	168
General insurance fund contract liabilities	28	55	–	–	83
Life assurance fund contract liabilities	20,653	9,781	234	210	30,878
Financial liabilities	22,270	11,142	234	210	33,856

Amount less than $0.5 million

(c) Equity price risk

Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where the Group, through investments in both Shareholders' Funds and Insurance Funds, bears all or most of the volatility in returns and investment performance risk. Equity price risk also exists in investment linked products where the revenues of the insurance operations are linked to the value of the underlying equity funds since this has an impact on the level of fees earned. A robust monitoring process is in place to manage equity price risk by activating appropriate hedging and risk transfer strategies to limit the downside risk at certain pre-determined levels. Limits are set for single security holdings as a percentage of equity holdings.

(d) Alternative investment risk

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

(e) Commodity risk

The Group does not have a direct or significant exposure to commodity risk.

(f) Cash flow and liquidity risk

Cash flow and liquidity risk arises when a company is unable to meet its obligations at reasonable cost when required to do so. This typically happens when the investments in the portfolio is illiquid. Demands for funds can usually be met through ongoing 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

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(f) Cash flow and liquidity risk (continued)

in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

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

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

The following tables show the cash flows of GEH Group's liabilities and expected recovery or settlement of its assets:

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

$ million	Current *	Non-current	Unit-linked	Total
2007				
Cash and cash equivalents	2,500	–	268	2,768
Other debtors and interfund balances	893	438	35	1,366
Outstanding premiums	168	1	–	169
Reinsurance assets	53	26	–	79
Loans (net of allowances), including policy loans	967	2,502	–	3,469
Investments, including derivative instruments	12,261	20,190	3,609	36,060
Associates and joint ventures	–	582	–	582
Goodwill	–	25	–	25
Property, plant and equipment	–	819	–	819
Investment properties	–	1,178	–	1,178
	16,842	25,761	3,912	46,515

* Expected recovery or settlement within 12 months from the balance sheet date
# Amount less than $0.5 million

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(f) Cash flow and liquidity risk (continued)

$ million	Less than 1 year	1 to 5 years	Over 5 years	Unit-linked	Total
2006					
Income tax	219	–	–	–	219
Other creditors and interfund balances	737	260	(#)	–	997
Reinsurance liabilities	25	23	2	–	50
Unexpired risk reserve	50	6	–	–	56
Policy benefits	378	1,095	2	–	1,475
Claims admitted or intimated	58	91	#	–	149
Agents' retirement benefits	–	167	1	–	168
Deferred tax	–	222	612	–	834
General insurance fund contract liabilities	75	8	–	–	83
Life assurance fund contract liabilities	1,884	5,336	20,798	2,860	30,878
	3,426	7,208	21,415	2,860	34,909

$ million	Current*	Non-current	Unit-linked	Total
2006				
Cash and cash equivalents	3,676	–	148	3,824
Other debtors and interfund balances	810	27	41	878
Outstanding premiums	154	#	–	154
Reinsurance assets	32	25	–	57
Loans (net of allowances), including policy loans	2,112	866	–	2,978
Investments, including derivative instruments	9,903	19,363	2,802	32,068
Associates and joint ventures	–	588	–	588
Goodwill	–	25	–	25
Property, plant and equipment	–	813	–	813
Investment properties	–	641	–	641
	16,687	22,348	2,991	42,026

* Expected recovery or settlement within 12 months from the balance sheet date
# Amount less than $0.5 million

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

$ million	2007 Principal notional amount	2007 Derivative receivables	2007 Derivative payables	2006 Principal notional amount	2006 Derivative receivables	2006 Derivative payables
Foreign exchange						
Forwards	**2,860**	**26**	**#**	2,963	12	9
Currency swaps	**1,020**	**112**	**–**	800	43	–
Interest rate						
Swaps	**1,968**	**6**	**21**	584	2	3
Swaptions and options	**9**	**#**	**#**	3	#	#
Exchange traded futures	**1,091**	**3**	**2**	1,405	1	2
Equity						
Futures	**141**	**1**	**#**	5	#	#
OTC options	**25**	**3**	**–**	25	3	–
	7,114	**151**	**23**	5,785	61	14

Amount less than $0.5 million

Notes to the Financial Statements

For the financial year ended 31 December 2007

40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(g) Credit risk

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

The task of evaluating and monitoring credit risk is undertaken by the local CRCs which in turn report to the local ALCs. Group wide credit risk is managed by Group ALC. GEH Group has internal limits by issuer or counterparty and by investment grades. These limits are actively monitored to manage the credit and concentration risk. The limits are reviewed on a regular basis. The creditworthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

The loans in GEH Group's portfolio are generally secured by collateral, with a maximum loan to value of 70% predominantly. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. The fair value of collaterals, held by GEH Group as lender, for which it is entitled to sell or pledge in the event of default is as follows:

	2007		2006	
$ million	**Carrying value of loans**	**Fair value of collaterals**	**Carrying value of loans**	**Fair value of collaterals**
Type of collaterals				
Policy loans – Cash value of policies	**2,101**	**4,221**	2,044	4,069
Secured loans				
Properties	**1,044**	**2,588**	801	2,070
Shares	**215**	**520**	23	77
Bankers' guarantees	**34**	**34**	82	87
Others	**4**	**7**	1	1
	3,398	**7,370**	2,951	6,304

Investments lent and collaterals received under securities lending arrangement amounted to $529.0 million and $546.9 million respectively as at 31 December 2007 (2006: $660.5 million and $682.8 million respectively). As at balance sheet date, investments of $15.4 million (2006: Nil) was placed as collateral for currency hedging purposes.

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

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(g) Credit risk (continued)

$ million	Neither past due nor impaired					
	@Investment grade (AAA – BBB)	@Non-investment grade (BB – C)	Non-rated	Unit linked /not subject to credit risk	Past due or impaired	Total
2007						
Equities and collective investments	**–**	**–**	**–**	**12,485**	**–**	**12,485**
Quoted government securities, loan stocks and bonds	**13,159**	**151**	**866**	**619**	**–**	**14,795**
Other unquoted investments	**6,456**	**13**	**911**	**–**	**–**	**7,380**
Derivatives and embedded derivatives	**466**	**22**	**440**	**472**	**–**	**1,400**
Loans (net of allowances)	**–**	**–**	**1,368**	**–**	**–**	**1,368**
Policy loans	**–**	**–**	**2,101**	**–**	**–**	**2,101**
Reinsurance assets	**–**	**–**	**39**	**–**	**40**	**79**
Outstanding premiums	**–**	**–**	**91**	**–**	**78**	**169**
Other debtors and interfund balances	**–**	**–**	**1,231**	**35**	**100**	**1,366**
Cash and cash equivalents	**2,489**	**3**	**8**	**268**	**–**	**2,768**
Financial assets	**22,570**	**189**	**7,055**	**13,879**	**218**	**43,911**
2006						
Equities and collective investments	–	–	–	10,600	–	10,600
Quoted government securities, loan stocks and bonds	12,038	134	1,222	557	–	13,951
Other unquoted investments	4,920	11	1,255	–	–	6,186
Derivatives and embedded derivatives	421	18	482	410	–	1,331
Loans (net of allowances)	–	–	933	–	1	934
Policy loans	–	–	2,044	–	–	2,044
Reinsurance assets	–	–	34	–	23	57
Outstanding premiums	–	–	95	–	59	154
Other debtors and interfund balances	–	–	835	41	2	878
Cash and cash equivalents	3,626	4	46	148	–	3,824
Financial assets	21,005	167	6,946	11,756	85	39,959

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

Ageing analysis of financial assets past due:

$ million	Past due but not impaired					
	Less than 6 months	6 to 12 months	Over 12 months	Total	Past due and impaired	Total
2007						
Loans (net of allowances)	**–**	**–**	**–**	**–**	**–**	**–**
Reinsurance assets	**14**	**–**	**26**	**40**	**–**	**40**
Outstanding premiums	**77**	**1**	**1**	**79**	**–**	**79**
Other debtors and interfund balances	**39**	**59**	**1**	**99**	**–**	**99**
Total	**130**	**60**	**28**	**218**	**–**	**218**

Notes to the Financial Statements

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

(g) Credit risk (continued)

$ million	Past due but not impaired					
	Less than 6 months	6 to 12 months	Over 12 months	Total	Past due and impaired	Total
2006						
Loans (net of allowances)	–	–	–	–	1	1
Reinsurance assets	#	–	23	23	–	23
Outstanding premiums	57	2	#	59	–	59
Other debtors and interfund balances	#	2	#	2	–	2
Total	57	4	23	84	1	85

Amount less than $0.5 million

(h) Concentration risk

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

Market risk sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables constant. The correlation of variables will have a significant effect in determining the ultimate fair value and/or amortised cost of financial assets, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

The impact on profit after tax represents the effect caused by changes in fair value of financial assets whose fair values are recorded in the income statement, and changes in valuations of insurance contract liabilities. The impact on equity represents the impact on net profit after tax and the effect on changes in fair value of financial assets held in shareholders' funds.

Impact on:	Profit after tax		Equity	
$ million	2007	2006	2007	2006
Change in variables:				
Equity				
+20%	**24.8**	31.4	**157.4**	107.6
-20%	**(24.8)**	(31.4)	**(157.4)**	(107.6)
Alternative investments [1]				
+10%	**8.7**	4.6	**20.8**	15.1
-10%	**(8.7)**	(4.6)	**(20.8)**	(15.1)
Foreign currency				
+5%	**15.4**	9.7	**31.6**	22.1
-5%	**(15.4)**	(9.7)	**(31.6)**	(22.1)
Interest rate				
Yield curve +100 basis points, LTRFDR[2] +10 basis points	**(63.5)**	(32.0)	**(93.6)**	(52.2)
Yield curve – 100 basis points, LTRFDR[2] -10 basis points	**60.6**	28.8	**90.8**	48.9

[1] Alternative investments comprise investments in private equity, real estate and hedge funds.
[2] LTRFDR refers to Long Term Risk Free Discount Rate formulated under the Singapore regulations governed by the Monetary Authority of Singapore.

Notes to the Financial Statements

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40. FINANCIAL RISK MANAGEMENT (CONTINUED)

40.5 Insurance-related risk management (continued)

Business and operational risk

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

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

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

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

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

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

The day-to-day management of business and operational risk is through the maintenance of a comprehensive system of internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. GMT reviews business and operational issues on a group basis at its monthly meetings while local level issues are managed and monitored by the local SMTs. The Internal Audit team reviews the system of internal controls to assess their ongoing relevance and effectiveness, and reports at least quarterly to the Audit Committee of GEH Group.

41. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The following table summarises the carrying amounts and fair values of financial instruments of the Group.

	2007		2006	
$ million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Non-bank customer deposits	**88,847**	**88,991**	75,235	75,389
Debts issued	**4,971**	**5,158**	5,131	5,344

Financial assets

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

Securities held by the Group, comprising government securities (Note 25) and debt and equity securities (Note 31) are substantially carried at fair value on the balance sheet.

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

Financial liabilities

Fair value of certain financial liabilities, which include mainly customer deposits with no stated maturity, interbank borrowings and borrowings under repurchase agreements, are expected to approximate their carrying amount due to their short tenor. For non-bank customer term deposits, cash flows based on contractual terms or derived based on certain assumptions, are discounted at market rates as at reporting date to estimate the fair value.

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

Notes to the Financial Statements

For the financial year ended 31 December 2007

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

	GROUP		BANK	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Acceptances and endorsements	**917,413**	936,861	**169,643**	166,481
Guarantees and standby letters of credit	**6,385,351**	4,707,125	**5,962,627**	4,179,984
Documentary credits and other short term trade-related transactions	**1,514,456**	1,141,748	**1,005,087**	807,240
Others	**43,922**	33,434	**–**	–
	8,861,142	6,819,168	**7,137,357**	5,153,705
42.1 Analysed by industry				
Agriculture, mining and quarrying	**152,996**	67,628	**37,376**	37,531
Manufacturing	**2,335,804**	1,593,831	**1,511,658**	825,755
Building and construction	**1,946,472**	1,133,801	**1,351,587**	975,027
General commerce	**1,927,195**	1,600,540	**1,395,682**	1,136,157
Transport, storage and communication	**279,589**	367,151	**247,011**	297,395
Financial institutions, investment and holding companies	**1,090,790**	1,048,745	**1,398,969**	1,010,849
Professionals and individuals	**105,994**	104,958	**81,424**	79,128
Others	**1,022,302**	902,514	**1,113,650**	791,863
	8,861,142	6,819,168	**7,137,357**	5,153,705
42.2 Analysed by geographical sector				
Singapore	**5,258,131**	4,454,227	**5,535,836**	4,436,144
Malaysia	**1,564,255**	1,416,167	**554,065**	114,200
Other ASEAN	**867,557**	380,464	**60,493**	34,925
Greater China	**690,272**	388,615	**505,918**	388,615
Other Asia Pacific	**142,310**	86,068	**142,311**	86,068
Rest of the World	**338,617**	93,627	**338,734**	93,753
	8,861,142	6,819,168	**7,137,357**	5,153,705

Contingent liabilities analysed by geographical sector 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	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
43.1 Credit commitments				
Undrawn credit facilities:				
Original term to maturity of one year or less	**31,400,955**	28,112,683	**26,640,858**	25,076,740
Original term to maturity of more than one year	**12,112,927**	8,215,719	**8,153,314**	5,468,038
	43,513,882	36,328,402	**34,794,172**	30,544,778
Undrawn note issuance and revolving underwriting facilities	**49,455**	42,522	**16,416**	16,416
Forward deposits and assets purchase/sale	**1,333,351**	601,493	**1,375,294**	648,407
	44,896,688	36,972,417	**36,185,882**	31,209,601

Notes to the Financial Statements

For the financial year ended 31 December 2007

43. COMMITMENTS (CONTINUED)

	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
43.2 Other commitments				
Operating lease (non-cancellable) commitments:				
Within 1 year	**17,238**	11,862	**11,625**	12,283
After 1 year but within 5 years	**22,142**	11,444	**15,331**	10,393
Over 5 years	**4,266**	4	**4,266**	4
	43,646	23,310	**31,222**	22,680
Capital commitment authorised and contracted	**110,427**	80,261	**62,635**	34,974
	154,073	103,571	**93,857**	57,654
43.3 Total commitments	**45,050,761**	37,075,988	**36,279,739**	31,267,255
43.4 Analysed by geographical sector				
Singapore	**33,293,425**	28,214,584	**33,108,121**	28,394,840
Malaysia	**7,486,523**	6,207,174	**103,233**	391,135
Other ASEAN	**1,129,103**	835,921	**389,688**	127,827
Greater China	**1,365,625**	1,098,108	**899,824**	1,103,793
Other Asia Pacific	**949,258**	4,432	**952,046**	533,891
Rest of the World	**826,827**	715,769	**826,827**	715,769
	45,050,761	37,075,988	**36,279,739**	31,267,255

44. ASSETS PLEDGED

	Note	GROUP 2007 $'000	GROUP 2006 $'000	BANK 2007 $'000	BANK 2006 $'000
Government treasury bills and securities	25				
Singapore		**519,178**	491,756	**519,178**	491,756
Others		**7,251**	779,224	**7,251**	3,784
Placements with and loans to banks	26	**362,225**	577,583	**362,225**	28,231
Debt and equity securities	31	**–**	48,016	**–**	–
		888,654	1,896,579	**888,654**	523,771
Repo balances for assets pledged		**877,585**	1,838,927	**877,585**	500,762

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 $575.3 million (2006: $116.2 million).

The fair value of financial assets accepted as collateral that have been sold or re-pledged is $224.0 million (2006: $19.9 million). The Group is obliged to return equivalent assets.

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

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 year.

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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	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Within 1 year	**71,334**	38,745	**18,174**	12,534
After 1 year but within 5 years	**87,462**	49,803	**13,835**	9,784
Over 5 years	**–**	1,520	**–**	–
	158,796	90,068	**32,009**	22,318

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 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 2007	18	188	4	–
Net (decrease)/increase	(2)	(100)	4	–
At 31 December 2007	**16**	**88**	**8**	**–**
(b) Deposits, borrowings and other payables				
At 1 January 2007	120	351	12	662
Net (decrease)/increase	(60)	18	4	438
At 31 December 2007	**60**	**369**	**16**	**1,100**
(c) Off–balance sheet credit facilities [(1)]				
At 1 January 2007	–	107	–	–
Net (decrease)/increase	–	(37)	–	–
At 31 December 2007	**–**	**70**	**–**	**–**
(d) Income statement transactions				
Year ended 31 December 2007:				
Interest income	**1**	**4**	**#**	**#**
Interest expense	**1**	**7**	**#**	**18**
Rental income	**#**	**1**	**–**	**#**
Fee and commission and other income	**3**	**1**	**#**	**52**
Rental and other expenses	**8**	**#**	**#**	**7**
Year ended 31 December 2006:				
Interest income	1	5	#	–
Interest expense	1	5	#	20
Rental income	#	1	–	#
Fee and commission and other income	2	1	#	51
Rental and other expenses	6	#	#	1

Note:
(1) Off-balance sheet credit facilities refer to transaction-related and trade-related contingencies.
Amount less than $0.5 million.

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47. RELATED PARTY TRANSACTIONS (CONTINUED)

BANK ($ million)	Subsidiaries	Associates	Directors	Key management	Life assurance fund
(a) Loans, placements and other receivables					
At 1 January 2007	1,516	–	188	4	–
Net (decrease)/increase	1,229	–	(100)	4	–
At 31 December 2007	**2,745**	**–**	**88**	**8**	**–**
(b) Deposits, borrowings and other payables					
At 1 January 2007	1,483	3	338	11	555
Net (decrease)/increase	106	44	18	5	124
At 31 December 2007	**1,589**	**47**	**356**	**16**	**679**
(c) Off–balance sheet credit facilities [1]					
At 1 January 2007	96	–	107	–	–
Net (decrease)/increase	772	–	(37)	–	–
At 31 December 2007	**868**	**–**	**70**	**–**	**–**
(d) Income statement transactions					
Year ended 31 December 2007:					
Interest income	**82**	**–**	**4**	**#**	**#**
Interest expense	**45**	**#**	**6**	**#**	**10**
Rental income	**2**	**–**	**–**	**–**	**–**
Fee and commission and other income	**13**	**–**	**#**	**#**	**42**
Rental and other expenses	**163**	**7**	**#**	**#**	**#**
Year ended 31 December 2006:					
Interest income	61	–	5	#	–
Interest expense	53	#	4	#	18
Rental income	3	–	–	–	–
Fee and commission and other income	8	–	#	#	40
Rental and other expenses	150	6	#	#	–

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

47.2 Key management personnel compensation

Key management personnel compensation is as follows:

	BANK 2007 $ million	BANK 2006 $ million
Short-term employee benefits	**29**	19
Share-based benefits	**5**	4
	34	23

During the financial year, total options granted to key management personnel of the Bank amounted to $4.5 million (2006: $1.9 million). Included in the above table are directors' emoluments which were disclosed in Note 8.1. Equity-settled compensation to directors of the Bank is disclosed in Notes 13.2, 13.3 and 13.4.

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48. SUBSEQUENT EVENT

On 4 January 2008, the Bank announced that its wholly-owned subsidiary, OCBC Capital (Malaysia) Sdn Bhd ("OCM") (formerly known as OSPL Holdings Sdn Bhd) notified the Board of Directors of PacificMas Berhad ("Pacmas"), which is listed on Bursa Malaysia Securities Berhad, of its intention to undertake a conditional cash offer for all the voting shares in Pacmas not already owned by OHSB, at a price of RM4.30 per share. The Bank and its subsidiaries ("the Group") own 28.15% of Pacmas as at 4 January 2008.

Subsequent to the announcement, OCM purchased 7,666,100 Pacmas shares at an average price of RM4.27 per share from the open market, with an aggregate cash consideration of approximately RM32.7 million. Following the open market purchase, the Group's shareholding in Pacmas increased from 28.15% to 32.63%.

49. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- FRS 108 — Operating Segments
- INT FRS 111 — FRS 102 – Group and Treasury Share Transactions

FRS 108 replaces FRS 14 Segment Reporting, and is to be applied to the Group's financial statements from 1 January 2009, or earlier. FRS 14 requires an entity to report on its segment information, one based on its products/services and the other by the different geographical areas it operates in. FRS 108 requires segment information to be presented based on operating segments, the performance of which is regularly reviewed and forms the basis for the entity's decision makers in allocating resources. There is no distinction between primary and secondary segments. This standard does not have any impact on the recognition and measurement policies adopted for the Group's financial statements.

INT FRS 111 is effective for annual periods beginning on or after 1 March 2007. The new INT FRS addresses several issues, one of which relates to share-based payment arrangements whereby a parent grants rights to its equity instruments directly to employees of its subsidiary. It was concluded that where the share-based payment arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall also measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent. The INT FRS is not expected to have any impact on the Group's financial statements.