

Company Registration No. 196800306E

**DBS BANK LTD AND ITS SUBSIDIARIES**  
(Incorporated in Singapore)

STATUTORY ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2007

 **ERNST & YOUNG**

**DBS BANK LTD AND ITS SUBSIDIARIES**  
**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

In \$ millions	Note	Bank Group		Bank	
		2007	2006	2007	2006
<b>Income</b>					
Interest income		9,090	7,809	6,581	5,324
Interest expense		4,983	4,220	3,800	3,011
Net interest income	5	4,107	3,589	2,781	2,313
Net fee and commission income	6	1,462	1,155	806	681
Net trading income	7	180	522	365	687
Net income from financial instruments designated at fair value	8	(86)	(192)	15	4
Net income from financial investments	9	450	229	578	323
Other income	10	49	133	4	33
Total income		6,162	5,436	4,549	4,041
<b>Expenses</b>					
Employee benefits	11	1,384	1,244	873	808
Depreciation of properties and other fixed assets	27	126	130	72	75
Other expenses	12	1,106	994	737	710
Allowances for credit and other losses	13	617	135	816	46
Total expenses		3,233	2,503	2,498	1,639
Share of profits of associates		110	70	-	-
<b>Profit before tax</b>		3,039	3,003	2,051	2,402
Income tax expense	14	589	575	428	417
<b>Net profit for the year</b>		2,450	2,428	1,623	1,985
Attributable to:					
<b>Shareholders</b>		2,334	2,321	1,623	1,985
Minority interests		116	107	-	-
		2,450	2,428	1,623	1,985

(see notes on pages 6 to 77, which form part of these financial statements)

**DBS BANK LTD AND ITS SUBSIDIARIES**  
**BALANCE SHEETS AT 31 DECEMBER 2007**

In \$ millions	Note	Bank Group		Bank	
		2007	2006	2007	2006
<b>ASSETS</b>					
Cash and balances with central banks	16	18,564	11,846	17,680	11,619
Singapore Government securities and treasury bills	17	15,433	12,843	15,433	12,843
Due from banks		23,304	25,273	16,833	19,590
Financial assets at fair value through profit or loss	18	19,543	16,496	17,389	14,818
Positive replacement values	42	13,119	8,215	13,714	8,529
Loans and advances to customers	19	106,344	85,149	76,165	60,470
Financial investments	20	19,182	22,261	13,421	14,429
Securities pledged	21	4,115	2,866	2,093	678
Subsidiaries	22	-	-	12,059	9,563
Due from special purpose entities	23	-	-	1,116	227
Investments in joint ventures	24	-	-	107	75
Investments in associates	25	715	603	557	567
Goodwill on consolidation	26	5,842	5,840	-	-
Properties and other fixed assets	27	1,534	1,481	462	453
Deferred tax assets	28	25	20	-	-
Other assets	29	5,945	4,590	3,070	2,527
<b>TOTAL ASSETS</b>		<b>233,665</b>	<b>197,483</b>	<b>190,099</b>	<b>156,388</b>
<b>LIABILITIES</b>					
Due to banks		15,464	7,863	14,034	6,758
Due to non-bank customers	30	145,368	122,092	106,501	89,947
Financial liabilities at fair value through profit or loss	31	18,242	19,708	14,144	14,355
Negative replacement values	42	12,554	7,873	12,811	8,065
Bills payable		380	511	340	472
Current tax liabilities		881	766	740	643
Deferred tax liabilities	28	172	137	117	80
Other liabilities	32	7,212	6,669	4,233	3,711
Other debt securities in issue	34	1,199	3,950	738	2,065
Due to holding company		21	201	21	201
Due to subsidiaries	35	-	-	6,078	3,321
Due to special purpose entities		-	-	994	1,216
Subordinated term debts	36	8,954	6,749	8,954	6,348
<b>TOTAL LIABILITIES</b>		<b>210,447</b>	<b>176,519</b>	<b>169,705</b>	<b>137,182</b>
<b>NET ASSETS</b>		<b>23,218</b>	<b>20,964</b>	<b>20,394</b>	<b>19,206</b>
<b>EQUITY</b>					
Share capital	37	12,096	12,096	12,096	12,096
Other reserves	38	3,372	2,858	3,314	2,847
Revenue reserves	38	6,179	4,745	4,984	4,263
<b>SHAREHOLDERS' FUNDS</b>		<b>21,647</b>	<b>19,699</b>	<b>20,394</b>	<b>19,206</b>
Minority interests	39	1,571	1,265		
<b>TOTAL EQUITY</b>		<b>23,218</b>	<b>20,964</b>	<b>20,394</b>	<b>19,206</b>
<b>OFF BALANCE SHEET ITEMS</b>					
Contingent liabilities	40	14,656	12,187	14,013	10,897
Commitments	41	92,305	86,065	74,705	69,497
Financial derivatives	42	1,816,007	1,378,916	1,847,378	1,408,971

(see notes on pages 6 to 77, which form part of these financial statements)

**DBS BANK LTD AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>In \$ millions</b>	<b>Ordinary shares</b>	<b>6% Non- cumulative non convertible preference shares</b>	<b>Share premium</b>	<b>Other reserves</b>	<b>Revenue reserves</b>	<b>Minority interests</b>	<b>Total equity</b>
<b>2007</b>							
Balance at 1 January 2007	12,096	#	-	2,858	4,745	1,265	20,964
Net exchange translation adjustments				(38)		(72)	(110)
Share of associates' reserves				37			37
Cost of share-based payments				34			34
Draw-down of reserves upon vesting of performance shares				(36)			(36)
Available-for-sale investments:							
- Net valuation taken to equity				940			940
- Transferred to income statement on sale				(395)			(395)
- Tax on items taken directly to or transferred from equity				(58)			(58)
Net profit for the year					2,334	116	2,450
Appropriation from income statement <sup>(a)</sup>				30	(30)		-
Dividends paid on preference shares					(54)		(54)
Final dividends paid for previous year					(65)		(65)
Interim dividends paid for current year					(751)		(751)
Dividends paid to minority interests						(89)	(89)
Change in minority interests						351	351
Balance at 31 December 2007	<u>12,096</u>	<u>#</u>	<u>-</u>	<u>3,372</u>	<u>6,179</u>	<u>1,571</u>	<u>23,218</u>
<b>2006</b>							
Balance at 1 January 2006	1,962	#	10,134	2,493	3,300	1,360	19,249
Effects of Companies (Amendment) Act 2005	10,134		(10,134)				
Net exchange translation adjustments				(6)		(102)	(108)
Share of associates' reserves				21	18		39
Cost of share-based payments				15			15
Draw-down of reserves upon vesting of performance shares				(6)			(6)
Available-for-sale investments/Cash flow hedge:							
- Net valuation taken to equity				425			425
- Transferred to income statement on sale				(101)			(101)
- Tax on items taken directly to or transferred from equity				(44)			(44)
Net profit for the year					2,321	107	2,428
Appropriation from income statement				61	(61)		-
Dividends paid on preference shares					(53)		(53)
Final dividends paid for previous year					(153)		(153)
Interim dividends paid for current year					(627)		(627)
Dividends paid to minority interests						(95)	(95)
Change in minority interests						(5)	(5)
Balance at 31 December 2006	<u>12,096</u>	<u>#</u>	<u>-</u>	<u>2,858</u>	<u>4,745</u>	<u>1,265</u>	<u>20,964</u>

# Amount under \$500,000

(a) Includes appropriation from prior year's income statement

(see notes on pages 6 to 77, which form part of these financial statements)

**DBS BANK LTD AND ITS SUBSIDIARIES**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

In \$ millions	Ordinary shares	6% Non- cumulative non- convertible preference shares	Share premium	Other reserves	Revenue reserves	Total equity
<b>2007</b>						
Balance at 1 January 2007	12,096	#	-	2,847	4,263	19,206
Cost of share-based payments				30		30
Draw-down of reserves upon vesting of performance shares				(40)		(40)
Available-for-sale investments:						
- Net valuation taken to equity				917		917
- Transferred to income statement on sale				(414)		(414)
- Tax on items taken directly to or transferred from equity				(56)		(56)
Net profit for the year					1,623	1,623
Appropriation from income statement <sup>(a)</sup>				30	(30)	-
Dividends paid on preference shares					(54)	(54)
Final dividends paid for previous year					(65)	(65)
Interim dividends paid for current year					(753)	(753)
Balance at 31 December 2007	<u>12,096</u>	<u>#</u>	<u>-</u>	<u>3,314</u>	<u>4,984</u>	<u>20,394</u>
<b>2006</b>						
Balance at 1 January 2006	1,962	#	10,134	2,665	3,040	17,801
Prior year adjustments				(136)	136	-
Balance at 1 January 2006 as restated	<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>2,529</u>	<u>3,176</u>	<u>17,801</u>
Effects of Companies (Amendment) Act 2005	10,134		(10,134)			-
Cost of share-based payments				15		15
Draw-down of reserves upon vesting of performance shares				(5)		(5)
Available-for-sale investments/Cash flow hedge:						
- Net valuation taken to equity				378		378
- Transferred to income statement on sale				(87)		(87)
- Tax on items taken directly to or transferred from equity				(44)		(44)
Net profit for the year					1,985	1,985
Appropriation from income statement				61	(61)	-
Dividends paid on preference shares					(53)	(53)
Final dividends paid for previous year					(154)	(154)
Interim dividends paid for current year					(630)	(630)
Balance at 31 December 2006	<u>12,096</u>	<u>#</u>	<u>-</u>	<u>2,847</u>	<u>4,263</u>	<u>19,206</u>

# Amount under \$500,000

(a) Includes appropriation from prior year's income statement

(see notes on pages 6 to 77, which form part of these financial statements)

**DBS BANK LTD AND ITS SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>In \$ millions</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Profit before tax	3,039	3,003
<b>Adjustments for non-cash items:</b>		
Allowances for credit and other losses	617	135
Depreciation of properties and other fixed assets	126	130
Share of profits of associates	(110)	(70)
Net gain on disposal of properties and other fixed assets	(6)	(104)
Net gain on disposal of financial investments	(450)	(229)
Profit before changes in operating assets and liabilities	<u>3,216</u>	<u>2,865</u>
<b>Increase/(Decrease) in:</b>		
Due to banks	7,601	(1,087)
Due to non-bank customers	23,276	15,661
Financial liabilities at fair value through profit or loss	(1,466)	(3,115)
Other liabilities including bills payable	4,579	148
Debt securities and borrowings	(2,647)	1,471
Due to holding and related companies	(180)	137
<b>(Increase)/Decrease in:</b>		
Change in restricted balances with central banks	(55)	(95)
Singapore Government securities and treasury bills	(2,341)	(3,936)
Due from banks	1,936	(3,134)
Financial assets at fair value through profit or loss	(2,804)	1,890
Loans and advances to customers	(21,323)	(7,741)
Financial investments	3,539	1,450
Other assets	(7,220)	298
Tax paid	(501)	(300)
<b>Net cash generated from operating activities (1)</b>	<u>5,610</u>	<u>4,512</u>
<b>Cash flows from investing activities</b>		
Dividends from associates	61	37
Purchase of properties and other fixed assets	(196)	(239)
Proceeds from disposal of associates	-	4
Proceeds from disposal of properties and other fixed assets	74	387
Acquisition of interest in associates	(39)	(6)
<b>Net cash (used in)/generated from investing activities (2)</b>	<u>(100)</u>	<u>183</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of subordinated term debts	3,044	1,928
Payment upon maturity of subordinated term debts	(402)	-
Dividends paid to shareholders of the Bank	(870)	(833)
Dividends paid to minority interests	(89)	(95)
<b>Net cash generated from financing activities (3)</b>	<u>1,683</u>	<u>1,000</u>
Exchange translation adjustments (4)	(38)	15
<b>Net change in cash and cash equivalents (1)+(2)+(3)+(4)</b>	7,155	5,710
<b>Cash and cash equivalents at 1 January</b>	<u>15,118</u>	<u>9,408</u>
<b>Cash and cash equivalents at 31 December (Note 43)</b>	<u>22,273</u>	<u>15,118</u>

(see notes on pages 6 to 77, which form part of these financial statements)

**DBS Bank Ltd and its subsidiaries**  
**Notes to the financial statements**  
**Year Ended 31 December 2007**

These Notes are integral to the financial statements.

The consolidated financial statements for the year ended 31 December 2007 were authorised for issue by the directors on 14 February 2008.

**1 Domicile and Activities**

DBS Bank Ltd (referred to as the Bank) is principally engaged in the provision of retail, small and medium-sized enterprise, corporate and investment banking services, including the operations of an Asian Currency Unit under terms and conditions specified by the Monetary Authority of Singapore. The principal activities of the subsidiaries of the Bank are disclosed in Note 54.

The Bank is a wholly owned subsidiary of DBS Group Holdings Ltd (referred to as DBSH). The Bank is incorporated and domiciled in the Republic of Singapore and has its registered office at 6 Shenton Way, DBS Building Tower One, Singapore 068809.

The financial statements relate to the Bank and its subsidiaries (referred to as the Bank Group) and the Bank Group's interests in associates and joint ventures.

**2 Summary of Significant Accounting Policies**

**2.1 Basis of preparation**

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG"). In accordance with Section 201(19) of the Companies Act, the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning are modified by the requirements of Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore.

The financial statements are presented in Singapore dollars and rounded to the nearest million, unless otherwise stated. They are prepared on the historical cost convention, except for derivative financial instruments, available-for-sale financial assets, and financial assets and liabilities held at fair value through profit or loss, which have been measured at fair value. In addition, the carrying amounts of assets and liabilities that are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risks.

The preparation of financial statements in conformity with FRS requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity, are disclosed in Note 4.

On 1 January 2007, the Bank Group adopted the new or revised FRS and Interpretations to FRS ("INT FRS") that are applicable in the current financial year. The financial statements have been prepared in accordance with the relevant transitional provisions in the respective FRS and INT FRS. The following are the FRS and INT FRS that are relevant to the Bank Group:

FRS 1 (revised)	Presentation of Financial Statements – Capital Disclosures
FRS 10 (revised)	Events after the Balance Sheet Date
FRS 12 (revised)	Income Taxes
FRS 14 (revised)	Segment Reporting
FRS 17 (revised)	Leases
FRS 19 (revised)	Employee Benefits
FRS 32 (revised)	Financial Instruments: Disclosure and Presentation
FRS 39 (revised)	Financial Instruments: Recognition and Measurement
FRS 40 (new)	Investment Property
FRS 102 (revised)	Share-based Payment
FRS 103 (revised)	Business Combinations
FRS 107 (new)	Financial Instruments: Disclosures
INT FRS 108	Scope of FRS 102 – Share-based Payment
INT FRS 109	Reassessment of Embedded Derivatives
INT FRS 110	Interim Financial Reporting and Impairment

The adoption of the above FRS and INT FRS did not result in substantial changes to the Bank Group's accounting policies, which are consistent with those used in the previous financial year.

**2.2 Group accounting**

**Subsidiaries**

Subsidiaries are entities that the Bank Group has power to govern the financial and operating policies of, in order to obtain benefits from their activities. It is generally accompanied by a shareholding of more than 50% of voting rights. Potential voting rights that are exercisable or convertible are considered when determining whether an entity is considered a subsidiary.

The purchase method is used to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date control is transferred to the Bank Group to the date control ceases. 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 cost directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of any minority interest. Refer to Note 2.10 for the Bank Group's accounting policy on "Goodwill on consolidation".

**DBS Bank Ltd and its subsidiaries**  
**Notes to the financial statements**  
**Year Ended 31 December 2007**

**Special purpose entities**

Entities in which the Bank Group holds little or no equity are consolidated as subsidiaries if the Bank Group is assessed to have control over them. Such control can be demonstrated through predetermination of the entities' activities, exposure to and retention of majority of their residual or ownership risks, and decision-making powers to obtain a majority of benefits of the entities.

**Joint ventures**

Joint ventures are entities that are jointly controlled by the Bank Group together with one or more parties through contractual arrangements. The Bank Group recognises its interest in joint ventures using the proportionate consolidation method.

Proportionate consolidation involves combining the Bank Group's share of the joint venture's income, expenses, assets and liabilities on a line-by-line basis with similar items in the Bank Group's financial statements.

**Associates**

Associates are entities in which the Bank Group has significant influence, but not control, and generally holds a shareholding of between and including 20% and 50% of the voting rights. The Bank Group recognises its investment in associates using the equity method of accounting. Investment in associates in the consolidated balance sheet includes goodwill (net of accumulated impairment loss) identified on acquisition.

Under the equity method of accounting, the Bank Group's investment in associates is initially carried at cost. The initial cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. The carrying amount is increased or decreased to recognise the Bank Group's share of net assets of the associate, less any impairment in value after the date of acquisition. Where the Bank Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Bank Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The results of the associates are taken from the latest audited accounts or unaudited management accounts of the associates, prepared at dates not more than three months prior to the end of the financial year of the Bank Group.

**Investment cost at Bank level**

Investments in subsidiaries, associates and joint ventures are stated at cost less accumulated impairment losses in the Bank's balance sheet. On disposal of investments in subsidiaries, associates and joint ventures, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

**Intra-group transactions**

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profits resulting from transactions between the Bank Group

and its associates and joint ventures are eliminated to the extent of the Bank Group's interests in these companies. Losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

**Alignment of accounting policies**

Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used in line with those used by the Bank Group.

**2.3 Foreign currency translation**

**Functional and presentation currency**

Items in the financial statements of the Bank and each of the Bank Group's subsidiaries are translated using their functional currency, being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Singapore dollars, which is the functional currency and presentation currency of the Bank and the Bank Group.

**Foreign currency transactions**

Transactions in foreign currencies are measured at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Singapore dollars at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising from this translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into Singapore dollars at the exchange rate ruling at the date the fair value was determined.

Unrealised exchange differences arising from non-monetary financial assets classified as fair value through profit or loss are recognised in the income statement. For non-monetary financial assets classified as available-for-sale, unrealised exchange differences are recorded directly in equity until the assets are sold or become impaired.

**Foreign operations**

The results and financial position of the Bank Group's operations whose functional currency is not Singapore dollars are translated into Singapore dollars in the following manner:

- Assets and liabilities are translated at the exchange rate ruling at the balance sheet date;
- Income and expenses in the income statement are translated at an average exchange rate approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the capital reserves.

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. For acquisitions prior to 1 January 2005, the foreign exchange rates at the dates of acquisition were used.



### **Consolidation adjustments**

On consolidation, foreign exchange differences arising from the translation of net investments in foreign entities, as well as any borrowings and instruments designated as foreign currency hedges of such investments, are taken to the capital reserves. When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

### **2.4 Segment reporting**

The Bank Group's financial businesses are organised into the Consumer Banking and Wholesale Banking Business Groups and Central Operations. Wholesale Banking Business Group is segregated into Enterprise Banking, Corporate and Investment Banking, Global Financial Markets and Central Treasury Unit. In total, the Bank Group reports six business segments.

A **business segment** provides products or services whose risks and returns are different from those of other business segments. A **geographical segment** provides products or services within a particular economic environment whose risks and returns are different from those of other economic environments. Business segments are the primary reporting segments.

### **2.5 Revenue recognition**

#### **Net interest income**

Net interest income, being interest income less interest expense, is recognised on a time-proportionate basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts. No interest expense is accrued on the Bank Group's structured investment deposits which are carried at fair value through profit or loss.

When a receivable is impaired, the Bank Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at the original effective interest rate of the instrument. Interest earned on the recoverable amount is recognised as interest income in the income statement.

#### **Fee and commission income**

The Bank Group earns fee and commission income from a diverse range of products and services provided to its customers. Fee and commission income is recognised on the completion of a transaction. For a service that is provided over a period of time, fee and commission income is recognised over the period which the related service is provided or credit risk is undertaken.

#### **Dividend income**

Dividend income is recognised when the right to receive payment is established. Dividend income arising from held for trading financial assets is recognised in "Net trading income", while that arising

from available-for-sale financial assets is recognised in "Net income from financial investments".

#### **Rental income**

Rental income from operating leases on properties is recognised on a straight-line basis over the lease term.

### **2.6 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, non-restricted balances with central banks and trading government securities and treasury bills which are readily convertible into cash.

### **2.7 Financial assets**

Financial assets are classified according to the purpose for which the assets were acquired. Management determines the classification at initial recognition and re-evaluates the designation at every reporting date, with the exception of the reclassification in and out of the financial assets at fair value through profit or loss category.

The classification of financial assets is as follows:

**(a) Financial assets at fair value through profit or loss** are either acquired for the purpose of short-term selling (held for trading) or designated by management on initial recognition (designated under the fair value option).

Derivatives are classified as held for trading unless they are designated as hedging instruments. The specific Bank Group accounting policy on derivatives is detailed in Note 2.15.

Financial assets designated under the fair value option meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or recognising gains or losses on them, using different bases; or
- the financial asset contains an embedded derivative that would otherwise need to be separately recorded.

**(b) Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### **Restructured Loans**

Loans are classified as restructured loans when the Bank Group grants concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A restructured credit facility is classified into the appropriate non-performing grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the restructured terms. Such loans are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest

payments on the credit facility in accordance with the restructured terms.

**(c) Available-for-sale financial assets** are non-derivatives that are either designated in this category or not classified in any other categories. These 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 equity prices.

#### **Recognition and derecognition**

Purchases and sales of investments are recognised on the date that the Bank Group commits to purchase or sell the asset. Investments are de-recognised when the Bank Group has transferred substantially all risks and rewards of ownership.

#### **Initial measurement**

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, for which transaction costs are expensed off immediately. The fair value of a financial asset on initial recognition is usually the transaction price.

#### **Subsequent measurement**

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unquoted equity investments classified as available-for-sale for which fair values cannot be reliably determined are carried at cost, less impairment.

Realised or unrealised gains or losses on financial assets held for trading and financial assets designated under the fair value option are taken to "Net trading income" and "Net income from financial instruments designated at fair value" respectively in the income statement in the period they arise. Unrealised gains or losses arising from changes in fair value of investments classified as available-for-sale are recognised in the available-for-sale revaluation reserves. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the available-for-sale revaluation reserves are taken to the income statement.

#### **Determination of fair value**

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Bank Group are the current bid prices. If the market for a financial asset is not active, the Bank Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

## **2.8 Impairment of financial assets**

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

#### **Financial assets carried at amortised cost**

The Bank Group carries out regular and systematic reviews of all credit facilities extended to customers.

The criteria that the Bank Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and/or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the entity would not otherwise consider; and
- High probability of bankruptcy or other financial reorganisation of the borrower.

#### **Specific allowances for credit losses**

A specific allowance for credit losses is established if there is objective evidence that the Bank Group will be unable to collect all amounts due under a claim according to the original contractual terms or the equivalent value. A "claim" means a loan, debt security or commitment such as a letter of guarantee and letter of credit.

A specific allowance for credit losses is reported as a reduction in the carrying value of a claim on the balance sheet. For an off-balance sheet item such as a commitment, a specific allowance for credit loss is reported as an increase in other liabilities.

Specific allowances for credit losses are evaluated either as being counterparty-specific or collective according to the following principles:

*Counterparty-specific:* Individual credit exposures are evaluated using the discounted cash flow method and an allowance is made when existing facts, conditions or valuations indicate that the Bank Group is not likely to collect part or all of the principal and interest due contractually on the claim. An allowance is reversed only when there has been an identifiable event that led to an improvement in the collectibility of the claim.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries in full or in part of amounts previously written off are credited to the income statement in "Allowances for credit losses".

*Collective:* Homogenous consumer loans such as housing loans and credit card receivables, are pooled according to their risk characteristics, and assessed and provided for collectively as a group, taking into account the historical loss experience of such loans.

### **General allowances for credit losses**

Apart from specific allowances, the Bank Group also carries general allowances for credit losses. The Bank Group maintains a level of allowances that is deemed sufficient to absorb all credit losses inherent in its loan portfolio (including off-balance sheet credit exposures). In determining the level of general allowances, the Bank Group considers country and portfolio risks, as well as industry practices. The Bank Group maintains general allowances of at least 1% of credit exposures on and off the balance sheet net of collaterals and after deducting specific allowances that have been made.

### **Available-for-sale financial assets**

The Bank Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. When there is objective evidence of an impairment of an available-for-sale financial asset, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from the revaluation reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of. A subsequent recovery in the value of an available-for-sale debt instrument whose value is impaired is reversed through the income statement if there has been an identifiable event that led to the recovery.

## **2.9 Repurchase agreements**

**Repurchase agreements (“Repos”)** are treated as collateralised borrowing. The amount borrowed is reflected as a liability either as “Due to non-bank customers”, “Due to banks” or “Financial liabilities at fair value through profit or loss”. The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification.

**Reverse repurchase agreements (“Reverse repos”)** are treated as collateralised lending. The amount lent is reflected as an asset either as “Loans and advances to customers”, “Due from banks” or “Financial assets at fair value through profit or loss”.

Amounts paid and received on the repos and reverse repos are amortised as interest expense and interest income respectively on an effective interest basis.

## **2.10 Goodwill on consolidation**

Goodwill in a business combination represents the excess of acquisition cost over the fair values of the identifiable assets acquired, liabilities and contingent liabilities assumed at the date of exchange. Goodwill is stated at cost less impairment losses and it is tested at least annually for impairment.

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a

discount on acquisition) is recognised directly in the income statement in the period of acquisition.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (“CGU”) expected to benefit from the combination’s synergies for the purpose of impairment testing.

## **2.11 Properties and other fixed assets**

Properties and other fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of properties and other fixed assets includes its purchase price and any cost that is 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.

The basis of depreciation is as follows:

### **Properties**

Leasehold land, where the balance of the leasehold period is 100 years or less, is depreciated over the remaining period of the lease. Leasehold land where the unexpired lease period is more than 100 years is not depreciated.

Buildings are depreciated on a straight-line basis over their useful lives estimated at 50 years or over the remaining lease period, whichever is shorter.

### **Other fixed assets**

Depreciation is calculated using the straight line method to write down the cost of other fixed assets to their residual values over their estimated useful life as follows:

Computer software	3 - 5 years
Office equipment	5 - 8 years
Furniture and fittings	5 - 8 years

The residual values of fixed assets are reviewed on each balance sheet date.

Subsequent expenditure relating to properties and other fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as hire and maintenance expense in the income statement during the financial year in which it is incurred.

On disposal of an item of properties and other fixed assets, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

## **2.12 Impairment of non-financial assets**

### **Goodwill**

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU’s fair value less cost to sell and their value-in-use.

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An impairment loss on goodwill recognised in the income statement cannot be reversed in subsequent periods.

**Properties and other fixed assets**  
**Investment in subsidiaries, associates and joint ventures**

Properties and other fixed assets, and investment in subsidiaries, associates and joint ventures are reviewed for impairment at each balance sheet date to determine if events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists, the carrying value of the asset is written down to its recoverable amount (being the higher of the fair value less cost to sell and the value-in-use). The impairment loss is charged to the income statement.

**2.13 Financial liabilities**

The Bank Group classifies its financial liabilities in the following categories: (a) financial liabilities at fair value through profit or loss; and (b) financial liabilities at amortised cost.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are incurred for the purpose of short-term repurchasing (held for trading) or designated by management on initial recognition (designated under the fair value option).

Derivatives are classified as held for trading unless they are designated as hedging instruments. The specific Bank Group accounting policy on derivatives is detailed in Note 2.15.

Financial liabilities designated under the fair value option meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial liabilities, or recognising gains or losses on them, using different bases; or
- the financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred. Financial liabilities classified at fair value through profit or loss are subsequently carried at fair value. Realised or unrealised gains or losses on financial liabilities held for trading and financial liabilities designated under the fair value option are taken to "Net trading income" and "Net income from financial instruments designated at fair value" respectively in the income statement in the period they arise. All other financial liabilities are subsequently carried at amortised cost using the effective interest method.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Bank Group for similar financial instruments.

A financial liability is removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

**2.14 Provisions and other liabilities**

Provisions are recognised when the Bank Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

**2.15 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are classified as assets when the fair value is positive ("Positive replacement values") and as liabilities when the fair value is negative ("Negative replacement values").

Changes in the fair value of derivatives other than those designated as fair value hedges, cash flow hedges or net investments in foreign operations hedges are included in "Net trading income".

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in "Net trading income".

For financial instruments designated as hedging instruments, each entity within the Bank Group documents at the inception the relationship between the hedging instrument and hedged item, including the risk management objective for undertaking various hedge transactions and methods used to assess the effectiveness of the hedge. Each entity within the Bank Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in the fair value or cash flows of the hedged item.

**(a) Fair value hedge**

For a qualifying fair value hedge, the changes in the fair value of the derivative are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. Gain or loss arising from hedge ineffectiveness is recognised in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the remaining period to maturity of the hedged item.

**(b) Cash flow hedge**

The effective portion of changes in the fair value of a derivative designated and qualifying as a hedge of future cash flows is recognised directly in the cash flow hedge reserve, and taken to the income statement in the periods when the hedged item affects profit or loss. The ineffective portion of the gain or loss is recognised immediately in the income statement under "Net trading income".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve remains until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.

**(c) Hedge of net investment in a foreign operation**

Hedges of net investments in the Bank Group's foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss from the derivative relating to the effective portion of the hedge is recognised in the capital reserve. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement under "Net trading income". On disposal of the foreign operations, the cumulative gain or loss in the capital reserve is taken to the income statement under "Net trading income".

**2.16 Recognition of day one profit**

The Bank Group enters into transactions where the fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at transaction price, which is the best indicator of fair value. The difference between the transaction price and the price determined based on the valuation model is not recognised immediately in the income statement. This difference, commonly referred to as "day one profit" is released to the income statement on the earlier of the following: (a) amortised over the tenor of the transaction; (b) when all the market inputs become observable; or (c) on derecognition.

**2.17 Employee benefits**

Employee benefits, which include base pay, cash bonuses, share-based compensation, contribution to defined contribution plans such as the Central Provident Fund and other staff-related allowances, are recognised in the income statement when incurred. For defined contribution plans, contributions are made to publicly or privately administered funds on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Bank Group has no further payment obligations.

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**2.18 Share-based compensation**

Employee benefits also include share-based compensation under which DBSH shares are granted, namely, the DBSH Share Ownership Scheme, the DBSH Share Option Plan, the DBSH Share Plan (previously known as DBSH Performance Share Plan) and the DBSH Employee Share Plan. The details of the Scheme and Plans are described in Note 44.

Equity instruments granted and ultimately vested under the Plans are recognised in the income statement based on the fair value of the equity instrument at the date of grant by DBSH. The expense is amortised over the vesting period of each award. Monthly contributions to the Scheme are expensed off when incurred.

For the DBSH Share Plan and the DBSH Employee Share Plan, a trust has been set up for each share plan. The employee trust funds are consolidated and the DBSH shares held by the trust funds are accounted for as "Other Assets", in the balance sheet at market value.

**2.19 Deferred tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill that is not deductible for tax purposes and for the initial recognition of assets or liabilities that neither affects accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

**2.20 Financial guarantees**

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank Group's liability under each guarantee is measured at the higher of the initial measurement, less amortisation calculated to recognise the initial measurement in the income statement over the period of the financial guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. Examples include letter of credit, shipping guarantee, airway guarantee, letter of guarantee etc.

The exposure to potential losses associated with a financial guarantee is monitored periodically. When there is objective evidence indicating probability of

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losses occurring, a provision is recognised for the financial guarantee.

#### **2.21 Dividend payment**

Dividends are recorded during the financial year in which they are approved by the Board of Directors and declared payable.

#### **2.22 Offsetting financial instruments**

Certain financial assets and liabilities offset each other and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **2.23 Operating leases**

Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

#### **2.24 Fiduciary activities**

Assets and income belonging to a customer for whom the Bank Group acts in a fiduciary capacity as nominee, trustee or agent, are excluded from the financial statements.

#### **2.25 Comparatives**

Where applicable, comparative figures have been reclassified in order to adopt the current year's presentation.

### **3 New FRS Issued but Not Yet Effective**

The Bank Group has not applied the following FRS and INT FRS that have been issued but not yet effective.

#### ***FRS 108: Operating Segments***

FRS 108 becomes effective for financial years beginning on or after 1 January 2009. It replaces a current accounting standard, FRS 14 – Segment Reporting. FRS 108 introduces the management approach to segment reporting and a single set of operating segments will replace the primary and secondary segments. Information reviewed by the chief operating decision-maker will determine the segments, the measure of segment performance and disclosures.

The adoption of FRS 108 will create additional disclosures requirements for the Bank Group's financial statements.

#### ***INT FRS 111: FRS 102 – Group and Treasury Share Transactions***

INT FRS 111 becomes effective for financial years beginning on or after 1 March 2007. INT FRS 111 provides clarification on circumstances when a share-based arrangement should be accounted for as an equity-settled or a cash-settled transaction. It also

addresses the accounting for share-based payment transactions involving two or more entities within the Bank Group.

There is no expected material impact on the Bank Group's financial statements arising from this new INT FRS.

### **4 Critical Accounting Estimates**

The Bank Group's accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require exercise of management's judgement in determining the appropriate methodology for valuation of assets and liabilities. In addition, procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Bank Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Bank Group's critical accounting estimates involving management's valuation judgement.

#### **4.1 Impairment allowances on claims**

It is the Bank Group's policy to establish, through charges against profit, specific and general allowances in respect of estimated and inherent credit losses in its portfolio.

In determining specific allowances, management considers objective evidence of impairment. When a loan is impaired, a specific allowance is assessed by using the discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of specific allowance also takes into account the collateral value, which may be discounted to reflect the impact of a forced sale or timely liquidation.

In determining general allowance, the Bank Group has applied the transitional arrangements under Notice to Banks No. 612, "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore. These arrangements will be in place until the Bank Group believes that the incurred loss concept under FRS 39 can be robustly determined.

#### **4.2 Fair value of financial instruments**

Fair value is defined as the value at which positions can be closed or sold in a transaction with a willing and knowledgeable counterparty. The majority of the Bank Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

Management exercises judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors used in the

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valuation process. Judgement may also be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting fair value estimates.

**4.3 Impairment review of goodwill on consolidation**

The Bank Group performs an impairment review to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the CGU to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

**4.4 Income taxes**

The Bank Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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**5 Net Interest Income**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Cash and balances with central banks and Due from banks	1,261	1,001	1,166	761
Loans and advances to customers	5,405	4,559	3,588	2,859
Debt securities	2,424	2,249	1,827	1,704
<b>Total interest income</b>	<b>9,090</b>	<b>7,809</b>	<b>6,581</b>	<b>5,324</b>
Due to banks	591	538	786	565
Due to non-bank customers	3,080	2,748	1,840	1,649
Others	1,312	934	1,174	797
<b>Total interest expense</b>	<b>4,983</b>	<b>4,220</b>	<b>3,800</b>	<b>3,011</b>
<b>Net interest income</b>	<b>4,107</b>	<b>3,589</b>	<b>2,781</b>	<b>2,313</b>

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Interest income for financial assets at fair value through profit or loss	975	1,005	871	861
Interest income for financial assets not at fair value through profit or loss	8,115	6,804	5,710	4,463
Interest expense for financial liabilities at fair value through profit or loss	(675)	(492)	(627)	(458)
Interest expense for financial liabilities not at fair value through profit or loss	(4,308)	(3,728)	(3,173)	(2,553)
<b>Total</b>	<b>4,107</b>	<b>3,589</b>	<b>2,781</b>	<b>2,313</b>

**6 Net Fee and Commission Income**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Fee and commission income	1,804	1,400	917	769
Fee and commission expense	342	245	111	88
<b>Net fee and commission income</b>	<b>1,462</b>	<b>1,155</b>	<b>806</b>	<b>681</b>
Comprising:				
Stock broking	250	141	-	-
Wealth management	249	170	137	119
Loan-related	232	166	177	131
Trade and remittances	206	190	113	100
Investment banking	171	150	122	110
Credit card	132	115	95	73
Deposit-related	78	79	70	69
Fund management	43	62	-	-
Guarantees	36	30	34	28
Others	65	52	58	51
<b>Net fee and commission income<sup>(a)</sup></b>	<b>1,462</b>	<b>1,155</b>	<b>806</b>	<b>681</b>

(a) Bank Group - Included net fee and commission income of \$75 million (2006: \$89 million), which is derived from the provision of trust and other fiduciary services during the year. Net fee and commission income earned from financial assets or liabilities not at fair value through profit or loss is \$440 million (2006: \$355 million) during the year

Bank - Included net fee and commission income of \$23 million (2006: \$20 million), which is derived from the provision of trust and other fiduciary services during the year. Net fee and commission income earned from financial assets or liabilities not at fair value through profit or loss is \$341 million (2006: \$266 million) during the year



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**7 Net Trading Income**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
From trading businesses				
- Foreign exchange	151	379	57	274
- Interest rates, credit and equities <sup>(a)</sup>	45	153	77	53
Other businesses	(16)	(10)	231	360
<b>Total</b>	<b>180</b>	<b>522</b>	<b>365</b>	<b>687</b>

(a) Included dividend income of \$31 million (2006: \$22 million) for Bank Group; and \$30 million (2006: \$22 million) for the Bank

**8 Net Income from Financial Instruments Designated at Fair Value**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Financial assets designated at fair value	(3)	(2)	(3)	(2)
Financial liabilities designated at fair value	(83)	(190)	18	6
<b>Total</b>	<b>(86)</b>	<b>(192)</b>	<b>15</b>	<b>4</b>

Gains or losses from changes in fair value of financial liabilities designated at fair value, not attributable to changes in market conditions, are not material. Refer to Note 31.

**9 Net Income from Financial Investments**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Debt securities				
- Available-for-sale	47	35	43	28
- Loans and receivables	1	3	1	3
Equity securities <sup>(a)(b)</sup>	402	191	534	292
<b>Total</b>	<b>450</b>	<b>229</b>	<b>578</b>	<b>323</b>
Comprising gains transferred from:				
Available-for-sale revaluation reserves	395	101	414	87

(a) There is no sale of unquoted securities in 2007. Included in 2006 was \$16 million profits on sale of unquoted equity securities which were stated at cost. Their carrying amount was \$1 million at the time of sale

(b) Included dividend income of \$28 million (2006: \$58 million) for the Bank Group, and \$133 million (2006: \$161 million) for the Bank

**10 Other Income**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Rental income	14	14	1	1
Net gain on properties and other fixed assets <sup>(a)</sup>	6	104	1	30
Others	29	15	2	2
<b>Total</b>	<b>49</b>	<b>133</b>	<b>4</b>	<b>33</b>

(a) Included in 2006 for the Bank Group were one-time gains of \$50 million and \$54 million from the sale of DBS Tampines Centre and Hong Kong Queen's Road Office respectively

**11 Employee Benefits**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Salary and bonus	1,186	1,067	747	683
Contributions to defined contribution plans	55	55	36	36
Share-based expenses	34	28	30	25
Others	109	94	60	64
<b>Total</b>	<b>1,384</b>	<b>1,244</b>	<b>873</b>	<b>808</b>

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**12 Other Expenses**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Computerisation expenses <sup>(a)</sup>	370	349	258	261
Occupancy expenses <sup>(b)</sup>	189	161	114	113
Revenue-related expenses	135	105	126	99
Others <sup>(c)</sup>	412	379	239	237
<b>Total</b>	<b>1,106</b>	<b>994</b>	<b>737</b>	<b>710</b>

(a) Computerisation expenses include hire and maintenance of computer hardware and software

(b) Occupancy expenses include amounts incurred in the maintenance and service of buildings owned by subsidiary companies, rental expenses of office and branch premises

(c) Others include product and corporate image advertising expenses, office administration expenses (e.g. printing and stationary, telecommunications, etc) and legal and professional fees

Included in the above table are:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Hire and maintenance of fixed assets, including building-related expenses	107	98	75	66
Audit fees payable to Ernst & Young Singapore	3	3	3	3
Audit fees payable to Ernst & Young firms outside Singapore	2	2	#	#
Non audit fees payable to Ernst & Young Singapore	#	1	#	1
Non audit fees payable to Ernst & Young firms outside Singapore	1	#	#	#

# Amount under \$500,000

**13 Allowances for Credit and Other Losses**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Loans and advances to customers (Note 19)	128	228	29	147
Financial investments (Note 20)	535	(32)	546	(37)
Investment in subsidiaries (Note 22)	-	-	(53)	(52)
Due from special purpose entities (Note 23)	-	-	276	-
Properties and other fixed assets (Note 27)	(86)	(71)	(10)	(3)
Off-balance sheet credit exposures (Note 32)	6	31	4	30
Others (bank loans and sundry debtors)	34	(21)	24	(39)
<b>Total</b>	<b>617</b>	<b>135</b>	<b>816</b>	<b>46</b>

**14 Income Tax Expense**

Income tax expense in respect of profit for the financial year is analysed as follows:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Current tax expense				
- Current year	617	459	447	314
- Prior years' provision	-	50	-	40
Deferred tax expense				
- Effect of change in tax rate	4	-	4	-
- (Origination)/Reversal of temporary differences	(32)	61	(23)	63
- Prior years' provision	-	5	-	-
<b>Total</b>	<b>589</b>	<b>575</b>	<b>428</b>	<b>417</b>

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The deferred (credit)/charge in the income statement comprises the following temporary differences:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Accelerated tax depreciation	(3)	(6)	(2)	(2)
Allowances for loan losses	(8)	75	(1)	68
Other temporary differences	(17)	(3)	(16)	(3)
Deferred tax expense (credited)/charged to income statement	(28)	66	(19)	63

The tax on the Bank Group's profits (before share of profits of associates) and the Bank's profit differ from the theoretical amount that would arise using the Singapore basic tax rate as follows:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Profit	2,929	2,933	2,051	2,402
Prima facie tax calculated at a tax rate of 18% (2006: 20%)	527	587	369	480
Effect of different tax rates in other countries	62	(1)	56	9
Effect of change in tax rate	4	-	4	-
Income not subject to tax	(56)	(14)	(53)	(13)
Income taxed at concessionary rate	(63)	(68)	(76)	(67)
Non-tax deductible provisions	33	(14)	88	(7)
Others	82	85	40	15
Income tax expense charged to income statement	589	575	428	417

The corporate income tax rate applicable to Singapore companies of the Bank Group was reduced from 20% for year of assessment 2007 (refers to financial year 2006) to 18% for year of assessment 2008 (refers to financial year 2007).

Refer to Note 28 for further information on deferred tax assets/liabilities.

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**15 Measurement Basis of Financial Instruments**

In \$ millions	Bank Group 2007					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables /amortised cost	Available-for-sale	Derivatives held for hedging	
<b>ASSETS</b>						
Cash and balances with central banks	-	-	18,564	-	-	18,564
Singapore Government securities and treasury bills	3,568	-	-	11,865	-	15,433
Due from banks	-	-	23,304	-	-	23,304
Financial assets at fair value through profit or loss	17,148	2,395	-	-	-	19,543
Positive replacement values	12,906	-	-	-	213	13,119
Loans and advances to customers	-	-	106,344	-	-	106,344
Financial investments	-	-	2,427	16,755	-	19,182
Securities pledged	1,662	-	-	2,453	-	4,115
Other assets	-	-	5,945	-	-	5,945
<b>Total financial assets</b>	<b>35,284</b>	<b>2,395</b>	<b>156,584</b>	<b>31,073</b>	<b>213</b>	<b>225,549</b>
Other asset items outside the scope of FRS 39						8,116
<b>Total assets</b>						<b>233,665</b>
<b>LIABILITIES</b>						
Due to banks	-	-	15,464	-	-	15,464
Due to non-bank customers	-	-	145,368	-	-	145,368
Financial liabilities at fair value through profit or loss	14,625	3,617	-	-	-	18,242
Negative replacement values	12,426	-	-	-	128	12,554
Bills payable	-	-	380	-	-	380
Other liabilities	-	-	6,843	-	-	6,843
Other debt securities in issue	-	-	1,199	-	-	1,199
Due to holding company	-	-	21	-	-	21
Subordinated term debts	-	-	8,954	-	-	8,954
<b>Total financial liabilities</b>	<b>27,051</b>	<b>3,617</b>	<b>178,229</b>	<b>-</b>	<b>128</b>	<b>209,025</b>
Other liability items outside the scope of FRS 39						1,422
<b>Total liabilities</b>						<b>210,447</b>

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In \$ millions	Bank Group 2006					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables /amortised cost	Available-for-sale	Derivatives held for hedging	
<b>ASSETS</b>						
Cash and balances with central banks	-	-	11,846	-	-	11,846
Singapore Government securities and treasury bills	3,319	-	-	9,524	-	12,843
Due from banks	-	-	25,202	71	-	25,273
Financial assets at fair value through profit or loss	14,300	2,196	-	-	-	16,496
Positive replacement values	8,074	-	-	-	141	8,215
Loans and advances to customers	-	-	85,149	-	-	85,149
Financial investments	-	-	1,930	20,331	-	22,261
Securities pledged	1,483	-	-	1,383	-	2,866
Other assets	-	-	4,590	-	-	4,590
<b>Total financial assets</b>	<b>27,176</b>	<b>2,196</b>	<b>128,717</b>	<b>31,309</b>	<b>141</b>	<b>189,539</b>
Other asset items outside the scope of FRS 39						7,944
<b>Total assets</b>						<b>197,483</b>
<b>LIABILITIES</b>						
Due to banks	-	-	7,863	-	-	7,863
Due to non-bank customers	-	-	122,092	-	-	122,092
Financial liabilities at fair value through profit or loss	13,895	5,813	-	-	-	19,708
Negative replacement values	7,762	-	-	-	111	7,873
Bills payable	-	-	511	-	-	511
Other liabilities	-	-	6,348	-	-	6,348
Other debt securities in issue	-	-	3,950	-	-	3,950
Due to holding company	-	-	201	-	-	201
Subordinated term debts	-	-	6,749	-	-	6,749
<b>Total financial liabilities</b>	<b>21,657</b>	<b>5,813</b>	<b>147,714</b>	<b>-</b>	<b>111</b>	<b>175,295</b>
Other liability items outside the scope of FRS 39						1,224
<b>Total liabilities</b>						<b>176,519</b>

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In \$ millions	Bank 2007					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables /amortised cost	Available-for-sale	Derivatives held for hedging	
<b>ASSETS</b>						
Cash and balances with central banks	-	-	17,680	-	-	17,680
Singapore Government securities and treasury bills	3,568	-	-	11,865	-	15,433
Due from banks	-	-	16,833	-	-	16,833
Financial assets at fair value through profit or loss	16,686	703	-	-	-	17,389
Positive replacement values	13,506	-	-	-	208	13,714
Loans and advances to customers	-	-	76,165	-	-	76,165
Financial investments	-	-	2,364	11,057	-	13,421
Securities pledged	304	-	-	1,789	-	2,093
Subsidiaries	-	-	1,823	-	-	1,823
Due from special purpose entities	-	-	1,116	-	-	1,116
Other assets	-	-	3,070	-	-	3,070
<b>Total financial assets</b>	<b>34,064</b>	<b>703</b>	<b>119,051</b>	<b>24,711</b>	<b>208</b>	<b>178,737</b>
Other asset items outside the scope of FRS 39						11,362
<b>Total assets</b>						<b>190,099</b>
<b>LIABILITIES</b>						
Due to banks	-	-	14,034	-	-	14,034
Due to non-bank customers	-	-	106,501	-	-	106,501
Financial liabilities at fair value through profit or loss	13,235	909	-	-	-	14,144
Negative replacement values	12,712	-	-	-	99	12,811
Bills payable	-	-	340	-	-	340
Other liabilities	-	-	3,866	-	-	3,866
Other debt securities in issue	-	-	738	-	-	738
Due to holding company	-	-	21	-	-	21
Due to subsidiaries	-	-	6,078	-	-	6,078
Due to special purpose entities	-	-	994	-	-	994
Subordinated term debts	-	-	8,954	-	-	8,954
<b>Total financial liabilities</b>	<b>25,947</b>	<b>909</b>	<b>141,526</b>	<b>-</b>	<b>99</b>	<b>168,481</b>
Other liability items outside the scope of FRS 39						1,224
<b>Total liabilities</b>						<b>169,705</b>

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In \$ millions	Bank 2006					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables /amortised cost	Available-for-sale	Derivatives held for hedging	
<b>ASSETS</b>						
Cash and balances with central banks	-	-	11,619	-	-	11,619
Singapore Government securities and treasury bills	3,319	-	-	9,524	-	12,843
Due from banks	-	-	19,519	71	-	19,590
Financial assets at fair value through profit or loss	13,785	1,033	-	-	-	14,818
Positive replacement values	8,395	-	-	-	134	8,529
Loans and advances to customers	-	-	60,470	-	-	60,470
Financial investments	-	-	1,930	12,499	-	14,429
Securities pledged	322	-	-	356	-	678
Other assets	-	-	2,527	-	-	2,527
<b>Total financial assets</b>	<b>25,821</b>	<b>1,033</b>	<b>96,065</b>	<b>22,450</b>	<b>134</b>	<b>145,503</b>
Other asset items outside the scope of FRS 39						10,885
<b>Total assets</b>						<b>156,388</b>
<b>LIABILITIES</b>						
Due to banks	-	-	6,758	-	-	6,758
Due to non-bank customers	-	-	89,947	-	-	89,947
Financial liabilities at fair value through profit or loss	12,583	1,772	-	-	-	14,355
Negative replacement values	7,973	-	-	-	92	8,065
Bills payable	-	-	472	-	-	472
Other liabilities	-	-	3,391	-	-	3,391
Other debt securities in issue	-	-	2,065	-	-	2,065
Due to holding company	-	-	201	-	-	201
Due to subsidiaries	-	-	3,321	-	-	3,321
Due to special purpose entities	-	-	1,216	-	-	1,216
Subordinated term debts	-	-	6,348	-	-	6,348
<b>Total financial liabilities</b>	<b>20,556</b>	<b>1,772</b>	<b>113,719</b>	<b>-</b>	<b>92</b>	<b>136,139</b>
Other liability items outside the scope of FRS 39						1,043
<b>Total liabilities</b>						<b>137,182</b>

**16 Cash and Balances with Central Banks**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Cash on hand	1,007	988	915	915
Balances with central banks				
- Restricted balances	2,611	2,556	2,227	2,432
- Non-restricted balances	14,946	8,302	14,538	8,272
<b>Total</b>	<b>18,564</b>	<b>11,846</b>	<b>17,680</b>	<b>11,619</b>

**17 Singapore Government Securities and Treasury Bills**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Held for trading	3,568	3,319	3,568	3,319
Available-for-sale	11,865	9,524	11,865	9,524
<b>Total</b>	<b>15,433</b>	<b>12,843</b>	<b>15,433</b>	<b>12,843</b>
Market value	15,433	12,843	15,433	12,843

**18 Financial Assets at Fair Value through Profit or Loss**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Trading</b>				
Other government securities and treasury bills	2,752	2,509	2,329	1,981
Corporate debt securities	9,957	8,606	9,918	8,620
Equity securities	1,529	790	1,529	789
Loans and advances to customers	1,650	1,153	1,650	1,153
Other financial assets (due from banks)	1,260	1,242	1,260	1,242
Sub-total	17,148	14,300	16,686	13,785
<b>Fair value designated</b>				
Corporate debt securities	1,957	1,868	591	890
Loans and advances to customers	438	328	112	143
Sub-total	2,395	2,196	703	1,033
Total	19,543	16,496	17,389	14,818
<b>Analysed by industry</b>				
Manufacturing	1,314	918	988	918
Building and construction	286	129	286	129
General commerce	124	111	124	111
Transportation, storage and communications	888	641	883	641
Financial institutions, investment and holding companies	9,909	8,849	9,784	8,680
Government	2,752	2,509	2,329	1,981
Others	4,270	3,339	2,995	2,358
Total	19,543	16,496	17,389	14,818

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Fair value designated loans and advances and related credit derivatives/enhancements</b>				
Maximum credit exposure	438	328	112	143
Credit derivatives/enhancements – protection bought	(438)	(328)	(112)	(143)
Cumulative change in fair value arising from changes in credit risk	(40)	(7)	(15)	(2)
Cumulative change in fair value of related credit derivatives/enhancements	40	7	15	2

Changes in fair value arising from changes in credit risks are determined as the amount of change in their fair value that is not attributable to changes in market conditions that give rise to market risk. Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, foreign exchange rate or index of prices or rates.

**Bank Group:**

During the year, the amount of change in the fair value of the loans and advances attributable to credit risk was \$33 million (2006: \$1 million). During the year, the amount of change in the fair value of the related credit derivatives/enhancements was \$33 million (2006: \$1 million).

**Bank:**

During the year, the amount of change in the fair value of the loans and advances attributable to credit risk was \$13 million (2006: \$1 million). During the year, the amount of change in the fair value of the related credit derivatives/enhancements was \$13 million (2006: \$1 million).



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**19 Loans and Advances to Customers**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Gross	107,685	86,599	77,063	61,538
Less: Specific allowances	436	564	246	399
General allowances	905	886	652	669
Net total	106,344	85,149	76,165	60,470
Comprising:				
Bills receivable	3,519	2,926	3,104	2,658
Loans	102,825	82,223	73,061	57,812
Net total	106,344	85,149	76,165	60,470
<b>Analysed by industry</b>				
Manufacturing	14,018	10,854	8,454	7,866
Building and construction	13,004	10,883	8,763	7,970
Housing loans	26,306	25,043	18,692	17,001
General commerce	10,042	8,930	4,803	3,995
Transportation, storage and communications	11,169	7,709	9,002	5,642
Financial institutions, investment and holding companies	12,373	8,521	11,737	8,243
Professionals and private individuals (except housing loans)	9,730	7,948	6,394	5,273
Others	11,043	6,711	9,218	5,548
Gross total	107,685	86,599	77,063	61,538
In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Analysed by products</b>				
Long-term loans	48,923	36,188	34,490	26,466
Short-term facilities	25,621	19,117	18,820	13,434
Overdrafts	3,242	3,262	1,888	1,919
Housing loans	26,306	25,043	18,692	17,001
Trade financing	3,593	2,989	3,173	2,718
Gross total	107,685	86,599	77,063	61,538
<b>Analysed by currency and fixed/variable rates</b>				
<b>Fixed rate<sup>(a)</sup></b>				
Singapore dollar	10,597	7,941	10,597	7,941
Hong Kong dollar	614	633	-	12
US dollar	1,513	229	556	220
Others	2,827	820	1,090	511
Sub-total	15,551	9,623	12,243	8,684
<b>Variable rate<sup>(b)</sup></b>				
Singapore dollar	32,050	27,671	32,036	27,659
Hong Kong dollar	25,398	24,309	5,134	4,364
US dollar	23,009	15,068	19,296	12,650
Others	11,677	9,928	8,354	8,181
Sub-total	92,134	76,976	64,820	52,854
Gross total	107,685	86,599	77,063	61,538

(a) Fixed rate loans refer to long-term loans where the interest rates are fixed for the initial 1 to 3 years for certain mortgage loans, and over the entire loan period for other loans

(b) Variable rate loans refer to loans that are pegged to prime, short-term cost of funds or inter-bank rates

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The table below shows the movements in specific and general allowances during the year:

<b>Bank Group</b>					
<b>2007</b>					
In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Net write-off during the year	Exchange and other movements	Balance at 31 December
<b>Specific allowances</b>					
Manufacturing	163	118	(127)	-	154
Building and construction	41	(11)	(11)	-	19
Housing loans	54	(26)	5	-	33
General commerce	131	4	(8)	-	127
Transportation, storage and communications	12	(8)	-	-	4
Financial institutions, investment and holding companies	32	(28)	5	-	9
Professionals and private individuals (except housing loans)	46	25	(34)	-	37
Others	85	18	(29)	(21)	53
<b>Total specific allowances</b>	<b>564</b>	<b>92</b>	<b>(199)</b>	<b>(21)</b>	<b>436</b>
<b>General allowances</b>					
Manufacturing	107	32	-	-	139
Building and construction	108	21	-	-	129
Housing loans	250	(116)	-	-	134
General commerce	88	11	-	-	99
Transportation, storage and communications	77	35	-	-	112
Financial institutions, investment and holding companies	85	39	-	-	124
Professionals and private individuals (except housing loans)	79	18	-	-	97
Others	92	(4)	-	(17)	71
<b>Total general allowances</b>	<b>886</b>	<b>36</b>	<b>-</b>	<b>(17)</b>	<b>905</b>
<b>Total allowances</b>	<b>1,450</b>	<b>128</b>	<b>(199)</b>	<b>(38)</b>	<b>1,341</b>
<b>Bank Group</b>					
<b>2006</b>					
In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Net write-off during the year	Exchange and other movements	Balance at 31 December
<b>Specific allowances</b>					
Manufacturing	219	38	(94)	-	163
Building and construction	30	13	(2)	-	41
Housing loans	63	(6)	(3)	-	54
General commerce	142	39	(50)	-	131
Transportation, storage and communications	13	-	(1)	-	12
Financial institutions, investment and holding companies	36	(5)	1	-	32
Professionals and private individuals (except housing loans)	61	37	(52)	-	46
Others	72	43	(15)	(15)	85
<b>Total specific allowances</b>	<b>636</b>	<b>159</b>	<b>(216)</b>	<b>(15)</b>	<b>564</b>
<b>General allowances</b>					
Manufacturing	83	24	-	-	107
Building and construction	89	19	-	-	108
Housing loans	249	1	-	-	250
General commerce	85	3	-	-	88
Transportation, storage and communications	69	8	-	-	77
Financial institutions, investment and holding companies	80	5	-	-	85
Professionals and private individuals (except housing loans)	71	8	-	-	79
Others	125	1	-	(34)	92
<b>Total general allowances</b>	<b>851</b>	<b>69</b>	<b>-</b>	<b>(34)</b>	<b>886</b>
<b>Total allowances</b>	<b>1,487</b>	<b>228</b>	<b>(216)</b>	<b>(49)</b>	<b>1,450</b>

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In \$ millions	Bank 2007				
	Balance at 1 January	Charge/(Write back) to income statement	Net write-off during the year	Exchange and other movements	Balance at 31 December
<b>Specific allowances</b>					
Manufacturing	127	65	(113)	-	79
Building and construction	29	(11)	(14)	-	4
Housing loans	47	(19)	2	-	30
General commerce	82	1	(3)	-	80
Transportation, storage and communications	10	(8)	-	-	2
Financial institutions, investment and holding companies	32	(28)	5	-	9
Professionals and private individuals (except housing loans)	26	3	(9)	-	20
Others	46	11	(27)	(8)	22
<b>Total specific allowances</b>	<b>399</b>	<b>14</b>	<b>(159)</b>	<b>(8)</b>	<b>246</b>
<b>General allowances</b>					
Manufacturing	77	7	-	-	84
Building and construction	80	8	-	-	88
Housing loans	170	(113)	-	-	57
General commerce	39	8	-	-	47
Transportation, storage and communications	56	34	-	-	90
Financial institutions, investment and holding companies	82	35	-	-	117
Professionals and private individuals (except housing loans)	53	11	-	-	64
Others	112	25	-	(32)	105
<b>Total general allowances</b>	<b>669</b>	<b>15</b>	<b>-</b>	<b>(32)</b>	<b>652</b>
<b>Total allowances</b>	<b>1,068</b>	<b>29</b>	<b>(159)</b>	<b>(40)</b>	<b>898</b>

In \$ millions	Bank 2006				
	Balance at 1 January	Charge/(Write back) to income statement	Net write-off during the year	Exchange and other movements	Balance at 31 December
<b>Specific allowances</b>					
Manufacturing	169	27	(69)	-	127
Building and construction	22	8	(1)	-	29
Housing loans	53	1	(7)	-	47
General commerce	104	22	(44)	-	82
Transportation, storage and communications	11	(1)	-	-	10
Financial institutions, investment and holding companies	36	(5)	1	-	32
Professionals and private individuals (except housing loans)	36	15	(25)	-	26
Others	36	11	-	(1)	46
<b>Total specific allowances</b>	<b>467</b>	<b>78</b>	<b>(145)</b>	<b>(1)</b>	<b>399</b>
<b>General allowances</b>					
Manufacturing	57	20	-	-	77
Building and construction	61	19	-	-	80
Housing loans	161	9	-	-	170
General commerce	38	1	-	-	39
Transportation, storage and communications	47	9	-	-	56
Financial institutions, investment and holding companies	75	7	-	-	82
Professionals and private individuals (except housing loans)	48	5	-	-	53
Others	120	(1)	-	(7)	112
<b>Total general allowances</b>	<b>607</b>	<b>69</b>	<b>-</b>	<b>(7)</b>	<b>669</b>
<b>Total allowances</b>	<b>1,074</b>	<b>147</b>	<b>(145)</b>	<b>(8)</b>	<b>1,068</b>

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**20 Financial Investments**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Available-for-sale</b>				
Quoted other government securities and treasury bills	2,248	2,858	2,033	2,723
Quoted corporate debt securities	12,216	15,343	6,757	7,641
Quoted equity securities	1,987	1,996	1,972	1,956
Unquoted equity securities	442	298	403	292
Less: Impairment allowances	138	164	108	113
Available-for-sale financial investments	16,755	20,331	11,057	12,499
<b>Loans and receivables</b>				
Corporate debt securities	2,720	1,957	2,657	1,957
Less: Impairment allowances	293	27	293	27
Loans and receivables financial investments	2,427	1,930	2,364	1,930
Total	19,182	22,261	13,421	14,429
Market value of quoted securities	18,921	22,137	13,170	14,259
<b>Analysed by industry</b>				
Manufacturing	1,005	545	1,005	545
Building and construction	1,664	1,019	1,635	1,019
General commerce	266	121	27	15
Transport, storage and communications	787	830	751	779
Financial institutions, investment and holding companies	10,579	13,521	5,555	6,521
Government	2,248	2,858	2,033	2,723
Others	2,633	3,367	2,415	2,827
Total carrying value	19,182	22,261	13,421	14,429

The table below shows the movements in impairment allowances during the year:

In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Bank Group 2007		Balance at 31 December
			Write-off during the year	Exchange and other movements	
<b>Available-for-sale</b>					
Quoted corporate debt securities	41	-	-	(9)	32
Quoted equity securities	-	270	(270)	-	-
Unquoted equities securities	123	(8)	(7)	(2)	106
Available-for-sale financial investments	164	262	(277)	(11)	138
<b>Loans and receivables</b>					
Corporate debt securities	27	273	(6)	(1)	293
Total	191	535	(283)	(12)	431

In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Bank Group 2006		Balance at 31 December
			Write-off during the year	Exchange and other movements	
<b>Available-for-sale</b>					
Quoted corporate debt securities	55	(12)	(2)	-	41
Quoted equity securities	-	13	(13)	-	-
Unquoted equities securities	103	9	6	5	123
Available-for-sale financial investments	158	10	(9)	5	164
<b>Loans and receivables</b>					
Corporate debt securities	64	(42)	(1)	6	27
Total	222	(32)	(10)	11	191

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In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Bank	Exchange and other movements	Balance at 31 December
			2007		
			Write-off during the year		
<b>Available-for-sale</b>					
Quoted corporate debt securities	29	(2)	-	(1)	26
Quoted equity securities	-	270	(270)	-	-
Unquoted equities securities	84	5	(6)	(1)	82
Available-for-sale financial investments	113	273	(276)	(2)	108
<b>Loans and receivables</b>					
Corporate debt securities	27	273	(6)	(1)	293
Total	140	546	(282)	(3)	401

In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Bank	Exchange and other movements	Balance at 31 December
			2006		
			Write-off during the year		
<b>Available-for-sale</b>					
Quoted corporate debt securities	44	(13)	(2)	-	29
Quoted equity securities	-	13	(13)	-	-
Unquoted equities securities	71	5	8	-	84
Available-for-sale financial investments	115	5	(7)	-	113
<b>Loans and receivables</b>					
Corporate debt securities	64	(42)	(1)	6	27
Total	179	(37)	(8)	6	140

## 21 Securities Pledged

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Securities pledged</b>				
Singapore Government securities and treasury bills	268	317	268	317
Other government securities and treasury bills	3,629	2,549	1,607	361
Corporate debt securities	218	-	218	-
Total securities pledged <sup>(a)</sup>	4,115	2,866	2,093	678
Related liabilities	3,711	2,451	2,089	678

(a) Included financial assets at fair value through profit or loss of \$1,662 million (2006: \$1,483 million) for the Bank Group, and \$304 million (2006: \$322 million) for the Bank

The Bank Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice.

## 22 Subsidiaries

In \$ millions	Bank	
	2007	2006
Unquoted equity shares, at cost	11,004	10,125
Less: Impairment allowances	768	821
Sub-total	10,236	9,304
Due from subsidiaries	1,823	259
Total	12,059	9,563

Movements in impairment allowances during the year are as follows:

In \$ millions	Bank	
	2007	2006
Balance at 1 January	821	873
Write-back to income statement	(53)	(52)
Balance at 31 December	768	821

Refer to Note 54 for details of significant subsidiaries.

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**23 Due from Special Purpose Entities**

In \$ millions	Bank	
	2007	2006
Due from special purpose entities <sup>(a)</sup>	1,392	227
Less: Impairment allowances	276	-
Total	1,116	227

(a) Included \$1,378 million (2006: \$153 million) due from Red Orchid Secured Assets Limited ("Rosa"), a consolidated special purpose entity

Movements in impairment allowances during the year are as follows:

In \$ millions	Bank	
	2007	2006
Balance at 1 January	-	-
Charge to income statement <sup>(a)</sup>	276	-
Balance at 31 December	276	-

(a) Relates to a loan to Rosa

Refer to Note 54 for details of significant special purpose entities.

**24 Investments in Joint Ventures**

In \$ millions	Bank	
	2007	2006
Quoted investments in joint ventures at cost	106	74
Unquoted investments in joint ventures at cost	1	1
Net book value	107	75
Market value – quoted investments	240	68

The Bank Group's share of income and expenses, and assets and liabilities of joint ventures at 31 December are as follows:

In \$ millions	Bank Group	
	2007	2006
<b>Income statement</b>		
Share of income	83	43
Share of expenses	(72)	(37)
<b>Balance sheet</b>		
Share of total assets	829	540
Share of total liabilities	716	463

Refer to Note 54 for details of significant joint ventures.

**25 Investments in Associates**

In \$ millions	Bank Group	
	2007	2006
<b>Unquoted</b>		
Cost	92	57
Share of post acquisition reserves	69	52
Less: impairment allowances	42	28
Sub-total	119	81
<b>Quoted</b>		
Cost	1,290	1,275
Goodwill written off	(837)	(837)
Net exchange translation adjustments	(9)	(46)
Share of post acquisition reserves	152	130
Sub-total	596	522
Total	715	603
Market value – quoted investments	1,244	1,160

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In \$ millions	Bank	
	2007	2006
Quoted investments in associates at cost	1,205	1,199
Unquoted investments in associates at cost	44	46
Less: impairment allowances	692	678
Net book value	557	567
Market value – quoted investments	1,173	1,083

The Bank Group's share of income and expenses, and assets and liabilities of associates at 31 December are as follows:

In \$ millions	Bank Group	
	2007	2006
<b>Income statement</b>		
Share of income	444	368
Share of expenses	(344)	(301)
<b>Balance sheet</b>		
Share of total assets	6,018	4,133
Share of total liabilities	5,070	3,563

Refer to Note 54 for details of significant associates.

## 26 Goodwill on Consolidation

Set out below is the carrying value of the Bank Group's goodwill arising from acquisition of subsidiaries and joint ventures as at 31 December, after an assessment for impairment is performed:

In \$ millions	Bank Group	
	2007	2006
Balance at 1 January	5,840	5,803
Acquisition of a subsidiary and a joint venture	-	39
Exchange differences	2	(2)
Balance at 31 December	5,842	5,840

Goodwill arising from acquisition of subsidiaries is allocated to the Bank Group's cash-generating units as follows:

In \$ millions	As at 31 December	
	2007	2006
DBS Bank (Hong Kong) Limited	5,649	5,649
DBS Vickers Securities Holdings Pte Ltd	154	154
Cholamandalam DBS Finance Limited	33	31
Primefield Company Pte Ltd	6	6
Total	5,842	5,840

Key assumptions used for value-in-use calculations:

	DBS Bank (Hong Kong) Limited	DBS Vickers Securities Holdings Pte Ltd
Growth rate	4.5%	4.0%
Discount rate	9.5%	9.0%

The recoverable amounts are determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets and forecasts approved by senior management covering a five-year period, taking into account projected regulatory capital requirements. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated above. The growth rates do not exceed the long-term average growth rate for the market in which the businesses operate. Management believes that any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amounts to be lower than the carrying amounts.

**27 Properties and Other Fixed Assets**

In \$ millions	Bank Group			Bank		
	Properties	Other fixed assets <sup>(a)</sup>	Total	Properties	Other fixed assets <sup>(a)</sup>	Total
<b>2007</b>						
<b>Cost</b>						
Balance at 1 January	1,404	700	2,104	247	546	793
Additions	6	190	196	4	101	105
Disposals	(53)	(212)	(265)	(24)	(158)	(182)
Write-off	(79)	-	(79)	-	-	-
Exchange differences	(39)	(16)	(55)	1	-	1
Balance at 31 December	1,239	662	1,901	228	489	717
<b>Less: Accumulated depreciation</b>						
Balance at 1 January	133	296	429	56	268	324
Depreciation charge	27	99	126	7	65	72
Disposals	(16)	(181)	(197)	(7)	(139)	(146)
Exchange differences	(6)	(10)	(16)	-	-	-
Balance at 31 December	138	204	342	56	194	250
Less: Allowances for impairment	25	-	25	5	-	5
Net book value at 31 December	1,076	458	1,534	167	295	462
Market value at 31 December	1,706	-	-	221	-	-

In \$ millions	Bank Group			Bank		
	Properties	Other fixed assets <sup>(a)</sup>	Total	Properties	Other fixed assets <sup>(a)</sup>	Total
<b>2006</b>						
<b>Cost</b>						
Balance at 1 January	1,790	628	2,418	250	509	759
Additions	29	210	239	3	109	112
Disposals	(337)	(121)	(458)	(6)	(72)	(78)
Exchange differences	(78)	(17)	(95)	-	-	-
Balance at 31 December	1,404	700	2,104	247	546	793
<b>Less: Accumulated depreciation</b>						
Balance at 1 January	164	280	444	51	255	306
Depreciation charge	32	98	130	7	68	75
Disposals	(57)	(79)	(136)	(2)	(55)	(57)
Exchange differences	(6)	(3)	(9)	-	-	-
Balance at 31 December	133	296	429	56	268	324
Less: Allowances for impairment	194	-	194	16	-	16
Net book value at 31 December	1,077	404	1,481	175	278	453
Market value at 31 December	1,468	-	-	199	-	-

(a) Refers to computer hardware, software, office equipment, furniture and fittings and other fixed assets

Movements in allowances for impairment of properties during the year are as follows:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Balance at 1 January	194	312	16	18
Write-back to income statement	(86)	(71)	(10)	(3)
Disposals	(1)	(39)	(1)	-
Write-off	(79)	-	-	-
Exchange and other movements	(3)	(8)	-	1
Balance at 31 December	25	194	5	16

The net book value of PWC Building, being property held for the purpose of generating rental income, was \$460 million as at 31 December 2007 (2006: \$390 million). Its fair value was independently appraised at \$706 million (2006: \$390 million).



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**28 Deferred Tax Assets/Liabilities**

Deferred 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 following amounts, determined after appropriate offsetting, are shown in the balance sheet:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Deferred tax assets	25	20	-	-
Deferred tax liabilities	(172)	(137)	(117)	(80)
Total	(147)	(117)	(117)	(80)

The movement in deferred tax is as follows:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Balance at 1 January	(117)	(7)	(80)	27
Credit/(Charge) to income statement	28	(66)	19	(63)
Charge to equity	(58)	(44)	(56)	(44)
Balance at 31 December	(147)	(117)	(117)	(80)

Deferred income tax assets and liabilities were attributable to the following items:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Deferred income tax assets</b>				
Allowances for losses	87	78	43	42
Other temporary differences	51	30	39	22
Sub-total	138	108	82	64
<b>Deferred income tax liabilities</b>				
Accelerated tax depreciation	(118)	(121)	(26)	(27)
Available-for-sale investments/cash flow hedge	(165)	(104)	(173)	(117)
Other temporary differences	(2)	-	-	-
Sub-total	(285)	(225)	(199)	(144)
Total	(147)	(117)	(117)	(80)

**29 Other Assets**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Accrued interest receivable	1,180	1,136	878	866
Deposits and prepayments	346	298	288	342
Clients' monies receivable from securities business	774	885	-	-
Sundry debtors and others	3,645	2,271	1,904	1,319
Total	5,945	4,590	3,070	2,527

**30 Due to Non-Bank Customers**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Analysed by currency</b>				
Singapore dollar	79,170	65,927	78,900	65,773
US dollar	25,244	21,374	16,347	13,256
Hong Kong dollar	24,776	21,698	1,905	1,340
Others	16,178	13,093	9,349	9,578
Total	145,368	122,092	106,501	89,947
<b>Analysed by product</b>				
Savings accounts	51,278	47,491	44,146	40,904
Current accounts	16,144	14,109	13,276	11,920
Fixed deposits	74,520	57,707	47,137	35,259
Other deposits	3,426	2,785	1,942	1,864
Total	145,368	122,092	106,501	89,947

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**31 Financial Liabilities at Fair Value through Profit or Loss**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Trading</b>				
Other debt securities in issue (Note 31.1)	2,588	2,951	2,588	2,951
Due to non-bank customers				
– structured investments	5,725	6,436	5,725	6,436
– others	1,138	270	1,138	270
Payable in respect of short sale of securities	4,157	3,564	2,767	2,252
Other financial liabilities	1,017	674	1,017	674
Sub-total	14,625	13,895	13,235	12,583
<b>Fair value designated<sup>(a)</sup></b>				
Due to non-bank customers	1,341	2,575	25	32
– structured investments				
Other debt securities in issue (Note 31.2)	2,276	3,238	884	1,740
Sub-total	3,617	5,813	909	1,772
Total	18,242	19,708	14,144	14,355

(a) Changes in the fair value of the financial liabilities designated at fair value through profit or loss are attributable mainly to equity, interest and currency risk changes. The remaining change that is not attributable to changes in market conditions that give rise to market risk is considered not significant. Unrealised gain for the fair value designated liabilities amount to \$119 million at 31 December 2007 (2006: \$177 million) for the Bank Group and \$25 million (2006: \$7 million) for the Bank

**31.1 Other debt securities in issue (Trading)**

Details of other debt securities issued and outstanding at 31 December 2007 are as follows:

In \$ millions	Type	Issue Date	Maturity Date	Bank Group		Bank	
				2007	2006	2007	2006
Equity linked notes		2 Sep 2003 to 31 Dec 2007	2 Jan 2008 to 21 May 2014	845	723	845	723
Credit linked notes		15 Nov 2001 to 27 Dec 2007	14 Jan 2008 to 20 Jun 2016	1,192	1,528	1,192	1,528
Interest linked notes		12 Aug 2003 to 21 Dec 2007	28 Jan 2008 to 3 Dec 2019	531	643	531	643
Exchange linked notes		16 Jan 2007 to 14 Sep 2007	22 Jan 2008 to 25 Mar 2008	20	57	20	57
Total				2,588	2,951	2,588	2,951
Due within 1 year				628	863	628	863
Due after 1 year				1,960	2,088	1,960	2,088
Total				2,588	2,951	2,588	2,951

**31.2 Other debt securities in issue (Fair value designated)**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Negotiable certificate of deposits	80	149	-	-
Other debt securities	2,196	3,089	884	1,740
Total	2,276	3,238	884	1,740
Due within 1 year	763	1,605	581	1,558
Due after 1 year	1,513	1,633	303	182
Total	2,276	3,238	884	1,740

Details of negotiable certificate of deposits issued and outstanding at 31 December 2007 are as follows:

In \$ millions	Face Value	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank Group		Bank	
					2007	2006	2007	2006
HK\$406m		3-mth HIBOR*, 0% to +0.01%, payable quarterly	10 Jan 2005 to 30 Mar 2005	8 Apr 2008 to 6 Apr 2010	75	133	-	-
US\$3m		3-mth LIBOR**, payable quarterly	30 Mar 2005	7 Apr 2008	5	16	-	-
Total					80	149	-	-

\* HIBOR: Hong Kong Interbank Offer Rate

\*\* LIBOR: London Interbank Offer Rate

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Details of other debt securities issued and outstanding at 31 December 2007 are as follows:

In \$ millions Type	Issue Date	Maturity Date	Bank Group		Bank	
			2007	2006	2007	2006
Credit linked notes	9 Oct 2003 to 28 Dec 2007	22 Feb 2008 to 5 Sep 2014	<b>2,113</b>	1,742	<b>884</b>	474
Equity linked notes	21 Mar 2005 to 10 Nov 2006	10 Nov 2009 to 10 Nov 2011	<b>46</b>	50	-	-
Exchange linked notes	29 Dec 2006	17 Jan 2007	-	3	-	3
Stapled notes with non-voting redeemable preference shares and fixed rate notes (Note (a))	13 Sep 2006 to 13 Dec 2006	15 Nov 2007 to 30 Dec 2007	-	1,263	-	1,263
Secured asset-backed medium term notes (Note (b))	30 Nov 2001	25 Apr 2008	<b>37</b>	31	-	-
<b>Total</b>			<b>2,196</b>	3,089	<b>884</b>	1,740

(a) The notes issued by the Bank consist of non-voting redeemable preference shares and fixed rate notes which were issued and stapled together. The notes expired in 2007.

(b) The notes issued by New Heights Investment Limited would be redeemed at a fixed interest rate on the maturity provided that there is no occurrence of a credit event. If there is an occurrence of a credit event, the issuer of the note will deliver bonds or loans or their market value in cash terms to the holder of the notes. The notes are secured on deposits equivalent to the issue price, a series of credit default swaps whereby the issuer sells credit protection, and cross currency swaps.

### 32 Other Liabilities

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Sundry creditors	<b>3,735</b>	2,905	<b>2,123</b>	1,709
Cash collaterals received in respect of valuation shortfalls on derivative portfolios	<b>567</b>	539	<b>567</b>	539
Interest payable	<b>631</b>	593	<b>436</b>	447
Valuation reserves	<b>237</b>	195	<b>238</b>	195
Loss allowances for off-balance sheet credit exposures	<b>132</b>	126	<b>129</b>	125
Clients' monies payable in respect of securities business	<b>629</b>	796	-	-
Other payable	<b>1,281</b>	1,515	<b>740</b>	696
<b>Total</b>	<b>7,212</b>	6,669	<b>4,233</b>	3,711

The table below shows the movements in loss allowances for off-balance sheet credit exposures during the year:

In \$ millions	Balance at 1 January	Bank Group 2007			Balance at 31 December
		Charge/(Write back) to income statement	Write-off during the year	Exchange and other movements	
Contingent liabilities	<b>83</b>	8	-	-	<b>91</b>
Commitments	<b>43</b>	(2)	-	-	<b>41</b>
<b>Total</b>	<b>126</b>	<b>6</b>	-	-	<b>132</b>

In \$ millions	Balance at 1 January	Bank Group 2006			Balance at 31 December
		Charge to income statement	Write-off during the year	Exchange and other movements	
Contingent liabilities	65	18	-	-	83
Commitments	30	13	-	-	43
<b>Total</b>	<b>95</b>	<b>31</b>	-	-	<b>126</b>

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In \$ millions	Balance at 1 January	Charge/(Write back) to income statement	Bank 2007		Balance at 31 December
			Write-off during the year	Exchange and other movements	
Contingent liabilities	82	6	-	-	88
Commitments	43	(2)	-	-	41
<b>Total</b>	<b>125</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>129</b>

In \$ millions	Balance at 1 January	Charge to income statement	Bank 2006		Balance at 31 December
			Write-off during the year	Exchange and other movements	
Contingent liabilities	65	17	-	-	82
Commitments	30	13	-	-	43
<b>Total</b>	<b>95</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>125</b>

### 33 Day One Profit

Included in the valuation reserves disclosed under Note 32 are the following reserves relating to deferred day one profit, which arise from financial instruments measured using valuation techniques for which not all the inputs are observable in the market:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Balance at 1 January	19	3	19	3
Deferral of profit on new transactions	8	18	8	18
Recognised in the income statement during the year through amortisation	(6)	(2)	(6)	(2)
<b>Balance at 31 December</b>	<b>21</b>	<b>19</b>	<b>21</b>	<b>19</b>

### 34 Other Debt Securities in Issue

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Negotiable certificate of deposits	216	536	102	42
Other debt securities	983	3,414	636	2,023
<b>Total</b>	<b>1,199</b>	<b>3,950</b>	<b>738</b>	<b>2,065</b>
Due within 1 year	960	3,682	738	2,065
Due after 1 year	239	268	-	-
<b>Total</b>	<b>1,199</b>	<b>3,950</b>	<b>738</b>	<b>2,065</b>

Details of negotiable certificate of deposits issued and outstanding at 31 December 2007 are as follows:

In \$ millions	Interest Rate and Repayment Terms	Bank Group		Bank			
		Face Value	Issue Date	Maturity Date	2007	2006	
TWD2,100m	2.20% to 2.23%, payable on maturity	29 Oct 2007 to 4 Dec 2007	29 Jan 2008 to 11 Mar 2008	93	42	93	42
INR250m	8.15%, payable on maturity	28 Sep 2007	31 Jan 2008	9	-	9	-
HK\$436m	3-mth HIBOR* +0.01% to +0.07%, payable quarterly	30 Nov 2004 to 31 May 2005	7 Jun 2007 to 7 Dec 2007	-	86	-	-
HK\$350m	2.60% to 2.66%, payable quarterly	3 Feb 2005 to 16 Feb 2005	14 Feb 2008 to 23 Feb 2008	65	147	-	-
HK\$267m	3.38% to 4.12%, payable yearly	27 May 2005 to 3 Mar 2006	3 Jun 2008 to 9 Mar 2009	49	261	-	-
<b>Total</b>				<b>216</b>	<b>536</b>	<b>102</b>	<b>42</b>

\* HIBOR: Hong Kong Interbank Offer Rate

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Details of other debt securities issued and outstanding at 31 December 2007 are as follows:

In \$ millions	Type	Issue Date	Maturity Date	Bank Group		Bank	
				2007	2006	2007	2006
	Stapled notes with non-voting redeemable preference shares and fixed rate notes (Note (a))	11 Dec 2007	12 Dec 2008	636	2,023	636	2,023
	Equity linked notes	29 Nov 2007 to 20 Dec 2007	7 Jan 2008 to 22 Jan 2008	1	2	-	-
	Asset-backed short term notes (AUD654 million at 6.24% to 6.38% payable at maturity and \$349 million at 3.38% to 3.44% payable at maturity) (Note (b))	10 Oct 2006 to 29 Dec 2006	3 Jan 2007 to 21 Mar 2007	-	1,141	-	-
	Redeemable non-convertible debentures (Note (c))						
	– Fixed rate at 7.85% to 12.00%	24 Apr 2006 to 31 Oct 2007	25 Feb 2008 to 30 Apr 2013	243	73	-	-
	– Floating rate at INBMK* +0.50% to +1.30%	3 Mar 2005 to 31 Jul 2006	3 Mar 2008 to 31 Jul 2009	23	36	-	-
	– Floating rate at MIBOR** +0.30% to +2.18%	27 Dec 2004 to 30 Nov 2007	22 Feb 2008 to 31 Jul 2009	80	87	-	-
	Commercial paper (INR1.5 billion discounted at 7.39% to 8.20%)	1 Sep 2006 to 30 Nov 2006	28 Feb 2007 to 17 Apr 2007	-	52	-	-
	<b>Total</b>			<b>983</b>	<b>3,414</b>	<b>636</b>	<b>2,023</b>

\* INBMK: Indian Benchmark

\*\* MIBOR: Mumbai Interbank Offer Rate

(a) The notes issued by the Bank consist of non-voting redeemable preference shares and fixed rate notes which are issued and stapled together. The payments at maturity can be either dividends and nominal interest, or full interest on issue value of the stapled securities. The non-voting redeemable preference shares are classified as liabilities instead of shareholders' equity in accordance with the substance of the transaction.

(b) The notes were issued by Red Orchid Secured

Assets Limited. The short-dated notes were secured by a debenture creating a first fixed and floating charge over property, assets, rights and undertakings of the issuer. The notes expired in 2007.

(c) The notes were issued by Cholamandalam DBS Finance Limited, a joint venture. The medium-term debentures amounting to INR25.2 billion (2006: INR1.7 billion) are secured on a pari passu by way of specific charge on assets under hypothecation, hire-purchase assets and immovable property.

### 35 Due to Subsidiaries

In \$ millions	Bank	
	2007	2006
Subordinated term debts	1,188	1,236
Amounts due to subsidiaries	4,890	2,085
<b>Total</b>	<b>6,078</b>	<b>3,321</b>

The subordinated term debts were issued by the Bank to DBS Capital Funding Corporation, both wholly-owned subsidiaries of DBSH, on 21 March 2001 and mature on 15 March 2051. The notes comprised Series A Subordinated Note of US\$725 million and Series B Subordinated Note of S\$100 million. Interest is payable in arrears on 15 March and 15 September each year at a fixed rate of 7.66% per annum (Series A) and 5.35% per

annum (Series B), up to 15 March 2011. Thereafter, interest is payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December each year at a floating rate of three-month London Interbank Offer Rate ("LIBOR") + 3.20% per annum (Series A) and three-month Singapore Swap Offer Rate + 2.52% per annum (Series B).

### 36 Subordinated Term Debts

Subordinated term debts issued by subsidiaries of the Bank Group are classified as liabilities in accordance with FRS 32. Certain of these instruments qualify as Tier 2 capital for capital adequacy purposes. These subordinated term debts are junior long-term debts that have a lower priority claim on the Bank Group's assets in the case of a default or liquidation.

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In \$ millions Face Value		Issue Date	Maturity Date	Bank Group		Bank	
				2007	2006	2007	2006
US\$750m	7.88% Subordinated Notes (Note 36.1)	10 Aug 1999	10 Aug 2009	1,120	1,204	1,120	1,204
US\$500m	7.88% Subordinated Notes (Note 36.2)	15 Apr 2000	15 Apr 2010	767	808	767	808
US\$850m	7.13% Subordinated Notes (Note 36.3)	15 May 2001	15 May 2011	1,292	1,341	1,292	1,341
US\$750m	5.00% Subordinated Notes callable with step-up in 2014 (Note 36.4)	1 Oct 2004	15 Nov 2019	1,075	1,116	1,075	1,116
US\$900m	Floating Rate Subordinated Notes callable with step-up in 2016 (Note 36.5)	16 Jun 2006	15 Jul 2021	1,298	1,379	1,298	1,379
S\$500m	4.47% Subordinated Notes callable with step-up in 2016 (Note 36.6)	11 Jul 2006	15 Jul 2021	500	500	500	500
US\$500m	5.13% Subordinated Notes callable with step-up in 2012 (Note 36.7)	15 May 2007	16 May 2017	739	-	739	-
US\$1,500m	Floating Rate Subordinated Notes callable with step-up in 2012 (Note 36.8)	15 May 2007	16 May 2017	2,163	-	2,163	-
US\$262m	7.75% Fixed Rate Subordinated Notes (Note 36.9)	24 Jan 1997	24 Jan 2007	-	401	-	-
Total				8,954	6,749	8,954	6,348
Due within 1 year				-	401	-	-
Due after 1 year				8,954	6,348	8,954	6,348
Total				8,954	6,749	8,954	6,348

**36.1** Interest is payable semi-annually on 10 February and 10 August commencing 10 February 2000. Part of the fixed rate funding has been converted to floating rate at three-month LIBOR + 1.05% via interest rate swaps. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**36.2** Interest is payable semi-annually on 15 April and 15 October commencing 15 October 2000. The fixed rate funding has been converted to floating rate at six-month LIBOR + 0.96% via interest rate swaps. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**36.3** Interest is payable semi-annually on 15 May and 15 November commencing 15 November 2001. The fixed rate funding has been converted to floating rate at three-month LIBOR + 1.25% via interest rate swaps. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**36.4** Interest is payable semi-annually on 15 May and 15 November commencing 15 May 2005. Part of the fixed rate funding has been converted to floating rate at three-month LIBOR + 0.61% via interest rate swaps. If the notes are not called at the tenth year, the interest rate steps up and will be reset at six-month LIBOR + 1.61% on the call date. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**36.5** Interest is payable quarterly on 15 January, 15 April, 15 July and 15 October commencing 15 October 2006. Interest on the notes will be paid initially at three-month LIBOR + 0.61%. If the notes are not

called at the tenth year, the interest rate steps up and will be set at three-month LIBOR + 1.61% on the call date. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**36.6** Interest is payable semi-annually on 15 January and 15 July commencing 15 January 2007. If the notes are not called at the tenth year, the interest rate steps up and will be reset at a floating rate per annum equal to six-month Singapore Swap Offer Rate + 1.58% on the call date. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**36.7** Interest is payable semi-annually on 16 May and 16 November commencing 16 November 2007. The fixed rate funding has been converted to floating rate at three-month LIBOR + 0.22% via interest rate swaps. If the notes are not called at the fifth year, the interest rate steps up and will be set at three-month LIBOR + 1.22% on the call date. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**36.8** Interest is payable quarterly on 16 February, 16 May, 16 August and 16 November commencing 16 August 2007. Interest on the notes will be paid initially at three-month LIBOR + 0.22%. If the notes are not called at the fifth year, the interest rate steps up and will be set at three-month LIBOR + 1.22% on the call date. In computing the Bank Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**36.9** Interest was payable semi-annually on 24 January and 24 July, commencing 24 July 1997. The notes matured in 2007.

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**37 Share Capital**

	Bank	
	2007	2006
1,962,302,697 (2006 : 1,962,302,697) ordinary shares	1,962	1,962
11,000,000 (2006 : 11,000,000) non-cumulative non-convertible perpetual preference shares	#	#
Total number of shares (millions)	1,962	1,962
Total Share Capital (in \$ millions)	12,096	12,096

# Amount under \$500,000

There was no movement in share capital during the current financial year.

**38 Other Reserves**

**38.1 Other reserves**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Available-for-sale revaluation reserves	901	414	929	482
General reserves	2,453	2,423	2,360	2,330
Capital reserves	(12)	(11)	-	-
Share plan reserves	30	32	25	35
Total	3,372	2,858	3,314	2,847

Movements in other reserves for the Bank Group during the year are as follows:

In \$ millions	Bank Group					
	Available-for-sale revaluation reserves	Cash flow hedge reserves	General reserves <sup>(a)</sup>	Capital reserves <sup>(b)</sup>	Share plan reserves	Total
Balance at 1 January 2007	414	-	2,423	(11)	32	2,858
Appropriation from income statement <sup>(c)</sup>	-	-	30	-	-	30
Net exchange translation adjustments	-	-	-	(38)	-	(38)
Share of associates' capital reserves	-	-	-	37	-	37
Cost of share-based payments	-	-	-	-	34	34
Draw-down of reserves upon vesting of performance shares	-	-	-	-	(36)	(36)
Available-for-sale:						
- net valuation taken to equity	940	-	-	-	-	940
- transferred to income statement on sale	(395)	-	-	-	-	(395)
- tax on items taken directly to or transferred from equity	(58)	-	-	-	-	(58)
Balance at 31 December 2007	901	-	2,453	(12)	30	3,372
Balance at 1 January 2006	111	23	2,362	(26)	23	2,493
Appropriation from income statement	-	-	61	-	-	61
Net exchange translation adjustments	-	-	-	(6)	-	(6)
Share of associates' capital reserves	-	-	-	21	-	21
Cost of share-based payments	-	-	-	-	15	15
Draw-down of reserves upon vesting of performance shares	-	-	-	-	(6)	(6)
Available-for-sale/cash flow hedge:						
- net valuation taken to equity	454	(29)	-	-	-	425
- transferred to income statement on sale	(101)	-	-	-	-	(101)
- tax on items taken directly to or transferred from equity	(50)	6	-	-	-	(44)
Balance at 31 December 2006	414	-	2,423	(11)	32	2,858

(a) The General reserves are maintained in accordance with the provisions of applicable laws and regulations. These reserves are non-distributable unless otherwise approved by the relevant authorities. Under the Banking (Reserve Fund) (Transitional Provision) regulations 2007, which came into effect on 11 June 2007, the Bank may distribute or utilise its statutory reserves provided that the amount distributed or utilised for each financial year does not exceed 20% of the reserves as at 30 March 2007

(b) The Capital reserves include net exchange translation adjustments arising from translation differences on net investments in foreign subsidiaries, joint ventures, associates and branches, and the related foreign currency borrowings designated as a hedge

(c) Includes appropriation from prior year's income statement

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Movements in other reserves for the Bank during the year are as follows:

In \$ millions	Bank					Total
	Available-for-sale revaluation reserves	Cash flow hedge reserves	General reserves <sup>(a)</sup>	Capital reserves	Share plan reserves	
Balance at 1 January 2007	482	-	2,330	-	35	2,847
Appropriation from income statement <sup>(b)</sup>	-	-	30	-	-	30
Cost of share-based payments	-	-	-	-	30	30
Draw-down of reserves upon vesting of performance shares	-	-	-	-	(40)	(40)
Available-for-sale:						
- net valuation taken to equity	917	-	-	-	-	917
- transferred to income statement on sale	(414)	-	-	-	-	(414)
- tax on items taken directly to or transferred from equity	(56)	-	-	-	-	(56)
Balance at 31 December 2007	929	-	2,360	-	25	3,314
Balance at 1 January 2006	212	23	2,269	136	25	2,665
Prior year adjustments (Note 38.3)	-	-	-	(136)	-	(136)
Balance at 1 January 2006 as restated	212	23	2,269	-	25	2,529
Appropriation from income statement	-	-	61	-	-	61
Cost of share-based payments	-	-	-	-	15	15
Draw-down of reserves upon vesting of performance shares	-	-	-	-	(5)	(5)
Available-for-sale/cash flow hedge:						
- net valuation taken to equity	407	(29)	-	-	-	378
- transferred to income statement on sale	(87)	-	-	-	-	(87)
- tax on items taken directly to or transferred from equity	(50)	6	-	-	-	(44)
Balance at 31 December 2006	482	-	2,330	-	35	2,847

(a) The General reserves are maintained in accordance with the provisions of applicable laws and regulations. These reserves are non distributable unless otherwise approved by the relevant authorities. Under the Banking (Reserve Fund) (Transitional Provision) regulations 2007, which came into effect on 11 June 2007, the Bank may distribute or utilise its statutory reserves provided that the amount distributed or utilised for each financial year does not exceed 20% of the reserves as at 30 March 2007

(b) Includes appropriation from prior year's income statement

### 38.2 Revenue reserves

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Balance at 1 January	4,745	3,300	4,263	3,040
Prior year adjustments (Note 38.3)	-	-	-	136
Balance at 1 January as restated	4,745	3,300	4,263	3,176
Share of associates' reserves	-	18	-	-
Net profit attributable to shareholders	2,334	2,321	1,623	1,985
Transfer to general reserves <sup>(a)</sup>	(30)	(61)	(30)	(61)
Amount available for distribution	7,049	5,578	5,856	5,100
Less: \$0.03 (2006 : \$0.08) tax exempt ordinary final dividends	65	153	65	154
\$0.38 (2006 : \$0.32) tax exempt ordinary interim dividends	751	627	753	630
6% preference dividends net of 18% (2006: 20%) tax paid	54	53	54	53
Balance at 31 December	6,179	4,745	4,984	4,263

(a) Includes appropriation from prior year's income statement

**38.3** The 2006 financial statements of the Bank have been restated to reflect a reclassification of balances from Capital reserves to Revenue reserves. This relates to a change in the accounting treatment on the foreign currency revaluation of the Bank's borrowings used to hedge its foreign currency investments, to comply with FRS 21: The Effects of Changes in Foreign Exchange Rates. The change resulted in a decrease of \$136 million in Capital reserves and an increase of \$136 million in Revenue Reserves as at 1 January 2006; and an increase in Net Trading Income of \$160 million for the year ended 31 December 2006. The change has no impact on the Bank Group financial statements.

## 39 Minority Interests

In \$ millions	Bank Group	
	2007	2006
Preference shares issued by DBS Capital Funding Corporation (Note 39.1)	1,125	1,196
Other subsidiaries	446	69
Total	1,571	1,265



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**39.1** US\$725 million 7.66% non-cumulative guaranteed preference shares, Series A, each with a liquidation preference of US\$1,000 and \$100 million 5.35% non-cumulative guaranteed preference shares, Series B, each with a liquidation preference of \$10,000 were issued on 21 March 2001 by DBS Capital Funding Corporation, a subsidiary of the Bank. Dividends, when declared by the Board of Directors of DBS Capital Funding Corporation, are payable in arrears on 15 March and 15 September each year at a fixed rate of 7.66% per annum (Series A) and 5.35%

per annum (Series B), up to 15 March 2011. Thereafter, dividends are payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December each year at a floating rate of three-month London Interbank Offer Rate ("LIBOR") + 3.20% per annum (Series A) and three-month Singapore Swap Offer Rate + 2.52% per annum (Series B). In computing the Bank Group's capital adequacy ratio, these guaranteed preference shares qualify as Tier 1 capital.

**40 Contingent Liabilities**

The Bank Group conducts business involving guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

**Guarantees and performance bonds** are generally written by the Bank Group to support the performance of a customer to third parties. As the Bank Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amount.

**Endorsements** are residual liabilities of the Bank Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Guarantees on account of customers	8,455	6,909	8,111	6,353
Endorsements and other obligations on account of customers				
- Letters of credit	4,770	4,495	4,799	3,850
- Others	1,366	708	1,038	619
Other contingent items	65	75	65	75
<b>Total</b>	<b>14,656</b>	<b>12,187</b>	<b>14,013</b>	<b>10,897</b>
<b>Analysed by Industry</b>				
Manufacturing	2,836	2,414	2,866	2,144
Building and construction	898	778	1,028	719
General commerce	2,653	2,576	2,186	2,088
Transportation, storage and communications	1,091	940	1,084	936
Financial institutions, investment and holding companies	4,441	3,227	4,382	3,127
Professionals and private individuals (except housing loans)	150	180	149	147
Others	2,587	2,072	2,318	1,736
<b>Total</b>	<b>14,656</b>	<b>12,187</b>	<b>14,013</b>	<b>10,897</b>

**40.1** The Bank has existing outsourcing agreements for the provision of information technology and related support to the Bank Group's operations in Singapore, Hong Kong and China. There are various termination clauses in the agreements that could require the Bank Group to pay termination fees on early termination of the contract or part thereof. The termination fees are stipulated in the agreements and are determined based on the year when the agreements or part thereof are terminated.

**40.2** Included in "Other contingent items" at 31 December 2007, is an amount of \$65 million (2006: \$75 million), representing the termination fee payable by the Bank should a distribution agreement be terminated prematurely prior to December 2011.

## 41 Commitments

The Bank Group's commitments at 31 December comprised the following:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Loans and other facilities</b>				
- Undrawn credit facilities	91,182	85,520	73,793	69,042
- Undisbursed commitments in securities	132	88	132	88
Sub-total	91,314	85,608	73,925	69,130
Operating lease commitments <sup>(a)</sup>	907	417	709	335
Capital commitments	84	40	71	32
<b>Total</b>	<b>92,305</b>	<b>86,065</b>	<b>74,705</b>	<b>69,497</b>

(a) The Bank Group has operating lease commitments for which the payments will be determined in the future based on the prevailing market rates in accordance with the lease agreements. The related amounts have not been included

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
<b>Undrawn commitments on loans and other facilities analysed by industry</b>				
Manufacturing	12,618	11,630	9,589	10,396
Building and construction	6,567	4,825	4,778	3,688
Housing loans	2,633	2,571	2,594	2,537
General commerce	9,418	9,579	5,425	5,604
Transportation, storage and communications	7,085	5,372	6,885	5,277
Financial institutions, investment and holding companies	22,516	23,727	24,880	23,368
Professionals and private individuals (except housing loans)	17,663	15,218	8,957	6,555
Others	12,814	12,686	10,817	11,705
<b>Total</b>	<b>91,314</b>	<b>85,608</b>	<b>73,925</b>	<b>69,130</b>

## 42 Financial Derivatives

Financial derivatives are financial instruments whose characteristics are derived from underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The following sections outline the nature and terms of the most common types of derivatives used by the Bank Group.

### Interest rate contracts

**Forward rate agreements** give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is the difference between the contracted rate and the market rate prevailing on the settlement date.

**Interest rate swaps** involve the exchange of interest obligations with a counterparty for a specified period without exchanging the underlying (or notional) principal.

**Interest rate futures** are typically exchange-traded agreements to buy or sell a standard amount of a specified fixed income security or time deposit at an agreed interest rate on a standard future date.

**Interest rate options** give the buyer on payment of a premium the right, but not the obligation, to fix the rate

of interest on a future deposit or loan, for a specified period and commencing on a specified future date.

**Interest rate caps and floors** give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds; instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of an interest rate cap and floor is known as an interest rate collar.

### Exchange rate contracts

**Forward foreign exchange** contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

**Cross currency swaps** are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

**Currency options** give the buyer, on payment of a premium, the right but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

### **Equity-related contracts**

**Equity options** provide the buyer, on payment of a premium, the right but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

**Equity swaps** involve the exchange of a set of payments whereby one of these payments is based on an equity-linked return while the other is typically based on interest reference rate.

### **Credit-related contracts**

**Credit default swaps** involve the transfer of credit risk of a reference asset from the protection buyer to the protection seller. The protection buyer makes one or more payments to the seller in exchange for an undertaking by the seller to make a payment to the buyer upon a predefined credit event.

### **Commodity-related contracts**

**Commodity contracts** are agreements between two parties to exchange cash flows which are dependent on the price of the underlying physical assets.

**Commodity options** give the buyer the right but not the obligation to buy or sell a specific amount of commodity at an agreed contract price on or before a specified date.

### **42.1 Trading derivatives**

Most of the Bank Group's derivatives relate to sales and trading activities. Sale activities include the structuring and marketing of derivatives to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities are entered into principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading includes market making, positioning and arbitraging activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices.

Arbitraging involves identifying and profiting from price differentials of the same product in different markets or the same economic factor in different products.

### **42.2 Hedging derivatives**

The accounting treatment of the hedge derivative transactions varies according to the nature of the hedge and whether the hedge meets the specified criteria to qualify for hedge accounting. Derivatives transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes.

The Bank Group's fair value hedges consist principally of interest rate swaps used for managing interest rate gaps.

At the Bank Group, for the year ended 31 December 2007, the gain on the hedging instruments was \$41 million (2006: gain of \$51 million). The total loss on hedged items attributable to the hedged risk amounted to \$44 million (2006: loss of \$48 million). The ineffectiveness arising from hedges of net investments in foreign operations is insignificant.

At the Bank, for the year ended 31 December 2007, the gain on the hedging instruments was \$112 million (2006: gain of \$48 million). The total loss on hedged items attributable to the hedged risk amounted to \$115 million (2006: loss of \$45 million). The ineffectiveness arising from hedges of net investments in foreign operations is insignificant.

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held or issued for trading and hedging purposes. The notional or contractual amounts of these instruments reflect the volume of transactions outstanding at balance sheet date, and do not represent amounts at risk.

In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Positive replacement value" or "Negative replacement value" respectively.

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The following table shows an analysis of the Bank Group's derivatives financial instruments at 31 December:

In \$ millions	2007			2006		
	Underlying notional	Year-end positive replacement values	Year-end negative replacement values	Underlying notional	Year-end positive replacement values	Year-end negative replacement values
<b>Derivatives held for trading</b>						
<b>Interest rate derivatives</b>						
Forward rate agreements bought	2,858	-	3	2,811	-	1
Forward rate agreements sold	4,705	4	-	3,648	1	-
Interest rate swaps	863,065	5,560	5,256	705,248	3,923	3,819
Financial futures bought	19,459	11	3	21,430	-	11
Financial futures sold	20,316	4	9	20,104	12	1
Interest rate options bought	2,986	41	-	5,858	48	-
Interest rate options sold	7,055	-	67	6,757	-	45
Interest rate futures options bought	1,730	2	-	2,956	-	-
Interest rate futures options sold	996	-	3	6,253	-	-
Interest rate caps/floors bought	10,180	62	-	14,101	108	-
Interest rate caps/floors sold	15,968	-	108	14,019	-	161
Sub-total	949,318	5,684	5,449	803,185	4,092	4,038
<b>Foreign exchange ("FX") derivatives</b>						
FX contracts	460,467	2,602	2,393	315,797	1,727	1,469
Currency swaps	58,937	1,829	1,432	48,782	942	766
Currency options bought	100,613	1,082	-	64,841	532	-
Currency options sold	100,494	-	1,056	64,073	-	519
Sub-total	720,511	5,513	4,881	493,493	3,201	2,754
<b>Equity derivatives</b>						
Equity options bought	5,765	376	12	3,801	248	-
Equity options sold	5,256	1	316	5,279	-	344
Equity swaps	2,406	82	232	1,849	45	81
Sub-total	13,427	459	560	10,929	293	425
<b>Credit derivatives</b>						
Credit default swaps	117,205	1,089	1,318	60,112	479	529
Sub-total	117,205	1,089	1,318	60,112	479	529
<b>Commodity derivatives</b>						
Commodity contracts	934	33	43	215	1	-
Commodity options bought	1,642	128	-	482	8	-
Commodity options sold	2,011	-	175	494	-	16
Sub-total	4,587	161	218	1,191	9	16
<b>Total derivatives held for trading</b>	<b>1,805,048</b>	<b>12,906</b>	<b>12,426</b>	<b>1,368,910</b>	<b>8,074</b>	<b>7,762</b>
<b>Derivatives held for hedging</b>						
Interest rate swaps held for fair value hedge	6,372	177	78	6,227	135	84
FX contracts held for fair value hedge	508	2	8	254	-	5
FX contracts held for hedge of net investment	1,430	34	15	709	2	14
Currency swaps held for hedge of net investment	2,649	-	27	2,816	4	8
<b>Total derivatives held for hedging</b>	<b>10,959</b>	<b>213</b>	<b>128</b>	<b>10,006</b>	<b>141</b>	<b>111</b>
<b>Total derivatives</b>	<b>1,816,007</b>	<b>13,119</b>	<b>12,554</b>	<b>1,378,916</b>	<b>8,215</b>	<b>7,873</b>

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The following table shows an analysis of the Bank's derivatives financial instruments at 31 December:

In \$ millions	Underlying notional	2007		Underlying notional	2006	
		Year-end replacement positive values	Year-end replacement negative values		Year-end replacement positive values	Year-end replacement negative values
<b>Derivatives held for trading</b>						
<b>Interest rate derivatives</b>						
Forward rate agreements bought	2,858	-	3	2,811	-	1
Forward rate agreements sold	4,705	4	0	3,648	1	-
Interest rate swaps	878,630	5,735	5,358	719,935	4,152	3,896
Financial futures bought	18,733	10	3	20,901	1	10
Financial futures sold	19,818	4	9	19,932	11	1
Interest rate options bought	3,297	42	-	6,745	49	-
Interest rate options sold	7,007	-	67	6,650	-	46
Interest rate futures options bought	1,730	2	-	5,355	-	-
Interest rate futures options sold	996	-	3	4,362	-	1
Interest rate caps/floors bought	10,192	62	-	13,860	107	-
Interest rate caps/floors sold	16,265	-	108	14,879	-	162
Sub-total	964,231	5,859	5,551	819,078	4,321	4,117
<b>Foreign exchange ("FX") derivatives</b>						
FX contracts	472,592	2,578	2,314	323,606	1,725	1,468
Currency swaps	63,819	1,840	1,482	53,826	973	787
Currency options bought	100,786	1,080	-	65,825	552	-
Currency options sold	99,894	-	1,055	65,029	-	540
Sub-total	737,091	5,498	4,851	508,286	3,250	2,795
<b>Equity derivatives</b>						
Equity options bought	4,918	438	12	3,974	259	-
Equity options sold	4,753	1	434	4,956	-	404
Equity swaps	2,666	99	322	1,781	45	79
Sub-total	12,337	538	768	10,711	304	483
<b>Credit derivatives</b>						
Credit default swaps	120,687	1,449	1,324	63,037	511	562
Sub-total	120,687	1,449	1,324	63,037	511	562
<b>Commodity derivatives</b>						
Commodity contracts	934	33	43	215	1	-
Commodity options bought	1,642	129	-	484	8	-
Commodity options sold	2,011	-	175	495	-	16
Sub-total	4,587	162	218	1,194	9	16
<b>Total derivatives held for trading</b>	<b>1,838,933</b>	<b>13,506</b>	<b>12,712</b>	<b>1,402,306</b>	<b>8,395</b>	<b>7,973</b>
<b>Derivatives held for hedging</b>						
Interest rate swaps held for fair value hedge	6,221	176	73	5,830	132	79
FX contracts held for fair value hedge	1,141	26	11	245	-	5
FX contracts held for hedge of net investment	582	6	10	590	2	8
Currency swaps held for fair value hedge	501	-	5	-	-	-
<b>Total derivatives held for hedging</b>	<b>8,445</b>	<b>208</b>	<b>99</b>	<b>6,665</b>	<b>134</b>	<b>92</b>
<b>Total derivatives</b>	<b>1,847,378</b>	<b>13,714</b>	<b>12,811</b>	<b>1,408,971</b>	<b>8,529</b>	<b>8,065</b>

#### 43 Cash and Cash Equivalents

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Cash on hand (Note 16)	1,007	988	915	915
Non-restricted balances with central banks (Note 16)	14,946	8,302	14,538	8,272
Trading Singapore Government securities and treasury bills (Note 17)	3,568	3,319	3,568	3,319
Trading other government securities and treasury bills (Note 18)	2,752	2,509	2,329	1,981
<b>Total</b>	<b>22,273</b>	<b>15,118</b>	<b>21,350</b>	<b>14,487</b>

#### 44 Share-based Compensation Plans

##### 44.1 DBSH Share Ownership Scheme

The DBSH Share Ownership Scheme is a fund set up to hold units of DBSH ordinary shares. All employees with at least one year of service and who are not

participating in the DBSH Share Option Plan or DBSH Share Plan are eligible.

Under the Scheme, participants and the Bank Group contribute up to 10% and 5% of monthly base salary respectively to buy units of DBSH ordinary shares.

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Amounts contributed by the Bank Group under the Scheme are recognised as employee benefits when paid.

	Ordinary shares			
	Number		Market value (\$ millions)	
	2007	2006	2007	2006
Balance at 1 January	2,922,829	3,507,829	65	58
Balance at 31 December	2,993,829	2,922,829	62	65

**44.2 DBSH Share Option Plan**

Under the DBSH Share Option Plan (the "Option Plan"), options to subscribe for DBSH ordinary shares may be granted to Bank Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

The following table sets out the movement of the unissued ordinary shares of DBSH under outstanding options, the weighted average exercise prices and expiration dates.

	2007		2006	
	Unissued number of ordinary shares under outstanding options	Weighted average exercise price (\$)	Unissued number of ordinary shares under outstanding options	Weighted average exercise price (\$)
Balance at 1 January	25,014,807	15.21	39,474,281	14.87
Movements during the year:				
- Granted	-	-	-	-
- Exercised	(6,951,829)	15.25	(12,977,688)	13.98
- Forfeited	(286,305)	15.35	(1,481,786)	16.95
Balance at 31 December	17,776,673	15.29	25,014,807	15.21
Additional information:				
Outstanding options exercisable at 31 December	17,007,753	15.30	20,987,537	15.28
Weighted average remaining contractual life of options outstanding at 31 December	4.5 years		5.9 years	
Range of exercise price of options outstanding at 31 December	\$10.40 to \$22.33		\$10.40 to \$22.33	

In 2007, 6,951,829 options (2006: 12,977,688) were exercised at their contractual exercise prices. During the year, the average market price of DBSH shares was \$21.88 (2006: \$18.24).

**44.3 DBSH Share Plan (previously known as DBSH Performance Share Plan)**

Under the DBSH Share Plan (the "Share Plan"), DBSH ordinary shares may be granted to Group executives who hold such rank as may be determined by the Committee appointed to administer the Share Plan from time to time.

Where performance-based awards are granted, participants are awarded shares of DBSH, their equivalent cash value or a combination of both, when prescribed DBSH Group performance targets are met over a three-year performance period.

At an Extraordinary General Meeting held on 30 March 2006, the shareholders of DBSH approved alterations to the Share Plan to (*inter alia*) permit the granting of time-based awards. Such time-based awards would operate like restricted share awards in that such awards will only vest after the satisfactory completion of time-based service conditions. Where time-based awards are granted, participants are awarded shares of

The exercise price of the granted options is equal to the average of the last dealt prices for DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd, for the three consecutive trading days immediately preceding the date of the grant.

These share options vest over a period in accordance with a vesting schedule determined by the Compensation and Management Development Committee of DBSH, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options.

During the current and previous financial years, there were no awards granted to eligible employees under the Option Plan.

DBSH, their equivalent cash value or a combination of both as part of their deferred bonus.

Since the inception of the Share Plan, no awards have been cash-settled under the Share Plan.

For performance-based awards, the shares will vest three years after the date of grant following completion of the prescribed performance period, provided the prescribed performance targets are met. A time-based award comprises two elements, namely, the main award and the "kicker" award. The shares comprised in the "kicker" award constitute twenty percent of the shares comprised in the main award. Fifty percent of the shares comprised in the main award will vest two years after the date of grant. The remainder fifty percent of the shares comprised in the main award, together with the shares comprised in the "kicker" award, will vest three years after the date of grant. In the case of both performance-based awards and time-based awards, the fair value of the shares awarded are computed based on the market price of the ordinary shares at the time of the award and is amortised through the income statement over the vesting period.

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At each balance sheet date, the Bank Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement and Share plan reserves.

The following table sets out the movement of shares granted pursuant to the Share Plan for the financial year ended 31 December 2007 and their fair values at grant date. No performance-based awards were granted in 2007.

(Number of shares)	March 2007 grant	March 2006 grant
Balance at 1 January 2007	Not applicable	3,375,690
Granted in 2007	2,193,471	Not applicable
Forfeited in 2007	(165,149)	(718,220)
Balance at 31 December 2007	2,028,322	2,657,470
Fair value per share at grant date	\$23.00	\$16.20

**44.4 DBSH Employee Share Plan**

The DBSH Employee Share Plan (the "ESP") caters to all employees of the Bank Group who are not eligible to participate in the DBSH Share Option Plan, the DBSH Share Plan or other equivalent plans.

Under the ESP, eligible employees are awarded ordinary shares of DBSH, their equivalent cash value or combinations of both when prescribed DBSH Group performance and/or time-based conditions are met. The ESP awards are granted at the absolute discretion of the Compensation and Management Development Committee.

Since the inception of the ESP, no awards have been cash settled under the ESP.

During the current and previous financial years, no performance-based awards have been granted to eligible employees under the ESP.

Time-based awards were granted in 2007. The time-based awards operate like restricted share awards in that such awards will only vest after the satisfactory completion of time-based service conditions. Under such awards, the shares will vest at fifty percent two years after the date of grant and the remainder fifty percent three years after the date of grant. The fair value of the shares awarded are computed based on the market price of the ordinary shares at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Bank Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement and Share plan reserves.

The following table sets out the movement of shares granted pursuant to the ESP for the financial year ended 31 December 2007 and their fair values at grant date.

(Number of shares)	March 2007 grant
Balance at 1 January 2007	Not applicable
Granted in 2007	80,200
Forfeited in 2007	(13,350)
Balance at 31 December 2007	66,850
Fair value per share at grant date	\$23.00

**45 Related Party Transactions**

**45.1** Transactions between the Bank and its subsidiaries, including consolidated special purpose entities, which are related parties of the Bank, have been eliminated on consolidation and are disclosed in Notes 45.6 and 45.7

**45.2** During the financial year, the Bank Group had banking transactions with related parties, consisting of associates, joint ventures, directors and key management personnel of the Bank Group. These included the taking of deposits and extension of credit card and other loan facilities. These transactions were made in the ordinary course of business and carried

out at arms-length commercial terms, and are not material.

In addition, directors and key management personnel received remuneration for services rendered during the financial year. Non-cash benefits including performance shares were also granted.

**45.3** Total compensation paid to the Bank's directors and key management personnel<sup>(a)</sup>, as well as fees paid to the Bank's directors and directors of subsidiaries are as follows:

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In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Short-term benefits	54	51	36	34
Post-employment benefits	#	#	#	#
Share-based payments	8	7	8	5
<b>Total</b>	<b>62</b>	<b>58</b>	<b>44</b>	<b>39</b>
<i>Comprise amounts<sup>(b)</sup> paid to:</i>				
-Bank directors	21	11	17	11
-Directors of subsidiaries	14	19	-	-
-Key management personnel	27	28	27	28
<b>Total</b>	<b>62</b>	<b>58</b>	<b>44</b>	<b>39</b>
Fees of Bank directors	#	#	#	#
Fees of subsidiaries directors	#	#	-	-
<b>Total compensation and fees</b>	<b>62</b>	<b>58</b>	<b>44</b>	<b>39</b>

# Amount under \$500,000

(a) Refers to members of the Management Committee, excluding members who are also the Bank's directors, but including key personnel who has authority and responsibility in planning the activities and direction of the Bank Group

(b) Includes cash bonus based on amount accrued during the year, to be paid in the following year

#### 45.4 Share options granted to the Bank's directors and key management personnel

No share options were granted to the Bank's directors and key management personnel during the financial year. The outstanding number of share options granted to the Bank's directors and key management personnel at the end of the financial year were 888,225 and 1,736,150 (2006: 888,225 and 1,127,550) respectively.

#### 45.5 Performance shares granted to the Bank's directors and key management personnel

During the financial year, 251,578 and 462,016 (2006: 240,740 and 271,390) awards in respect of DBSH ordinary shares were granted to the Bank's directors and key management personnel respectively.

#### 45.6 Income received and expenses paid to related parties

In \$ millions	Bank	
	2007	2006
<b>Income received from:</b>		
-Subsidiaries	191	62
-Special purpose entities	28	10
-Associates/joint ventures	3	1
<b>Total</b>	<b>222</b>	<b>73</b>
<b>Expenses paid to:</b>		
-Subsidiaries	365	222
-Subsidiaries of DBSH	#	#
-Special purpose entities	#	11
-Associates/joint ventures	8	5
<b>Total</b>	<b>373</b>	<b>238</b>

# Amount under \$500,000

#### 45.7 Amounts due to and from related parties

In \$ millions	Bank	
	2007	2006
<b>Amounts due from:</b>		
-Subsidiaries	1,823	259
-Special purpose entities	1,116	227
-Associates/joint ventures	#	#
<b>Total</b>	<b>2,939</b>	<b>486</b>
<b>Amounts due to:</b>		
-DBSH	21	201
-Subsidiaries	6,078	3,321
-Subsidiaries of DBSH	#	#
-Special purpose entities	994	1,216
-Associates/joint ventures	#	#
<b>Total</b>	<b>7,093</b>	<b>4,738</b>

# Amount under \$500,000



#### **45.8 Loans and guarantees to related parties**

Loans granted to subsidiaries amounted to \$1,091 million (2006: \$1,127 million) and will be settled in cash. There were no loans granted by subsidiaries to the Bank. An allowance charge of \$276 million has been recognised in the current financial year in respect of a loan granted by the Bank to Rosa, a consolidated special purpose entity of the Bank Group, to fund its assets.

Guarantees granted to and from subsidiaries amounted to \$1,002 million (2006: \$697 million) and \$4 million (2006: \$6 million) respectively.

### **46 Financial Assets and Liabilities not carried at fair value**

For financial assets and liabilities not carried at fair value on the financial statements, the Bank Group has ascertained that their fair values were not materially different from the carrying amounts at year-end. The basis of arriving at their fair value is as follows:

#### **(a) Cash and balances with central banks and Due from banks**

The estimated fair value of placements is based on the discounted cash flows using the prevailing money market interest rates for placements with similar credit risk and remaining maturity.

#### **(b) Financial investments**

For equities where market price information is not available, fair value has been estimated by reference to the net tangible asset backing of the investee. As at 31 December 2007, unquoted equities of \$160 million (2006: \$133 million) for the Bank Group, and \$143 million (2006: \$125 million) for the Bank, were stated at cost because the fair values cannot be reliably estimated using valuation techniques supported by observable market data. The Bank Group intends to dispose of the financial instruments through trade sale.

#### **(c) Loans and advances to customers**

The estimated fair value of loans and advances to customers is based on discounted cash flows using the relevant market interest rates and credit spread by product types.

#### **(d) Due to banks and Due to non-bank customers**

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

#### **(e) Other debt securities issued and bills payable**

The fair value of other debt securities issued and bills payable approximates their carrying amounts due to their short tenor.

#### **(f) Subordinated term debts**

The estimated fair value of subordinated term debts is based on a discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

### **47 Risk Governance**

Under the Bank Group's risk governance framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of a robust enterprise-wide risk management policies and processes. Where necessary, the Bank Group sets risk appetite limits to guide risk-taking.

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to risk appetite limits. To provide risk oversight, senior management risk committees are mandated to focus on specific risk areas. These oversight committees are the Business Support and Controls Committee, the

Group Market Risk Committee, the Group Credit Risk Committee, the Group Asset and Liability Committee, the Group Operational Risk Committee and the Group Commitments and Conflicts Committee.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval in line with the Bank Group's risk governance framework.

Credit risk is the potential earnings volatility caused by obligors' inability to fulfill their contractual debt obligations. Senior management sets the overall direction and policy for managing credit risk at the enterprise level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. The Core Credit Risk Policy and the accompanying supplemental policies sets forth the principles by which the Bank Group conducts its credit risk underwriting activities. The Group Credit Risk Committee serves as the executive forum for overseeing various aspects of credit risk taking including framework, limit management, policies, processes, methodologies and systems.

Exposure to credit risks arises from lending, sales and trading as well as derivative activities. Lending exposures are typically represented by the notional value or principal amount of on balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Bank Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Bank Group on behalf of a customer, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing. Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

The credit exposure of derivative transactions is based on the positive mark-to-market value to the Bank Group, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Bank Group enters into collateralised margin transactions with counterparties. The Bank Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures. Internally, the Bank Group measures counterparty credit exposures using the mark-to-market exposure with an appropriate add-on for future potential exposures.

The risk management of the exposures is conducted through credit granting process which includes the assessment of repayment likelihood and the establishment of appropriate credit limits. The Bank Group uses various internal and external risk rating systems (credit scorecards, customer risk grading and bureau score) to control the level of credit risk accepted by the Bank Group. Business units and credit

approvers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure all crucial information is included in the application for the purpose of assessment and approval.

The Bank Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and / or committees (as delegated) depending on, among other things, the size and nature of the proposed transactions. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by credit management units at the transaction and portfolio levels, as appropriate.

In addition to the consideration of the primary recourse to the obligor for the credit risk underwritten, the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and/or third party support as well as the use of credit derivatives to hedge or transfer risk to other third parties form an integral part of the credit risk management process. Some specific mitigation measures are outlined below:

#### **Collateral**

Where possible, the Bank Group takes collateral as a secondary recourse to the borrower. Collaterals include cash, marketable securities, properties, trade receivables, inventory and equipment and other physical and financial collateral. The Bank Group may also take fixed and floating charges on assets of borrowers. It has put in place policies which governs the determination of eligibility of various collaterals to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. For collateral taken for global financial market operations, the collateral is marked to market on a mutually agreed period with the respective counterparties. For collateral taken for commercial banking, the collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. Whilst real estate properties constitute the largest percentage of the collateral assets, the Bank Group generally considers the collateral assets to be diversified.

#### **Master netting arrangements**

The Bank Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

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**Other risk mitigating factors**

In addition, the Bank Group also uses guarantees, credit derivatives and credit insurance as credit risk mitigating factors. Whilst the Bank Group may accept

guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation. Credit derivatives are used as credit risk mitigating factors mainly in structured transactions and for global financial market operations.

**48.1 Maximum exposure to credit risk**

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit, without taking into account the fair value of any collateral and master netting arrangements. The table below shows the maximum exposure to credit risk for the components of the balance sheet:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Cash and balances with central banks (excluding cash on hand)	17,557	10,858	16,765	10,704
Singapore Government securities and treasury bills	15,433	12,843	15,433	12,843
Due from banks	23,304	25,273	16,833	19,590
Financial assets at fair value through profit or loss				
Other government securities and treasury bills	2,752	2,509	2,329	1,981
Corporate debt securities	11,914	10,474	10,509	9,510
Loans and advances to customers	2,088	1,481	1,762	1,296
Other financial assets	1,260	1,242	1,260	1,242
Positive replacement values	13,119	8,215	13,714	8,529
Loans and advances to customers	106,344	85,149	76,165	60,470
Financial investments				
Other government securities and treasury bills	2,248	2,858	2,033	2,723
Corporate debt securities	14,611	17,232	9,095	9,542
Securities pledged				
Singapore Government securities and treasury bills	268	317	268	317
Other government securities and treasury bills	3,629	2,549	1,607	361
Corporate debt securities	218	-	218	-
Other assets	5,945	4,590	3,070	2,527
<b>Sub-Total</b>	<b>220,690</b>	<b>185,590</b>	<b>171,061</b>	<b>141,635</b>
Contingent liabilities	14,656	12,187	14,013	10,897
Commitments	91,182	85,520	73,793	69,042
<b>Total credit exposure</b>	<b>326,528</b>	<b>283,297</b>	<b>258,867</b>	<b>221,574</b>

**48.2 Loans and advances to customers**

Loans and advances to customers are summarised as follows:

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Loans and advances to customers				
Neither past due nor impaired (i)	104,909	83,744	76,139	60,343
Past due but not impaired (ii)	1,608	1,395	250	158
Impaired (iii)	1,168	1,460	674	1,037
<b>Total gross loans</b>	<b>107,685</b>	<b>86,599</b>	<b>77,063</b>	<b>61,538</b>

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**(i) Loans and advances neither past due nor impaired, analysed by loan grading and industry**

The credit quality of the portfolio of loans and advances that are neither past due nor impaired can be assessed by reference to the loan gradings in MAS Notice to Banks No. 612, "Credit Files, Grading and Provisioning".

<b>In \$ millions</b>	<b>Bank Group</b>		
<b>2007</b>	<b>Passed</b>	<b>Special mention</b>	<b>Total</b>
Manufacturing	12,186	904	13,090
Building and construction	12,544	502	13,046
Housing loans	27,953	327	28,280
General commerce	8,794	472	9,266
Transportation, storage and communication	10,609	177	10,786
Financial institutions, investments and holding companies	10,591	1,378	11,969
Professionals and private individuals (except housing loans)	7,954	62	8,016
Others	9,627	829	10,456
<b>Total</b>	<b>100,258</b>	<b>4,651</b>	<b>104,909</b>

<b>In \$ millions</b>	<b>Bank Group</b>		
<b>2006</b>	<b>Passed</b>	<b>Special mention</b>	<b>Total</b>
Manufacturing	9,256	1,059	10,315
Building and construction	9,505	545	10,050
Housing loans	26,313	283	26,596
General commerce	7,318	354	7,672
Transportation, storage and communication	7,553	89	7,642
Financial institutions, investments and holding companies	8,225	397	8,622
Professionals and private individuals (except housing loans)	6,437	16	6,453
Others	6,306	88	6,394
<b>Total</b>	<b>80,913</b>	<b>2,831</b>	<b>83,774</b>

<b>In \$ millions</b>	<b>Bank</b>		
<b>2007</b>	<b>Passed</b>	<b>Special mention</b>	<b>Total</b>
Manufacturing	8,202	209	8,411
Building and construction	8,663	367	9,030
Housing loans	20,689	311	21,000
General commerce	3,653	95	3,748
Transportation, storage and communication	8,560	133	8,693
Financial institutions, investments and holding companies	10,077	1,289	11,366
Professionals and private individuals (except housing loans)	5,162	32	5,194
Others	8,640	57	8,697
<b>Total</b>	<b>73,646</b>	<b>2,493</b>	<b>76,139</b>

<b>In \$ millions</b>	<b>Bank</b>		
<b>2006</b>	<b>Passed</b>	<b>Special mention</b>	<b>Total</b>
Manufacturing	7,031	207	7,238
Building and construction	6,843	425	7,268
Housing loans	18,864	273	19,137
General commerce	2,932	80	3,012
Transportation, storage and communication	5,628	76	5,704
Financial institutions, investments and holding companies	8,049	276	8,325
Professionals and private individuals (except housing loans)	4,113	5	4,118
Others	5,469	72	5,541
<b>Total</b>	<b>58,929</b>	<b>1,414</b>	<b>60,343</b>

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**(ii) Loans and advances past due but not impaired, analysed by past due period and industry**

In \$ millions 2007	Bank Group			Total
	Up to 30 days past due	30 - 59 days past due	60 - 90 days past due	
Manufacturing	202	20	9	231
Building and construction	177	2	22	201
Housing loans	265	23	5	293
General commerce	247	14	12	273
Transportation, storage and communication	158	44	30	232
Financial institutions, investment and holding companies	111	-	-	111
Professionals and private individuals (except housing loans)	155	19	5	179
Others	77	10	1	88
<b>Total</b>	<b>1,392</b>	<b>132</b>	<b>84</b>	<b>1,608</b>

In \$ millions 2006	Bank Group			Total
	Up to 30 days past due	30 - 59 days past due	60 - 90 days past due	
Manufacturing	88	10	8	106
Building and construction	82	15	3	100
Housing loans	283	20	5	308
General commerce	175	12	6	193
Transportation, storage and communication	393	31	17	441
Financial institutions, investment and holding companies	11	9	-	20
Professionals and private individuals (except housing loans)	138	12	9	159
Others	58	7	3	68
<b>Total</b>	<b>1,228</b>	<b>116</b>	<b>51</b>	<b>1,395</b>

In \$ millions 2007	Bank			Total
	Up to 30 days past due	30 - 59 days past due	60 - 90 days past due	
Manufacturing	11	2	-	13
Building and construction	20	-	-	20
Housing loans	-	-	1	1
General commerce	11	-	-	11
Transportation, storage and communication	11	1	1	13
Financial institutions, investment and holding companies	110	-	-	110
Professionals and private individuals (except housing loans)	63	8	-	71
Others	9	2	-	11
<b>Total</b>	<b>235</b>	<b>13</b>	<b>2</b>	<b>250</b>

In \$ millions 2006	Bank			Total
	Up to 30 days past due	30 - 59 days past due	60 - 90 days past due	
Manufacturing	11	2	-	13
Building and construction	2	-	-	2
Housing loans	-	1	1	2
General commerce	33	-	4	43
Transportation, storage and communication	6	6	-	7
Financial institutions, investment and holding companies	10	-	-	10
Professionals and private individuals (except housing loans)	61	3	3	67
Others	13	-	1	14
<b>Total</b>	<b>136</b>	<b>13</b>	<b>9</b>	<b>158</b>

**(iii) Non-performing assets**

The Bank Group classifies its credit facilities in accordance with MAS Notice to Banks No. 612, "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore ("MAS"). These guidelines require the Bank Group to categorise its credit portfolios according to its assessment of a borrower's ability to repay a loan from his normal sources of income. There are five categories of loans as follows:

**Performing**

- Pass grades indicate that the timely repayment of the outstanding credit facilities is not in doubt.

- Special mention grades indicate that the credit facilities exhibit potential weaknesses that, if not corrected in a timely manner, may adversely affect future repayments and warrant close attention by the Bank Group.

**Classified or non-performing loans**

- Substandard grades indicate that the credit facilities exhibit definable weaknesses either in respect of business, cash flow or financial position of the borrower that may jeopardise repayment on existing terms.

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- Doubtful grades indicate that the credit facilities exhibit severe weaknesses such that the prospect of full recovery of the outstanding credit facilities is questionable and the prospect of a loss is high, but the exact amount remains undeterminable.
- Loss grades indicate the amount of loan recovery is assessed to be insignificant.

portion covered by the amount realisable from a collateral may be classified as substandard while the unsecured portion of the loan will be classified as doubtful or loss, as appropriate.

The Bank Group may also apply a split classification to any credit facility where appropriate. For instance, when a non-performing loan is partially secured, the **Non-performing assets by loan grading and industry**

In \$ millions 2007	NPAs			Bank Group				
	Sub- standard	Doubtful	Loss	Total	Sub- standard	Doubtful	Loss	Total
<b>Customer loans</b>								
Manufacturing	184	97	55	336	23	82	55	160
Building and construction	51	9	9	69	1	9	9	19
Housing loans	120	1	31	152	3	1	31	35
General commerce	150	34	102	286	7	34	102	143
Transportation, storage and communications	16	3	2	21	-	3	2	5
Financial institutions, investment and holding companies	54	-	-	54	8	-	-	8
Professional and private individuals (except housing loans)	84	9	33	126	13	9	33	55
Others	70	31	23	124	13	30	23	66
<b>Sub-total</b>	<b>729</b>	<b>184</b>	<b>255</b>	<b>1,168</b>	<b>68</b>	<b>168</b>	<b>255</b>	<b>491</b>
<b>Debt securities</b>	<b>6</b>	<b>151</b>	<b>3</b>	<b>160</b>	<b>-</b>	<b>149</b>	<b>3</b>	<b>152</b>
<b>Contingent items</b>	<b>110</b>	<b>3</b>	<b>1</b>	<b>114</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>9</b>
<b>Total</b>	<b>845</b>	<b>338</b>	<b>259</b>	<b>1,442</b>	<b>73</b>	<b>320</b>	<b>259</b>	<b>652</b>

In \$ millions 2006	NPAs			Bank Group				
	Sub- standard	Doubtful	Loss	Total	Sub- standard	Doubtful	Loss	Total
<b>Customer loans</b>								
Manufacturing	144	119	51	314	20	99	51	170
Building and construction	63	11	33	107	6	11	33	50
Housing loans	173	2	49	224	5	2	49	56
General commerce	203	40	93	336	15	38	93	146
Transportation, storage and communications	14	10	1	25	1	10	1	12
Financial institutions, investment and holding companies	136	1	36	173	10	1	36	47
Professional and private individuals (except housing loans)	86	13	43	142	12	10	43	65
Others	67	42	30	139	11	38	30	79
<b>Sub-total</b>	<b>886</b>	<b>238</b>	<b>336</b>	<b>1,460</b>	<b>80</b>	<b>209</b>	<b>336</b>	<b>625</b>
<b>Debt securities</b>	<b>21</b>	<b>-</b>	<b>15</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>15</b>
<b>Contingent items</b>	<b>32</b>	<b>5</b>	<b>-</b>	<b>37</b>	<b>4</b>	<b>5</b>	<b>-</b>	<b>9</b>
<b>Total</b>	<b>939</b>	<b>243</b>	<b>351</b>	<b>1,533</b>	<b>84</b>	<b>214</b>	<b>351</b>	<b>649</b>

(a) The Bank Group's NPAs and specific allowances for customer loans each included \$55 million (2006: \$61 million) in interest receivables

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In \$ millions	NPA's				Bank Specific allowances <sup>(a)</sup>			
	Sub-standard	Doubtful	Loss	Total	Sub-standard	Doubtful	Loss	Total
<b>2007</b>								
<b>Customer loans</b>								
Manufacturing	77	42	40	159	13	35	40	88
Building and construction	19	1	3	23	1	1	3	5
Housing loans	77	-	31	108	2	-	31	33
General commerce	89	2	89	180	5	2	89	96
Transportation, storage and communications	12	2	-	14	-	2	-	2
Financial institutions, investment and holding companies	54	-	-	54	8	-	-	8
Professional and private individuals (except housing loans)	47	3	14	64	1	2	14	18
Others	55	6	11	72	13	6	11	30
<b>Sub-total</b>	<b>430</b>	<b>56</b>	<b>188</b>	<b>674</b>	<b>43</b>	<b>49</b>	<b>188</b>	<b>280</b>
<b>Special purpose entities<sup>(b)</sup></b>	<b>1,099</b>	<b>-</b>	<b>276</b>	<b>1,375</b>	<b>-</b>	<b>-</b>	<b>276</b>	<b>276</b>
<b>Debt securities</b>	<b>7</b>	<b>150</b>	<b>3</b>	<b>160</b>	<b>-</b>	<b>149</b>	<b>3</b>	<b>152</b>
<b>Contingent items</b>	<b>114</b>	<b>4</b>	<b>-</b>	<b>118</b>	<b>5</b>	<b>4</b>	<b>-</b>	<b>9</b>
<b>Total</b>	<b>1,650</b>	<b>210</b>	<b>467</b>	<b>2,327</b>	<b>48</b>	<b>202</b>	<b>467</b>	<b>717</b>

In \$ millions	NPA's				Bank Specific allowances <sup>(a)</sup>			
	Sub-standard	Doubtful	Loss	Total	Sub-standard	Doubtful	Loss	Total
<b>2006</b>								
<b>Customer loans</b>								
Manufacturing	107	91	41	239	19	74	41	134
Building and construction	39	2	30	71	5	2	30	37
Housing loans	95	-	49	144	1	-	49	50
General commerce	143	10	79	232	7	9	79	95
Transportation, storage and communications	11	8	2	21	1	8	2	11
Financial institutions, investment and holding companies	136	-	36	172	10	1	36	47
Professional and private individuals (except housing loans)	53	4	23	80	2	3	23	28
Others	46	11	21	78	8	11	21	40
<b>Sub-total</b>	<b>630</b>	<b>126</b>	<b>281</b>	<b>1,037</b>	<b>53</b>	<b>108</b>	<b>281</b>	<b>442</b>
<b>Debt securities</b>	<b>21</b>	<b>-</b>	<b>15</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>15</b>
<b>Contingent items</b>	<b>30</b>	<b>5</b>	<b>-</b>	<b>35</b>	<b>3</b>	<b>5</b>	<b>-</b>	<b>8</b>
<b>Total</b>	<b>681</b>	<b>131</b>	<b>296</b>	<b>1,108</b>	<b>56</b>	<b>113</b>	<b>296</b>	<b>465</b>

(a) The Bank's NPAs and specific allowances for customer loans each included \$34 million (2006: \$43 million) in interest receivables

(b) Refers to a loan granted to Red Orchid Secured Assets Limited. Refer to Note 55

**Non-performing assets by region**

In \$ millions	Bank Group		Bank	
	NPAs	Specific allowances	NPAs	Specific allowances
<b>2007</b>				
Singapore	579	245	1,952	520
Hong Kong	419	174	64	19
Rest of Greater China	80	28	4	6
South and Southeast Asia	148	45	106	16
Rest of the World	216	160	201	156
<b>Total</b>	<b>1,442</b>	<b>652</b>	<b>2,327</b>	<b>717</b>
<b>2006</b>				
Singapore	840	366	838	364
Hong Kong	363	151	-	-
Rest of Greater China	68	20	57	18
South and Southeast Asia	156	77	114	52
Rest of the World	106	35	99	31
<b>Total</b>	<b>1,533</b>	<b>649</b>	<b>1,108</b>	<b>465</b>

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**Non-performing assets by past due period**

In \$ millions	Bank Group		Bank	
	2007	2006	2007	2006
Not overdue	542	413	453	335
< 90 days past due	255	332	1,545	233
91-180 days past due	94	128	32	70
> 180 days past due	551	660	297	470
<b>Total</b>	<b>1,442</b>	<b>1,533</b>	<b>2,327</b>	<b>1,108</b>

**Restructured non-performing assets**

Loans are classified as restructured loans when the Bank Group grants concessions to a borrower because of a deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A restructured credit

facility is classified into the appropriate non-performing grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the restructured terms. Such loans are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the restructured terms.

In \$ millions	Bank Group		Bank	
	NPAs	Specific allowances	NPAs	Specific allowances
<b>2007</b>				
Substandard	168	27	108	11
Doubtful	25	23	8	8
Loss	38	38	25	25
<b>Total</b>	<b>231</b>	<b>88</b>	<b>141</b>	<b>44</b>
<b>2006</b>				
Substandard	218	29	163	13
Doubtful	66	48	63	45
Loss	42	42	35	35
<b>Total</b>	<b>326</b>	<b>119</b>	<b>261</b>	<b>93</b>

Restructured loans returned to the performing status but are still under concessions as at 31 December 2007 and 31 December 2006 are not material.

**48.3 Credit quality of Singapore Government securities and treasury bills, financial assets at fair value through profit or loss, and financial investments**

The table below presents an analysis of Singapore Government securities and treasury bills, financial assets at fair value through profit or loss, and financial investments by rating agency designation at 31 December:

Bank Group	Financial assets at fair value through profit or loss					Financial investments			
	Singapore Government securities and treasury bills	Other government securities and treasury bills	Corporate debt securities	Loans and advances to customer	Other financial assets (due from banks)	Total (6)=(2+3+4+5)	Other government securities and treasury bills	Corporate debt securities	Total (9)=(7+8)
In \$ millions	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>2007</b>									
AAA	15,433	357	1,236	-	-	1,593	309	1,692	2,001
AA- to AA+	-	100	1,995	-	-	2,095	114	3,510	3,624
A- to A+	-	372	3,909	-	-	4,281	1,296	4,705	6,001
Lower than A-	-	1,006	3,619	-	-	4,625	148	2,080	2,228
Unrated	-	917	1,155	2,088	1,260	5,420	381	2,624	3,005
<b>Total</b>	<b>15,433</b>	<b>2,752</b>	<b>11,914</b>	<b>2,088</b>	<b>1,260</b>	<b>18,014</b>	<b>2,248</b>	<b>14,611</b>	<b>16,859</b>
<b>2006</b>									
AAA	12,843	264	666	-	-	930	1,400	3,006	4,406
AA- to AA+	-	212	1,233	-	-	1,445	119	4,792	4,911
A- to A+	-	38	4,463	-	-	4,501	1,020	5,216	6,236
Lower than A-	-	595	3,159	-	-	3,754	124	2,033	2,157
Unrated	-	1,400	953	1,481	1,242	5,076	195	2,185	2,380
<b>Total</b>	<b>12,843</b>	<b>2,509</b>	<b>10,474</b>	<b>1,481</b>	<b>1,242</b>	<b>15,706</b>	<b>2,858</b>	<b>17,232</b>	<b>20,090</b>



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Bank In \$ millions External rating	Financial assets at fair value through profit or loss					Financial investments			
	Singapore Government securities and treasury bills (1)	Other government securities and treasury bills (2)	Corporate debt securities (3)	Loans and advances to customer (4)	Other financial assets (due from banks) (5)	Total (6)=(2 +3+4+ 5)	Other government securities and treasury bills (7)	Corporate debt securities (8)	Total (9)=(7 +8)
<b>2007</b>									
AAA	15,433	161	768	-	-	929	307	1,033	1,340
AA- to AA+	-	67	1,223	-	-	1,290	110	1,229	1,339
A- to A+	-	372	3,773	-	-	4,145	1,296	2,843	4,139
Lower than A-	-	872	3,603	-	-	4,475	51	1,464	1,515
Unrated	-	857	1,142	1,762	1,260	5,021	269	2,526	2,795
<b>Total</b>	<b>15,433</b>	<b>2,329</b>	<b>10,509</b>	<b>1,762</b>	<b>1,260</b>	<b>15,860</b>	<b>2,033</b>	<b>9,095</b>	<b>11,128</b>
<b>2006</b>									
AAA	12,843	264	662	-	-	926	1,395	1,488	2,883
AA- to AA+	-	69	982	-	-	1,051	110	1,276	1,386
A- to A+	-	38	3,735	-	-	3,773	995	3,317	4,312
Lower than A-	-	377	3,158	-	-	3,535	101	1,556	1,657
Unrated	-	1,233	973	1,296	1,242	4,744	122	1,905	2,027
<b>Total</b>	<b>12,843</b>	<b>1,981</b>	<b>9,510</b>	<b>1,296</b>	<b>1,242</b>	<b>14,029</b>	<b>2,723</b>	<b>9,542</b>	<b>12,265</b>

#### 48.4 Repossessed collateral

As and when required, the Bank Group will take possession of collaterals it holds as securities and will dispose them as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed collaterals are classified in the balance sheet as other assets. The amount of such other assets for 2007 and 2006 are not material.

#### 48.5 Concentration risk

The Bank Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the Bank Group on an ongoing basis. Limits are established and regularly monitored in respect of country exposures and major industry groups, as well as for single counterparty exposures. Control structures are in place to ensure that appropriate limits are in place, exposures are monitored against these limits, and appropriate actions are taken if limits are breached.

#### Cross-border exposures

At 31 December 2007, the Bank Group had exposures to various countries where net exposure exceeded 1% of the Bank Group's total assets. The exposures are determined based on the location of the credit risk of the customers and counterparties regardless of where the transactions are booked.

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The Bank Group's exposures exceeding 1% of the Bank Group total assets as at 31 December were as follows:

In \$ millions	Loans and debt securities				Total exposure	As a % of Total assets
	Banks	Central banks and Government securities	Non-banks <sup>(a)</sup>	Investments	Amount	
Assets in	(1)	(2)	(3)	(4)	(5)=(1+2+3+4)	(6)
<b>2007</b>						
<b>Top 10 countries (Net exposure &gt;1% of Total assets)</b>						
Hong Kong	2,003	2,231	29,130	225	33,589	14.4
China	2,688	584	6,377	783	10,432	4.5
South Korea	7,498	1,415	1,257	-	10,170	4.4
United Kingdom	4,609	21	2,995	92	7,717	3.3
India	3,246	968	2,289	802	7,305	3.1
Germany	3,469	1,047	946	1	5,463	2.3
United States	873	351	3,528	395	5,147	2.2
Indonesia	576	835	3,500	8	4,919	2.1
Australia	2,850	-	1,722	39	4,611	2.0
Taiwan	190	1,900	1,865	-	3,955	1.7
<b>Total</b>	<b>28,002</b>	<b>9,352</b>	<b>53,609</b>	<b>2,345</b>	<b>93,308</b>	<b>40.0</b>
<b>2006</b>						
<b>Top 10 countries (Net exposure &gt;1% of Total assets)</b>						
Hong Kong	1,761	2,486	27,953	138	32,338	16.4
South Korea	6,506	684	1,664	-	8,854	4.5
United States	1,689	657	3,827	449	6,622	3.4
China	1,990	118	4,174	239	6,521	3.3
India	2,980	671	1,810	438	5,899	3.0
United Kingdom	2,829	188	2,391	42	5,450	2.8
Germany	3,174	670	1,423	4	5,271	2.7
Australia	2,976	6	1,474	52	4,508	2.3
Netherlands	2,978	16	849	9	3,852	2.0
Indonesia	389	1,461	1,737	12	3,599	1.8
<b>Total</b>	<b>27,272</b>	<b>6,957</b>	<b>47,302</b>	<b>1,383</b>	<b>82,914</b>	<b>42.0</b>

(a) Non-bank loans include loans to government and quasi-government entities

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The Bank's exposures exceeding 1% of the Bank total assets as at 31 December were as follows:

In \$ millions	Loans and debt securities				Total exposure	
	Banks	Central banks and Government securities	Non-banks <sup>(a)</sup>	Investments	Amount	As a % of Total assets
Assets in	(1)	(2)	(3)	(4)	(5)=(1+2+3+4)	(6)
<b>2007</b>						
<b>Top 10 countries</b>						
<b>(Net exposure &gt;1% of Total assets)</b>						
South Korea	6,812	1,415	1,245	-	9,472	5.0
Hong Kong	1,020	174	6,234	209	7,637	4.0
India	3,240	966	2,287	801	7,294	3.8
United Kingdom	3,672	20	2,954	92	6,738	3.5
China	1,727	31	1,944	732	4,434	2.3
United States	426	351	3,247	395	4,419	2.3
Taiwan	174	1,900	1,783	-	3,857	2.0
Germany	1,521	1,045	944	1	3,511	1.9
Australia	1,693	-	1,346	39	3,078	1.6
Malaysia	661	604	1,451	11	2,727	1.4
<b>Total</b>	<b>20,946</b>	<b>6,506</b>	<b>23,435</b>	<b>2,280</b>	<b>53,167</b>	<b>27.9</b>
<b>2006</b>						
<b>Top 10 countries</b>						
<b>(Net exposure &gt;1% of Total assets)</b>						
United States	5,939	692	1,654	-	8,285	5.3
South Korea	839	148	5,871	139	6,997	4.5
Hong Kong	2,979	677	1,807	438	5,901	3.8
United Kingdom	799	664	3,722	449	5,634	3.6
India	1,489	117	3,245	239	5,090	3.3
China	1,432	190	2,371	42	4,035	2.6
Malaysia	2,497	16	849	9	3,371	2.2
Taiwan	1,253	674	1,423	3	3,353	2.1
Germany	450	1,469	1,199	2	3,120	2.0
Netherlands	934	285	1,217	4	2,440	1.6
<b>Total</b>	<b>18,611</b>	<b>4,932</b>	<b>23,358</b>	<b>1,325</b>	<b>48,226</b>	<b>30.8</b>

(a) Non-bank loans include loans to government and quasi-government entities

## 49 Market Risk

### 49.1 Trading market risk

Trading market risk arises from the impact on trading positions of changes in:

- Foreign exchange rates;
- Commodity prices;
- Equity prices;
- Interest rate yields and credit spreads.

It also includes the impact from changes in the correlations and volatilities of the above risk factors.

The Bank Group manages trading market risk in the course of market-making, structuring and packaging products for investors and other clients, as well as to benefit from market opportunities.

The Bank Group's policies and processes for managing trading market risk are approved by senior management and comprise the following elements:

- Trading book policy and valuation framework;
- Types of market risk to be covered, and the risk metrics and methodologies to be used to capture such risks;

- Roles and responsibilities of relevant functions in managing trading market risks;
- Determination of the Bank Group's trading market risk appetite by the Board of Directors and allocation of risk limits to risk-takers;
- Independent monitoring of market risk appetite and control limits;
- Assurance of valuation models and validation of risk models; and
- New product process through which risk issues are identified and addressed before a new product is launched.

The Group Market Risk Committee serves as the executive forum for overseeing various aspects of market risk taking including framework, limit management, policies, processes, methodologies and systems.

The principal market risk appetite measures for trading market risk are Value-at-Risk (VaR) and stress loss. This is complemented at the level of risk-taking units level by more granular risk and loss limits such as risk sensitivity-based limits and management action triggers to measure and control trading exposures.

The Bank Group's trading VaR methodology uses a historical simulation approach (at a 99% confidence level over a one-day holding period, using a 2-year historical observation period) to forecast the Bank Group's trading market risk. The Bank Group

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computes VaR daily for each trading business unit and location, and at the Bank Group level. VaR is back-tested against the profit and loss of the trading book in line with policy in order to monitor its predictive power.

Although VaR provides valuable insights, no single risk measure can capture all aspects of trading market risk. To complement the VaR measure, regular stress testing is carried out.

The following table shows the period-end VaR for trading market risk:

<b>Bank Group</b>		
In \$ millions	As at 31 Dec 2007	As at 31 Dec 2006 <sup>(a)</sup>
Total	22	10

<b>Bank</b>		
In \$ millions	As at 31 Dec 2007	As at 31 Dec 2006 <sup>(a)</sup>
Total	19	9

(a) Prior to 1 September 2006, the Bank Group used a parametric methodology for VaR. The same confidence interval and holding period were applied under parametric VaR and the VaR estimates are hence on a comparable basis between the two methodologies

**49.2 Non-trading market risk**

Non-trading market risk arises from changes in foreign exchange rates, interest rates and equity prices. Non-trading market risk arises in the course of (a) the Bank Group's management of funds arising from banking intermediation and (b) the Bank Group's banking business and investments; specifically, from mismatches in the interest rate profile of assets and liabilities, from the effect of exchange rate movements on the Bank Group's earnings, capital accounts and investments denominated in foreign currencies and from the effect of changes in equity prices on the carrying value of investments in major stakes.

To optimise its income and balance sheet management, the Bank Group deploys funds in debt securities, equities and funds or in the interbank market. Derivatives may be used to hedge non-trading market risk. An Investment Framework governs the Bank Group's investment of its surplus funds. The Framework requires these investments to be subject to Board and senior management limits on the portfolio size, credit quality, and product and sector concentrations. The market risk arising in the course of managing surplus funds comprises interest rate and equity price risks. These risks are monitored using risk sensitivity measures and valuation action triggers.

Senior management committees oversee non-trading market risk and allocate core limits to regional/local Asset and Liability Committees ("ALCOs") in the different countries and ensure that the consolidated exposures of the Bank Group are within prudent levels. Regional/local ALCOs are responsible for managing the risks in their respective areas of responsibility, including the setting of operational limits and guidelines to refine risk management, consistent with the Asset and Liability Management Policy.

Below is an assessment of the sensitivity of market risks on non-trading positions. The actual results may differ from the sensitivity impact as the Bank Group manages factors such as changes in volumes, margins (for interest rate risk) and future business strategies, the impact of which is not captured in the sensitivity assessment.

**Interest rate risk**

Interest rate risk arising from mismatches in the interest rate profile of assets and liabilities has several aspects: basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. This risk is subject to the Asset and Liability Management Policy. To monitor this risk, the Bank Group uses various tools, including re-pricing gap reports, sensitivity analysis and income scenario simulations.

The Bank Group manages and monitors interest rate sensitivity of its non-trading positions by various currencies. The estimated change from non-trading positions for major currencies (SGD, HKD and USD) as at 31 December 2007 assuming a 25 basis point increase in interest rates was an increase in net interest income of \$93 million (2006: \$41 million) and a 25 basis point decrease in interest rates was a decrease in net interest income of \$91 million (2006: \$46 million). The estimated economic value sensitivity for other major non-trading positions in EUR, JPY and USD as at 31 December 2007 assuming a 25 basis point parallel shift in general interest rates for these currencies was \$23 million (2006: \$33 million).

The Bank's estimated change from non-trading positions for its major currency, SGD, as at 31 December 2007 assuming a 25 basis point increase in interest rates was an increase in net interest income of \$71 million (2006: \$27 million) and a 25 basis point decrease in interest rates was a decrease in net interest income of \$72 million (2006: \$27 million). The estimated economic value sensitivity for other major non-trading positions in EUR, JPY and USD as at 31 December 2007 assuming a 25 basis point parallel shift in general interest rates for these currencies was \$23 million (2006: \$33 million).

**Currency risk**

Foreign currency loans and investments in fundable currencies are generally funded in the same foreign currencies. However, positions arising from investments in currencies which have high hedging costs or which are illiquid or controlled, will be reviewed by senior management and may be managed with alternative strategies (e.g. with non-deliverable forwards) or left unhedged. This foreign exchange risk is subject to the Bank Group's Structural Foreign Exchange Policy and is monitored using foreign exchange net open position reports. The consolidated position across all currencies is set out in Note 49.4 below. Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank Group and Bank on the non-trading unhedged positions as at 31 December 2007 is summarised below:

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In \$ millions	Change in currency rate in %	Bank Group	Bank
		Revaluation sensitivity	Revaluation sensitivity
<b>2007</b>			
HKD	+10%	+6	+6
	-10%	-6	-6
USD	+10%	#	#
	-10%	#	#
Others	+10%	+67	+62
	-10%	-67	-62
<b>2006</b>			
HKD	+10%	+5	+5
	-10%	-5	-5
USD	+10%	+8	#
	-10%	-8	#
Others	+10%	+78	+70
	-10%	-78	-70

# Amount under \$500,000

**Equity risk**

Equity price risk arises from the impact of changes in equity prices on equity positions arising from the Bank Group's management of funds arising from banking intermediation and the Bank Group's investment in major stakes. Decisions concerning such investments are taken at Board or senior management level in light of diverse considerations.

Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity instruments as at 31 December 2007 should there be a change in equity market prices:

In \$ millions	Change in equity market prices	Bank Group	Bank
		Sensitivity of equity	Sensitivity of equity
<b>2007</b>			
	+10%	224	356
	-10%	(224)	(356)
<b>2006</b>			
	+10%	210	325
	-10%	(210)	(325)

**49.3 Interest rate repricing gap risk**

Interest rate risk is the risk that the value of a financial instrument or the interest income of a portfolio will fluctuate due to changes in market interest rates. Examples of financial assets and liabilities which have fixed or floating interest rate exposure include debt securities, loans and derivatives.

The following tables summarise the Bank Group's assets and liabilities across the banking and trading books at carrying amounts as at 31 December, categorised by the earlier of contractual repricing or maturity dates. Actual dates may differ from contractual dates owing to prepayments and the exercise of options. It should also be noted that any representation of interest rate risk at a specific date offers only a snapshot of the risks taken by the Bank Group, since the position is being actively managed and can vary significantly on a daily basis.

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In \$ millions	Bank Group						Non-interest bearing	Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years		
<b>2007</b>								
Cash and balances with central banks	1,136	2,445	7,647	4,131	-	-	3,205	18,564
Due from banks	5,464	2,165	4,413	6,914	688	3,297	363	23,304
Financial assets at fair value through profit or loss	1,214	2,840	3,724	1,556	3,231	5,449	1,529	19,543
Other securities <sup>(a)</sup>	902	3,047	6,308	7,148	4,787	14,215	2,323	38,730
Loans and advances to customers	31,586	32,902	17,695	13,656	4,812	4,708	985	106,344
Other assets <sup>(b)</sup>	-	-	-	-	-	-	27,180	27,180
<b>Total assets</b>	<b>40,302</b>	<b>43,399</b>	<b>39,787</b>	<b>33,405</b>	<b>13,518</b>	<b>27,669</b>	<b>35,585</b>	<b>233,665</b>
Due to banks	3,632	6,533	3,990	1,167	-	78	64	15,464
Due to non-bank customers	86,981	31,972	14,765	10,308	196	1,146	-	145,368
Financial liabilities at fair value through profit or loss	2,090	1,656	2,525	1,667	2,725	7,292	287	18,242
Other liabilities <sup>(c)</sup>	1,608	650	731	1,784	1,193	2,239	14,214	22,419
Subordinated term debts	-	-	-	3,461	1,887	3,606	-	8,954
<b>Total liabilities</b>	<b>94,311</b>	<b>40,811</b>	<b>22,011</b>	<b>18,387</b>	<b>6,001</b>	<b>14,361</b>	<b>14,565</b>	<b>210,447</b>
Minority interests	-	-	-	-	-	-	1,571	1,571
Shareholders' funds	-	-	-	-	-	-	21,647	21,647
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,218</b>	<b>23,218</b>
<b>On-balance sheet interest rate gap</b>	<b>(54,009)</b>	<b>2,588</b>	<b>17,776</b>	<b>15,018</b>	<b>7,517</b>	<b>13,308</b>	<b>(2,198)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives <sup>(d)</sup>	6,590	7,839	(3,607)	(3,803)	(4,861)	(2,158)	-	-
<b>2006</b>								
Cash and balances with central banks	1,111	1,730	2,500	3,018	-	-	3,487	11,846
Due from banks	3,500	3,371	7,761	7,371	1,255	1,139	876	25,273
Financial assets at fair value through profit or loss	652	2,258	2,032	1,604	1,461	7,689	800	16,496
Other securities <sup>(a)</sup>	679	1,464	6,789	7,352	8,356	11,124	2,206	37,970
Loans and advances to customers	28,624	21,760	12,459	13,216	2,659	5,061	1,370	85,149
Other assets <sup>(b)</sup>	-	-	-	-	-	-	20,749	20,749
<b>Total assets</b>	<b>34,566</b>	<b>30,583</b>	<b>31,541</b>	<b>32,561</b>	<b>13,731</b>	<b>25,013</b>	<b>29,488</b>	<b>197,483</b>
Due to banks	3,625	1,779	1,471	427	-	200	361	7,863
Due to non-bank customers	74,120	26,261	12,223	7,634	386	1,468	-	122,092
Financial liabilities at fair value through profit or loss	624	909	2,104	3,213	2,230	8,276	2,352	19,708
Other liabilities <sup>(c)</sup>	1,441	1,294	306	124	118	2,532	14,292	20,107
Subordinated term debts	-	401	-	1,379	1,204	3,765	-	6,749
<b>Total liabilities</b>	<b>79,810</b>	<b>30,644</b>	<b>16,104</b>	<b>12,777</b>	<b>3,938</b>	<b>16,241</b>	<b>17,005</b>	<b>176,519</b>
Minority interests	-	-	-	-	-	-	1,265	1,265
Shareholders' funds	-	-	-	-	-	-	19,699	19,699
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,964</b>	<b>20,964</b>
<b>On-balance sheet interest rate gap</b>	<b>(45,244)</b>	<b>(61)</b>	<b>15,437</b>	<b>19,784</b>	<b>9,793</b>	<b>8,772</b>	<b>(8,481)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives <sup>(d)</sup>	3,890	2,159	14,240	(3,179)	(11,482)	(5,628)	-	-

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, investments in associates, goodwill on consolidation, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities and due to holding company

(d) Off-balance sheet items are represented at notional value

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In \$ millions	Bank						Non-interest bearing	Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years		
<b>2007</b>								
Cash and balances with central banks	390	2,445	7,647	4,131	-	-	3,067	17,680
Due from banks	3,282	836	3,263	5,447	640	3,200	165	16,833
Financial assets at fair value through profit or loss	1,211	2,705	2,426	1,223	2,878	5,417	1,529	17,389
Other securities <sup>(a)</sup>	570	1,992	4,528	5,207	3,125	13,232	2,293	30,947
Loans and advances to customers	22,482	19,495	15,107	11,820	3,660	3,590	11	76,165
Other assets <sup>(b)</sup>	-	-	-	-	-	-	31,085	31,085
<b>Total assets</b>	<b>27,935</b>	<b>27,473</b>	<b>32,971</b>	<b>27,828</b>	<b>10,303</b>	<b>25,439</b>	<b>38,150</b>	<b>190,099</b>
Due to banks	3,533	6,401	3,401	619	-	78	2	14,034
Due to non-bank customers	67,903	21,223	7,780	8,619	116	860	-	106,501
Financial liabilities at fair value through profit or loss	1,924	963	1,175	980	2,205	6,610	287	14,144
Other liabilities <sup>(c)</sup>	621	597	629	1,514	1,111	2,182	19,418	26,072
Subordinated term debts	-	-	-	3,461	1,887	3,606	-	8,954
<b>Total liabilities</b>	<b>73,981</b>	<b>29,184</b>	<b>12,985</b>	<b>15,193</b>	<b>5,319</b>	<b>13,336</b>	<b>19,707</b>	<b>169,705</b>
Minority interests	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	-	20,394	20,394
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,394</b>	<b>20,394</b>
<b>On-balance sheet interest rate gap</b>	<b>(46,046)</b>	<b>(1,711)</b>	<b>19,986</b>	<b>12,635</b>	<b>4,984</b>	<b>12,103</b>	<b>(1,951)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives <sup>(d)</sup>	6,456	7,939	(4,345)	(3,187)	(4,453)	(2,410)	-	-
<b>2006</b>								
Cash and balances with central banks	1,111	1,730	2,500	3,018	-	-	3,260	11,619
Due from banks	2,239	2,679	5,846	6,020	1,235	1,138	433	19,590
Financial assets at fair value through profit or loss	650	2,093	1,231	1,483	1,446	7,125	790	14,818
Other securities <sup>(a)</sup>	244	759	4,135	2,946	6,552	11,139	2,175	27,950
Loans and advances to customers	19,880	9,950	10,872	12,756	2,314	4,681	17	60,470
Other assets <sup>(b)</sup>	-	-	-	-	-	-	21,941	21,941
<b>Total assets</b>	<b>24,124</b>	<b>17,211</b>	<b>24,584</b>	<b>26,223</b>	<b>11,547</b>	<b>24,083</b>	<b>28,616</b>	<b>156,388</b>
Due to banks	3,469	1,427	1,439	129	-	200	94	6,758
Due to non-bank customers	58,749	16,555	7,191	5,806	367	1,279	-	89,947
Financial liabilities at fair value through profit or loss	556	680	1,547	1,262	1,340	6,618	2,352	14,355
Other liabilities <sup>(c)</sup>	439	50	39	120	105	2,102	16,919	19,774
Subordinated term debts	-	-	-	1,379	1,204	3,765	-	6,348
<b>Total liabilities</b>	<b>63,213</b>	<b>18,712</b>	<b>10,216</b>	<b>8,696</b>	<b>3,016</b>	<b>13,964</b>	<b>19,365</b>	<b>137,182</b>
Minority interests	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	-	19,206	19,206
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,206</b>	<b>19,206</b>
<b>On-balance sheet interest rate gap</b>	<b>(39,089)</b>	<b>(1,501)</b>	<b>14,368</b>	<b>17,527</b>	<b>8,531</b>	<b>10,119</b>	<b>(9,955)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives <sup>(d)</sup>	3,249	102	14,621	(1,327)	(11,347)	(5,298)	-	-

- (a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged  
(b) Other assets include positive replacement values, subsidiaries, due from special purpose entities, investments in associates and joint ventures, properties and other fixed assets, deferred tax assets and other assets  
(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities, due to holding company, subsidiaries and special purpose entities  
(d) Off-balance sheet items are represented at notional value

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The table below summarises the effective average interest rate<sup>(a)</sup> at 31 December by major currencies for monetary financial instruments:

	Bank Group					
	Singapore dollar, %	US dollar, %	Hong Kong dollar, %	Singapore dollar, %	US dollar, %	Hong Kong dollar, %
	2007			2006		
<b>Assets</b>						
Cash and balances with central banks	-	-	-	-	-	-
Due from banks	1.20 – 2.40	4.46 – 5.75	3.94 – 4.38	3.22 - 3.30	4.27 - 6.06	2.17 - 4.45
Financial assets at fair value through profit or loss	3.03 – 4.37	4.85 – 5.33	5.99	3.04 - 3.92	2.58 - 6.06	4.57
Other securities <sup>(b)</sup>	2.13 – 2.89	3.39 – 5.51	2.14 – 5.49	2.77 - 3.66	2.74 - 6.79	3.14 - 4.50
Loans and advances to customers	2.25 – 5.26	3.45 – 7.15	4.46 – 12.63	3.04 - 5.75	3.41 - 7.95	4.15 - 14.35
<b>Liabilities</b>						
Due to banks	0.84 – 1.07	4.88 – 5.82	0.47	2.71 - 2.94	5.21 - 5.40	4.29
Due to non-bank customers	0 – 1.51	1.23 – 4.61	1.40 – 3.78	0 - 2.05	1.97 - 5.73	1.39 - 3.68
Financial liabilities at fair value through profit or loss	2.25	5.04	-	2.41	4.85	-
Subordinated term debts	4.47	5.00 – 7.88	-	4.47	5.00 - 7.88	-

	Bank			
	Singapore dollar, %	US dollar, %	Singapore dollar, %	US dollar, %
	2007		2006	
<b>Assets</b>				
Cash and balances with central banks	-	-	-	-
Due from banks	1.20 – 2.40	4.46 – 5.75	3.22 - 3.30	4.27 - 5.26
Financial assets at fair value through profit or loss	3.03 – 4.37	4.85 – 5.33	3.04 - 3.92	2.58 - 6.06
Other securities <sup>(b)</sup>	2.13 – 2.89	3.75 – 4.99	2.77 - 3.66	2.74 - 5.74
Loans and advances to customers	2.25 – 5.26	3.45 – 6.63	3.04 - 5.75	3.41 - 7.94
<b>Liabilities</b>				
Due to banks	0.84 – 1.07	4.88 – 5.82	2.71 - 2.94	5.21 - 5.40
Due to non-bank customers	0 – 1.51	4.32 – 4.61	0 - 2.05	3.51 - 5.73
Financial liabilities at fair value through profit or loss	2.25	5.04	2.41	4.85
Subordinated term debts	4.47	5.00 – 7.88	4.47	5.00 - 7.88

(a) Average interest rates exclude impact of hedging via financial derivatives

(b) Other securities include Singapore Government securities and treasury bills, financial investments (excludes equities) and securities pledged



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**49.4 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below summarises the Bank Group's and Bank's assets and liabilities at carrying amounts at 31 December, categorised by currency:

In \$ millions	Singapore dollar	US dollar	Bank Group Hong Kong dollar	Others	Total
<b>2007</b>					
Cash and balances with central banks	15,694	84	107	2,679	18,564
Due from banks	1,235	14,776	1,071	6,222	23,304
Financial assets at fair value through profit or loss	2,249	6,371	1,095	9,828	19,543
Other securities <sup>(a)</sup>	18,442	7,741	3,898	8,649	38,730
Loans and advances to customers	42,116	24,217	25,688	14,323	106,344
Other assets <sup>(b)</sup>	10,348	7,442	3,827	5,563	27,180
<b>Total assets</b>	<b>90,084</b>	<b>60,631</b>	<b>35,686</b>	<b>47,264</b>	<b>233,665</b>
Due to banks	2,589	10,129	145	2,601	15,464
Due to non-bank customers	79,170	25,244	24,776	16,178	145,368
Financial liabilities at fair value through profit or loss	7,063	7,322	2,086	1,771	18,242
Other liabilities <sup>(c)</sup>	5,989	7,914	4,369	4,147	22,419
Subordinated term debts	500	8,454	-	-	8,954
<b>Total liabilities</b>	<b>95,311</b>	<b>59,063</b>	<b>31,376</b>	<b>24,697</b>	<b>210,447</b>
Minority interests	1,571	-	-	-	1,571
Shareholders' funds	21,647	-	-	-	21,647
<b>Total equity</b>	<b>23,218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,218</b>
Net on-balance sheet position	(28,445)	1,568	4,310	22,567	-
Net off-balance sheet position <sup>(d)</sup>	23,546	(23,772)	12,615	(12,389)	-
<b>2006</b>					
Cash and balances with central banks	11,496	37	68	245	11,846
Due from banks	2,617	17,441	1,167	4,048	25,273
Financial assets at fair value through profit or loss	1,925	5,321	528	8,722	16,496
Other securities <sup>(a)</sup>	15,974	9,768	4,105	8,123	37,970
Loans and advances to customers	34,812	15,202	24,560	10,575	85,149
Other assets <sup>(b)</sup>	9,545	4,809	2,845	3,550	20,749
<b>Total assets</b>	<b>76,369</b>	<b>52,578</b>	<b>33,273</b>	<b>35,263</b>	<b>197,483</b>
Due to banks	1,341	3,566	667	2,289	7,863
Due to non-bank customers	65,927	21,374	21,698	13,093	122,092
Financial liabilities at fair value through profit or loss	9,143	4,060	3,289	3,216	19,708
Other liabilities <sup>(c)</sup>	3,511	13,766	2,006	824	20,107
Subordinated term debts	500	6,249	-	-	6,749
<b>Total liabilities</b>	<b>80,422</b>	<b>49,015</b>	<b>27,660</b>	<b>19,422</b>	<b>176,519</b>
Minority interests	1,265	-	-	-	1,265
Shareholders' funds	19,699	-	-	-	19,699
<b>Total equity</b>	<b>20,964</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,964</b>
Net on-balance sheet position	(25,017)	3,563	5,613	15,841	-
Net off-balance sheet position <sup>(d)</sup>	21,585	(28,145)	12,344	(5,784)	-

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, investments in associates, goodwill on consolidation, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities and due to holding company

(d) Off-balance sheet items are represented at notional value

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In \$ millions	Singapore dollar	US dollar	Bank Hong Kong dollar	Others	Total
<b>2007</b>					
Cash and balances with central banks	15,674	2	-	2,004	17,680
Due from banks	996	10,794	149	4,894	16,833
Financial assets at fair value through profit or loss	1,371	5,918	1,062	9,038	17,389
Other securities <sup>(a)</sup>	18,402	5,364	260	6,921	30,947
Loans and advances to customers	42,136	19,621	5,074	9,334	76,165
Other assets <sup>(b)</sup>	5,490	10,399	8,248	6,948	31,085
<b>Total assets</b>	<b>84,069</b>	<b>52,098</b>	<b>14,793</b>	<b>39,139</b>	<b>190,099</b>
Due to banks	1,380	10,034	19	2,601	14,034
Due to non-bank customers	78,899	16,347	1,905	9,350	106,501
Financial liabilities at fair value through profit or loss	7,025	4,727	621	1,771	14,144
Other liabilities <sup>(c)</sup>	7,254	13,246	1,824	3,748	26,072
Subordinated term debts	500	8,454	-	-	8,954
<b>Total liabilities</b>	<b>95,058</b>	<b>52,808</b>	<b>4,369</b>	<b>17,470</b>	<b>169,705</b>
Minority interests	-	-	-	-	-
Shareholders' funds	20,394	-	-	-	20,394
<b>Total equity</b>	<b>20,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,394</b>
Net on-balance sheet position	(31,383)	(710)	10,424	21,669	-
Net off-balance sheet position <sup>(d)</sup>	22,954	(23,133)	12,419	(12,240)	-
<b>2006</b>					
Cash and balances with central banks	11,478	8	3	130	11,619
Due from banks	2,402	13,786	125	3,277	19,590
Financial assets at fair value through profit or loss	1,083	5,075	379	8,281	14,818
Other securities <sup>(a)</sup>	16,603	5,881	281	5,185	27,950
Loans and advances to customers	34,822	12,716	4,339	8,593	60,470
Other assets <sup>(b)</sup>	5,054	4,087	8,525	4,275	21,941
<b>Total assets</b>	<b>71,442</b>	<b>41,553</b>	<b>13,652</b>	<b>29,741</b>	<b>156,388</b>
Due to banks	1,342	3,386	343	1,687	6,758
Due to non-bank customers	65,773	13,256	1,340	9,578	89,947
Financial liabilities at fair value through profit or loss	8,199	2,865	76	3,215	14,355
Other liabilities <sup>(c)</sup>	4,387	13,901	1,328	158	19,774
Subordinated term debts	500	5,848	-	-	6,348
<b>Total liabilities</b>	<b>80,201</b>	<b>39,256</b>	<b>3,087</b>	<b>14,638</b>	<b>137,182</b>
Minority interests	-	-	-	-	-
Shareholders' funds	19,206	-	-	-	19,206
<b>Total equity</b>	<b>19,206</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,206</b>
Net on-balance sheet position	(27,965)	2,297	10,565	15,103	-
Net off-balance sheet position <sup>(d)</sup>	21,106	(26,012)	11,124	(6,218)	-

- (a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged
- (b) Other assets include positive replacement values, subsidiaries, due from special purpose entities, investments in associates and joint ventures, properties and other fixed assets, deferred tax assets and other assets
- (c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities, due to holding company, subsidiaries and special purpose entities
- (d) Off-balance sheet items are represented at notional value

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The table below analyses the Bank Group and Bank's currency exposure of its net investments in overseas operations by functional currency at 31 December:

In \$ millions	Bank Group		
	Net investments in overseas operations <sup>(a)</sup>	Financial instruments which hedge the net investments <sup>(b)</sup>	Remaining unhedged currency exposures
<b>2007</b>			
Hong Kong dollar	3,795	3,731	64
US dollar	649	647	2
Others	2,549	1,880	669
<b>Total</b>	<b>6,993</b>	<b>6,258</b>	<b>735</b>
<b>2006</b>			
Hong Kong dollar	3,539	3,485	54
US dollar	454	378	76
Others	1,519	740	779
<b>Total</b>	<b>5,512</b>	<b>4,603</b>	<b>909</b>

In \$ millions	Bank		
	Net investments in overseas operations <sup>(a)</sup>	Financial instruments which hedge the net investments <sup>(b)</sup>	Remaining unhedged currency exposures
<b>2007</b>			
Hong Kong dollar	3,666	3,605	61
US dollar	640	638	2
Others	2,326	1,710	616
<b>Total</b>	<b>6,632</b>	<b>5,953</b>	<b>679</b>
<b>2006</b>			
Hong Kong dollar	3,467	3,418	49
US dollar	372	371	1
Others	1,324	621	703
<b>Total</b>	<b>5,163</b>	<b>4,410</b>	<b>753</b>

(a) Refer to investment in associates, net tangible assets of subsidiaries and joint ventures and capital funds/retained earnings of overseas branches operations

(b) Include forwards, non-deliverable forwards and borrowings used to hedge the investments

## 50 Liquidity Risk

Liquidity risk is the potential earnings volatility arising from being unable to fund portfolio assets at reasonable rates over required maturities. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Bank Group seeks to manage its liquidity to meet its obligations under normal as well as adverse circumstances, and take advantage of arising lending and investment opportunities.

The primary tool of monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across major functional currencies. This is tested under normal and adverse market scenario conditions.

The Group ALCO and country ALCOs are the primary parties responsible for liquidity management based on guidelines approved by the Board Risk committee. Limits are set on maturity mismatches over books under normal and stress scenarios, liquidity ratios and deposit concentration risks. As part of the liquidity management, the Bank Group will set limits to ensure that the funding requirements will not exceed the available funding and liquid assets available for both normal and stress scenarios.

As part of its liquidity risk management, the Bank Group focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, preserving necessary funding capacity and contingency planning.

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The table below analyses assets and liabilities at 31 December based on the remaining period at balance sheet date to the contractual maturity date.

In \$ millions	Bank Group							
	2007				2006			
	Up to 1 year	More than 1 year	No specific maturity	Total	Up to 1 year	More than 1 year	No specific maturity	Total
Cash and balances with central banks	15,521	1	3,042	18,564	10,524	-	1,322	11,846
Due from banks	19,180	4,124	-	23,304	20,941	4,259	73	25,273
Financial assets at fair value through profit or loss	5,254	12,760	1,529	19,543	4,583	11,113	800	16,496
Other securities <sup>(a)</sup>	12,326	24,081	2,323	38,730	11,293	24,471	2,206	37,970
Loans and advances to customers	42,851	63,493	-	106,344	37,137	47,418	594	85,149
Other assets <sup>(b)</sup>	1,748	35	25,323	27,106	1,053	30	19,666	20,749
<b>Total assets</b>	<b>96,880</b>	<b>104,494</b>	<b>32,217</b>	<b>233,591</b>	<b>85,531</b>	<b>87,291</b>	<b>24,661</b>	<b>197,483</b>
Due to banks	15,386	78	-	15,464	7,306	190	367	7,863
Due to non-bank customers	144,026	1,342	-	145,368	120,238	1,854	-	122,092
Financial liabilities at fair value through profit or loss	5,573	12,649	20	18,242	8,367	11,322	19	19,708
Other liabilities <sup>(c)</sup>	4,174	781	17,450	22,405	5,508	1,285	13,314	20,107
Subordinated term debts	-	8,954	-	8,954	401	6,348	-	6,749
<b>Total liabilities</b>	<b>169,159</b>	<b>23,804</b>	<b>17,470</b>	<b>210,433</b>	<b>141,820</b>	<b>20,999</b>	<b>13,700</b>	<b>176,519</b>
Minority interests	-	-	1,571	1,571	-	-	1,265	1,265
Shareholders' funds	-	-	21,647	21,647	-	-	19,699	19,699
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>23,218</b>	<b>23,218</b>	<b>-</b>	<b>-</b>	<b>20,964</b>	<b>20,964</b>

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, investments in associates, goodwill on consolidation, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities and due to holding company

In \$ millions	Bank							
	2007				2006			
	Up to 1 year	More than 1 year	No specific maturity	Total	Up to 1 year	More than 1 year	No specific maturity	Total
Cash and balances with central banks	14,657	-	3,023	17,680	10,375	-	1,244	11,619
Due from banks	12,995	3,840	-	16,835	15,753	3,780	57	19,590
Financial assets at fair value through profit or loss	4,730	11,130	1,529	17,389	4,247	9,781	790	14,818
Other securities <sup>(a)</sup>	8,563	20,091	2,293	30,947	5,979	19,796	2,175	27,950
Loans and advances to customers	29,429	46,736	-	76,165	26,870	33,502	98	60,470
Other assets <sup>(b)</sup>	212	2	30,869	31,083	38	-	21,903	21,941
<b>Total assets</b>	<b>70,586</b>	<b>81,799</b>	<b>37,714</b>	<b>190,099</b>	<b>63,262</b>	<b>66,859</b>	<b>26,267</b>	<b>156,388</b>
Due to banks	13,957	79	-	14,036	6,473	190	95	6,758
Due to non-bank customers	105,526	976	-	106,502	88,301	1,646	-	89,947
Financial liabilities at fair value through profit or loss	3,886	10,236	20	14,142	5,647	8,689	19	14,355
Other liabilities <sup>(c)</sup>	1,721	598	23,751	26,070	3,023	763	15,988	19,774
Subordinated term debts	-	8,954	-	8,954	-	6,348	-	6,348
<b>Total liabilities</b>	<b>125,090</b>	<b>20,843</b>	<b>23,771</b>	<b>169,704</b>	<b>103,444</b>	<b>17,636</b>	<b>16,102</b>	<b>137,182</b>
Minority interests	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	20,394	20,394	-	-	19,206	19,206
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>20,394</b>	<b>20,394</b>	<b>-</b>	<b>-</b>	<b>19,206</b>	<b>19,206</b>

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, subsidiaries, due from special purpose entities, investments in associates and joint ventures, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities, due to holding company, subsidiaries and special purpose entities

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The table below analyses assets and liabilities at 31 December based on contractual undiscounted repayment obligations.

In \$ millions	Bank Group							Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	
<b>2007</b>								
Cash and balances with central banks	1,297	2,457	7,665	4,196	-	1	3,042	18,658
Due from banks	5,547	2,187	4,510	7,252	877	3,562	-	23,935
Financial assets at fair value through profit or loss	945	2,256	1,141	1,971	5,721	9,774	1,529	23,337
Other securities <sup>(a)</sup>	426	1,526	2,641	9,268	8,998	19,718	2,323	44,900
Loans and advances to customers	9,099	12,954	11,351	10,633	18,421	54,182	-	116,640
Other assets <sup>(b)</sup>	1,381	344	14	140	2	-	17,899	19,780
<b>Total assets</b>	<b>18,695</b>	<b>21,724</b>	<b>27,322</b>	<b>33,460</b>	<b>34,019</b>	<b>87,237</b>	<b>24,793</b>	<b>247,250</b>
Due to banks	3,695	6,552	4,015	1,231	51	185	-	15,729
Due to non-bank customers	87,009	32,083	14,889	10,504	209	1,152	-	145,846
Financial liabilities at fair value through profit or loss	1,120	1,018	986	2,873	4,549	9,229	20	19,795
Other liabilities <sup>(c)</sup>	2,537	221	321	927	400	907	11,316	16,629
Subordinated term debts	-	31	114	446	2,899	9,496	-	12,986
<b>Total liabilities</b>	<b>94,361</b>	<b>39,905</b>	<b>20,325</b>	<b>15,981</b>	<b>8,108</b>	<b>20,969</b>	<b>11,336</b>	<b>210,985</b>
Minority interests	-	-	-	-	-	-	1,571	1,571
Shareholders' funds	-	-	-	-	-	-	21,647	21,647
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,218</b>	<b>23,218</b>
<b>Net liquidity gap</b>	<b>(75,666)</b>	<b>(18,181)</b>	<b>6,997</b>	<b>17,479</b>	<b>25,911</b>	<b>66,268</b>	<b>(9,761)</b>	<b>13,047</b>
<b>2006</b>								
Cash and balances with central banks	3,314	1,706	2,529	3,062	-	-	1,322	11,933
Due from banks	4,055	3,144	6,504	7,896	2,325	2,034	73	26,031
Financial assets at fair value through profit or loss	659	1,925	760	1,911	2,695	10,359	843	19,152
Other securities <sup>(a)</sup>	633	442	3,252	8,798	11,655	16,733	2,212	43,725
Loans and advances to customers	7,283	7,697	9,690	13,806	12,964	44,971	594	97,005
Other assets <sup>(b)</sup>	846	24	32	315	-	1	13,994	15,212
<b>Total assets</b>	<b>16,790</b>	<b>14,938</b>	<b>22,767</b>	<b>35,788</b>	<b>29,639</b>	<b>74,098</b>	<b>19,038</b>	<b>213,058</b>
Due to banks	3,089	1,836	1,934	612	-	190	367	8,028
Due to non-bank customers	74,149	26,381	12,356	7,835	395	1,479	-	122,595
Financial liabilities at fair value through profit or loss	843	649	1,637	5,607	3,486	8,752	19	20,993
Other liabilities <sup>(c)</sup>	1,448	1,318	441	2,356	289	1,357	8,895	16,104
Subordinated term debts	-	450	90	346	881	8,444	-	10,211
<b>Total liabilities</b>	<b>79,529</b>	<b>30,634</b>	<b>16,458</b>	<b>16,756</b>	<b>5,051</b>	<b>20,222</b>	<b>9,281</b>	<b>177,931</b>
Minority interests	-	-	-	-	-	-	1,265	1,265
Shareholders' funds	-	-	-	-	-	-	19,699	19,699
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,964</b>	<b>20,964</b>
<b>Net liquidity gap</b>	<b>(62,739)</b>	<b>(15,696)</b>	<b>6,309</b>	<b>19,032</b>	<b>24,588</b>	<b>53,876</b>	<b>(11,207)</b>	<b>14,163</b>

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, investments in associates, goodwill on consolidation, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities and due to holding company

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In \$ millions	Bank							Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	
<b>2007</b>								
Cash and balances with central banks	434	2,457	7,664	4,196	-	-	3,024	17,775
Due from banks	3,308	849	3,337	5,736	687	3,465	-	17,382
Financial assets at fair value through profit or loss	939	2,119	1,051	1,656	4,952	8,892	1,529	21,138
Other securities <sup>(a)</sup>	153	882	2,109	6,643	6,300	18,084	2,293	36,464
Loans and advances to customers	5,755	9,902	7,481	6,783	13,758	36,116	-	79,795
Other assets <sup>(b)</sup>	180	147	10	169	2	-	23,325	23,833
<b>Total assets</b>	<b>10,769</b>	<b>16,356</b>	<b>21,652</b>	<b>25,183</b>	<b>25,699</b>	<b>66,557</b>	<b>30,171</b>	<b>196,387</b>
Due to banks	3,535	6,419	3,426	683	51	185	-	14,299
Due to non-bank customers	67,912	21,274	7,837	8,781	125	862	-	106,791
Financial liabilities at fair value through profit or loss	952	716	517	1,933	3,295	7,949	20	15,382
Other liabilities <sup>(c)</sup>	881	66	174	645	276	884	17,556	20,482
Subordinated term debts	-	31	114	446	2,899	9,496	-	12,986
<b>Total liabilities</b>	<b>73,280</b>	<b>28,506</b>	<b>12,068</b>	<b>12,488</b>	<b>6,646</b>	<b>19,376</b>	<b>17,576</b>	<b>169,940</b>
Minority interests	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	-	20,394	20,394
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,394</b>	<b>20,394</b>
<b>Net liquidity gap</b>	<b>(62,511)</b>	<b>(12,150)</b>	<b>9,584</b>	<b>12,695</b>	<b>19,053</b>	<b>47,181</b>	<b>(7,799)</b>	<b>6,053</b>
<b>2006</b>								
Cash and balances with central banks	3,165	1,706	2,529	3,062	-	-	1,244	11,706
Due from banks	2,621	2,445	4,894	6,342	1,835	2,052	57	20,246
Financial assets at fair value through profit or loss	662	1,762	704	1,790	2,677	9,047	833	17,475
Other securities <sup>(a)</sup>	281	284	2,764	4,050	8,583	14,812	2,202	32,976
Loans and advances to customers	4,528	5,504	6,502	10,760	8,943	27,156	98	63,491
Other assets <sup>(b)</sup>	13	8	48	290	-	-	16,148	16,507
<b>Total assets</b>	<b>11,270</b>	<b>11,709</b>	<b>17,441</b>	<b>26,294</b>	<b>22,038</b>	<b>53,067</b>	<b>20,582</b>	<b>162,401</b>
Due to banks	2,938	1,484	1,902	312	-	190	95	6,921
Due to non-bank customers	58,762	16,623	7,267	5,947	373	1,282	-	90,254
Financial liabilities at fair value through profit or loss	775	537	1,084	3,506	2,390	6,838	19	15,149
Other liabilities <sup>(c)</sup>	447	105	355	2,280	293	882	11,534	15,896
Subordinated term debts	-	33	90	346	881	8,444	-	9,794
<b>Total liabilities</b>	<b>62,922</b>	<b>18,782</b>	<b>10,698</b>	<b>12,391</b>	<b>3,937</b>	<b>17,636</b>	<b>11,648</b>	<b>138,014</b>
Minority interests	-	-	-	-	-	-	-	-
Shareholders' funds	-	-	-	-	-	-	19,206	19,206
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,206</b>	<b>19,206</b>
<b>Net liquidity gap</b>	<b>(51,652)</b>	<b>(7,073)</b>	<b>6,743</b>	<b>13,903</b>	<b>18,101</b>	<b>35,431</b>	<b>(10,272)</b>	<b>5,181</b>

(a) Other securities include Singapore Government securities and treasury bills, financial investments and securities pledged

(b) Other assets include positive replacement values, subsidiaries, due from special purpose entities, investments in associates and joint ventures, properties and other fixed assets, deferred tax assets and other assets

(c) Other liabilities include negative replacement values, bills payable, current and deferred tax liabilities, other debt securities in issue, other liabilities and due to holding company, subsidiaries and special purpose entities

The balances in the above tables will not agree directly to the balances in the Bank Group and Bank balance sheets as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

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**50.1 Derivatives settled on a gross basis**

The table below analysis the Bank Group and Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

In \$ millions	Bank Group						Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	
<b>2007</b>							
Foreign exchange derivatives							
- outflow	39,165	68,406	96,400	136,078	25,023	27,204	392,276
- inflow	39,186	68,555	96,476	136,372	25,111	26,802	392,502
<b>2006</b>							
Foreign exchange derivatives							
- outflow	28,793	38,283	71,994	113,825	17,554	16,538	286,987
- inflow	28,806	38,100	71,696	112,140	19,688	16,904	287,334

In \$ millions	Bank						Total
	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	
<b>2007</b>							
Foreign exchange derivatives							
- outflow	39,799	72,794	101,249	141,949	25,709	28,836	410,336
- inflow	39,808	72,946	101,330	142,201	25,765	28,334	410,384
<b>2006</b>							
Foreign exchange derivatives							
- outflow	29,448	39,326	74,942	116,993	18,591	17,681	296,981
- inflow	29,460	39,144	74,653	115,236	20,591	18,132	297,216

**50.2 Contingent liabilities and commitments**

The tables below show the contractual expiry by maturity of the Bank Group's and Bank's derivatives, contingent liabilities and commitments:

In \$ millions	Bank Group				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	
<b>2007</b>					
Guarantees, endorsements and other contingent items	14,656	-	-	-	14,656
Undrawn loan commitments and other facilities	86,036	2,917	2,155	206	91,314
Operating lease commitments	129	175	138	465	907
Capital commitments	52	22	9	1	84
<b>Total</b>	<b>100,873</b>	<b>3,114</b>	<b>2,302</b>	<b>672</b>	<b>106,961</b>
<b>2006</b>					
Guarantees, endorsements and other contingent items	12,187	-	-	-	12,187
Undrawn loan commitments and other facilities	78,564	2,513	3,616	915	85,608
Operating lease commitments	109	90	130	88	417
Capital commitments	22	8	7	3	40
<b>Total</b>	<b>90,882</b>	<b>2,611</b>	<b>3,753</b>	<b>1,006</b>	<b>98,252</b>

In \$ millions	Bank				Total
	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	
<b>2007</b>					
Guarantees, endorsements and other contingent items	14,013	-	-	-	14,013
Undrawn loan commitments and other facilities	68,648	2,916	2,155	206	73,925
Operating lease commitments	75	118	107	409	709
Capital commitments	39	22	9	1	71
<b>Total</b>	<b>82,775</b>	<b>3,056</b>	<b>2,271</b>	<b>616</b>	<b>88,718</b>
<b>2006</b>					
Guarantees, endorsements and other contingent items	10,897	-	-	-	10,897
Undrawn loan commitments and other facilities	62,086	2,513	3,616	915	69,130
Operating lease commitments	72	90	85	88	335
Capital commitments	13	8	7	4	32
<b>Total</b>	<b>73,068</b>	<b>2,611</b>	<b>3,708</b>	<b>1,007</b>	<b>80,394</b>

The Bank Group expects that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.

**51 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. An Operational Risk Management Framework, approved by the Group Board Risk Management Committee ("BRMC"), has been developed with the objective to ensure that operational risks within the Bank Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

To manage and control operational risk, the Framework encompasses various tools including, control self-assessment ("CSA"), risk event management, key risk indicator monitoring and process risk mapping. A control self assessment scoring/rating methodology was developed to enhance management assessment of the state of control environment. Risk events, including any significant incidents that may impact the Bank Group's reputation, are required to be reported based on certain thresholds established. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner. A process risk mapping framework was developed to identify the key risks and controls of key products/services in an end-to-end transaction cycle.

A key component of the Framework is a set of Core Operational Risk Standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced is subject to review and sign-off process where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services, outsourcing and process centralization initiatives, are also subject to a similar process. Major operational risk mitigation programmes include Business Continuity Management and Global Insurance Programme. On an annual basis, the CEO provides an attestation to the Board on the state of business continuity management of the Bank Group, including any residual risks.

The Group Operational Risk Committee ("GORC") oversees the Bank Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Committee also performs regular review of the operational risk profiles of the Bank Group, and endorses and recommends corporate operational risk policies to be approved by the Business Support and Controls Committee. Reporting to the GORC are three sub-committees which provide specific oversights on operational risk issues arising from outsourcing, technology and anti-money laundering.

**52 Capital Management**

The Bank Group capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors, regulators and rating agencies.

The capital management process, which is centrally supervised by senior management, includes periodic reviews of both the demand for and supply of capital across the Bank Group. Overseas subsidiaries and non-banking subsidiaries of the Bank Group may be required to comply with country-specific and industry-specific capital requirements depending on the applicable jurisdiction and industry they operate in. Available capital is allocated across competing demands, guided by the policies outlined above, and to ensure regulatory compliance. Quarterly updates are provided to the Board of Directors.

The following table sets forth details of capital resources and capital adequacy ratios for the Bank Group. MAS Notice to Banks No. 637 "Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore" dated 28 May 2004 sets out the current requirements relating to the minimum capital adequacy ratios for a bank incorporated in Singapore and the methodology a bank incorporated in Singapore shall use for calculating these ratios. The Bank's capital position is managed as part of the overall Bank Group capital management process. The Bank has complied with its applicable regulatory capital requirements.

<b>Bank Group</b>		
<b>In \$ millions</b>	<b>2007</b>	<b>2006</b>
<b>Tier 1</b>		
Share capital	10,997	10,997
Disclosed reserves and others	11,193	9,403
Less: Goodwill	(5,845)	(5,840)
<b>Total</b>	<b>16,345</b>	<b>14,560</b>
<b>Tier 2</b>		
Cumulative general allowances	1,210	1,033
Subordinated debts	7,087	5,038
Others	75	103
<b>Total</b>	<b>8,372</b>	<b>6,174</b>
<b>Total capital</b>	<b>24,717</b>	<b>20,734</b>
<b>Risk-weighted assets</b>	<b>184,601</b>	<b>144,085</b>
Capital adequacy ratio (%)		
Tier 1 ratio	8.9%	10.1%
Tier 2 ratio	4.5%	4.3%
<b>Total (Tier 1 and 2) ratio</b>	<b>13.4%</b>	<b>14.4%</b>

The Bank Group will adopt Basel II from 1 January 2008. The Basel II capital adequacy requirements are set out in the revised MAS Notice to Banks No. 637 "Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore" dated 14 December 2007.



53 Segmental Reporting

**53.1 Business segment reporting**

The business segment results are prepared based on the Bank Group's internal management reporting reflective of the organisation's management reporting structure. The activities of the Bank Group are highly integrated and accordingly, internal allocation has to be made in preparing the segment information. As a result, amounts for each business segment are shown after the allocation of certain centralised costs, funding income and the application of transfer pricing, where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

The various business segments are described below:

**Consumer Banking**

Consumer Banking provides individual customers with a diverse range of banking and related financial services. The products and services available to customers include current and savings accounts, fixed deposits, loans and home finance, cards, payments and investment products.

**Enterprise Banking**

Enterprise Banking provides financial services and products to small and medium-sized businesses. The products and services available to customers include credit facilities (overdraft, factoring/accounts receivable purchase, trade services and financing, commercial/industrial property financing, hire purchase and government financing and assistance schemes), deposit, payment and collection services and treasury products.

**Corporate and Investment Banking**

Corporate and Investment Banking provides tailored financial solutions to large corporate and institutional clients. The products and services available to customers include corporate finance and advisory

banking services for mergers and acquisitions, capital raising through debt and equity markets, capital restructuring, syndicated finance, securities and fiduciary services, cash management and trade services, private equity and lending products.

**Global Financial Markets**

Global Financial Markets provides treasury services to corporations, institutional and private investors, financial institutions and other market participants. It is primarily involved in market making, structuring, equity and debt sales and trading across a broad range of financial products including foreign exchange, interest rate/credit/equity and other structured derivatives. Income from these financial products and services offered to the customer of other business segments, e.g. Consumer Banking, Enterprise Banking and Corporate and Investment Banking, is reflected in the respective segments. Global Financial Markets also provides equity services through DBS Vickers Securities ("DBSV"). DBSV offers a wide range of services to retail and corporate customers including research, sales and trading, share placement, nominees and securities custodian services and distribution of primary and secondary issues.

**Central Treasury Unit**

Central Treasury Unit is responsible for the management of the Bank Group's asset and liability interest rate positions and investment of the Bank Group's excess liquidity and shareholders' funds.

**Central Operations**

Central Operations encompasses a range of activities resulting from central corporate decisions and the related income and expenses not attributed to business segments. These include funding costs of the Bank Group's associates, joint ventures and subsidiaries and gains/losses on properties. Private banking activities and asset management activities are included in this segment.

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The following table analyses the results, total assets and total liabilities of the Bank Group by business segments:

In \$ millions	Corporate and Investment Banking						Total
	Consumer Banking	Enterprise Banking	Investment Banking	Global Financial Markets	Central Treasury Unit	Central Operations	
<b>2007</b>							
Net interest income	1,718	792	736	946	349	(434)	4,107
Non-interest income	688	395	552	78	16	326	2,055
Expenses	1,091	375	421	516	31	182	2,616
Allowances for credit and other losses	23	103	209	5	262	15	617
Profit before tax	1,292	709	658	516	72	(208)	3,039
Total assets before goodwill	32,148	22,738	56,569	84,444	27,930	3,994	227,823
Goodwill on consolidation							5,842
Total assets							233,665
Total liabilities	83,171	21,311	30,733	47,667	1,458	26,107	210,447
Capital expenditure	62	3	10	17	-	104	196
Depreciation	25	3	6	11	-	81	126
<b>2006</b>							
Net interest income	1,765	736	592	595	280	(379)	3,589
Non-interest income	514	330	585	274	(64)	208	1,847
Expenses	985	338	376	411	31	227	2,368
Allowances for credit and other losses	52	119	77	(3)	(5)	(105)	135
Profit before tax	1,242	609	724	466	190	(228)	3,003
Total assets before goodwill	30,655	20,067	40,090	69,426	28,119	3,286	191,643
Goodwill on consolidation							5,840
Total assets							197,483
Total liabilities	76,237	18,827	19,733	36,114	998	24,610	176,519
Capital expenditure	50	8	37	18	3	123	239
Depreciation	29	10	7	15	6	63	130

The following table analyses the results, total assets and total liabilities of the Bank by business segments:

In \$ millions	Corporate and Investment Banking						Total
	Consumer Banking	Enterprise Banking	Investment Banking	Global Financial Markets	Central Treasury Unit	Central Operations	
<b>2007</b>							
Net interest income	1,325	307	601	864	147	(463)	2,781
Non-interest income	445	173	483	(212)	105	774	1,768
Expenses	671	152	326	329	21	183	1,682
Allowances for credit and other losses	-	22	184	(1)	261	350	816
Profit before tax	1,099	306	574	324	(30)	(222)	2,051
Total assets	23,377	7,419	51,525	73,682	21,599	12,497	190,099
Total liabilities	63,863	10,431	26,974	42,775	1,224	24,438	169,705
Capital expenditure	35	1	5	3	-	61	105
Depreciation	15	-	3	4	-	50	72
<b>2006</b>							
Net interest income	1,367	258	534	506	49	(401)	2,313
Non-interest income	350	118	553	62	92	553	1,728
Expenses	618	145	335	264	23	208	1,593
Allowances for credit and other losses	34	42	78	(2)	(5)	(101)	46
Profit before tax	1,065	189	674	306	123	45	2,402
Total assets	21,433	6,250	39,073	60,373	19,585	9,674	156,388
Total liabilities	56,788	8,507	18,523	30,552	62	22,750	137,182
Capital expenditure	21	-	3	6	-	82	112
Depreciation	16	-	3	4	-	52	75

### 53.2 Geographical segment reporting

Income and net profit attributable to shareholders ("Net profit") are based on the country in which the transactions are booked. Total assets are shown by geographical area in which the assets are booked. It would not be materially different if total assets shown are based on the country in which the counterparty or assets are located. The total assets, income and net profit are stated after elimination of inter-group assets and revenues.

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In \$ millions	Bank Group					Total
	Singapore	Hong Kong	Rest of Greater China <sup>(c)</sup>	South and Southeast Asia <sup>(d)</sup>	Rest of the World <sup>(e)</sup>	
<b>2007</b>						
Total income	3,941 <sup>(a)</sup>	1,618	206	269	128	6,162
Net profit	1,598 <sup>(a)</sup>	686	64	106	(4)	2,450
Total assets before goodwill	149,536	47,664	10,905	8,199	11,519	227,823
Goodwill on consolidation						5,842
Total assets						233,665
<b>2006</b>						
Total income	3,422 <sup>(b)</sup>	1,576 <sup>(b)</sup>	147	181	110	5,436
Net profit	1,437 <sup>(b)</sup>	680 <sup>(b)</sup>	55	127	22	2,321
Total assets before goodwill	126,610	44,868	7,792	5,131	7,242	191,643
Goodwill on consolidation						5,840
Total assets						197,483

- (a) Includes one-time allowance write-back for a Singapore property and impairment charges for a Thai investment of \$209 million in 2007  
(b) Includes one-time gains of \$94 million in 2006 from sale of buildings in Singapore and Hong Kong  
(c) Rest of Greater China includes branch, subsidiary and associate operations in Mainland China and Taiwan  
(d) South and Southeast Asia includes branch, subsidiary, joint venture and associate operations in India, Indonesia, Malaysia, Thailand and the Philippines  
(e) Rest of the World includes branch operations in South Korea, Japan, United States of America and United Kingdom

In \$ millions	Bank					Total
	Singapore	Hong Kong	Rest of Greater China <sup>(c)</sup>	South and Southeast Asia <sup>(d)</sup>	Rest of the World <sup>(e)</sup>	
<b>2007</b>						
Total income	4,113 <sup>(a)</sup>	154	56	112	114	4,549
Net profit	1,571 <sup>(a)</sup>	65	(14)	5	(4)	1,623
Total assets	161,392	8,631	4,380	4,215	11,481	190,099
<b>2006</b>						
Total income	3,492 <sup>(b)</sup>	114	94	83	98	3,881
Net profit	1,685 <sup>(b)</sup>	32	38	49	21	1,825
Total assets	134,312	5,796	6,041	3,042	7,197	156,388

- (a) Includes impairment charges for a Thai investment of \$209 million in 2007  
(b) Includes one-time net gains of \$40 million in 2006 from sale of building in Singapore  
(c) Rest of Greater China includes branch operations in Mainland China and Taiwan  
(d) South and Southeast Asia includes branch operations in India, Malaysia, Thailand and the Philippines  
(e) Rest of the World includes branch operations in South Korea, Japan, United States of America and United Kingdom

**54 List of Subsidiaries, Joint Ventures, Associates and Special Purpose Entities**

The significant operating subsidiaries in the Bank Group are listed below:

Name of subsidiary	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2007	2006
<b>Held by the Bank</b>						
1. DBS Asset Management Ltd	Investment management services	Singapore	SGD	64	100	100
2. DBS China Square Ltd	Property investment holding	Singapore	SGD	228	70	70
3. DBS Nominees Pte Ltd	Nominee services	Singapore	SGD	#	100	100
4. DBS Trustee Ltd	Trustee services	Singapore	SGD	3	100	100
5. DBS Vickers Securities Holdings Pte Ltd	Investment holding	Singapore	SGD	403	100	100
6. DBSN Services Pte. Ltd.	Nominee services	Singapore	SGD	#	100	100
7. Primefield Company Pte Ltd***	Investment holding	Singapore	SGD	8	100	100
8. The Islamic Bank of Asia Limited	Provision of Shariah compliant Islamic Banking products and services	Singapore	USD	500	50	-
9. DBS Diamond Holdings Ltd	Investment holding	Bermuda	USD	4,065	100	100
10. DBS Capital Funding Corporation**	Capital funding	Cayman Islands	USD	#	100	100
11. DBS (China) Investment Co., Ltd*	Investment company	China	CNY	241	100	100
12. DBS Bank (China) Limited*	Retail, small and medium-sized enterprise and corporate banking services	China	CNY	4,000	100	-
13. DBS Asia Capital Limited*	Corporate finance and advisory services	Hong Kong	HKD	92	100	100

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	Name of subsidiary	Principal activities	Country of incorporation	Currency	Share capital	Effective shareholding %	
					In millions	2007	2006
14.	PT Bank DBS Indonesia*	Commercial banking and financial services	Indonesia	IDR	1,300,000	99	99
15.	DBSAM Funds***	Collective investment scheme	Luxembourg	USD	10	99.7	86
16.	DBS HDM Capital Management Sdn Bhd*	Investment company	Malaysia	RM	#	50	50
<b>Held by subsidiaries</b>							
17.	AXS Infocomm Pte Ltd <sup>(a)***</sup>	Development and operation of multimedia transactional pay phone kiosks	Singapore	SGD	14	64.8	64.8
18.	DBS Vickers Securities (Singapore) Pte Ltd	Securities and futures broker	Singapore	SGD	50	100	100
19.	DBS Vickers Securities Online (Singapore) Pte Ltd	Securities broker	Singapore	SGD	10	100	100
20.	DBS Vickers Securities Online Holdings Pte Ltd	Investment holding	Singapore	SGD	46	100	80
21.	DBS Asset Management (United States) Pte Ltd	Investment management services	Singapore	SGD	#	100	100
22.	DBS Vickers Research (Singapore) Pte Ltd	Market research consultants	Singapore	SGD	1	100	100
23.	DBS Vickers Securities Nominees (Singapore) Pte Ltd	Nominee services	Singapore	SGD	#	100	100
24.	DBS Asset Management (Hong Kong) Ltd*	Investment management services	Hong Kong	HKD	13	100	100
25.	DBS Bank (Hong Kong) Limited*	Retail, corporate and investment banking services	Hong Kong	HKD	5,200	100	100
26.	DBS Corporate Services (Hong Kong) Limited*	Investment holding and corporate services	Hong Kong	HKD	1	100	100
27.	DHB Limited*	Investment holding	Hong Kong	HKD	500	100	100
28.	DBS Vickers Securities Online (HK) Limited*	Securities broker	Hong Kong	HKD	157	100	100
29.	DBS Vickers (Hong Kong) Limited*	Securities and futures broker	Hong Kong	HKD	#	100	100
30.	DBS Vickers Securities Nominees (Hong Kong) Limited*	Nominee services	Hong Kong	HKD	#	100	100
31.	DBS Vickers Securities (Hong Kong) Limited	Investment holding	Hong Kong	HKD	8	100	100
32.	Kenson Asia Ltd*	Corporate services	Hong Kong	HKD	#	100	100
33.	Kingly Management Ltd*	Corporate services	Hong Kong	HKD	#	100	100
34.	Ting Hong Nominees Limited*	Nominee services	Hong Kong	HKD	#	100	100
35.	Worldson Services Ltd*	Corporate services	Hong Kong	HKD	#	100	100
36.	PT DBS Vickers Securities (Indonesia)*	Securities broker	Indonesia	IDR	55,000	99	99
37.	DBS Vickers Securities (Thailand) Co. Ltd*	Securities broker	Thailand	THB	690	100	100
38.	DHJ Management Limited**	Corporate services	British Virgin Islands	USD	#	100	100
39.	JT Administration Limited**	Corporate services	British Virgin Islands	USD	#	100	100
40.	Market Success Limited**	Corporate services	British Virgin Islands	USD	#	100	100
41.	Kendrick Services Limited**	Corporate directorship services	British Virgin Islands	USD	#	100	100
42.	Lushington Investment Limited**	Corporate shareholding services	British Virgin Islands	USD	#	100	100
43.	Quickway Limited**	Corporate directorship services	British Virgin Islands	USD	#	100	100
44.	DBS Group (Hong Kong) Limited*	Investment holding	Bermuda	USD	356	100	100
45.	DBS Vickers Securities (UK) Ltd*	Securities broker	United Kingdom	GBP	#	100	100
46.	DBS Vickers Securities (USA), Inc*	Securities broker	United States	USD	3	100	100
47.	DBS Trustee H.K. (Jersey) Limited*	Trustee services	Jersey	GBP	#	100	100

# Amount under \$500,000

\* Audited by Ernst & Young firms outside Singapore

\*\* No statutory audit was performed for these companies as it is not mandatory under local laws and regulations

\*\*\* Audited by other auditors

(a) Shareholding includes 10.8% (2006: 10.8%) held through the Bank. In addition, there is an indirect shareholding of 9.5% (2006: 9.5%) held through Network for Electronic Transfers (Singapore) Pte Ltd

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The significant operating joint ventures in the Bank Group are listed below:

Name of joint venture	Principal activities	Country of incorporation	Currency	Share capital		Effective shareholding %	
				In millions		2007	2006
<b>Held by the Bank</b>							
1. Ayala DBS Holdings Inc.*	Investment holding	The Philippines	PHP	3,340		<b>40.0</b>	40.0
2. Chalamandalam DBS Finance Limited***	Consumer finance	India	INR	522		<b>37.5</b>	37.5
3. DBS HDM Capital Sdn Bhd*	Investment holding	Malaysia	RM	1		<b>50.0</b>	50.0
<b>Held by subsidiaries</b>							
4. Hutchinson DBS Card Limited*	Provision of credit card services	British Virgin Islands	HKD	1		<b>50.0</b>	50.0

# Amount under \$500,000

\* Audited by Ernst & Young firms outside Singapore

\*\*\* Audited by other auditors

The significant operating associates in the Bank Group are listed below:

Name of associate	Principal activities	Country of incorporation	Currency	Share capital		Effective shareholding %	
				In millions		2007	2006
<b>Quoted - Held by the Bank</b>							
1. Bank of the Philippine Islands***	Commercial banking and financial services	The Philippines	PHP	22,386		<b>20.4</b>	20.4
<b>Quoted - Held by subsidiaries</b>							
2. Hwang – DBS (Malaysia) Bhd <sup>(b)</sup> ***	Investment holding	Malaysia	RM	255		<b>27.7</b>	26.2
<b>Unquoted - Held by the Bank</b>							
3. Century Horse Group Limited*	Financial services	British Virgin Islands	USD	#		<b>20.0</b>	20.0
4. Clearing and Payment Services Pte Ltd***	Provides service infrastructure for clearing payment and settlement of financial transactions	Singapore	SGD	6		<b>33.3</b>	33.3
5. Network for Electronic Transfers (Singapore) Pte Ltd***	Electronic funds transfer	Singapore	SGD	2		<b>33.3</b>	33.3
6. Orix Leasing Singapore Ltd***	Leasing and hire-purchase financing of equipment, provision of installment loans and working capital financing	Singapore	SGD	3		<b>30.0</b>	30.0
7. Investment and Capital Corporation of the Philippines*	Financial services	The Philippines	PHP	300		<b>20.0</b>	20.0
8. Nextmall Holdings Corporation**	Hypermarket chain	Cayman Islands	USD	#		<b>33.7</b>	33.7
<b>Unquoted - Held by subsidiaries</b>							
9. Hwang-DBS Investment Management Berhad***	Investment management services	Malaysia	RM	10		<b>30.0</b>	30.0
10. Hwang-DBS Vickers Research (Malaysia) Sdn Bhd <sup>(b)</sup> ***	Investment management	Malaysia	RM	3		<b>49.0</b>	49.0
11. Singapore Africa Investment Management Pte Ltd***	Investment management	Singapore	USD	#		<b>30.0</b>	30.0
12. Southern Africa Investment Pte Ltd <sup>(c)</sup> ***	Investment holding	Singapore	USD	35		<b>25.0</b>	25.0
13. Singapore Consortium Investment Management Ltd***	Investment management services	Singapore	SGD	1		<b>33.3</b>	33.3
14. Changsheng Fund Management Company	Establishment and management of investment	China	RMB	100		<b>33.0</b>	-

# Amount under \$500,000

\* Audited by Ernst & Young firms outside Singapore

\*\* No statutory audit was performed for this company as it is not mandatory under local laws and regulations

\*\*\* Audited by other auditors

(a) Shareholding includes 4.16% held through the Bank

(b) In addition to the effective shareholding of 49%, there is an indirect shareholding of 12.0% (2006: 13.4%) held through Hwang-DBS (Malaysia) Bhd. There is no control over indirect shareholding, thus consolidation was not applied

(c) Shareholding includes 12.5% held through the Bank

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The significant operating special purpose entities controlled by the Bank Group are listed below:

<b>Name of entity</b>	<b>Purpose of special purpose entity</b>	<b>Country of incorporation</b>
1. Zenesis SPC	Issuance of structured products	Cayman Islands
2. New Heights Investment Limited	Asset backed/ repackaging transactions for distribution to customers	Cayman Islands
3. Red Orchid Secured Assets Limited ("Rosa")	An Asset-Backed Commercial Paper ("ABCP") conduit for repackaging of Bank-originated and third party assets	Cayman Islands
4. Constellation Investment Ltd	Issuance of structured notes	Cayman Islands
5. Skyer I Limited	Structuring and issuance of credit-linked notes	Cayman Islands

**55 Subsequent Events**

55.1 Subsequent to 31 December 2007, a decision was taken to put Rosa, a consolidated special purpose entity of the Bank Group, into liquidation. As a first step, on 30 January 2008, Rosa sold its assets to DBS Bank Ltd ("the Bank"), a subsidiary of the Group, at a fair value of \$1.04 billion, incurring a loss of \$232 million. Of this loss, \$136 million has been reflected in the Bank Group's 2007 income statement as a charge to trading income and \$10 million was incurred prior to 2007 in the Bank Group's income statement. The remaining loss of \$86 million will be reflected in the Bank Group's income statement in January 2008.

Among the transferred assets were Collateralised Debt Obligation ("CDOs") with a fair value of \$347 million, which were being managed by the Bank as at the date of approval of the financial statements. The remaining balance of transferred assets has been dismantled into their trading components and the related swaps extinguished.

55.2 On 1 February 2008, the Bank Group successfully bid for selected assets and liabilities of Bowa Bank in Taiwan, including approximately \$2.9 billion of net loans, \$4.1 billion of deposits and 42 distribution outlets, with a payment of approximately \$2.0 billion from the Taiwanese government's Central Deposit Insurance Corporation. The transaction, which is scheduled to be completed in May 2008, is not expected to have a significant impact on the Bank Group's financial performance in the near term. The Bank Group will have full control of the assets acquired.

## **DBS Bank Ltd and its subsidiaries**

### **Directors' Report**

The Directors are pleased to submit their report to the Member together with the audited consolidated financial statements of DBS Bank Ltd (“the Bank”) and its subsidiaries (“the Bank Group”) and the balance sheet, income statement and statement of changes in equity of the Bank for the financial year ended 31 December 2007, which have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards, as modified by the requirements of Notice to Banks No. 612 “Credit Files, Grading and Provisioning” issued by the Monetary Authority of Singapore.

### **Board of Directors**

The Directors in office at the date of this report are:

Koh Boon Hwee	-	Chairman
Frank Wong Kwong Shing	-	Chief Operating Officer
Ang Kong Hua		
Andrew Robert Fowell Buxton		
Christopher Cheng Wai Chee	-	(Appointed 1 June 2007)
Goh Geok Ling		
Kwa Chong Seng		
Narayana Murthy		
Peter Ong Boon Kwee		
John Alan Ross		
Wong Ngit Liong		

Messrs Goh Geok Ling, Narayana Murthy, John Alan Ross and Wong Ngit Liong will retire at the forthcoming annual general meeting. Messrs John Alan Ross and Wong Ngit Liong will offer themselves for re-election. Messrs Goh Geok Ling and Narayana Murthy will not offer themselves for re-election.

Mr. Christopher Cheng Wai Chee will retire in accordance with Article 74 of the Bank’s Articles of Association, and will offer himself for re-election.

### **Arrangements to enable Directors to acquire shares or debentures**

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

## Directors' interest in shares and debentures

The following Directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Companies Act, an interest in shares of the Bank and related corporations as stated below:

	Holdings in which Directors have a direct interest		Holdings in which Directors are deemed to have an interest	
	As at 31 Dec 2007	As at 31 Dec 2006 (or date of appointment if later)	As at 31 Dec 2007	As at 31 Dec 2006 (or date of appointment if later)
<b>DBS Group Holdings Ltd ("DBSH") ordinary shares</b>				
Koh Boon Hwee	-	-	-	-
Jackson Tai	259,345	157,307	-	-
<i>(resigned on 31 December 2007)</i>				
Frank Wong Kwong Shing	148,080	213,357	116,300	-
Ang Kong Hua	-	-	-	-
Andrew Robert Fowell Buxton	6,000	4,000	-	-
Christopher Cheng Wai Chee	-	-	-	-
<i>(appointed on 1 June 2007)</i>				
Goh Geok Ling	2,100	2,100	-	-
Kwa Chong Seng	42,129	42,129	100,000	50,000
John Alan Ross	20,000	10,000	-	10,000
Narayana Murthy	2,000	2,000	-	-
Peter Ong Boon Kwee	-	-	-	-
Wong Ngit Liong	-	-	-	-
<b>Unissued ordinary shares under the DBSH Share Option Plan</b>				
Jackson Tai	440,175	440,175	-	-
Frank Wong Kwong Shing	448,050	448,050	-	-
<b>DBS Bank 6% non-cumulative non-convertible perpetual preference shares</b>				
Jackson Tai	250	250	-	-
Wong Ngit Liong	6,000	6,000	-	-

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2008.

## Directors' contractual benefits

Since the end of the previous financial year, no Director has received or has become entitled to receive a benefit under a contract which is required to be disclosed by Section 201(8) of the Singapore Companies Act save as disclosed in this report or in the financial statements of the Bank and the Bank Group.

## DBSH Share Option Plan

Particulars of the share options granted under the DBSH Share Option Plan ("Option Plan") in 1999, 2000, 2001, 2002, 2003, 2004 and 2005 have been set out in the Directors' Reports for the years ended 31 December 1999, 2000, 2001, 2002, 2003, 2004 and 2005 respectively. No grants were made under the Option Plan in 2006.



The movements of the unissued ordinary shares of DBSH in outstanding DBSH options granted under the Option Plan were as follows:

DBSH Options	Number of unissued ordinary shares	During the year		Number of unissued ordinary shares	Exercise price per share	Expiry date
	1 January 2007	Exercised	Forfeited	31 December 2007		
July 1999	1,281,114	515,620	25	765,469	\$15.30	27 July 2009
March 2000	1,158,000	202,000	11,000	945,000	\$20.87	5 March 2010
July 2000	879,000	49,000	34,000	796,000	\$22.33	26 July 2010
March 2001	5,542,915	1,872,615	5,150	3,665,150	\$17.70	14 March 2011
August 2001	268,400	-	6,000	262,400	\$12.93	31 July 2011
March 2002	4,524,017	1,348,337	20,000	3,155,680	\$14.73	27 March 2012
August 2002	315,700	62,700	8,000	245,000	\$12.27	15 August 2012
December 2002	10,000	-	-	10,000	\$11.47	17 December 2012
February 2003	4,248,370	1,264,320	40,600	2,943,450	\$10.40	23 February 2013
March 2004	4,617,192	1,333,405	35,995	3,247,792	\$14.73	2 March 2014
March 2005	2,170,099	303,832	125,535	1,740,732	\$15.07	1 March 2015
	25,014,807	6,951,829	286,305	17,776,673		

Other than the DBSH Options granted under the Option Plan as disclosed herein, there were no further options granted by DBSH as at the end of the financial year.

The persons to whom the DBSH Options have been granted do not have any right to participate by virtue of the DBSH Options in any share issue of any other company.

#### **DBSH Share Plan** (previously known as DBSH Performance Share Plan)

At an Extraordinary General Meeting held on 30 March 2006, the shareholders of DBSH approved alterations to the DBSH Performance Share Plan to (*inter alia*) permit the granting of time-based awards, and to change the name of the Plan from "DBSH Performance Share Plan" to "DBSH Share Plan". Time-based awards under the DBSH Share Plan were granted from 2007 onwards.

During the financial year, time-based awards in respect of an aggregate of 2,193,471 ordinary shares were granted pursuant to the DBSH Share Plan, to selected employees of the Bank Group. This included 251,578 ordinary shares comprised in awards granted to executive directors Mr Jackson Tai and Mr Frank Wong Kwong Shing. The number of ordinary shares comprised in the awards granted represent a 100% payout.

Information on the DBSH Share Plan is as follows:

- (i) Awards over DBSH's ordinary shares may be granted to Bank Group executives who hold such rank as may be determined by the Compensation and Management Development Committee of DBSH from time to time. Awards may also be granted to (*inter alia*) executives of associated companies of the Bank Group who hold such rank as may be determined by the Compensation and Management Development Committee of DBSH from time to time, and non-executive directors of Bank Group.

The participants of the DBSH Share Plan may be eligible to participate in the DBSH Share Option Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

- (ii) Where performance-based awards are granted, participants are awarded ordinary shares of DBSH, their equivalent cash value or a combination of both, when the prescribed performance targets are met over the prescribed performance periods. Where time-based awards are granted, participants are awarded ordinary shares of DBSH, their equivalent cash value or a combination of both as part of their deferred bonus, at the end of the prescribed vesting periods. Awards are granted under the DBSH

- (iii) The DBSH Share Plan shall continue to be in force at the discretion of the Compensation and Management Development Committee of DBSH, subject to a maximum period of ten years from 18 September 1999 to 17 September 2009, provided always that the DBSH Share Plan may continue beyond the above stipulated period with the approval of the shareholders of DBSH by ordinary resolution in general meeting and of any relevant authorities which may then be required.
- (iv) Awards under the DBSH Share Plan may be granted at any time in the course of a financial year, and may lapse by reason of cessation of service of the participant, or the retirement, redundancy, ill health, injury, disability, death, bankruptcy or misconduct of the participant, or by reason of the participant, being a non-executive director, ceasing to be a director, or in the event of a take-over, winding up or reconstruction of Bank Group.
- (v) The total number of new ordinary shares of DBSH which may be issued pursuant to awards granted under the DBSH Share Plan, when added to the total number of new ordinary shares issued and issuable in respect of all awards granted under the DBSH Share Plan, and all options granted under the DBSH Share Option Plan, shall not exceed 15% of the total number of issued shares in the capital of DBSH (excluding treasury shares).
- (vi) Subject to the prevailing legislation and SGX-ST guidelines, DBSH will have the flexibility to deliver ordinary shares of DBSH to participants upon vesting of their awards by way of an issue of new ordinary shares and/or the transfer of existing ordinary shares (which may include ordinary shares held by DBSH in treasury).
- (vii) The class and/or number of ordinary shares of DBSH comprised in an award to the extent not yet vested, and/or which may be granted to participants, are subject to adjustment by reason of any variation in the ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution) or if DBSH makes a capital distribution or a declaration of a special dividend (whether in cash or in specie), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

#### Auditors

PricewaterhouseCoopers has been nominated to be the external auditors for the ensuing year, subject to shareholders' approval, in place of the retiring auditors Ernst & Young. PricewaterhouseCoopers have expressed their willingness to accept appointment as external auditors.

On behalf of the Directors

  
Koh Boon Hwee

  
Frank Wong Kwong Shing

14 February 2008  
Singapore

## Statement by the Directors

We, Koh Boon Hwee and Frank Wong Kwong Shing, being two of the Directors of DBS Bank Ltd ("the Bank"), state that, in the opinion of the Directors, the consolidated financial statements of the Bank Group, consisting of the Bank and its subsidiaries, and the income statement, balance sheet and statement of changes in equity of the Bank, together with the notes thereon as set out on pages 1 to 77, are drawn up so as to give a true and fair view of the state of affairs of the Bank and Bank Group as at 31 December 2007 and the results, changes in equity and cash flows of the Bank and Bank Group for the financial year ended on that date and there are reasonable grounds to believe that the Bank and the Bank Group will be able to pay their debts as and when they fall due.

On behalf of the Directors



Koh Boon Hwee



14 February 2008  
Singapore

## Independent Auditors' Report

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### To the Member of DBS Bank Ltd (incorporated in Singapore)

We have audited the accompanying financial statements of DBS Bank Ltd (the "Bank") and its subsidiaries (the "Bank Group") set out on pages 1 to 77, which comprise the balance sheets of the Bank Group and the Bank as at 31 December 2007, consolidated income statements of the Bank Group and the Bank, consolidated statement of changes in equity of the Bank Group and the Bank and consolidated cash flow statement of the Bank Group, for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *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 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.

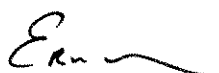
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 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,

- (i) the consolidated financial statements of the Bank Group and the income statement, balance sheet, and statement of changes in equity of the Bank are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (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 Bank Group and of the Bank as at 31 December 2007 and the results of the Bank Group and the Bank, changes in equity of the Bank Group and the Bank and cash flows of the Bank Group for the year ended on that date; and
- (ii) 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.



ERNST & YOUNG  
Certified Public Accountants

14 February 2008  
Singapore