

## BY THE NUMBERS

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# Consolidated Income Statement

for the year ended 31 December 2008

In \$ millions	Note	2008	2007
<b>Income</b>			
Interest income		8,122	9,090
Interest expense		3,821	4,982
Net interest income	5	4,301	4,108
Net fee and commission income	6	1,274	1,462
Net trading (loss)/income	7	(187)	180
Net income/(loss) from financial instruments designated at fair value	8	210	(86)
Net income from financial investments	9	367	450
Other income	10	88	49
<b>Total income</b>		<b>6,053</b>	6,163
<b>Expenses</b>			
Employee benefits	11	1,301	1,384
Depreciation of properties and other fixed assets	28	149	126
Other expenses	12	1,205	1,108
Allowances for credit and other losses	13	888	617
<b>Total expenses</b>		<b>3,543</b>	3,235
Share of profits of associates		75	110
<b>Profit before tax</b>		<b>2,585</b>	3,038
Income tax expense	14	446	589
<b>Net profit for the year</b>		<b>2,139</b>	2,449
Attributable to:			
<b>Shareholders</b>		<b>1,929</b>	2,278
Minority interests		210	171
		<b>2,139</b>	2,449
Basic earnings per ordinary share (\$)	15	1.26	1.50
Diluted earnings per ordinary share (\$)	15	1.22	1.44

(see notes on pages 54 to 122, which form part of these financial statements)

# Balance Sheets

at 31 December 2008

In \$ millions	Note	Group		Company	
		2008	2007 <sup>(a)</sup>	2008	2007
<b>Assets</b>					
Cash and balances with central banks	17	15,790	18,564		
Singapore Government securities and treasury bills	18	14,797	15,433		
Due from banks		20,467	22,910		
Financial assets at fair value through profit or loss	19	9,401	19,543		
Positive replacement values for financial derivatives	40	32,328	13,119		
Loans and advances to customers	20	125,841	106,344		
Financial investments	21	22,782	19,182		
Securities pledged	22	997	4,115		
Subsidiaries	23	–	–	6,745	6,748
Investments in associates	25	604	715		
Goodwill on consolidation	26	5,847	5,842		
Properties and other fixed assets	28	1,311	1,235		
Investment properties	28	293	299		
Deferred tax assets	29	171	25		
Other assets	30	6,089	5,637	154	–
<b>Total assets</b>		<b>256,718</b>	232,963	<b>6,899</b>	6,748
<b>Liabilities</b>					
Due to banks		9,021	15,464		
Due to non-bank customers	31	163,359	144,740		
Financial liabilities at fair value through profit or loss	32	11,282	18,242		
Negative replacement values for financial derivatives	40	31,918	12,791		
Bills payable		714	380		
Current tax liabilities		779	882		
Deferred tax liabilities	29	45	172		
Other liabilities	33	5,874	6,981	5	7
Other debt securities in issue	34	638	1,199		
Subordinated term debts	35	9,085	8,954		
<b>Total liabilities</b>		<b>232,715</b>	209,805	<b>5</b>	7
<b>Net assets</b>		<b>24,003</b>	23,158	<b>6,894</b>	6,741
<b>Equity</b>					
Share capital	36	4,215	4,164	4,215	4,164
Treasury shares	36	(154)	(102)	–	(27)
Other reserves	37	6,322	7,680	89	37
Revenue reserves	37	9,436	8,739	2,590	2,567
<b>Shareholders' funds</b>		<b>19,819</b>	20,481	<b>6,894</b>	6,741
Minority interests	38	4,184	2,677		
<b>Total equity</b>		<b>24,003</b>	23,158	<b>6,894</b>	6,741
<b>Off-balance sheet items</b>					
Contingent liabilities and commitments	39	92,656	106,961		
Financial derivatives	40	1,704,717	1,816,007		
<b>Client trust accounts<sup>(a)</sup></b>					
Amounts held with the Group		568	396		
Bank balances with third parties		745	628		
		<b>1,313</b>	1,024		
Bank balances with third parties		745	628		
Less: Amounts held in trust		(745)	(628)		
		–	–		

(a) 2007 customer monies in trust accounts pertaining to the Group's securities brokerage business have been reclassified out of "Due from banks" and "Due to non-bank customers" to be consistent with the current year's presentation

(see notes on pages 54 to 122, which form part of these financial statements)

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

In \$ millions	Convertible		Treasury shares	Other reserves	Revenue reserves	Minority interests	Total equity
	Ordinary shares	preference shares					
<b>2008</b>							
Balance at 1 January 2008	4,098	66	(102)	7,680	8,739	2,677	23,158
Exercise of share options	45						45
Net exchange translation adjustments				(51)		(7)	(58)
Share of associates' reserves				(40)			(40)
Cost of share-based payments				28			28
Share buyback during the year			(52)				(52)
Reclassification of reserves upon exercise of share options	6			(6)			–
Available-for-sale investments:							
– Net valuation taken to equity				(1,217)			(1,217)
– Transferred to income statement due to impairment				21			21
– Transferred to income statement on sale				(349)			(349)
– Tax on items taken directly to or transferred from equity				256			256
Net profit for the year					1,929	210	2,139
Final dividends paid for previous year					(302)		(302)
Interim dividends paid for current year					(930)		(930)
Dividends paid to minority interests						(197)	(197)
Change in minority interests <sup>(a)</sup>						1,501	1,501
Balance at 31 December 2008	4,149	66	(154)	6,322	9,436	4,184	24,003
<b>2007</b>							
Balance at 1 January 2007	3,976	66	(111)	7,182	7,562	2,371	21,046
Exercise of share options	106						106
Net exchange translation adjustments				(38)		(73)	(111)
Share of associates' reserves				37			37
Cost of share-based payments				34			34
Draw-down of reserves upon vesting of performance shares			36	(36)			–
Share buyback during the year			(27)				(27)
Reclassification of reserves upon exercise of share options	16			(16)			–
Available-for-sale investments:							
– Net valuation taken to equity				940			940
– Transferred to income statement on sale				(392)			(392)
– Tax on items taken directly to or transferred from equity				(61)			(61)
Net profit for the year					2,278	171	2,449
Appropriation from prior year's net profit				30	(30)		–
Final dividends paid for previous year					(310)		(310)
Interim dividends paid for current year					(761)		(761)
Dividends paid to minority interests						(143)	(143)
Change in minority interests <sup>(b)</sup>						351	351
Balance at 31 December 2007	4,098	66	(102)	7,680	8,739	2,677	23,158

(a) Includes issuance of preference shares to third parties by DBS Capital Funding II Corporation (refer to Note 38.3)

(b) Relates to the minority interests of a new subsidiary

(see notes on pages 54 to 122, which form part of these financial statements)

# Consolidated Cash Flow Statement

for the year ended 31 December 2008

In \$ millions	2008	2007 <sup>(a)</sup>
<b>Cash flows from operating activities</b>		
Net profit for the year	2,139	2,449
<b>Adjustments for non-cash items:</b>		
Allowances for credit and other losses	888	617
Depreciation of properties and other fixed assets	149	126
Share of profits of associates	(75)	(110)
Net gain on disposal of properties and other fixed assets	(27)	(6)
Net gain on disposal of financial investments	(367)	(450)
Income tax expense	446	589
Profit before changes in operating assets and liabilities	3,153	3,215
<b>(Decrease)/Increase in:</b>		
Due to banks	(7,855)	7,601
Due to non-bank customers	15,480	22,648
Financial liabilities at fair value through profit or loss	(6,960)	(1,466)
Other liabilities including bills payable	16,762	4,578
Debt securities and borrowings	(530)	(2,647)
<b>(Increase)/Decrease in:</b>		
Change in restricted balances with central banks	(501)	(55)
Singapore Government securities and treasury bills	636	(2,590)
Due from banks	2,600	2,330
Financial assets at fair value through profit or loss	10,147	(3,047)
Loans and advances to customers	(17,980)	(21,323)
Financial investments	(3,349)	3,539
Other assets	(16,499)	(7,031)
Tax paid	(566)	(501)
<b>Net cash (used in)/generated from operating activities (1)</b>	<b>(5,462)</b>	<b>5,251</b>
<b>Cash flows from investing activities</b>		
Dividends from associates	53	61
Purchase of properties and other fixed assets	(178)	(196)
Proceeds from disposal of properties and other fixed assets	128	74
Acquisition of interest in associates	–	(39)
Net proceeds from acquisition of new business	2,171	–
<b>Net cash generated from/(used in) investing activities (2)</b>	<b>2,174</b>	<b>(100)</b>
<b>Cash flows from financing activities</b>		
Increase in share capital	45	122
Proceeds from issuance of subordinated term debts	1,500	3,044
Payment upon maturity of subordinated term debts	–	(402)
Purchase of treasury shares	(52)	–
Dividends paid to shareholders of the Company	(1,232)	(1,071)
Dividends paid to minority interests	(197)	(143)
<b>Net cash generated from financing activities (3)</b>	<b>64</b>	<b>1,550</b>
Exchange translation adjustments (4)	(51)	(38)
<b>Net change in cash and cash equivalents (1)+(2)+(3)+(4)</b>	<b>(3,275)</b>	<b>6,663</b>
<b>Cash and cash equivalents at 1 January</b>	<b>15,953</b>	<b>9,290</b>
<b>Cash and cash equivalents at 31 December (Note 41)</b>	<b>12,678</b>	<b>15,953</b>

(a) Figures have been restated to make them consistent with current period's presentation

(see notes on pages 54 to 122, which form part of these financial statements)

# Notes to the Financial Statements

for the year ended 31 December 2008

These Notes are integral to the financial statements.

The consolidated financial statements for the year ended 31 December 2008 were authorised for issue by the directors on 12 February 2009.

## 1 DOMICILE AND ACTIVITIES

The Company, DBS Group Holdings Ltd, 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 Company is listed on the Singapore Exchange.

The principal activity of the Company is that of an investment holding company and the principal activities of its main subsidiary, DBS Bank Ltd (the Bank), are the provision of retail, small and medium-sized enterprise, corporate and investment banking services.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with Singapore Financial Reporting Standards (FRS) including related Interpretations promulgated by the Accounting Standards Council (ASC). 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 of the Company are prepared in accordance with FRS including related Interpretations promulgated by the ASC. As permitted by Section 201(4B) of the Act, the Company's income statement has not been included in these financial statements.

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 2008, the 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 Group:

FRS 39 (revised)	Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets
FRS 107 (revised)	Financial Instruments: Disclosures – Reclassification of Financial Assets
INT FRS 111	FRS 102 – Group and Treasury Share Transactions
INT FRS 114	FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies, which are consistent with those used in the previous financial year, except for the changes disclosed in Note 3.

### 2.2 Group accounting

#### Subsidiaries

Subsidiaries are entities that the 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 currently 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 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 Group's accounting policy on "Goodwill on consolidation".

The direct method is used by the Group to account for minority interests and they are disclosed as separate items in the consolidated financial statements.

#### ***Special purpose entities***

Entities in which the Group holds little or no equity are consolidated as subsidiaries if the 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 Group together with one or more parties through contractual arrangements. The Group recognises its interest in joint ventures using the proportionate consolidation method.

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

#### ***Associates***

Associates are entities in which the Group has significant influence, but not control, and generally holds a shareholding of between and including 20% and 50% of the voting rights. The Group recognises its investment in associates using the equity method of accounting.

Under the equity method of accounting, the 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 Group's share of net assets of the associate, less any impairment in value after the date of acquisition. Where the Group's share of losses in an associate equals or exceeds its interest in the associate, the 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 Group.

#### ***Investment cost at Company level***

Investments in subsidiaries, associates and joint ventures are stated at cost less accumulated impairment losses in the Company'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 Group and its associates and joint ventures are eliminated to the extent of the 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 Group.

### **2.3 Foreign currency translation**

#### ***Functional and presentation currency***

Items in the financial statements of the Company and each of the Group's subsidiaries are translated into 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 Company and the 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 foreign 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 foreign exchange differences are recorded directly in equity until the assets are sold or become impaired.

#### ***Foreign operations***

The results and financial position of the 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.

# Notes to the Financial Statements

for the year ended 31 December 2008

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 Group's financial businesses are organised into Consumer Banking, Institutional Banking, Global Financial Markets, Central Treasury Unit and Central Operations. In total, the Group reports five 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 Group's structured investment deposits which are carried at fair value through profit or loss.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow 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 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 and non-restricted balances with central banks 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. (See also Note 3.1)

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 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) **Financial assets classified as loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.



- (c) **Financial assets classified as available-for-sale** 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 financial assets are recognised on the date that the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the 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, except interest income, 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 financial assets classified as available-for-sale are recognised in the available-for-sale revaluation reserves. When financial assets 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 Group are the current bid prices. If the market for a financial asset is not active, the 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. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value.

## **2.8 Impairment of financial assets**

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

#### **(a) Financial assets classified as loans and receivables**

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

The criteria that the 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 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 a commitment such as a letter of guarantee and letter of credit.

A specific allowance for credit losses is recorded 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 recorded 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 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 and other losses".

# Notes to the Financial Statements

for the year ended 31 December 2008

*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 Group also carries general allowances for credit losses. The 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 Group considers country and portfolio risks, as well as industry practices. The Group maintains general allowances of at least 1% of credit exposures on and off the balance sheet (against which specific allowances have not been made) adjusted for collaterals held. This is in accordance with the transitional arrangements under Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore. Refer to Note 2.1 for more details.

## **(b) Financial assets classified as available-for-sale**

The 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 an equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is 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 acquisition 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 (including investment 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 on a straight-line basis 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 lives 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.

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

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

Properties (including investment 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 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 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, except interest expense, 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 Group for similar financial instruments. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value.

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 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 for financial derivatives) and as liabilities when the fair value is negative (Negative replacement values for financial derivatives).

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".

# Notes to the Financial Statements

for the year ended 31 December 2008

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 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 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.

## *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 is amortised to the income statement over its remaining maturity, using the effective interest method.

## *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.

## *Hedge of net investment in a foreign operation*

Hedges of net investments in the 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 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 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.

## **2.17 Share-based compensation**

Employee benefits also include share-based compensation, namely, the DBSH Share Ownership Scheme, the DBSH Share Option Plan, the DBSH Share Plan and the DBSH Employee Share Plan. The details of the Scheme and Plans are described in Note 42.

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. The expense is amortised over the vesting period of each award, with a corresponding adjustment to the share option/plan reserves. 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 "Treasury shares", which are included as a deduction within equity.

## **2.18 Current and deferred taxes**

Current income tax for current and prior periods is recognised at the amount expected to be paid or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, 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.

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

### 2.20 Share capital and treasury shares

Ordinary shares and preference shares which do not result in the Group having a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the Group, are classified as equity. Incremental external costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares (treasury shares), the consideration paid including any directly attributable incremental cost is presented as a component within equity, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares is deducted against either the share capital account or retained earnings. When treasury shares are subsequently sold or reissued, any realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

### 2.21 Dividend payment

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders at the Annual General Meeting.

### 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 them 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 Group acts in a fiduciary capacity as nominee, trustee or agent, are excluded from the financial statements.

## 3 EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW OR REVISED FRS

### 3.1 Revised FRS adopted

*FRS 39 (revised): Financial Instruments – Recognition and Measurement (Reclassification of Financial Assets) and FRS 107 (revised): Financial Instruments – Disclosures (Reclassification of Financial Assets)*

With the adoption of these two revised accounting standards, the Group has reclassified certain financial assets from held for trading to available-for-sale as well as from available-for-sale to loans and receivables categories. The reclassifications were effected according to the transitional provisions of FRS39 and FRS107.

The Group views the rapid deterioration of the global financial markets during the course of the third quarter of 2008, which has in turn resulted in highly illiquid markets, as a rare circumstance. One of the ramifications of this development is that certain held for trading assets have had their tradability compromised by the ensuing market illiquidity. As the Group will no longer, as a consequence, hold these assets for the purpose of selling or trading over the near term, these assets were reclassified to the available-for-sale category in the third quarter of 2008.

# Notes to the Financial Statements

for the year ended 31 December 2008

The Group also reclassified certain financial assets from available-for-sale to loans and receivables category in the fourth quarter of 2008. At the date of reclassification, the markets for these financial assets are inactive and the Group has the intention and ability to hold them for the foreseeable future or until maturity.

Refer to Note 16 for more disclosures on the adoption of these revised accounting standards.

## 3.2 New FRS issued but not yet effective

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

### *FRS 1: Presentation of Financial Statements*

Amendments to FRS 1 become effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity and introduces the statement of comprehensive income. The statement of comprehensive income presents all items of income and expense recognised in profit or loss, together with all other items of unrecognised income and expense, such as available-for-sale revaluation reserves, capital reserves, etc.

The adoption of FRS 1 will create additional disclosure requirements for the Group's financial statements.

### *FRS 27: Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

This amendment to FRS 27 becomes effective for financial years beginning on or after 1 January 2009. The standard removes the requirement to differentiate pre-acquisition from post-acquisition dividends. Dividends received will be treated as revenue. The changes introduced must be applied prospectively and will affect how dividends received in the future are accounted for.

### *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 disclosure requirements for the Group's financial statements.

### *Other new or revised accounting standards*

The following new/revised accounting standards take effect for the Group for the financial year beginning 1 January 2009 or later periods. There is no expected material impact on the Group's financial statements from the adoption of these new/revised accounting changes:

- Amendments to FRS 1 Presentation of Financial Statements and FRS 32 Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- FRS 102: Share-based Payments – Vesting Conditions and Cancellations
- INT FRS 113: Customer Loyalty Programmes
- INT FRS 116: Hedges of a Net Investment in a Foreign Operation
- INT FRS 117: Distributions of Non-cash Assets to Owners
- Improvements to FRSs

## 4 CRITICAL ACCOUNTING ESTIMATES

The 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 Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

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

### 4.1 Impairment allowances on claims

It is the 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 and exercises judgement in estimating cash flows and collateral value. 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, management considers country and portfolio risks, as well as industry practices. General allowances of at least 1% of credit exposures on and off-balance sheet (against which specific allowances have not been made) is maintained and adjusted for collaterals held.



This is in accordance with 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 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 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. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The determination of fair value is subject to the Valuation Framework approved by the Board and the oversight of senior management committees. The Valuation Framework is implemented in the Group through policies and procedures approved by the committees. These policies and procedures facilitate the exercise of 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 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 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. Refer to Note 26 for more details.

#### 4.4 Income taxes

The 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 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.

#### 4.5 Provisions for customer compensation

Judgement is needed to determine, taking into account the requirements in FRS 37 Provisions, Contingent Liabilities and Contingent Assets, the appropriate level of possible compensation payable to certain customers who had bought structured investment products from the Group. In making this judgement, the Group evaluates the likelihood and estimated amount of outflow of resources which will be required to settle the obligation with reference to advice from legal counsel. Refer to Note 33 for more details.

### 5 NET INTEREST INCOME

In \$ millions	The Group	
	2008	2007
Cash and balances with central banks and Due from banks	<b>926</b>	1,261
Loans and advances to customers	<b>5,051</b>	5,405
Debt securities	<b>2,145</b>	2,424
Total interest income	<b>8,122</b>	9,090
Due to banks	<b>728</b>	591
Due to non-bank customers	<b>2,395</b>	3,079
Others	<b>698</b>	1,312
Total interest expense	<b>3,821</b>	4,982
Net interest income	<b>4,301</b>	4,108
Comprising:		
Interest income for financial assets at fair value through profit or loss	<b>808</b>	975
Interest income for financial assets not at fair value through profit or loss	<b>7,314</b>	8,115
Interest expense for financial liabilities at fair value through profit or loss	<b>(299)</b>	(675)
Interest expense for financial liabilities not at fair value through profit or loss	<b>(3,522)</b>	(4,307)
Total	<b>4,301</b>	4,108

# Notes to the Financial Statements

for the year ended 31 December 2008

## 6 NET FEE AND COMMISSION INCOME

In \$ millions	The Group	
	2008	2007
Fee and commission income	<b>1,542</b>	1,804
Fee and commission expense	<b>268</b>	342
Net fee and commission income	<b>1,274</b>	1,462
Comprising:		
Loan-related	<b>299</b>	232
Trade and remittances	<b>225</b>	206
Stock broking	<b>152</b>	250
Credit card	<b>143</b>	132
Wealth management	<b>137</b>	249
Investment banking	<b>90</b>	171
Deposit-related	<b>81</b>	78
Others	<b>66</b>	65
Guarantees	<b>49</b>	36
Fund management	<b>32</b>	43
Net fee and commission income <sup>(a)</sup>	<b>1,274</b>	1,462

(a) Includes net fee and commission income of \$62 million (2007: \$75 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 \$521 million (2007: \$440 million) during the year

## 7 NET TRADING (LOSS)/INCOME

In \$ millions	The Group	
	2008	2007
From trading businesses		
– Foreign exchange	<b>660</b>	151
– Interest rates, credit and equities <sup>(a)</sup>	<b>(892)</b>	45
Other businesses	<b>45</b>	(16)
Total	<b>(187)</b>	180

(a) Includes dividend income of \$19 million (2007: \$31 million)

## 8 NET INCOME/(LOSS) FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE

In \$ millions	The Group	
	2008	2007
Financial assets designated at fair value	<b>(148)</b>	(3)
Financial liabilities designated at fair value	<b>358</b>	(83)
Total	<b>210</b>	(86)

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 32.

## 9 NET INCOME FROM FINANCIAL INVESTMENTS

In \$ millions	The Group	
	2008	2007
Debt securities		
– Available-for-sale	<b>66</b>	47
– Loans and receivables	<b>1</b>	1
Equity securities <sup>(a) (b)</sup>	<b>300</b>	402
Total	<b>367</b>	450

Comprising gains transferred from:  
Available-for-sale revaluation reserves **349** 392

(a) 2008 includes \$7 million profits on sale of unquoted equity securities which were stated at cost. Their carrying amounts were \$48 million at the time of sale. There was no sale of unquoted securities in 2007

(b) Includes dividend income of \$29 million (2007: \$28 million)

## 10 OTHER INCOME

In \$ millions	The Group	
	2008	2007
Rental income	<b>14</b>	14
Net gain on properties and other fixed assets <sup>(a)</sup>	<b>27</b>	6
Others	<b>47</b>	29
Total	<b>88</b>	49

(a) 2008 includes \$22 million one-time gain from sale of office buildings in Hong Kong

## 11 EMPLOYEE BENEFITS

In \$ millions	The Group	
	2008	2007
Salary and bonus <sup>(a)</sup>	<b>1,118</b>	1,186
Contributions to defined contribution plans	<b>59</b>	55
Share-based expenses	<b>28</b>	34
Others	<b>96</b>	109
Total	<b>1,301</b>	1,384

(a) 2008 includes \$45 million one-time restructuring costs



**12 OTHER EXPENSES**

In \$ millions	The Group	
	2008	2007
Computerisation expenses <sup>(a)</sup>	<b>385</b>	370
Occupancy expenses <sup>(b)</sup>	<b>219</b>	189
Revenue-related expenses	<b>147</b>	135
Others <sup>(c)</sup>	<b>454</b>	414
<b>Total</b>	<b>1,205</b>	1,108

(a) Includes hire and maintenance of computer hardware and software

(b) Includes rental expenses of office and branch premises of \$120 million (2007: \$96 million) and amounts incurred in the maintenance and service of buildings owned by the Group's subsidiary companies

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

In \$ millions	The Group	
	2008	2007
Hire and maintenance of fixed assets, including building-related expenses	<b>229</b>	203
Audit fees payable to external auditors <sup>(a)</sup> :		
– Singapore	<b>3</b>	3
– Outside Singapore	<b>2</b>	2
Non audit fees payable to external auditors <sup>(a)</sup> :		
– Singapore	<b>1</b>	#
– Outside Singapore	<b>#</b>	1

# Amount under \$500,000

(a) 2008: PricewaterhouseCoopers LLP (2007: Ernst & Young)

**13 ALLOWANCES FOR CREDIT AND OTHER LOSSES**

In \$ millions	The Group	
	2008	2007
Loans and advances to customers (Note 20)	<b>524</b>	128
Financial investments		
– Available-for-sale <sup>(a)</sup>	<b>125</b>	262
– Loans and receivables (Note 21)	<b>185</b>	273
Properties and other fixed assets <sup>(b)</sup> (Note 28)	<b>1</b>	(86)
Off-balance sheet credit exposures (Note 33)	<b>46</b>	6
Others (bank loans and sundry debtors)	<b>7</b>	34
<b>Total</b>	<b>888</b>	617

(a) 2008 includes \$104 million (2007: \$264 million) one-time impairment charges for a Thai investment

(b) 2007 includes \$78 million one-time allowance write-back for a Singapore property

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

In \$ millions	The Group					Balance at 31 December
	Balance at 1 January	Charge/ (Write-back) to income statement	Net write-off during the year	Acquisition of new business <sup>(a)</sup>	Exchange and other movements	
<b>2008</b>						
Loans and advances to customers (Note 20)	<b>1,341</b>	<b>524</b>	<b>(238)</b>	<b>277</b>	<b>(20)</b>	<b>1,884</b>
Financial investments	<b>431</b>	<b>310</b>	<b>(138)</b>	–	<b>5</b>	<b>608</b>
Properties and other fixed assets (Note 28)	<b>25</b>	<b>1</b>	–	<b>46</b>	–	<b>72</b>
Off-balance sheet credit exposures (Note 33)	<b>132</b>	<b>46</b>	–	–	<b>(1)</b>	<b>177</b>
Others (bank loans and sundry debtors)	<b>90</b>	<b>7</b>	–	–	<b>(3)</b>	<b>94</b>
<b>Total specific and general allowances</b>	<b>2,019</b>	<b>888</b>	<b>(376)</b>	<b>323</b>	<b>(19)</b>	<b>2,835</b>
<b>2007</b>						
Loans and advances to customers (Note 20)	1,450	128	(199)	–	(38)	1,341
Financial investments	191	535	(283)	–	(12)	431
Properties and other fixed assets (Note 28)	194	(86)	(80)	–	(3)	25
Off-balance sheet credit exposures (Note 33)	126	6	–	–	–	132
Others (bank loans and sundry debtors)	57	34	(2)	–	1	90
<b>Total specific and general allowances</b>	<b>2,018</b>	<b>617</b>	<b>(564)</b>	<b>–</b>	<b>(52)</b>	<b>2,019</b>

(a) Relates to allowances arising from the acquisition of Bowa Commercial Bank's business (refer to Note 27)

# Notes to the Financial Statements

for the year ended 31 December 2008

## 14 INCOME TAX EXPENSE

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

In \$ millions	The Group	
	2008	2007
Current tax expense		
– Current year	<b>472</b>	620
– Prior years' provision	<b>(9)</b>	–
Deferred tax expense		
– Effect of change in tax rate	–	4
– Origination of temporary differences	<b>(17)</b>	(35)
<b>Total</b>	<b>446</b>	589

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

In \$ millions	The Group	
	2008	2007
Accelerated tax depreciation	<b>6</b>	(3)
Allowances for loan losses	<b>(11)</b>	(9)
Other temporary differences	<b>(12)</b>	(19)
Deferred tax expense credited to income statement	<b>(17)</b>	(31)

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

In \$ millions	The Group	
	2008	2007
Profit	<b>2,510</b>	2,928
Prima facie tax calculated at a tax rate of 18% (2007: 18%)	<b>452</b>	527
Effect of different tax rates in other countries	<b>63</b>	62
Effect of change in tax rate	–	4
Income not subject to tax	<b>(61)</b>	(56)
Income taxed at concessionary rate	<b>(42)</b>	(63)
Non-tax deductible provisions	<b>31</b>	33
Others	<b>3</b>	82
Income tax expense charged to income statement	<b>446</b>	589

Refer to Note 29 for further information on deferred tax assets/liabilities.

## 15 EARNINGS PER ORDINARY SHARE

In \$ millions		The Group	
		2008	2007
Weighted average number of ordinary shares in issue	(a)	<b>1,512</b>	1,511
Dilutive effect of share options		<b>5</b>	5
Full conversion of non-voting redeemable CPS		<b>66</b>	66
Full conversion of non-voting convertible preference shares		<b>#</b>	#
Weighted average number of ordinary shares in issue (diluted)	(aa)	<b>1,583</b>	1,582

# Amount under \$500,000

In \$ millions		The Group	
		2008	2007
Net profit attributable to shareholders (Net Profit)	(b)	<b>1,929</b>	2,278
Net profit (less preference dividends)	(c)	<b>1,909</b>	2,262
<b>Earnings per ordinary share (\$)</b>			
Basic	(c)/(a)	<b>1.26</b>	1.50
Diluted	(b)/(aa)	<b>1.22</b>	1.44

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the effect of a full conversion of non-voting convertible preference shares (CPS) and non-voting redeemable CPS. In addition, the calculation takes into account the exercise of all outstanding share options granted to employees when such shares would be issued at a price lower than the average share price during the financial year.

On 30 January 2009, the Group issued 760,480,229 rights shares on the basis of one rights share for every two ordinary shares held on 31 December 2008. Refer to Note 53 on subsequent events for details of the rights issue. The following table shows the impact of the rights issue on Earnings Per Ordinary Share:

In \$ millions		The Group	
		2008	2007
Issue of rights shares	(d)	<b>760</b>	760
Weighted average number of ordinary shares after rights issue	(a)+(d)	<b>2,272</b>	2,271
Weighted average number of ordinary shares after rights issue (diluted)	(aa)+(d)	<b>2,343</b>	2,342
<b>Post-rights earnings per ordinary share (\$)</b>			
Basic		<b>1.07</b>	1.27
Diluted		<b>1.04</b>	1.22

## 16 MEASUREMENT BASIS OF FINANCIAL INSTRUMENTS

In \$ millions	The Group 2008					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables/ amortised cost	Available-for-sale	Held for hedging	
<b>Assets</b>						
Cash and balances with central banks	–	–	15,790	–	–	15,790
Singapore Government securities and treasury bills	3,063	–	–	11,734	–	14,797
Due from banks	–	–	20,467	–	–	20,467
Financial assets at fair value through profit or loss	7,944	1,457	–	–	–	9,401
Positive replacement values for financial derivatives	31,876	–	–	–	452	32,328
Loans and advances to customers	–	–	125,841	–	–	125,841
Financial investments	–	–	5,103	17,679	–	22,782
Securities pledged	787	–	–	210	–	997
Other assets	–	–	6,089	–	–	6,089
<b>Total financial assets</b>	<b>43,670</b>	<b>1,457</b>	<b>173,290</b>	<b>29,623</b>	<b>452</b>	<b>248,492</b>
Other asset items outside the scope of FRS 39 <sup>(a)</sup>						8,226
<b>Total assets</b>						<b>256,718</b>
<b>Liabilities</b>						
Due to banks	–	–	9,021	–	–	9,021
Due to non-bank customers	–	–	163,359	–	–	163,359
Financial liabilities at fair value through profit or loss	9,369	1,913	–	–	–	11,282
Negative replacement values for financial derivatives	31,494	–	–	–	424	31,918
Bills payable	–	–	714	–	–	714
Other liabilities	–	–	5,697	–	–	5,697
Other debt securities in issue	–	–	638	–	–	638
Subordinated term debts	–	–	9,085	–	–	9,085
<b>Total financial liabilities</b>	<b>40,863</b>	<b>1,913</b>	<b>188,514</b>	<b>–</b>	<b>424</b>	<b>231,714</b>
Other liability items outside the scope of FRS 39 <sup>(b)</sup>						1,001
<b>Total liabilities</b>						<b>232,715</b>

(a) Includes investments in associates, goodwill on consolidation, properties and other fixed assets, investment properties and deferred tax assets

(b) Includes current tax liabilities, deferred tax liabilities and loss allowances for off-balance sheet credit exposures

# Notes to the Financial Statements

for the year ended 31 December 2008

In \$ millions	The Group 2007					Total
	Held for trading	Designated at fair value through profit or loss	Loans and receivables/ amortised cost	Available-for-sale	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	–	–	22,910	–	–	22,910
Financial assets at fair value through profit or loss	17,148	2,395	–	–	–	19,543
Positive replacement values for financial derivatives	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	–	–	5,637	–	–	5,637
<b>Total financial assets</b>	<b>35,284</b>	<b>2,395</b>	<b>155,882</b>	<b>31,073</b>	<b>213</b>	<b>224,847</b>
Other asset items outside the scope of FRS 39 <sup>(a)</sup>						8,116
<b>Total assets</b>						<b>232,963</b>
<b>Liabilities</b>						
Due to banks	–	–	15,464	–	–	15,464
Due to non-bank customers	–	–	144,740	–	–	144,740
Financial liabilities at fair value through profit or loss	14,625	3,617	–	–	–	18,242
Negative replacement values for financial derivatives	12,663	–	–	–	128	12,791
Bills payable	–	–	380	–	–	380
Other liabilities	–	–	6,849	–	–	6,849
Other debt securities in issue	–	–	1,199	–	–	1,199
Subordinated term debts	–	–	8,954	–	–	8,954
<b>Total financial liabilities</b>	<b>27,288</b>	<b>3,617</b>	<b>177,586</b>	<b>–</b>	<b>128</b>	<b>208,619</b>
Other liability items outside the scope of FRS 39 <sup>(b)</sup>						1,186
<b>Total liabilities</b>						<b>209,805</b>

(a) Includes investments in associates, goodwill on consolidation, properties and other fixed assets, investment properties and deferred tax assets

(b) Includes current tax liabilities, deferred tax liabilities and loss allowances for off-balance sheet credit exposures

During the year, the Group reclassified certain non-derivative trading financial assets comprising debt securities which are no longer held for selling in the near term out of the held for trading category into the available-for-sale category. The Group believes that the deterioration of the global financial markets that occurred in 2008 represents a rare circumstance that allows such a reclassification.

In addition, the Group has reclassified certain financial assets which comprise debt securities out of the available-for-sale category into the loans and receivables category. The Group has the intention and ability to hold these reclassified assets for the foreseeable future or until maturity at the date of reclassification.

The fair values and carrying amounts of the reclassified financial assets are as follows:

In \$ millions	Reclassified from	Reclassified to	Fair values and	Fair values	Carrying amounts
			on date of	as at	as at
			reclassification	31 December 2008	31 December 2008
	Held for trading	Available-for-sale	2,389	2,149	2,149
	Available-for-sale	Loans and receivables	1,789	1,621	1,696
	Total		4,178	3,770	3,845

In the current year before reclassification, the Group has recognised interest income of \$98 million, and fair value losses of \$100 million in the income statement and \$139 million in the revaluation reserves for the reclassified financial assets.

After reclassification, \$97 million of interest income was recognised in the income statement and a fair value loss of \$246 million was recognised in revaluation reserves for the reclassified financial assets.

For the financial year ended 31 December 2007, the Group has recognised interest income of \$115 million in the income statement, and fair value losses of \$54 million and \$4 million in the income statement and revaluation reserves respectively.

If the Group had not reclassified financial assets in the current year, fair value losses recognised for the year in which the financial assets were reclassified (including fair value losses recognised before reclassification) would have amounted to \$340 million and \$214 million in the income statement and revaluation reserves respectively.

As at the date of reclassification of the financial assets, the effective interest rates on the reclassified assets are between 2.02% and 10.16%. The estimated amounts of undiscounted cash flows expected to be recovered from these reclassified financial assets is \$5,337 million.

## 17 CASH AND BALANCES WITH CENTRAL BANKS

In \$ millions	The Group	
	2008	2007
Cash on hand	1,040	1,007
Balances with central banks		
– Restricted balances	3,112	2,611
– Non-restricted balances	11,638	14,946
Total	15,790	18,564

## 18 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS

In \$ millions	The Group	
	2008	2007
Held for trading	3,063	3,568
Available-for-sale	11,734	11,865
Total	14,797	15,433
Market value	14,797	15,433

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In \$ millions	The Group	
	2008	2007
<b>Trading</b>		
Other government securities and treasury bills	2,102	2,752
Corporate debt securities	3,805	9,957
Equity securities	295	1,529
Loans and advances to customers	50	1,650
Other financial assets (due from banks)	1,692	1,260
Sub-total	7,944	17,148
<b>Fair value designated</b>		
Other government securities and treasury bills	24	–
Corporate debt securities	842	1,957
Loans and advances to customers	591	438
Sub-total	1,457	2,395
Total	9,401	19,543
<b>Analysed by industry</b>		
Manufacturing	1,133	1,314
Building and construction	205	286
General commerce	45	124
Transportation, storage and communications	347	888
Financial institutions, investment and holding companies	4,598	9,909
Government	2,126	2,752
Others	947	4,270
Total	9,401	19,543

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## Fair value designated loans and advances and related credit derivatives/enhancements

Maximum credit exposure	591	438
Credit derivatives/enhancements – protection bought	(591)	(438)
Cumulative change in fair value arising from changes in credit risk	(55)	(40)
Cumulative change in fair value of related credit derivatives /enhancements	55	40

Changes in fair value arising from changes in credit risk 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.

During the year, the amount of change in the fair value of the loans and advances attributable to credit risk was \$15 million (2007: \$33 million).

During the year, the amount of change in the fair value of the related credit derivatives/enhancements was \$15 million (2007: \$33 million).

## 20 LOANS AND ADVANCES TO CUSTOMERS

In \$ millions	The Group	
	2008	2007
Gross	127,725	107,685
Less: Specific allowances	868	436
General allowances	1,016	905
Net total	125,841	106,344
Comprising:		
Bills receivable	4,648	3,519
Loans	121,193	102,825
Net total	125,841	106,344
<b>Analysed by industry</b>		
Manufacturing	15,356	14,018
Building and construction	17,931	13,004
Housing loans	29,375	26,306
General commerce	13,075	10,042
Transportation, storage and communications	12,457	11,169
Financial institutions, investment and holding companies	14,490	12,373
Professionals and private individuals (except housing loans)	10,478	9,730
Others	14,563	11,043
Gross total	127,725	107,685

## Analysed by products

Long-term loans	61,964	48,923
Short-term facilities	28,369	25,621
Overdrafts	3,410	3,242
Housing loans	29,381	26,306
Trade financing	4,601	3,593
Gross total	127,725	107,685

## Analysed by currency and fixed/variable pricing

<b>Fixed rates<sup>(a)</sup></b>		
Singapore dollar	15,788	10,597
Hong Kong dollar	664	614
US dollar	1,736	1,513
Others	2,695	2,827
Sub-total	20,883	15,551

<b>Floating or adjustable rates<sup>(b)</sup></b>		
Singapore dollar	37,732	32,050
Hong Kong dollar	28,683	25,398
US dollar	25,835	23,009
Others	14,592	11,677
Sub-total	106,842	92,134
Gross total	127,725	107,685

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

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

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

In \$ millions	2008					Balance at 31 December
	Balance at 1 January	Charge/ (Write-back) to income statement	Net write- off during the year	Acquisition of new business <sup>(a)</sup>	Exchange and other movements	
<b>Specific allowances</b>						
Manufacturing	154	218	(86)	54	–	340
Building and construction	19	(11)	(4)	25	–	29
Housing loans	33	(32)	7	33	–	41
General commerce	127	(6)	(8)	61	–	174
Transportation, storage and communications	4	(1)	(3)	5	–	5
Financial institutions, investment and holding companies	9	57	–	–	–	66
Professionals and private individuals (except housing loans)	37	140	(118)	50	–	109
Others	53	43	(26)	35	(1)	104
<b>Total specific allowances</b>	<b>436</b>	<b>408</b>	<b>(238)</b>	<b>263</b>	<b>(1)</b>	<b>868</b>
<b>General allowances</b>						
Manufacturing	139	11	–	–	–	150
Building and construction	129	50	–	–	–	179
Housing loans	134	(86)	–	–	–	48
General commerce	99	30	–	–	–	129
Transportation, storage and communications	112	13	–	–	–	125
Financial institutions, investment and holding companies	124	20	–	–	–	144
Professionals and private individuals (except housing loans)	97	7	–	–	–	104
Others	71	71	–	14	(19)	137
<b>Total general allowances</b>	<b>905</b>	<b>116</b>	<b>–</b>	<b>14</b>	<b>(19)</b>	<b>1,016</b>
<b>Total allowances</b>	<b>1,341</b>	<b>524</b>	<b>(238)</b>	<b>277</b>	<b>(20)</b>	<b>1,884</b>

(a) Relates to allowances arising from the acquisition of Bowa Commercial Bank's business (refer to Note 27)

# Notes to the Financial Statements

for the year ended 31 December 2008

In \$ millions	Balance at 1 January	Charge/ (Write-back) to income statement	2007		Balance at 31 December
			Net write- off during the year	Exchange and other movements	
<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>

## 21 FINANCIAL INVESTMENTS

In \$ millions	The Group		In \$ millions	The Group		
	2008	2007		2008	2007	
<b>Available-for-sale</b>						
Quoted other government securities and treasury bills	<b>4,549</b>	2,248	<b>Analysed by industry</b>	<b>629</b>	1,005	
Quoted corporate debt securities	<b>11,986</b>	12,184		<b>816</b>	1,664	
Quoted equity securities	<b>793</b>	1,987		<b>542</b>	266	
Unquoted equity securities	<b>351</b>	336				
Available-for-sale financial investments	<b>17,679</b>	16,755				
<b>Loans and receivables</b>						
Corporate debt securities	<b>5,586</b>	2,720				
Less: Impairment allowances	<b>483</b>	293				
Loans and receivables financial investments	<b>5,103</b>	2,427				
<b>Total</b>	<b>22,782</b>	19,182				
Market value of quoted securities	<b>22,255</b>	18,921				
			<b>Total carrying value</b>	<b>22,782</b>	19,182	



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

In \$ millions	Balance at 1 January	Charge to income statement	Exchange and other movements	Balance at 31 December
<b>2008</b>				
<b>Loans and receivables</b>				
Corporate debt securities	293	185	5	483
<b>2007</b>				
<b>Loans and receivables</b>				
Corporate debt securities	27	273	(7)	293

## 22 SECURITIES PLEDGED

In \$ millions	The Group	
	2008	2007
<b>Securities pledged</b>		
Singapore Government securities and treasury bills	186	268
Other government securities and treasury bills	806	3,629
Corporate debt securities	5	218
Total securities pledged <sup>(a)</sup>	997	4,115
Related liabilities	991	3,711

(a) Includes financial assets at fair value through profit or loss of \$787 million (2007: \$1,662 million)

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

## 23 SUBSIDIARIES

In \$ millions	The Company	
	2008	2007
Unquoted equity shares, at cost	6,726	6,726
Due from subsidiaries	19	22
Total	6,745	6,748

Refer to Note 52 for details of significant subsidiaries.

## 24 JOINT VENTURES

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

In \$ millions	The Group	
	2008	2007
<b>Income statement</b>		
Share of income	89	83
Share of expenses	(87)	(72)
<b>Balance sheet</b>		
Share of total assets	865	829
Share of total liabilities	752	716

Refer to Note 52 for details of significant joint ventures.

## 25 INVESTMENTS IN ASSOCIATES

In \$ millions	The Group	
	2008	2007
<b>Unquoted</b>		
Cost	92	92
Share of post acquisition reserves	81	69
Less: Impairment allowances	42	42
Sub-total	131	119
<b>Quoted</b>		
Cost	1,254	1,290
Impairment allowances	(837)	(837)
Net exchange translation adjustments	(33)	(9)
Share of post acquisition reserves	89	152
Sub-total	473	596
Total	604	715
Market value – quoted associates	794	1,274

The Group's share of income and expenses, assets and liabilities and off-balance sheet items of associates at 31 December are as follows:

In \$ millions	The Group	
	2008	2007
<b>Income statement</b>		
Share of income	400	444
Share of expenses	(323)	(344)
<b>Balance sheet</b>		
Share of total assets	4,645	6,018
Share of total liabilities	4,021	5,070
<b>Off-balance sheet</b>		
Share of contingent liabilities and commitments	56	52

Refer to Note 52 for details of significant associates.

# Notes to the Financial Statements

for the year ended 31 December 2008

## 26 GOODWILL ON CONSOLIDATION

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

In \$ millions	The Group	
	2008	2007
Balance at 1 January	5,842	5,840
Additional interest in a subsidiary	11	–
Exchange differences	(6)	2
Balance at 31 December	5,847	5,842

Goodwill arising from acquisition of subsidiaries and joint ventures is allocated to the Group's cash-generating units or groups of cash-generating units as follows:

In \$ millions	As at 31 December	
	2008	2007
DBS Bank (Hong Kong) Limited	5,649	5,649
DBS Vickers Securities Holdings Pte Ltd	154	154
Cholamandalam DBS Finance Limited	27	33
Primefield Company Pte Ltd	17	6
Total	5,847	5,842

Key assumptions used for value-in-use calculations:

	DBS Vickers	
	DBS Bank (Hong Kong) Limited	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 three year period and a projection for the fourth and fifth years, taking into account projected regulatory capital requirements. The recoverable value is determined by discounting the cash flow projections to their present values. The terminal value reflecting all periods beyond the fifth year is calculated based on the forecast fifth year profit, the cost of equity and the long term growth rate stated above. The growth rates do not exceed the long-term average growth rate for the market in which the businesses operate.

Management has undertaken sensitivity analysis on the financial budgets and forecasts and noted that for DBS Bank (Hong Kong) Limited, if the estimated net profit after tax forecasts from 2009 – 2011 were reduced by 30%, the Group's value-in-use calculation is still higher than the carrying amounts. Further, if the estimated long term growth rates for DBS Bank (Hong Kong) Limited and DBS Vickers Securities Holdings Pte Ltd are reduced by 50 basis points or the estimated discount rates increased by 50 basis points, the

recoverable amounts for these entities would still be higher than the carrying amounts. On this basis, the Group concluded that goodwill remains recoverable at 31 December 2008. However, if conditions in Hong Kong and the banking industry deteriorate and turn out to be significantly worse than anticipated in the Group's performance forecasts, goodwill may need to be impaired in future periods.

## 27 ACQUISITION

On 1 February 2008, the Group successfully bid for selected assets and liabilities of Bowa Commercial Bank (Bowa), a bank in Taiwan. Bowa was a distressed bank taken over by the Central Deposit Insurance Corporation (CDIC) of Taiwan. Under the terms of the transaction, the Group acquired Bowa's business including "good bank assets" of approximately \$2.8 billion of identifiable assets, \$4.7 billion of deposits and other liabilities, 39 branches, 3 business units and over 750,000 depositors, with a payment of approximately \$2 billion received from the Financial Restructuring Fund of the Executive Yuan and CDIC. The effective date of acquisition is 24 May 2008.

Since the acquisition of Bowa on 24 May 2008, Bowa contributed revenue of \$31 million and incremental specific allowances of \$30 million to the Group for the period ended 31 December 2008. The incremental specific allowances of \$30 million arise mainly from the acquired loans portfolio. If the acquisition had occurred on 1 January 2008, the additional impact to the Group revenue for the period from 1 January 2008 to 24 May 2008 and the Group net profit for the year would not be material.

The fair values of the identifiable assets and liabilities arising from the acquisition of Bowa Commercial Bank are as follows:

In \$ millions	Recognised on acquisition by the Group	Acquiree's carrying amount
Cash and balances with central banks	215	215
Due from banks	139	139
Financial assets at fair value through profit or loss	5	6
Loans and advances to non-bank customers	2,053	2,139
Financial investments	169	173
Properties and other fixed assets	121	123
All other assets	55	38
<b>Total identifiable assets</b>	<b>2,757</b>	<b>2,833</b>
Due to banks	1,412	1,412
Due to non-bank customers	3,139	3,139
Other debt securities in issue	88	88
All other liabilities	74	69
<b>Total identifiable liabilities</b>	<b>4,713</b>	<b>4,708</b>

In \$ millions	Recognised on acquisition by the Group	Acquiree's carrying amount
<b>Identifiable net assets acquired</b>	<b>1,956</b>	<b>Not applicable</b>
<b>Cash consideration received</b>	<b>1,956</b>	<b>Not applicable</b>
<b>Add:</b>		
<b>Cash and cash equivalents from business acquired</b>	<b>215</b>	<b>Not applicable</b>
<b>Net proceeds from acquisition</b>	<b>2,171</b>	<b>Not applicable</b>

The fair value amounts contain provisional balances which will be finalised within 12 months of the acquisition date.

## 28 PROPERTIES AND OTHER FIXED ASSETS

The minimum lease receivables as at the balance sheet date are as follows:

In \$ millions	The Group	
	2008	2007
<b>Minimum lease receivable</b>		
Not later than 1 year	<b>33</b>	18
Later than 1 year but not later than 5 years	<b>54</b>	38
<b>Total</b>	<b>87</b>	56

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, and may contain an option to renew the lease after that date at which time all terms will be renegotiated. None of the leases include contingent rentals.

In \$ millions	The Group				Total
	Investment property	Owner-occupied property	Other fixed assets <sup>(a)</sup>	Subtotal of non-investment property	
	(1)	(2)	(3)	(4)=(2+3)	(5)=(1+4)
<b>2008</b>					
<b>Cost</b>					
Balance at 1 January	341	898	662	1,560	1,901
Acquisition of new business	–	173	42	215	215
Additions	–	6	172	178	178
Disposals	–	(62)	(190)	(252)	(252)
Exchange differences	–	24	(3)	21	21
<b>Balance at 31 December</b>	<b>341</b>	<b>1,039</b>	<b>683</b>	<b>1,722</b>	<b>2,063</b>
<b>Less: Accumulated depreciation</b>					
Balance at 1 January	42	96	204	300	342
Acquisition of new business	–	18	30	48	48
Depreciation charge	6	27	116	143	149
Disposals	–	(36)	(115)	(151)	(151)
Exchange differences	–	–	(1)	(1)	(1)
<b>Balance at 31 December</b>	<b>48</b>	<b>105</b>	<b>234</b>	<b>339</b>	<b>387</b>
Less: Allowances for impairment					
– Acquisition of new business	–	46	–	46	46
– Others	–	26	–	26	26
<b>Net book value at 31 December</b>	<b>293</b>	<b>862</b>	<b>449</b>	<b>1,311</b>	<b>1,604</b>
<b>Market value at 31 December</b>	<b>415</b>	<b>1,267</b>	<b>–</b>	<b>–</b>	<b>–</b>

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

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for the year ended 31 December 2008

In \$ millions	The Group				Total (5)=(1+4)
	Investment property (1)	Owner- occupied property (2)	Other fixed assets <sup>(a)</sup> (3)	Subtotal of non-investment property (4)=(2+3)	
<b>2007</b>					
<b>Cost</b>					
Balance at 1 January	341	1,063	700	1,763	2,104
Additions	–	6	190	196	196
Disposals	–	(53)	(212)	(265)	(265)
Write-off	–	(79)	–	(79)	(79)
Exchange differences	–	(39)	(16)	(55)	(55)
Balance at 31 December	341	898	662	1,560	1,901
<b>Less: Accumulated depreciation</b>					
Balance at 1 January	38	95	296	391	429
Depreciation charge	5	22	99	121	126
Disposals	–	(16)	(181)	(197)	(197)
Exchange differences	(1)	(5)	(10)	(15)	(16)
Balance at 31 December	42	96	204	300	342
Less: Allowances for impairment	–	25	–	25	25
Net book value at 31 December	299	777	458	1,235	1,534
Market value at 31 December	465	1,241	–	–	–

(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	The Group	
	2008	2007
Balance at 1 January	25	194
Acquisition of new business	46	–
Charge/(Write-back) to income statement	1	(86)
Disposals	–	(1)
Write-off	–	(79)
Exchange and other movements	–	(3)
Balance at 31 December	72	25

**28.1** The net book value of PWC Building, being property held both for the purpose of generating rental income and for owner occupancy, was \$452 million as at 31 December 2008 (2007: \$460 million). Its fair value was independently appraised at \$628 million (2007: \$706 million).

## 29 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 deferred tax assets and liabilities are to be recovered and settled after one year and the following amounts, determined after appropriate offsetting, are shown in the balance sheet. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

In \$ millions	The Group	
	2008	2007
Deferred tax assets	171	25
Deferred tax liabilities	(45)	(172)
Total	126	(147)

The movement in deferred tax (prior to offsetting of balances within the same tax jurisdiction) is as follows:

In \$ millions	The Group			Total
	2008			
Deferred income tax assets	Allowances for losses	Other temporary differences		
Balance at 1 January	87	51		138
Credit to income statement	11	11		22
Balance at 31 December	98	62		160
Deferred income tax liabilities	Accelerated tax depreciation	Available-for-sale investments	Other temporary differences	Total
Balance at 1 January	(118)	(165)	(2)	(285)
(Charge)/Credit to income statement	(6)	–	1	(5)
Charge to equity	–	256	–	256
Balance at 31 December	(124)	91	(1)	(34)

In \$ millions	The Group			Total
	2007			
Deferred income tax assets	Allowances for losses	Other temporary differences		
Balance at 1 January	78	30		108
Credit to income statement	9	21		30
Balance at 31 December	87	51		138
Deferred income tax liabilities	Accelerated tax depreciation	Available-for-sale investments	Other temporary differences	Total
Balance at 1 January	(121)	(104)	–	(225)
Credit/(Charge) to income statement	3	–	(2)	1
Charge to equity	–	(61)	–	(61)
Balance at 31 December	(118)	(165)	(2)	(285)

# Notes to the Financial Statements

for the year ended 31 December 2008

## 30 OTHER ASSETS

In \$ millions	The Group	
	2008	2007
Accrued interest receivable	1,019	1,180
Deposits and prepayments	134	272
Clients' monies receivable from securities business	316	774
Sundry debtors and others	4,620	3,411
<b>Total</b>	<b>6,089</b>	<b>5,637</b>

## 31 DUE TO NON-BANK CUSTOMERS

In \$ millions	The Group	
	2008	2007
<b>Analysed by currency</b>		
Singapore dollar	89,331	79,023
US dollar	26,858	25,028
Hong Kong dollar	23,052	24,511
Others	24,118	16,178
<b>Total</b>	<b>163,359</b>	<b>144,740</b>
<b>Analysed by product</b>		
Savings accounts	70,369	51,278
Current accounts	20,730	16,144
Fixed deposits	70,580	74,520
Other deposits	1,680	2,798
<b>Total</b>	<b>163,359</b>	<b>144,740</b>

### 32.1 Other debt securities in issue (Trading)

Details of other debt securities issued and outstanding at 31 December 2008 are as follows:

In \$ millions	Type	Issue Date	Maturity Date	The Group	
				2008	2007
<b>Issued by the Bank</b>					
	Equity linked notes	10 May 2004 to 30 Dec 2008	2 Jan 2009 to 21 May 2014	467	845
	Credit linked notes	7 Apr 2003 to 31 Dec 2008	23 Feb 2009 to 20 Jun 2016	1,075	1,192
	Interest linked notes	13 Jan 2004 to 31 Dec 2008	9 Dec 2010 to 3 Dec 2019	211	531
	Exchange linked notes	2 Jul 2008 to 3 Oct 2008	5 Jan 2009 to 9 Sep 2009	26	20
	<b>Total</b>			<b>1,779</b>	<b>2,588</b>
	Due within 1 year			485	628
	Due after 1 year			1,294	1,960
	<b>Total</b>			<b>1,779</b>	<b>2,588</b>

## 32 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

In \$ millions	The Group	
	2008	2007
<b>Trading</b>		
Other debt securities in issue (Note 32.1)	1,779	2,588
Due to non-bank customers		
– structured investments	4,405	5,725
– others	1,305	1,138
Payable in respect of short sale of securities	1,330	4,157
Other financial liabilities	550	1,017
<b>Sub-total</b>	<b>9,369</b>	<b>14,625</b>
<b>Fair value designated<sup>(a)</sup></b>		
Due to non-bank customers		
– structured investments	790	1,341
Other debt securities in issue (Note 32.2)	1,123	2,276
<b>Sub-total</b>	<b>1,913</b>	<b>3,617</b>
<b>Total</b>	<b>11,282</b>	<b>18,242</b>

(a) Changes in fair value arising from changes in credit risks are determined as the amount of change in 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 benchmark interest rate, foreign exchange rate or index of prices or rates. Change in fair value arising from change in credit risks is not significant. Unrealised gain for the fair value designated liabilities amount to \$628 million at 31 December 2008 (2007: \$119 million)

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

In \$ millions	The Group	
	2008	2007
Negotiable certificates of deposit	56	80
Other debt securities	1,067	2,196
<b>Total</b>	<b>1,123</b>	<b>2,276</b>
Due within 1 year	795	763
Due after 1 year	328	1,513
<b>Total</b>	<b>1,123</b>	<b>2,276</b>

Details of negotiable certificate of deposits issued and outstanding at 31 December 2008 are as follows:

In \$ millions	Face Value	Interest Rate and Repayment Terms	Issue Date	Maturity Date	The Group	
					2008	2007
<b>Issued by other subsidiaries</b>						
HK\$300m		3-mth HIBOR* +0.01%, payable quarterly	21 Jan 2005	21 Jan 2009	56	75
US\$3m		3-mth LIBOR**, payable quarterly	30 Mar 2005	7 Apr 2008	–	5
<b>Total</b>					<b>56</b>	<b>80</b>

\* HIBOR: Hong Kong Interbank Offer Rate

\*\* LIBOR: London Interbank Offer Rate

Details of other debt securities issued and outstanding at 31 December 2008 are as follows:

In \$ millions	Type	Issue Date	Maturity Date	The Group	
				2008	2007
<b>Issued by the Bank</b>					
Credit linked notes		29 Jun 2005 to 22 Dec 2008	16 Jan 2009 to 18 Apr 2013	758	884
<b>Issued by other subsidiaries</b>					
Equity linked notes		10 Nov 2006	10 Nov 2009 to 10 Nov 2011	50	46
Credit linked notes		26 Jan 2004 to 5 Sep 2007	26 Jan 2009 to 5 Sep 2014	259	1,229
Secured asset-backed medium term notes (Note (a))		30 Nov 2001	25 Apr 2008	–	37
<b>Total</b>				<b>1,067</b>	<b>2,196</b>

(a) The notes issued by New Heights Investment Limited were redeemed at a fixed interest rate on maturity and there was no occurrence of a credit event. The notes were secured on deposits equivalent to the issue price, a series of credit default swaps whereby the issuer sold credit protection, and cross currency swaps. The notes expired in 2008.

# Notes to the Financial Statements

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## 33 OTHER LIABILITIES

In \$ millions	The Group	
	2008	2007
Sundry creditors	3,254	3,738
Cash collaterals received in respect of derivative portfolios	830	567
Interest payable	487	631
Loss allowances for off-balance sheet credit exposures	177	132
Clients' monies payable in respect of securities business	297	629
Other payable <sup>(a)</sup>	829	1,284
<b>Total</b>	<b>5,874</b>	<b>6,981</b>

(a) 2008 includes provision of approximately \$70 million less amounts paid for potential compensation to certain customers who had bought structured investment products from the Group

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

In \$ millions	Balance at 1 January	Charge to income statement	Write-off during the year	Exchange and other movements	Balance at 31 December
<b>2008</b>					
Contingent liabilities and commitments	132	46	–	(1)	177
<b>2007</b>					
Contingent liabilities and commitments	126	6	–	–	132

The industry breakdown of allowances of off-balance sheet credit exposures during the year are as follows:

In \$ millions	Balance at 1 January	Charge to income statement	2008		Balance at 31 December
			Write-off during the year	Exchange and other movements	
<b>Off-balance sheet credit exposures</b>					
Manufacturing	27	4	–	–	31
Building and construction	8	4	–	–	12
Housing loans	1	–	–	–	1
General commerce	19	7	–	–	26
Transportation, storage and communications	9	3	–	–	12
Financial institutions, investment and holding companies	36	9	–	–	45
Professionals and private individuals (except housing loans)	9	12	–	–	21
Others	23	7	–	(1)	29
<b>Total</b>	<b>132</b>	<b>46</b>	<b>–</b>	<b>(1)</b>	<b>177</b>



In \$ millions	Balance at 1 January	Charge/ (Write-back) to income statement	2007		Balance at 31 December
			Write-off during the year	Exchange and other movements	
<b>Off-balance sheet credit exposures</b>					
Manufacturing	22	5	–	–	27
Building and construction	7	1	–	–	8
Housing loans	1	–	–	–	1
General commerce	22	(3)	–	–	19
Transportation, storage and communications	11	(2)	–	–	9
Financial institutions, investment and holding companies	32	4	–	–	36
Professionals and private individuals (except housing loans)	9	–	–	–	9
Others	22	1	–	–	23
<b>Total</b>	<b>126</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>132</b>

### 34 OTHER DEBT SECURITIES IN ISSUE

In \$ millions	The Group	
	2008	2007
Negotiable certificates of deposit	336	216
Other debt securities	302	983
<b>Total</b>	<b>638</b>	<b>1,199</b>
Due within 1 year	263	960
Due after 1 year	375	239
<b>Total</b>	<b>638</b>	<b>1,199</b>

Details of negotiable certificates of deposit issued and outstanding at 31 December 2008 are as follows:

In \$ millions	Face Value	Interest Rate and Repayment Terms	Issue Date	Maturity Date	The Group	
					2008	2007
<b>Issued by the Bank</b>						
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	
INR250m	8.15%, payable on maturity	28 Sep 2007	31 Jan 2008	–	9	
<b>Issued by other subsidiaries</b>						
HK\$777m	3.48% to 4.22%, payable quarterly	22 Aug 2008 to 17 Oct 2008	23 Aug 2013 to 17 Oct 2018	151	65	
HK\$940m	2.59% to 4.20%, payable yearly	9 Mar 2006 to 12 Sep 2008	9 Mar 2009 to 28 Aug 2018	185	49	
<b>Total</b>				<b>336</b>	<b>216</b>	

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Details of other debt securities issued and outstanding at 31 December 2008 are as follows:

In \$ millions				The Group	
Face Value	Interest Rate and Repayment Terms	Issue Date	Maturity Date	2008	2007
<b>Issued by the Bank</b>					
TWD630m	2.50%, payable half-yearly	29 Apr 2004	29 Oct 2009	<b>28</b>	–
<b>Type</b>					
<b>Issued by the Bank</b>					
Stapled notes with non-voting redeemable preference shares and fixed rate notes (Note (a))		11 Dec 2007	12 Dec 2008	–	636
<b>Issued by other subsidiaries/joint ventures</b>					
Equity linked notes		29 Nov 2007 to 20 Dec 2007	7 Jan 2008 to 22 Jan 2008	–	1
Redeemable non-convertible debentures (Note (b))					
– Fixed rate at 8.65% to 13.00%		25 Apr 2006 to 12 Sep 2008	19 Jan 2009 to 21 Nov 2018	<b>266</b>	243
– Floating rate at INBMK* +0.50% to +1.30%		3 Mar 2005 to 31 Jul 2006	3 Mar 2008 to 31 Jul 2009	–	23
– Floating rate at MIBOR** +2.18%		18 Jul 2006 to 19 Jul 2006	17 Jul 2009 to 20 Jul 2009	<b>8</b>	80
Total				<b>302</b>	983

\* 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 notes expired in 2008.

(b) The notes were issued by Cholamandalam DBS Finance Limited, a joint venture. The medium-term debentures amounting to INR24.7 billion (2007: INR25.2 billion) are secured on a pari passu by way of specific charge on assets under hypothecation, hire-purchase assets and immovable property.

### 35 SUBORDINATED TERM DEBTS

Subordinated term debts issued by subsidiaries of the 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 Group's assets in the case of a default or liquidation.

In \$ millions			The Group		
Face Value	Issue Date	Maturity Date	2008	2007	
<b>Issued by the Bank</b>					
US\$750m	7.88% Subordinated Notes (Note 35.1)	10 Aug 1999	10 Aug 2009	<b>1,099</b>	1,120
US\$500m	7.88% Subordinated Notes (Note 35.2)	15 Apr 2000	15 Apr 2010	<b>766</b>	767
US\$850m	7.13% Subordinated Notes (Note 35.3)	15 May 2001	15 May 2011	<b>1,340</b>	1,292
US\$750m	5.00% Subordinated Notes callable with step-up in 2014 (Note 35.4)	1 Oct 2004	15 Nov 2019	<b>1,144</b>	1,075
US\$900m	Floating Rate Subordinated Notes callable with step-up in 2016 (Note 35.5)	16 Jun 2006	15 Jul 2021	<b>1,293</b>	1,298
S\$500m	4.47% Subordinated Notes callable with step-up in 2016 (Note 35.6)	11 Jul 2006	15 Jul 2021	<b>500</b>	500
US\$500m	5.13% Subordinated Notes callable with step-up in 2012 (Note 35.7)	15 May 2007	16 May 2017	<b>788</b>	739
US\$1,500m	Floating Rate Subordinated Notes callable with step-up in 2012 (Note 35.8)	15 May 2007	16 May 2017	<b>2,155</b>	2,163
Total				<b>9,085</b>	8,954
Due within 1 year				<b>1,099</b>	–
Due after 1 year				<b>7,986</b>	8,954
Total				<b>9,085</b>	8,954

**35.1** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**35.2** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**35.3** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital, the eligible amount being dependent on regulatory amortisation rules.

**35.4** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**35.5** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**35.6** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

**35.7** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

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**35.8** 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 Group's capital adequacy ratio, these notes qualify as Tier 2 capital.

## 36 SHARE CAPITAL AND TREASURY SHARES

During the financial year, pursuant to the DBSH Share Option Plan, the Company issued 3,173,596 (2007: 6,951,829) ordinary shares, fully paid in cash upon the exercise of the options granted. The newly issued shares rank pari passu in all respects with the previously issued shares. The movements in number of ordinary shares and Convertible Preference Shares (CPS) are as follows:

Share Capital Number of shares (millions)	The Company	
	2008	2007
Balance at 1 January	1,584	1,577
Exercise of share options	3	7
Balance at 31 December	1,587	1,584
The balance includes the following:		
1,520,960,458 (2007: 1,517,786,862) ordinary shares	1,521	1,518
120,436 (2007: 120,436) non-voting CPS	#	#
66,475,374 (2007: 66,475,374) non-voting redeemable CPS	66	66
Total	1,587	1,584

# Amount under \$500,000

The non-voting CPS and non-voting redeemable CPS enjoy the same dividend rate paid on ordinary shares except that the dividend payable is subject to maximum of \$0.30 per annum.

On 30 January 2009, the Group issued 760,480,229 rights shares on the basis of one rights share for every two ordinary shares held on 31 December 2008. Refer to Note 53 on subsequent events for details of the rights issue.

Movements in carrying amount of share capital and treasury shares are as follows:

In \$ millions	The Group	
	Issued share capital	Treasury shares
Balance at 1 January 2008	4,164	(102)
Exercise of share options	45	–
Share buy-back during the year	–	(52)
Reclassification of reserves upon exercise of share options	6	–
Balance at 31 December 2008	4,215	(154)
Balance at 1 January 2007	4,042	(111)
Exercise of share options	106	–
Share buy-back during the year	–	(27)
Draw-down of reserves upon vesting of performance shares	–	36
Reclassification of reserves upon exercise of share options	16	–
Balance at 31 December 2007	4,164	(102)

As at 31 December 2008, the number of treasury shares held by the Group is 8,112,401 (2007: 4,933,401), which is 0.51% (2007: 0.33%) of the total number of issued shares excluding treasury shares.

Movements in the number of treasury shares are as follows:

Number of shares	The Company	
	2008	2007
Balance at 1 January	<b>4,933,401</b>	5,285,596
Vesting of performance shares	–	(1,752,195)
Share buy-back during the year	<b>3,179,000</b>	1,400,000
Balance at 31 December	<b>8,112,401</b>	4,933,401

## 37 OTHER RESERVES AND REVENUE RESERVES

### 37.1 Other reserves

In \$ millions	Group		Company	
	2008	2007	2008	2007
Available-for-sale revaluation reserves	<b>(388)</b>	901	–	–
General reserves	<b>2,453</b>	2,453	–	–
Capital reserves	<b>(103)</b>	(12)	–	–
Share option and share plan reserves	<b>89</b>	67	<b>89</b>	37
Others	<b>4,271</b>	4,271	–	–
Total	<b>6,322</b>	7,680	<b>89</b>	37

Movements in other reserves during the year are as follows:

In \$ millions	The Group					Total
	Available-for-sale revaluation reserves	General reserves <sup>(a)</sup>	Capital reserves <sup>(b)</sup>	Share option and share plan reserves	Other reserves <sup>(c)</sup>	
Balance at 1 January 2008	<b>901</b>	<b>2,453</b>	<b>(12)</b>	<b>67</b>	<b>4,271</b>	<b>7,680</b>
Net exchange translation adjustments	–	–	<b>(51)</b>	–	–	<b>(51)</b>
Share of associates' capital reserves	–	–	<b>(40)</b>	–	–	<b>(40)</b>
Cost of share-based payments	–	–	–	<b>28</b>	–	<b>28</b>
Reclassification of reserves upon exercise of share options	–	–	–	<b>(6)</b>	–	<b>(6)</b>
Available-for-sale:						
– net valuation taken to equity	<b>(1,217)</b>	–	–	–	–	<b>(1,217)</b>
– transferred to income statement due to impairment	<b>21</b>	–	–	–	–	<b>21</b>
– transferred to income statement on sale	<b>(349)</b>	–	–	–	–	<b>(349)</b>
– tax on items taken directly to or transferred from equity	<b>256</b>	–	–	–	–	<b>256</b>
Balance at 31 December 2008	<b>(388)</b>	<b>2,453</b>	<b>(103)</b>	<b>89</b>	<b>4,271</b>	<b>6,322</b>

(a) 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) 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) Other reserves relate to the share premium of the Bank prior to the restructuring of the Bank under a financial services holding company, DBSH, pursuant to a scheme of arrangement under Section 210 of the Singapore Companies Act on 26 June 1999

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In \$ millions	The Group					Total
	Available-for-sale revaluation reserves	General reserves <sup>(a)</sup>	Capital reserves <sup>(b)</sup>	Share option and share plan reserves	Other reserves <sup>(c)</sup>	
Balance at 1 January 2007	414	2,423	(11)	85	4,271	7,182
Appropriation from prior year's net profit	–	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)
Reclassification of reserves upon exercise of share options	–	–	–	(16)	–	(16)
Available-for-sale:						
– net valuation taken to equity	940	–	–	–	–	940
– transferred to income statement on sale	(392)	–	–	–	–	(392)
– tax on items taken directly to or transferred from equity	(61)	–	–	–	–	(61)
Balance at 31 December 2007	901	2,453	(12)	67	4,271	7,680

In \$ millions	The Company Share option and share plan reserves
Balance at 1 January 2008	37
Cost of share-based payments	58
Reclassification of reserves upon exercise of share options	(6)
Balance at 31 December 2008	89
Balance at 1 January 2007	53
Cost of share-based payments	#
Reclassification of reserves upon exercise of share options	(16)
Balance at 31 December 2007	37

# Amount under \$500,000

(a) 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) 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) Other reserves relate to the share premium of the Bank prior to the restructuring of the Bank under a financial services holding company, DBSH, pursuant to a scheme of arrangement under Section 210 of the Singapore Companies Act on 26 June 1999

**37.2 Revenue reserves**

In \$ millions	The Group	
	2008	2007
Balance at 1 January	<b>8,739</b>	7,562
Net profit attributable to shareholders	<b>1,929</b>	2,278
Transfer to general reserves <sup>(a)</sup>	–	(30)
Amount available for distribution	<b>10,668</b>	9,810
Less: Final dividend on ordinary shares of \$0.20 (one-tier tax-exempt) paid for the previous financial year (2007: \$0.20 net of tax)	<b>302</b>	248
Special dividend on ordinary shares of \$0.05 net of tax paid for the previous financial year	–	62
Interim dividends on ordinary shares of \$0.60 (one-tier tax-exempt) paid for the current financial year (2007 : \$0.60 net of tax)	<b>910</b>	745
Interim dividends on non-voting CPS and non-voting redeemable CPS of \$0.30 (one-tier tax-exempt) paid for the current financial year (2007: \$0.30 net of tax)	<b>20</b>	16
Balance at 31 December	<b>9,436</b>	8,739

(a) Includes appropriation from prior year's net profit

**37.3 Proposed dividend**

Proposed final one-tier tax exempt dividends on ordinary shares of \$0.14 per share are not accounted for in the financial statements for the year ended 31 December 2008 until they are approved at the Annual General Meeting on 8 April 2009.

**38 MINORITY INTERESTS**

In \$ millions	The Group	
	2008	2007
Preference shares issued by the Bank (Note 38.1)	<b>1,100</b>	1,100
Preference shares issued by DBS Capital Funding Corporation (Note 38.2)	<b>1,121</b>	1,125
Preference shares issued by DBS Capital Funding II Corporation (Note 38.3)	<b>1,500</b>	–
Other subsidiaries	<b>463</b>	452
Total	<b>4,184</b>	2,677

**38.1** \$1,100 million 6% non-cumulative non-convertible perpetual preference shares and a liquidation preference of \$100 each, was issued on 28 May 2001 by the Bank, a subsidiary of the Company, to third parties. They qualify as Tier 1 capital for the calculation of the Group's capital adequacy ratios. Dividends, if declared by the Board of Directors of the Bank, are payable semi-annually on 15 May and 15 November at a fixed rate of 6% of the liquidation preference per annum, ending on or prior to 15 May 2011, and thereafter on 15 February, 15 May, 15 August and 15 November in each year at a floating rate per annum equal to the three-month Singapore Swap Offer Rate + 2.28%.

**38.2** 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 LIBOR + 3.20% per annum (Series A) and three-month Singapore Swap Offer Rate + 2.52% per annum (Series B). In computing the Group's capital adequacy ratio, these guaranteed preference shares qualify as Tier 1 capital.

**38.3** \$1,500 million 5.75% non-cumulative non-convertible non-voting guaranteed preference shares, with a liquidation preference of \$250,000 was issued on 27 May 2008 by DBS Capital Funding II Corporation, a subsidiary of the Bank. Dividends, when declared by the Board of Directors of DBS Capital Funding II Corporation, are payable in arrears on 15 June and 15 December each year at a fixed rate of 5.75% per annum up to 15 June 2018. 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 Singapore Swap Offer Rate + 3.415% per annum. In computing the Group's capital adequacy ratio, these guaranteed preference shares qualify as Tier 1 capital.

# Notes to the Financial Statements

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## 39 CONTINGENT LIABILITIES AND COMMITMENTS

The 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 Group to support the performance of a customer to third parties. As the 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 Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

In \$ millions	The Group	
	2008	2007
Guarantees on account of customers	9,445	8,455
Endorsements and other obligations on account of customers		
– Letters of credit	4,644	4,770
– Others	1,281	1,366
Other contingent items (Note 39.2)	50	65
Undrawn loan commitments <sup>(a)</sup>	75,993	91,182
Undisbursed commitments in securities	88	132
Sub-total	91,501	105,970
Operating lease commitments (Note 39.3)	1,075	907
Capital commitments	80	84
Total	92,656	106,961

### Analysed by industry (except for operating lease commitments and capital commitments)

Manufacturing	14,272	15,454
Building and construction	6,379	7,465
Housing loans	2,503	2,633
General commerce	13,177	12,071
Transportation, storage and communications	5,342	8,176
Financial institutions, investment and holding companies	17,175	26,957
Professionals and private individuals (except housing loans)	16,270	17,813
Others	16,383	15,401
Total	91,501	105,970

(a) Undrawn loan commitments are recognised at activation stage in 2008 and approval stage in 2007. These include commitments which are unconditionally cancellable by the Group

**39.1** The Bank, a wholly-owned subsidiary of the Company, has existing outsourcing agreements for the provision of information technology and related support to the Group's operations in Singapore, Hong Kong and China. There are various termination clauses in the agreements that could require the 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.

**39.2** Included in "Other contingent items" at 31 December 2008, is an amount of \$50 million (2007: \$65 million), representing the termination fee payable by the Bank should a distribution agreement be terminated prematurely prior to December 2011.

**39.3** The Group has existing significant operating lease commitments for the leasing of office premises in DBS Towers One and Two, Changi Business Park and Marina Bay Financial Centre in Singapore; and One Island East in Hong Kong. This include lease commitments for which the payments will be determined in the future based on the prevailing market rates in accordance with the lease agreements, of which the related amounts have not been included.

## 40 FINANCIAL DERIVATIVES

Financial derivatives are financial instruments whose characteristics are derived from the 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 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 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.

#### **40.1 Trading derivatives**

Most of the 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.

#### **40.2 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 Group's fair value hedges consist principally of interest rate swaps used for managing interest rate gaps.

For the year ended 31 December 2008, the gain on the hedging instruments was \$167 million (2007: gain of \$41 million). The total loss on hedged items attributable to the hedged risk amounted to \$166 million (2007: loss of \$44 million). The ineffectiveness arising from hedges of net investments in foreign operations is insignificant.

# Notes to the Financial Statements

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The following table summarises 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 as assets (Positive replacement values for financial derivatives) or liabilities (Negative replacement values for financial derivatives). Derivative assets and liabilities arising from different transactions are only offset if the transactions are done with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. There was no offset of derivative assets and liabilities in 2008 and 2007.

In \$ millions	2008			2007		
	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	1,989	1	7	2,858	–	3
Forward rate agreements sold	2,942	11	–	4,705	4	–
Interest rate swaps	853,126	13,797	14,238	863,065	5,560	5,411
Financial futures bought	19,880	34	1	19,459	11	3
Financial futures sold	7,800	–	21	20,316	4	9
Interest rate options bought	2,495	65	–	2,986	41	–
Interest rate options sold	2,946	–	75	7,055	–	67
Interest rate futures options bought	862	3	–	1,730	2	–
Interest rate futures options sold	804	–	1	996	–	3
Interest rate caps/floors bought	11,361	120	–	10,180	62	–
Interest rate caps/floors sold	13,282	–	150	15,968	–	108
Sub-total	917,487	14,031	14,493	949,318	5,684	5,604
<b>Foreign exchange (FX) derivatives</b>						
FX contracts	440,029	8,987	8,092	460,467	2,602	2,475
Currency swaps	75,384	1,905	1,847	58,937	1,829	1,432
Currency options bought	69,010	2,111	–	100,613	1,082	–
Currency options sold	70,770	–	1,749	100,494	–	1,056
FX futures bought	102	1	–	–	–	–
Sub-total	655,295	13,004	11,688	720,511	5,513	4,963
<b>Equity derivatives</b>						
Equity options bought	2,145	145	4	5,765	376	12
Equity options sold	1,544	–	110	5,256	1	316
Equity swaps	2,744	81	180	2,406	82	232
Sub-total	6,433	226	294	13,427	459	560
<b>Credit derivatives</b>						
Credit default swaps and others	112,685	4,603	5,008	117,205	1,089	1,318
Sub-total	112,685	4,603	5,008	117,205	1,089	1,318
<b>Commodity derivatives</b>						
Commodity contracts	186	1	4	934	33	43
Commodity options bought	113	11	–	1,642	128	–
Commodity options sold	128	–	7	2,011	–	175
Sub-total	427	12	11	4,587	161	218
<b>Total derivatives held for trading</b>	<b>1,692,327</b>	<b>31,876</b>	<b>31,494</b>	<b>1,805,048</b>	<b>12,906</b>	<b>12,663</b>

In \$ millions	Underlying notional	2008	Year-end	Year-end	2007	Year-end	Year-end
		Year-end positive replacement values	negative replacement values	Underlying notional	Year-end positive replacement values	negative replacement values	
<b>Derivatives held for hedging</b>							
Interest rate swaps held for fair value hedge	6,883	369	319	6,372	177	78	
FX contracts held for fair value hedge	566	37	9	508	2	8	
FX contracts held for hedge of net investment	1,878	46	70	1,430	34	15	
Currency swaps held for hedge of net investment	3,063	–	26	2,649	–	27	
<b>Total derivatives held for hedging</b>	<b>12,390</b>	<b>452</b>	<b>424</b>	<b>10,959</b>	<b>213</b>	<b>128</b>	
<b>Total derivatives</b>	<b>1,704,717</b>	<b>32,328</b>	<b>31,918</b>	<b>1,816,007</b>	<b>13,119</b>	<b>12,791</b>	

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties amounted to \$1,456 billion (2007: \$1,441 billion) and \$248 billion (2007: \$374 billion) respectively. These positions are mainly booked in Singapore. For purpose of managing its credit exposures, the Group maintains collateral agreements and enters into master netting agreements with most of these counterparties.

#### 41 CASH AND CASH EQUIVALENTS

In \$ millions	The Group	
	2008	2007 <sup>(a)</sup>
Cash on hand (Note 17)	1,040	1,007
Non-restricted balances with central banks (Note 17)	11,638	14,946
<b>Total</b>	<b>12,678</b>	<b>15,953</b>

(a) 2007 amount is restated to exclude \$6,320 million trading government securities and treasury bills which are not readily convertible into cash

#### 42 SHARE-BASED COMPENSATION PLANS

##### 42.1 DBSH Share Ownership Scheme

The DBSH Share Ownership Scheme is a fund set up to hold units of the Company's 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 Group contribute up to 10% and 5% of monthly base salary respectively to buy units of the Company's ordinary shares. Amounts contributed by the Group under the Scheme are recognised as employee benefits when paid.

	Ordinary shares			
	Number		Market value (In \$ millions)	
	2008	2007	2008	2007
Balance at 1 January	2,993,829	2,922,829	62	65
Balance at 31 December	3,522,570	2,993,829	30	62

##### 42.2 DBSH Share Option Plan

Under the DBSH Share Option Plan (the Option Plan), options to subscribe for the Company's ordinary shares may be granted to 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 exercise price of the granted options is equal to the average of the last dealt prices for the Company's 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 (Committee), 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.

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

	2008		2007	
	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	17,776,673	15.29	25,014,807	15.21
Movements during the year:				
– Granted	–	–	–	–
– Exercised	(3,173,596)	14.29	(6,951,829)	15.01
– Forfeited	(229,885)	18.09	(286,305)	15.35
Balance at 31 December	14,373,192	15.46	17,776,673	15.29
Additional information:				
Outstanding options exercisable at 31 December	14,373,192	15.46	17,007,753	15.30
Weighted average remaining contractual life of options outstanding at 31 December	3.4 years		4.5 years	
Range of exercise price of options outstanding at 31 December	\$10.40 to \$22.33		\$10.40 to \$22.33	

In 2008, 3,173,596 options (2007: 6,951,829) were exercised at their contractual exercise prices. During the year, the weighted average market price of the Company's shares was \$18.59 (2007: \$21.88).

## 42.3 DBSH Share Plan

Under the DBSH Share Plan (the Share Plan), the Company's 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. The awards could be performance-based and/or time-based.

Where performance-based awards are granted, participants are awarded shares of the Company, their equivalent cash value or a combination of both (at the discretion of the Committee), when prescribed Group performance targets are met over a three year performance period.

Time-based 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 Company, their equivalent cash value or a combination of both as part of their deferred bonus (at the discretion of the Committee).

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. At each balance sheet date, the 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 time-based awards granted in the current and previous financial years pursuant to the Share Plan and their fair values at grant date. No performance-based awards were granted in the current and previous financial years.

(Number of shares)	2008 grant	2007 grant
Balance at 1 January 2008	Not applicable	2,028,322
Granted in 2008	2,464,268	Not applicable
Forfeited in 2008	(297,616)	(355,513)
Balance at 31 December 2008	2,166,652	1,672,809
Fair value per share at grant date	\$18.17	\$23.00

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

## 42.4 DBSH Employee Share Plan

The DBSH Employee Share Plan (the ESP) caters to all employees of the 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 the Company, their equivalent cash value or a combination of both (at the discretion of the Committee), when prescribed Group performance targets and/or time-based conditions are met. The ESP awards are granted at the absolute discretion of the Compensation and Management Development Committee.

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 the current and previous financial years. The time-based 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 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 time-based awards granted in the current and previous financial years pursuant to the ESP and their fair values at grant date.

(Number of shares)	2008 grant	2007 grant
Balance at 1 January 2008	<b>Not applicable</b>	<b>66,850</b>
Granted in 2008	<b>175,900</b>	<b>Not applicable</b>
Forfeited in 2008	<b>(12,500)</b>	<b>(9,150)</b>
Balance at 31 December 2008	<b>163,400</b>	<b>57,700</b>
Fair value per share at grant date	<b>\$17.94</b>	<b>\$23.00</b>

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

### 43 RELATED PARTY TRANSACTIONS

**43.1** Transactions between the Company and its subsidiaries, including consolidated special purpose entities, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

**43.2** During the financial year, the Group had banking transactions with related parties, consisting of associates, joint ventures, directors and key management personnel of the 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.

**43.3** Total compensation paid to Company directors and key management personnel<sup>(a)</sup>, as well as fees paid to Company directors and directors of subsidiaries are as follows:

In \$ millions	The Group	
	2008	2007
Short-term benefits	<b>46</b>	54
Post-employment benefits	<b>#</b>	#
Share-based payments	<b>7</b>	8
<b>Total</b>	<b>53</b>	62
Comprise amount <sup>(b)</sup> paid to:		
– Company directors	<b>13</b>	17
– Directors of subsidiaries	<b>15</b>	14
– Key management personnel	<b>25</b>	31
<b>Total</b>	<b>53</b>	62
Fees of Company directors	<b>2</b>	2
Fees of subsidiaries' directors	<b>1</b>	#
<b>Total compensation and fees</b>	<b>56</b>	64

# Amount under \$500,000

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

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

### 43.4 Share options granted to key management personnel

No share options were granted to key management personnel (including management personnel who were Company directors) during the financial year. The outstanding number of share options granted to key management personnel at the end of the financial year was 1,330,570 (2007: 2,624,375).

### 43.5 Performance shares granted to key management personnel

During the financial year, 762,941 (2007: 713,594) awards in respect of the Company's ordinary shares were granted to key management personnel (including management personnel who were Company directors).

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## 44 FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

For financial assets and liabilities not carried at fair value on the financial statements, the 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 values 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

The fair value has been estimated by reference to the net tangible asset backing of the investee. Unquoted equities of \$172 million as at 31 December 2008 (2007: \$160 million) were stated at cost less accumulated impairment losses because the fair values cannot be reliably estimated using valuation techniques supported by observable market data. The Group intends to dispose of such 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.

### (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.

## 45 RISK GOVERNANCE

Under the Group's risk governance framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the 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 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 Group's risk governance framework.

## 46 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of borrowers or counterparties to meet their debt or contractual 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 set forth the principles by which the 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 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 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 lending. 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 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 Group enters into collateralised margin transactions with counterparties. The Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures. Internally, the Group measures counterparty credit exposure 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 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 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 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 the 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 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 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 Group generally considers the collateral assets to be diversified.

### **Master netting arrangements**

The 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.

### **Other risk mitigating factors**

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



# Notes to the Financial Statements

for the year ended 31 December 2008

## 46.1 Maximum exposure to credit risk

The maximum exposure to credit risk at the balance sheet date is 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 and average gross exposures to credit risk for the components of the balance sheet:

In \$ millions	The Group			
	Average 2008	Average 2007	2008	2007
Cash and balances with central banks (excludes cash on hand)	<b>16,153</b>	14,207	<b>14,750</b>	17,557
Singapore Government securities and treasury bills	<b>15,115</b>	14,138	<b>14,797</b>	15,433
Due from banks	<b>21,689</b>	24,091	<b>20,467</b>	22,910
Financial assets at fair value through profit or loss (excludes equity securities)				
Other government securities and treasury bills	<b>2,439</b>	2,631	<b>2,126</b>	2,752
Corporate debt securities	<b>8,280</b>	11,194	<b>4,647</b>	11,914
Loans and advances to customers	<b>1,365</b>	1,785	<b>641</b>	2,088
Other financial assets	<b>1,476</b>	1,251	<b>1,692</b>	1,260
Positive replacement values for financial derivatives	<b>22,723</b>	10,667	<b>32,328</b>	13,119
Loans and advances to customers	<b>116,092</b>	95,747	<b>125,841</b>	106,344
Financial investments (excludes equity securities)				
Other government securities and treasury bills	<b>3,399</b>	2,553	<b>4,549</b>	2,248
Corporate debt securities	<b>15,850</b>	15,922	<b>17,089</b>	14,611
Securities pledged				
Singapore Government securities and treasury bills	<b>227</b>	292	<b>186</b>	268
Other government securities and treasury bills	<b>2,218</b>	3,089	<b>806</b>	3,629
Corporate debt securities	<b>112</b>	109	<b>5</b>	218
Other assets	<b>5,863</b>	5,058	<b>6,089</b>	5,637
Credit exposure	<b>233,001</b>	202,734	<b>246,013</b>	219,988
Contingent liabilities and commitments (excludes operating lease and capital commitments)	<b>98,736</b>	101,883	<b>91,501</b>	105,970
Total credit exposure	<b>331,737</b>	304,617	<b>337,514</b>	325,958

The geographic distribution of credit exposures are as follows:

In \$ millions	The Group					Total
	Singapore	Hong Kong	Rest of Greater China	South and Southeast Asia	Rest of the World	
Cash and balances with central banks (excludes cash on hand)	<b>11,598</b>	<b>27</b>	<b>2,895</b>	<b>221</b>	<b>9</b>	<b>14,750</b>
Due from banks	<b>14,927</b>	<b>1,825</b>	<b>1,263</b>	<b>1,586</b>	<b>866</b>	<b>20,467</b>
Financial assets at fair value through profit or loss (excludes equity securities)	<b>8,559</b>	<b>37</b>	<b>41</b>	<b>469</b>	<b>–</b>	<b>9,106</b>
Other securities <sup>(b)</sup> (excludes equity securities)	<b>25,779</b>	<b>6,970</b>	<b>846</b>	<b>1,024</b>	<b>2,813</b>	<b>37,432</b>
Loans and advances to customers	<b>74,408</b>	<b>31,571</b>	<b>7,793</b>	<b>5,501</b>	<b>6,568</b>	<b>125,841</b>
Other assets <sup>(a)</sup>	<b>33,633</b>	<b>3,170</b>	<b>538</b>	<b>1,020</b>	<b>56</b>	<b>38,417</b>
Credit exposure	<b>168,904</b>	<b>43,600</b>	<b>13,376</b>	<b>9,821</b>	<b>10,312</b>	<b>246,013</b>
Contingent liabilities and commitments (excludes operating lease and capital commitments)	<b>51,868</b>	<b>22,938</b>	<b>4,438</b>	<b>4,951</b>	<b>7,306</b>	<b>91,501</b>
Total credit exposure	<b>220,772</b>	<b>66,538</b>	<b>17,814</b>	<b>14,772</b>	<b>17,618</b>	<b>337,514</b>

(a) Other assets include positive replacement values for financial derivatives and other assets

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



In \$ millions	The Group 2007					Total
	Singapore	Hong Kong	Rest of Greater China	South and Southeast Asia	Rest of the World	
Cash and balances with central banks (excludes cash on hand)	14,799	35	2,534	185	4	17,557
Due from banks	9,356	8,436	855	1,647	2,616	22,910
Financial assets at fair value through profit or loss (excludes equity securities)	17,571	4	197	242	–	18,014
Other securities <sup>(b)</sup> (excludes equity securities)	25,801	7,883	348	949	1,426	36,407
Loans and advances to customers	58,935	28,663	6,589	4,741	7,416	106,344
Other assets <sup>(a)</sup>	16,133	1,829	362	379	53	18,756
Credit exposure	142,595	46,850	10,885	8,143	11,515	219,988
Contingent liabilities and commitments (excludes operating lease and capital commitments)	62,980	24,690	5,964	5,737	6,599	105,970
Total credit exposure	205,575	71,540	16,849	13,880	18,114	325,958

(a) Other assets include positive replacement values for financial derivatives and other assets

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

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The industry distribution of credit exposures are as follows:

In \$ millions	The Group 2008									Total
	Manu- facturing	Building and construc- tion	General commerce	Transportation, storage and communica- tions	Financial institutions, and holding companies	Govern- ment	Housing loans	Professional and private individuals (excluding housing loans)	Others	
Cash and balances with central banks (excludes cash on hand)	–	–	–	–	14,750	–	–	–	–	14,750
Due from banks	–	–	–	–	20,467	–	–	–	–	20,467
Financial assets at fair value through profit or loss (excludes equity securities)	1,095	161	43	310	4,469	2,126	–	–	902	9,106
Other securities <sup>(b)</sup> (excludes equity securities)	573	561	542	901	9,966	4,549	–	–	20,340	37,432
Loans and advances to customers	14,866	17,723	12,772	12,327	14,280	–	29,286	10,265	14,322	125,841
Other assets <sup>(a)</sup>	1,236	204	12	579	28,933	–	–	29	7,424	38,417
<b>Credit exposure</b>	<b>17,770</b>	<b>18,649</b>	<b>13,369</b>	<b>14,117</b>	<b>92,865</b>	<b>6,675</b>	<b>29,286</b>	<b>10,294</b>	<b>42,988</b>	<b>246,013</b>
Contingent liabilities and commitments (excludes operating lease and capital commitments)	14,272	6,379	13,177	5,342	17,175	51	2,503	16,270	16,332	91,501
<b>Total credit exposure</b>	<b>32,042</b>	<b>25,028</b>	<b>26,546</b>	<b>19,459</b>	<b>110,040</b>	<b>6,726</b>	<b>31,789</b>	<b>26,564</b>	<b>59,320</b>	<b>337,514</b>

(a) Other assets include positive replacement values for financial derivatives and other assets

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

In \$ millions	The Group 2007									Total
	Manu- facturing	Building and construc- tion	General commerce	Transportation, storage and communica- tions	Financial institutions, and holding investment companies	Govern- ment	Housing loans	Professional and private individuals (excluding housing loans)	Others	
Cash and balances with central banks (excludes cash on hand)	–	–	–	–	17,557	–	–	–	–	17,557
Due from banks	–	–	–	–	22,910	–	–	–	–	22,910
Financial assets at fair value through profit or loss (excludes equity securities)	1,047	181	103	616	9,326	2,752	–	–	3,989	18,014
Other securities <sup>(b)</sup> (excludes equity securities)	783	1,048	266	714	9,261	2,248	–	–	22,087	36,407
Loans and advances to customers	13,725	12,856	9,816	11,053	12,240	–	26,139	9,596	10,919	106,344
Other assets <sup>(a)</sup>	244	79	6	670	11,565	–	–	53	6,139	18,756
Credit exposure	15,799	14,164	10,191	13,053	82,859	5,000	26,139	9,649	43,134	219,988
Contingent liabilities and commitments (excludes operating lease and capital commitments)	15,454	7,465	12,071	8,176	26,957	–	2,633	17,813	15,401	105,970
Total credit exposure	31,253	21,629	22,262	21,229	109,816	5,000	28,772	27,462	58,535	325,958

(a) Other assets include positive replacement values for financial derivatives and other assets

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

# Notes to the Financial Statements

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## 46.2 Performing and non-performing assets

The 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 Group to categorise its credit portfolios according to its assessment of a borrower's ability to repay a credit facility from his normal sources of income. There are five categories of assets as follows:

### Performing assets

- Pass grade indicates that the timely repayment of the outstanding credit facilities is not in doubt.
- Special mention grade indicates 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 Group.

### Classified or non-performing assets

- Substandard grade indicates 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.

– Doubtful grade indicates 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 grade indicates the amount of recovery is assessed to be insignificant.

The Group may also apply a split classification to any credit facility where appropriate. For instance, when a non-performing loan is partially secured, the portion covered by the amount realisable from a collateral may be classified as substandard while the unsecured portion of the loan is classified as doubtful or loss, as appropriate.

## 46.3 Loans and advances to customers

Loans and advances to customers are summarised as follows:

In \$ millions	The Group	
	2008	2007
Loans and advances to customers		
Performing Loans		
– Neither past due nor impaired (i)	124,493	104,909
– Past due but not impaired (ii)	1,274	1,608
Non-Performing Loans		
– Impaired (iii)	1,958	1,168
<b>Total gross loans (Note 20)</b>	<b>127,725</b>	<b>107,685</b>

### (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 classified by reference to the loan gradings in MAS Notice to Banks No. 612, "Credit Files, Grading and Provisioning" are as follows:

In \$ millions	The Group		
	Pass	Special mention	Total
<b>2008</b>			
Manufacturing	13,990	725	14,715
Building and construction	18,029	255	18,284
Housing loans	30,018	261	30,279
General commerce	9,352	875	10,227
Transportation, storage and communication	12,160	430	12,590
Financial institutions, investments and holding companies	13,250	307	13,557
Professionals and private individuals (except housing loans)	8,931	85	9,016
Others	15,220	605	15,825
<b>Total</b>	<b>120,950</b>	<b>3,543</b>	<b>124,493</b>

In \$ millions	The Group		Total
	Pass	Special mention	
<b>2007</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
Total	100,258	4,651	104,909

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

In \$ millions	Up to 30 days	30-59 days	60-90 days	Total
	past due	past due	past due	
<b>2008</b>				
Manufacturing	134	21	39	194
Building and construction	144	12	2	158
Housing loans	175	15	2	192
General commerce	207	40	33	280
Transportation, storage and communication	173	41	39	253
Financial institutions, investment and holding companies	2	–	–	2
Professionals and private individuals (except housing loans)	84	12	66	162
Others	25	8	–	33
Total	944	149	181	1,274

In \$ millions	Up to 30 days	30-59 days	60-90 days	Total
	past due	past due	past due	
<b>2007</b>				
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
Total	1,392	132	84	1,608

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## (iii) Non-performing assets

### Non-performing assets by loan grading and industry

In \$ millions 2008	NPAs <sup>(a)</sup>			The Group				
	Sub- standard	Doubtful	Loss	Total	Sub- standard	Doubtful	Loss	Total
<b>Customer loans</b>								
Manufacturing	447	195	78	720	93	175	83	351
Building and construction	78	12	6	96	12	12	6	30
Housing loans	164	3	26	193	15	2	26	43
General commerce	228	64	89	381	36	62	89	187
Transportation, storage and communications	19	4	1	24	1	4	1	6
Financial institutions, investment and holding companies	73	72	–	145	–	66	–	66
Professional and private individuals (except housing loans)	122	67	34	223	28	67	34	129
Others	87	62	27	176	26	59	23	108
<b>Total customer loans</b>	<b>1,218</b>	<b>479</b>	<b>261</b>	<b>1,958</b>	<b>211</b>	<b>447</b>	<b>262</b>	<b>920</b>
Debt securities	18	256	3	277	–	233	3	236
Contingent items and others	92	65	–	157	2	50	–	52
<b>Total</b>	<b>1,328</b>	<b>800</b>	<b>264</b>	<b>2,392</b>	<b>213</b>	<b>730</b>	<b>265</b>	<b>1,208</b>

In \$ millions 2007	NPAs <sup>(a)</sup>			The 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>Total customer loans</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>
Debt securities	6	151	3	160	–	149	3	152
Contingent items	110	3	1	114	5	3	1	9
<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>

(a) NPAs and specific allowances for customer loans each includes \$52 million (2007: \$55 million) in interest receivables

**Non-performing assets by region**

In \$ millions	The Group		
	NPAs	Specific allowances	General allowances
<b>2008</b>			
Singapore	717	274	490
Hong Kong	588	313	360
Rest of Greater China	459	242	123
South and Southeast Asia	207	62	180
Rest of the World	421	317	371
<b>Total</b>	<b>2,392</b>	<b>1,208</b>	<b>1,524</b>
<b>2007</b>			
Singapore	579	245	526
Hong Kong	419	174	301
Rest of Greater China	80	28	91
South and Southeast Asia	148	45	137
Rest of the World	216	160	237
<b>Total</b>	<b>1,442</b>	<b>652</b>	<b>1,292</b>

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

In \$ millions	The Group	
	2008	2007
Not overdue	857	542
< 90 days past due	463	255
91-180 days past due	326	94
> 180 days past due	746	551
<b>Total past due assets</b>	<b>1,535</b>	900
<b>Total</b>	<b>2,392</b>	1,442

**Collateral value for non-performing assets**

In \$ millions	The Group	
	2008	2007
Properties	556	376
Shares and debentures	43	24
Fixed deposits	16	13
Others	223	235
<b>Total</b>	<b>838</b>	648

The Group does not disclose the fair value of collateral held as security on assets past due but not impaired as it is not practicable to do so.

**Past due assets by industry**

In \$ millions	The Group	
	2008	2007
Manufacturing	542	232
Building and construction	52	53
Housing loans	182	142
General commerce	300	252
Transportation, storage and communications	8	15
Financial institutions, investment and holding companies	81	2
Professional and private individuals (except housing loans)	149	83
Others	155	106
<b>Sub-total</b>	<b>1,469</b>	885
Debt securities and contingent items	66	15
<b>Total</b>	<b>1,535</b>	900

**Past due assets by region**

In \$ millions	The Group	
	2008	2007
Singapore	515	461
Hong Kong	472	291
Rest of Greater China	308	63
South and Southeast Asia	108	70
Rest of the World	66	–
<b>Sub-total</b>	<b>1,469</b>	885
Debt securities and contingent items	66	15
<b>Total</b>	<b>1,535</b>	900

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## Restructured non-performing assets

Credit facilities are classified as restructured assets when the 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 credit facilities 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	The Group	
	NPAs	Specific allowances
<b>2008</b>		
Substandard	<b>213</b>	46
Doubtful	<b>57</b>	49
Loss	<b>49</b>	46
Total	<b>319</b>	141
<b>2007</b>		
Substandard	<b>168</b>	27
Doubtful	<b>25</b>	23
Loss	<b>38</b>	38
Total	<b>231</b>	88

Restructured assets returned to the performing status but are still under concessions as at 31 December 2008 and 31 December 2007 are not material.

## 46.4 Credit quality of Singapore Government securities and treasury bills, financial assets at fair value through profit or loss, financial investments and securities pledged (Note (a))

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

In \$ millions	Financial assets at fair value through profit or loss						Financial investments				
	Singapore Government securities and treasury bills	Other government securities		Loans and advances to customer	Other financial assets (due from banks)		Other government securities		Corporate debt securities	Securities pledged	
		treasury bills	and		Corporate debt securities	(due from banks)	treasury bills	and			
External rating	(1)	(2)	(3)	(4)	(5)	(6)=(2+3+4+5)	(7)	(8)	(9)=(7+8)	(10)	
<b>2008</b>											
AAA	14,797	101	478	–	–	579	1,588	1,538	3,126	257	
AA– to AA+	–	270	535	–	–	805	870	3,276	4,146	549	
A– to A+	–	274	2,131	–	–	2,405	1,302	5,449	6,751	–	
Lower than A-	–	700	1,158	–	–	1,858	89	2,667	2,756	5	
Unrated	–	781	345	641	1,692	3,459	700	4,159	4,859	186	
Total	14,797	2,126	4,647	641	1,692	9,106	4,549	17,089	21,638	997	
<b>2007</b>											
AAA	15,433	357	1,236	–	–	1,593	309	1,692	2,001	1,527	
AA– to AA+	–	100	1,995	–	–	2,095	114	3,510	3,624	2,022	
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	566	
Total	15,433	2,752	11,914	2,088	1,260	18,014	2,248	14,611	16,859	4,115	

(a) The amount of securities that are past due but not impaired is not material.

(b) For amounts due from banks, majority of the bank counterparties are accorded "Pass" grade in accordance with the loan grading per MAS Notice to Banks No. 612 "Credit Files, Grading and Provisioning".



#### 46.5 Repossessed collateral

As and when required, the Group will take possession of collaterals it holds as securities and will dispose of 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 2008 and 2007 are not material.

#### 46.6 Concentration risk

The Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the 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 2008, the Group had exposures to various countries where net exposure exceeded 1% of the 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.

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

In \$ millions Assets in	Loans and debt securities				Total exposure	
	Banks	Central banks and Government securities	Non- banks <sup>(a)</sup>	Investments	Amount	As a % of Total assets
	(1)	(2)	(3)	(4)	(5)=(1+2+3+4)	(6)
<b>2008</b>						
<b>Top 10 countries (Net exposure &gt;1% of Total assets)</b>						
Hong Kong	1,745	1,230	32,673	160	35,808	13.9
China	2,528	595	7,371	166	10,660	4.1
India	3,709	1,115	3,823	399	9,046	3.5
United Kingdom	4,578	5	2,777	23	7,383	2.9
South Korea	2,923	1,487	2,223	–	6,633	2.6
Taiwan	83	2,485	3,741	11	6,320	2.5
Indonesia	221	619	4,021	–	4,861	1.9
United States	1,239	302	2,697	145	4,383	1.7
Australia	3,034	–	1,235	48	4,317	1.7
France	3,490	–	247	1	3,738	1.5
<b>Total</b>	<b>23,550</b>	<b>7,838</b>	<b>60,808</b>	<b>953</b>	<b>93,149</b>	<b>36.3</b>
<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>

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

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## 47 MARKET RISK

### 47.1 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 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 Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including limit setting and independent model validation, monitoring and valuation.

The Board establishes the Group's risk appetite for trading market risk. The CEO delegates responsibility to the Group Market Risk Committee to allocate risk appetite limits to risk-taking units. The Committee also oversees the Group's market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

The independent market risk management function comprising risk control, model analytics, risk architecture and policy reports to the Chief Risk Officer and is responsible for day-to-day risk monitoring and analysis.

The principal market risk appetite measures for trading market risk are Value-at-Risk (VaR) and stress loss. The VaR is supplemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as stop-loss limits.

The Group's general market risk Value-at-Risk (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 Group's trading market risk. VaR risk factor scenarios are generally aligned to parameters and market data used for valuation. These are maintained in the risk system and are used to compute VaR daily for each trading business unit and location, and at 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 measure can capture all aspects of trading market risk. Therefore, regular stress testing is carried out to monitor the Group's vulnerability to shocks.

The following table shows the period-end, average, high and low VaR for trading market risk:

In \$ millions	The Group 1 Jan 2008 to 31 Dec 2008			
	As at			
	31 Dec 2008	Average	High	Low
Total	32	33	60	21

In \$ millions	The Group 1 Jan 2007 to 31 Dec 2007			
	As at			
	31 Dec 2007	Average	High	Low
Total	22	16	28	6

### 47.2 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 Group's management of funds arising from banking intermediation and (b) the 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 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 strategic investments in associates and other major stakes.

To optimise its income and balance sheet management, the Group deploys funds in debt securities, equities and funds or in the interbank market. Derivatives may be used to hedge non-trading market risk. Senior Management establishes a framework governing the Group's investment of its surplus funds. The market risk arising in the course of managing these funds comprises interest rate and equity price risks. Risk appetite limits are allocated and risk oversight for these risks is performed in a manner similar to that for traded market risk.

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 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

The Group distinguishes two major sources of non-trading interest rate risk arising from (a) the deployment of funds in investments (and associated hedges) and interbank market activities and (b) mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) in major funding currencies. The Group Market Risk Committee is charged with oversight of non-trading interest rate risk from an economic value perspective. Major funding

currencies are SGD in Singapore and HKD and USD in Hong Kong. The principal market risk appetite measure for the former source of non-trading interest rate risk is value-at-risk, complemented by more granular risk and loss limits, in a similar manner as for trading market risk, as described above and subject to similar methodological limitations. The following table shows the period-end, average, high and low VaR for non-trading interest rate risk arising from this source for the financial year ended 31 December 2008.

In \$ millions	The Group			
	1 Jan 2008 to 31 Dec 2008			
	As at 31 Dec 2008	Average	High	Low
Total	29	27	49	15

Interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) 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 limits established by the Board. The Group Asset-Liability Committee is charged with oversight and broad strategy for this risk. To monitor this risk, the Group uses various tools, including re-pricing gap reports, sensitivity analysis and income scenario simulations.

The Group manages and monitors its interest rate sensitivity to these mismatches by various currencies. The following table sets out what would have been the profit and loss impact and equity impact of interest rate changes on positions as at 31 December 2008. Outcomes may differ from the sensitivity impact as the 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.

In \$ millions	The Group		
	-25 bps	+25 bps	+50 bps
Profit and loss impact (or impact on net interest income)	-149	+159	+320
Equity impact (or impact on available-for-sale revaluation reserves)	+71	-71	-142

Unlike the financial year ended 31 December 2007, the Group has prepared a value-at-risk disclosure in respect of certain non-trading interest rate risk. Consequently the sensitivity analysis in the notes to the financial statements of the previous period is not directly comparable with the analyses set out above.

For the financial year ended 31 December 2007, 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 and assuming a flat balance sheet was an increase in net interest income of \$93 million and a 25 basis point decrease in interest rates and assuming a flat balance sheet was a decrease in net interest income of \$91 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.

### 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 are reviewed by senior management and may be managed with alternative strategies or left unhedged. This foreign exchange risk is subject to limits established by the Board and is monitored using foreign exchange net open position reports.

The consolidated position across all currencies is set out in Note 47.4. Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group on its non-trading unhedged positions as at 31 December 2008 is summarised below:

In \$ millions	The Group	
	Change in currency rate	Revaluation sensitivity
<b>2008</b>		
HKD	+10%	-4
	-10%	+4
USD	+10%	+1
	-10%	-1
Others	+10%	+72
	-10%	-72
<b>2007</b>		
HKD	+10%	+6
	-10%	-6
USD	+10%	#
	-10%	#
Others	+10%	+67
	-10%	-67

# Amount under \$500,000

### Equity risk

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

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Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity instruments as at 31 December 2008 should there be a change in equity market prices:

In \$ millions	The Group	
	Change in equity market prices	Sensitivity of equity
<b>2008</b>	+15%	+125
	-15%	-125
<b>2007</b>	+10%	+224
	-10%	-224

## 47.3 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 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 Group, since the position is being actively managed and can vary significantly on a daily basis.

In \$ millions							Non-	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	interest bearing	
<b>2008</b>								
Cash and balances with central banks	1,932	6,661	2,469	1,005	–	–	3,723	15,790
Due from banks	8,044	4,613	1,920	1,795	1,018	2,252	825	20,467
Financial assets at fair value								
through profit or loss	794	537	2,448	1,593	2,231	1,503	295	9,401
Other securities <sup>(a)</sup>	852	2,880	7,156	6,441	6,432	13,642	1,173	38,576
Loans and advances to customers	27,549	34,549	21,448	23,248	8,537	9,436	1,074	125,841
Other assets <sup>(b)</sup>	–	–	–	–	–	–	46,643	46,643
<b>Total assets</b>	<b>39,171</b>	<b>49,240</b>	<b>35,441</b>	<b>34,082</b>	<b>18,218</b>	<b>26,833</b>	<b>53,733</b>	<b>256,718</b>
Due to banks	2,944	3,506	1,731	576	–	49	215	9,021
Due to non-bank customers	101,842	31,386	18,310	10,657	492	672	–	163,359
Financial liabilities at fair value								
through profit or loss	891	480	1,510	1,651	3,642	2,989	119	11,282
Other liabilities <sup>(c)</sup>	420	305	361	999	1,204	2,988	33,691	39,968
Subordinated term debts	–	–	–	4,547	2,106	2,432	–	9,085
<b>Total liabilities</b>	<b>106,097</b>	<b>35,677</b>	<b>21,912</b>	<b>18,430</b>	<b>7,444</b>	<b>9,130</b>	<b>34,025</b>	<b>232,715</b>
Minority interests	–	–	–	–	–	–	4,184	4,184
Shareholders' funds	–	–	–	–	–	–	19,819	19,819
<b>Total equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>24,003</b>	<b>24,003</b>
On-balance sheet interest rate gap	(76,675)	8,675	7,675	7,195	17,546	40,953	(5,369)	–
Off-balance sheet interest rate gap								
– Financial derivatives <sup>(d)</sup>	5,068	(219)	(4,043)	(1,585)	1,671	(892)	–	–

In \$ millions	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>2007</b>								
Cash and balances with central banks	1,136	2,445	7,647	4,131	–	–	3,205	18,564
Due from banks	5,070	2,165	4,413	6,914	688	3,297	363	22,910
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>	–	–	–	–	–	–	26,872	26,872
<b>Total assets</b>	<b>39,908</b>	<b>43,399</b>	<b>39,787</b>	<b>33,405</b>	<b>13,518</b>	<b>27,669</b>	<b>35,277</b>	<b>232,963</b>
Due to banks	3,632	6,533	3,990	1,167	–	78	64	15,464
Due to non-bank customers	86,353	31,972	14,765	10,308	196	1,146	–	144,740
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	651	731	1,784	1,193	2,239	14,199	22,405
Subordinated term debts	–	–	–	3,461	1,887	3,606	–	8,954
<b>Total liabilities</b>	<b>93,683</b>	<b>40,812</b>	<b>22,011</b>	<b>18,387</b>	<b>6,001</b>	<b>14,361</b>	<b>14,550</b>	<b>209,805</b>
Minority interests	–	–	–	–	–	–	2,677	2,677
Shareholders' funds	–	–	–	–	–	–	20,481	20,481
<b>Total equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23,158</b>	<b>23,158</b>
On-balance sheet interest rate gap	(53,775)	2,587	17,776	15,018	7,517	13,308	(2,431)	–
Off-balance sheet interest rate gap								
– Financial derivatives <sup>(d)</sup>	6,590	7,839	(3,607)	(3,803)	(4,861)	(2,158)	–	–

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

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

(c) Other liabilities include negative replacement values for financial derivatives, bills payable, current and deferred tax liabilities, other debt securities in issue and other liabilities

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

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

In %	2008			2007		
	Singapore dollar	US dollar	Hong Kong dollar	Singapore dollar	US dollar	Hong Kong dollar
<b>Assets</b>						
Due from banks	<b>0.88 – 1.95</b>	<b>1.25 – 3.68</b>	<b>1.04 – 1.14</b>	1.20 – 2.40	4.46 – 5.75	3.94 – 4.38
Financial assets at fair value	<b>0.97 – 4.06</b>	<b>3.92 – 6.13</b>	<b>3.52 – 3.87</b>	3.03 – 4.37	4.85 – 5.33	5.99
through profit or loss						
Other securities <sup>(b)</sup>	<b>0.97 – 5.83</b>	<b>1.56 – 6.35</b>	<b>1.01 – 4.22</b>	2.13 – 2.89	3.39 – 5.51	2.14 – 5.49
Loans and advances to customers	<b>2.79 – 8.09</b>	<b>1.54 – 7.88</b>	<b>1.50 – 6.13</b>	2.25 – 5.26	3.45 – 7.15	4.46 – 12.63
<b>Liabilities</b>						
Due to banks	<b>0.18 – 1.18</b>	<b>1.45 – 3.88</b>	–	0.84 – 1.07	4.88 – 5.82	0.47
Due to non-bank customers	<b>0 – 0.55</b>	<b>0.05 – 1.71</b>	<b>0.29 – 1.71</b>	0 – 1.51	1.23 – 4.61	1.40 – 3.78
Financial liabilities at fair value	<b>2.51 – 3.69</b>	<b>0.89 – 8.26</b>	<b>3.48 – 4.96</b>	2.25	5.04	–
through profit or loss						
Subordinated term debts	<b>4.47</b>	<b>5.00 – 7.88</b>	–	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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## 47.4 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 Group's assets and liabilities at carrying amounts at 31 December, categorised by currency:

In \$ millions	Singapore dollar	US dollar	Hong Kong dollar	Others	Total
<b>2008</b>					
Cash and balances with central banks	12,446	60	125	3,159	15,790
Due from banks	1,208	14,060	264	4,935	20,467
Financial assets at fair value through profit or loss	596	3,445	314	5,046	9,401
Other securities <sup>(a)</sup>	18,509	8,057	2,354	9,656	38,576
Loans and advances to customers	52,731	28,914	27,164	17,032	125,841
Other assets <sup>(b)</sup>	18,371	19,239	4,450	4,583	46,643
<b>Total assets</b>	<b>103,861</b>	<b>73,775</b>	<b>34,671</b>	<b>44,411</b>	<b>256,718</b>
Due to banks	832	4,104	52	4,033	9,021
Due to non-bank customers	89,331	26,858	23,052	24,118	163,359
Financial liabilities at fair value through profit or loss	6,178	3,418	1,246	440	11,282
Other liabilities <sup>(c)</sup>	7,908	24,512	4,491	3,057	39,968
Subordinated term debts	500	8,585	–	–	9,085
<b>Total liabilities</b>	<b>104,749</b>	<b>67,477</b>	<b>28,841</b>	<b>31,648</b>	<b>232,715</b>
Minority interests	4,184	–	–	–	4,184
Shareholders' funds	19,819	–	–	–	19,819
<b>Total equity</b>	<b>24,003</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>24,003</b>
<b>Net on-balance sheet position</b>	<b>(24,891)</b>	<b>6,298</b>	<b>5,830</b>	<b>12,763</b>	<b>–</b>
<b>Net off-balance sheet position<sup>(d)</sup></b>	<b>29,402</b>	<b>(21,621)</b>	<b>2,534</b>	<b>(10,315)</b>	<b>–</b>
<b>2007</b>					
Cash and balances with central banks	15,694	84	107	2,679	18,564
Due from banks	933	14,684	1,071	6,222	22,910
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	23,538	24,510	16,180	106,344
Other assets <sup>(b)</sup>	10,043	7,436	3,832	5,561	26,872
<b>Total assets</b>	<b>89,477</b>	<b>59,854</b>	<b>34,513</b>	<b>49,119</b>	<b>232,963</b>
Due to banks	2,589	10,129	145	2,601	15,464
Due to non-bank customers	79,023	25,028	24,511	16,178	144,740
Financial liabilities at fair value through profit or loss	7,063	7,322	2,086	1,771	18,242
Other liabilities <sup>(c)</sup>	5,975	7,914	4,369	4,147	22,405
Subordinated term debts	500	8,454	–	–	8,954
<b>Total liabilities</b>	<b>95,150</b>	<b>58,847</b>	<b>31,111</b>	<b>24,697</b>	<b>209,805</b>
Minority interests	2,677	–	–	–	2,677
Shareholders' funds	20,481	–	–	–	20,481
<b>Total equity</b>	<b>23,158</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23,158</b>
<b>Net on-balance sheet position</b>	<b>(28,831)</b>	<b>1,007</b>	<b>3,402</b>	<b>24,422</b>	<b>–</b>
<b>Net off-balance sheet position<sup>(d)</sup></b>	<b>23,546</b>	<b>(23,772)</b>	<b>12,615</b>	<b>(12,389)</b>	<b>–</b>

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

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

(c) Other liabilities include negative replacement values for financial derivatives, bills payable, current and deferred tax liabilities, other debt securities in issue and other liabilities

(d) Off-balance sheet items (e.g. FX options) are represented at notional values (not delta equivalent)

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

In \$ millions	Net investments in overseas operations <sup>(a)</sup>	Financial instruments which hedge the net investments <sup>(b)</sup>	Remaining unhedged currency exposures
<b>2008</b>			
Hong Kong dollar	3,597	3,636	(39)
US dollar	670	663	7
Others	3,006	2,288	718
Total	7,273	6,587	686
<b>2007</b>			
Hong Kong dollar	3,795	3,731	64
US dollar	649	647	2
Others	2,549	1,880	669
Total	6,993	6,258	735

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

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

#### 48 LIQUIDITY RISK

Liquidity risk is the risk that the Group is 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 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 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 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 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 of the Group at 31 December based on the expected recovery/settlement period:

In \$ millions	2008			2007		
	Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
Cash and balances with central banks	<b>15,790</b>	–	<b>15,790</b>	18,564	–	18,564
Singapore Government securities and treasury bills	<b>3,284</b>	<b>11,513</b>	<b>14,797</b>	5,082	10,351	15,433
Due from banks	<b>17,338</b>	<b>3,129</b>	<b>20,467</b>	18,786	4,124	22,910
Financial assets at fair value through profit or loss	<b>3,655</b>	<b>5,746</b>	<b>9,401</b>	6,783	12,760	19,543
Positive replacement values for financial derivatives	<b>32,328</b>	–	<b>32,328</b>	13,119	–	13,119
Loans and advances to customers	<b>50,036</b>	<b>75,805</b>	<b>125,841</b>	42,851	63,493	106,344
Financial investments	<b>5,499</b>	<b>17,283</b>	<b>22,782</b>	8,595	10,587	19,182
Securities pledged	<b>362</b>	<b>635</b>	<b>997</b>	972	3,143	4,115
Subsidiaries	–	–	–	–	–	–
Investments in associates	–	<b>604</b>	<b>604</b>	–	715	715
Goodwill on consolidation	–	<b>5,847</b>	<b>5,847</b>	–	5,842	5,842
Properties and other fixed assets	–	<b>1,311</b>	<b>1,311</b>	–	1,235	1,235
Investment properties	–	<b>293</b>	<b>293</b>	–	299	299
Deferred tax assets	–	<b>171</b>	<b>171</b>	–	25	25
Other assets	<b>6,039</b>	<b>50</b>	<b>6,089</b>	5,602	35	5,637
<b>Total assets</b>	<b>134,331</b>	<b>122,387</b>	<b>256,718</b>	120,354	112,609	232,963
Due to banks	<b>8,972</b>	<b>49</b>	<b>9,021</b>	15,386	78	15,464
Due to non-bank customers	<b>162,195</b>	<b>1,164</b>	<b>163,359</b>	143,398	1,342	144,740
Financial liabilities at fair value through profit or loss	<b>3,994</b>	<b>7,288</b>	<b>11,282</b>	5,573	12,669	18,242
Negative replacement values for financial derivatives	<b>31,918</b>	–	<b>31,918</b>	12,791	–	12,791
Bills payable	<b>714</b>	–	<b>714</b>	380	–	380
Current tax liabilities	<b>779</b>	–	<b>779</b>	882	–	882
Deferred tax liabilities	–	<b>45</b>	<b>45</b>	–	172	172
Other liabilities	<b>5,317</b>	<b>557</b>	<b>5,874</b>	6,329	652	6,981
Other debt securities in issue	<b>263</b>	<b>375</b>	<b>638</b>	960	239	1,199
Subordinated term debts	<b>1,099</b>	<b>7,986</b>	<b>9,085</b>	–	8,954	8,954
<b>Total liabilities</b>	<b>215,251</b>	<b>17,464</b>	<b>232,715</b>	180,699	24,106	209,805
Minority interests	–	<b>4,184</b>	<b>4,184</b>	–	2,677	2,677
Shareholders' funds	–	<b>19,819</b>	<b>19,819</b>	–	20,481	20,481
<b>Total equity</b>	–	<b>24,003</b>	<b>24,003</b>	–	23,158	23,158



The table below analyses assets and liabilities of the Group at 31 December based on contractual undiscounted repayment obligations:

In \$ millions	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	Total
							specific maturity	
<b>2008</b>								
Cash and balances with central banks	4,654	6,666	2,471	1,011	–	–	996	15,798
Due from banks	8,555	4,708	2,213	1,978	792	2,519	3	20,768
Financial assets at fair value								
through profit or loss	613	375	1,058	1,532	3,910	2,666	295	10,449
Other securities <sup>(a)</sup>	385	1,380	2,437	5,090	13,835	21,295	1,188	45,610
Loans and advances to customers	12,110	14,684	15,382	18,821	28,748	67,966	–	157,711
Positive replacement values for								
financial derivatives	7,204	58	4	20	26	21	–	7,333
Other assets <sup>(b)</sup>	118	61	22	22	11	34	13,294	13,562
<b>Total assets</b>	<b>33,639</b>	<b>27,932</b>	<b>23,587</b>	<b>28,474</b>	<b>47,322</b>	<b>94,501</b>	<b>15,776</b>	<b>271,231</b>
Due to banks	3,472	3,009	1,314	425	62	141	–	8,423
Due to non-bank customers	116,008	39,995	26,231	12,548	501	672	–	195,955
Financial liabilities at fair value								
through profit or loss	511	406	1,254	2,361	4,454	3,930	11	12,927
Negative replacement values for								
financial derivatives and other								
financial liabilities <sup>(c)</sup>	8,860	27	55	407	231	499	147	10,226
Other liabilities <sup>(d)</sup>	1,891	81	218	85	144	408	3,393	6,220
Subordinated term debts	–	29	98	1,580	2,958	8,088	–	12,753
<b>Total liabilities</b>	<b>130,742</b>	<b>43,547</b>	<b>29,170</b>	<b>17,406</b>	<b>8,350</b>	<b>13,738</b>	<b>3,551</b>	<b>246,504</b>
Minority interests	–	–	–	–	–	–	4,184	4,184
Shareholders' funds	–	–	–	–	–	–	19,819	19,819
<b>Total equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>24,003</b>	<b>24,003</b>
<b>Net liquidity gap</b>	<b>(97,103)</b>	<b>(15,615)</b>	<b>(5,583)</b>	<b>11,068</b>	<b>38,972</b>	<b>80,763</b>	<b>(11,778)</b>	<b>724</b>

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In \$ millions	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	Total
<b>2007</b>								
Cash and balances with central banks	1,298	2,457	7,665	4,196	–	–	3,042	18,658
Due from banks	5,154	2,187	4,510	7,252	877	3,562	–	23,542
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	18,412	54,182	–	116,631
Positive replacement values for								
financial derivatives	6,213	135	–	127	–	–	–	6,475
Other assets <sup>(b)</sup>	1,381	209	14	13	2	–	11,379	12,998
<b>Total assets</b>	<b>24,516</b>	<b>21,724</b>	<b>27,322</b>	<b>33,460</b>	<b>34,010</b>	<b>87,236</b>	<b>18,273</b>	<b>246,541</b>
Due to banks	3,695	6,552	4,015	1,231	51	185	–	15,729
Due to non-bank customers	86,381	32,083	14,889	10,504	209	1,152	–	145,218
Financial liabilities at fair value								
through profit or loss	1,120	1,018	986	2,873	4,549	9,229	20	19,795
Negative replacement values for								
financial derivatives and other								
financial liabilities <sup>(c)</sup>	7,196	24	123	871	93	24	38	8,369
Other liabilities <sup>(d)</sup>	2,233	198	164	55	232	428	4,341	7,651
Subordinated term debts	–	31	114	446	2,899	9,496	–	12,986
<b>Total liabilities</b>	<b>100,625</b>	<b>39,906</b>	<b>20,291</b>	<b>15,980</b>	<b>8,033</b>	<b>20,514</b>	<b>4,399</b>	<b>209,748</b>
Minority interests	–	–	–	–	–	–	2,677	2,677
Shareholders' funds	–	–	–	–	–	–	20,481	20,481
<b>Total equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23,158</b>	<b>23,158</b>
<b>Net liquidity gap</b>	<b>(76,109)</b>	<b>(18,182)</b>	<b>7,031</b>	<b>17,480</b>	<b>25,977</b>	<b>66,722</b>	<b>(9,284)</b>	<b>13,635</b>

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

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

(c) Other financial liabilities include bills payable and other debt securities in issue

(d) Other liabilities include current and deferred tax liabilities and other liabilities

The balances in the above table will not agree directly to the balances in the consolidated balance sheet 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.

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when it can legally be withdrawn. On a behavioral basis, the assets and liabilities cash flows may differ from contractual basis.

### 48.1 Derivatives settled on a gross basis

The table below analyses the Group'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	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
<b>2008</b>							
Foreign exchange derivatives							
– outflow	33,994	75,631	88,384	135,645	40,461	21,752	395,867
– inflow	34,089	75,682	88,495	136,118	40,532	21,429	396,345
<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

### 48.2 Contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

In \$ millions	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<b>2008</b>					
Guarantees, endorsements and other contingent items	15,420	–	–	–	15,420
Undrawn loan commitments <sup>(a)</sup> and other facilities	69,343	5,341	1,107	290	76,081
Operating lease commitments	123	247	162	543	1,075
Capital commitments	68	12	–	–	80
Total	84,954	5,600	1,269	833	92,656
<b>2007</b>					
Guarantees, endorsements and other contingent items	14,656	–	–	–	14,656
Undrawn loan commitments <sup>(a)</sup> 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
Total	100,873	3,114	2,302	672	106,961

(a) Undrawn loan commitments are recognised at activation stage in 2008 and approval stage in 2007. These include commitments which are unconditionally cancellable by the Group

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

### 49 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including legal risk, but does not include strategic or reputation risk. An Operational Risk Management Framework, approved by the Board Risk Management Committee, has been developed with the objective to ensure that operational risks within the 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, risk event management, key risk indicator monitoring and process risk mapping. Risk events, including any significant

incidents that may impact the 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 risk review and sign-off process where relevant risks are identified and assessed by departments independent of the

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risk-taking unit proposing the product or service. Variations of existing products or services and outsourcing 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 Group, including any residual risks.

The Group Operational Risk Committee oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Group Operational Risk Committee also performs regular review of the operational risk profiles of the Group, and endorses and recommends corporate operational risk policies to be approved by senior management.

## 50 CAPITAL MANAGEMENT

The Group's 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 Group has complied with all capital adequacy ratios prescribed by the regulators.

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 Group. Overseas subsidiaries and non-banking subsidiaries of the 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 Group. MAS Notice to Banks No. 637 "Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore" 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.

In \$ millions	2008	2007 <sup>(a)</sup>
<b>Tier 1 Capital</b>		
Share capital	<b>4,215</b>	4,164
Disclosed reserves and others	<b>20,180</b>	18,092
Less: Tier 1 Deductions	<b>6,022</b>	5,897
<b>Eligible Tier 1 capital</b>	<b>18,373</b>	16,359
<b>Tier 2 Capital</b>		
Loan allowances admitted as Tier 2	<b>656</b>	1,210
Subordinated debts	<b>6,571</b>	7,087
Revaluation surplus from equity securities	<b>27</b>	177
Less: Tier 2 Deductions	<b>106</b>	102
<b>Total eligible capital</b>	<b>25,521</b>	24,731
<b>Risk-weighted assets</b>	<b>182,685</b>	184,601
<b>Capital Adequacy Ratio (%)</b>		
Tier 1 ratio	<b>10.1</b>	8.9
Tier 2 ratio	<b>3.9</b>	4.5
<b>Total (Tier 1 and 2) ratio</b>	<b>14.0</b>	13.4

(a) Figures have been reclassified to make them consistent with the current period's presentation

The Group has adopted the capital adequacy requirements of Basel II as set out in the revised Monetary Authority of Singapore Notice to Banks No. 637 (Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore) with effect from 1 January 2008.

## 51 SEGMENTAL REPORTING

### 51.1 Business segment reporting

The business segment results are prepared based on the Group's internal management reporting reflective of the organisation's management reporting structure. The activities of the 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.

### **Institutional Banking**

Institutional Banking provides financial services and products to large corporate, institutional clients and small and medium-sized businesses. 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 credit facilities (overdraft, factoring/accounts receivable purchase, commercial/industrial property financing, hire purchase and government financing and assistance schemes), deposit and treasury 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 Group's asset and liability interest rate positions and investment of the 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 Group's associates, joint ventures and subsidiaries and gains/losses on properties. Private banking activities and asset management activities are included in this segment.

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

In \$ millions	Consumer Banking	Institutional Banking	Global Financial Markets	Central Treasury Unit	Central Operations <sup>(a)</sup>	Total
<b>2008</b>						
Net interest income	1,130	1,707	1,190	648	(374)	4,301
Non-interest income	611	974	(159)	44	282	1,752
Expenses	1,142	758	483	30	242	2,655
Allowances for credit and other losses	42	427	64	223	132	888
Profit before tax	557	1,496	486	439	(393)	2,585
Total assets before goodwill	36,004	96,586	86,760	26,344	5,177	250,871
Goodwill on consolidation						5,847
Total assets						256,718
Total liabilities	95,537	60,390	48,930	1,496	26,362	232,715
Capital expenditure	67	19	18	–	195	299
Depreciation	32	9	11	–	97	149

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In \$ millions	Consumer Banking	Institutional Banking	Global Financial Markets	Central Treasury Unit	Central Operations <sup>(a)</sup>	Total
<b>2007</b>						
Net interest income	1,718	1,528	946	349	(433)	4,108
Non-interest income	688	947	78	16	326	2,055
Expenses	1,091	796	516	31	184	2,618
Allowances for credit and other losses	23	312	5	262	15	617
Profit before tax	1,292	1,367	516	72	(209)	3,038
Total assets before goodwill	32,148	79,307	83,816	27,930	3,920	227,121
Goodwill on consolidation						5,842
Total assets						232,963
Total liabilities	83,171	52,044	47,039	1,458	26,093	209,805
Capital expenditure	62	13	17	–	104	196
Depreciation	25	9	11	–	81	126

(a) 2008 includes one-time gain from sale of office buildings in Hong Kong, impairment charges for a Thai investment and restructuring costs of \$127 million. 2007 includes one-time allowance write-back for a Singapore property and impairment charges for a Thai investment of \$186 million (or \$209 million after minority interests)

## 51.2 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.

In \$ millions	Singapore	Hong Kong	The Group			Total
			Rest of Greater China <sup>(c)</sup>	South and Southeast Asia <sup>(d)</sup>	Rest of the World <sup>(e)</sup>	
<b>2008</b>						
Total income	<b>3,672</b>	<b>1,433<sup>(a)</sup></b>	<b>379</b>	<b>359</b>	<b>210</b>	<b>6,053</b>
Net profit	<b>1,418<sup>(a)</sup></b>	<b>400<sup>(a)</sup></b>	<b>104</b>	<b>151</b>	<b>66</b>	<b>2,139</b>
Total assets before goodwill	<b>170,132</b>	<b>44,119</b>	<b>16,563</b>	<b>9,889</b>	<b>10,168</b>	<b>250,871</b>
Goodwill on consolidation						<b>5,847</b>
Total assets						<b>256,718</b>
<b>2007</b>						
Total income	3,942	1,618	206	269	128	6,163
Net profit	1,597 <sup>(b)</sup>	686	64	106	(4)	2,449
Total assets before goodwill	149,299	47,199	10,905	8,199	11,519	227,121
Goodwill on consolidation						5,842
Total assets						232,963

(a) Includes one-time gain from sale of office buildings in Hong Kong, impairment charges for a Thai investment and restructuring costs of \$127 million in 2008

(b) Includes one-time allowance write-back for a Singapore property and impairment charges for a Thai investment of \$209 million in 2007

(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 and the Philippines

(e) Rest of the World includes branch operations in South Korea, Japan, United States of America and United Kingdom

## 52 List of Subsidiaries, Joint Ventures, Associates and Special Purpose Entities

The significant operating subsidiaries in the Group are listed below:

Name of subsidiary	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2008	2007
<b>Held by the Company</b>						
1. DBS Bank Ltd	Retail, corporate and investment banking services	Singapore	SGD	12,096	<b>100</b>	100
<b>Held by the Bank</b>						
2. DBS Asset Management Ltd	Investment management services	Singapore	SGD	64	<b>100</b>	100
3. DBS China Square Ltd	Property investment holding	Singapore	SGD	229	<b>70</b>	70
4. DBS Trustee Ltd	Trustee services	Singapore	SGD	3	<b>100</b>	100
5. DBS Vickers Securities Holdings Pte Ltd	Investment holding	Singapore	SGD	403	<b>100</b>	100
6. The Islamic Bank of Asia Limited	Provision of Shariah compliant Islamic Banking products and services	Singapore	USD	500	<b>50</b>	50
7. Salte Pte Ltd	Purchase and sale of assets, provision of asset financing and raising funds	Singapore	SGD	4	<b>100</b>	100
8. DBS Diamond Holdings Ltd	Investment holding	Bermuda	USD	3,461	<b>100</b>	100
9. DBS Capital Funding Corporation**	Capital funding	Cayman Islands	USD	#	<b>100</b>	100
10. DBS Capital Funding II Corporation**	Capital funding	Cayman Islands	USD	#	<b>100</b>	–
11. DBS Bank (China) Limited*	Retail, small and medium-sized enterprise and corporate banking services	China	CNY	4,000	<b>100</b>	100
12. DBS Asia Capital Limited*	Corporate finance and advisory services	Hong Kong	HKD	92	<b>100</b>	100
13. PT Bank DBS Indonesia*	Commercial banking and financial services	Indonesia	IDR	2,225,000	<b>99</b>	99
14. DBSAM Funds*	Collective investment scheme	Luxembourg	USD	10	<b>99.7</b>	99.7
15. DBS Insurance Agency (Taiwan) Limited*	Provision of insurance agency services	Republic of Taiwan	NTD	3	<b>100</b>	–
<b>Held by other subsidiaries</b>						
16. AXS Infocomm Pte Ltd <sup>(a)</sup>	Development and operation of multimedia transactional pay phone kiosks	Singapore	SGD	19	<b>86.2</b>	64.8
17. DBS Vickers Securities (Singapore) Pte Ltd	Securities and futures broker	Singapore	SGD	50	<b>100</b>	100
18. DBS Vickers Securities Online Holdings Pte Ltd	Investment holding	Singapore	SGD	35	<b>100</b>	100
19. DBS Vickers Research (Singapore) Pte Ltd	Market research consultants	Singapore	SGD	1	<b>100</b>	100
20. Vickers Ballas Asset Management Pte Ltd	Marketing, distributing and managing investment funds	Singapore	SGD	1	<b>100</b>	100
21. DBS Vickers Securities Nominees (Singapore) Pte Ltd	Nominee services	Singapore	SGD	#	<b>100</b>	100
22. DBS Asset Management (United States) Pte Ltd	Investment management services	Singapore	SGD	#	<b>100</b>	100
23. DBS Asset Management (Hong Kong) Ltd*	Investment management services	Hong Kong	HKD	13	<b>100</b>	100
24. DBS Bank (Hong Kong) Limited*	Retail, corporate and investment banking services	Hong Kong	HKD	5,200	<b>100</b>	100

# Notes to the Financial Statements

for the year ended 31 December 2008

Name of subsidiary	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2008	2007
25. DBS Corporate Services (Hong Kong) Limited*	Investment holding and corporate services	Hong Kong	HKD	1	100	100
26. DHB Limited*	Investment holding	Hong Kong	HKD	500	100	100
27. DBS Vickers (Hong Kong) Limited*	Securities and futures broker	Hong Kong	HKD	150	100	100
28. DBS Vickers Securities Nominees (Hong Kong) Limited*	Nominee services	Hong Kong	HKD	#	100	100
29. DBS Vickers Securities (Hong Kong) Limited*	Investment holding	Hong Kong	HKD	8	100	100
30. Vickers Ballas Investment Management Ltd*	Investment holding	Hong Kong	HKD	10	100	100
31. Kenson Asia Ltd*	Corporate services	Hong Kong	HKD	#	100	100
32. Kingly Management Ltd*	Corporate services	Hong Kong	HKD	#	100	100
33. Ting Hong Nominees Limited*	Nominee services	Hong Kong	HKD	#	100	100
34. Hang Lung Bank (Nominees) Limited*	Nominee services	Hong Kong	HKD	#	100	100
35. DBS Kwong On (Nominees) Limited*	Nominee services	Hong Kong	HKD	#	100	100
36. Overseas Trust Bank Nominees Limited*	Nominee services	Hong Kong	HKD	#	100	100
37. Worldson Services Ltd*	Corporate services	Hong Kong	HKD	#	100	100
38. PT DBS Vickers Securities (Indonesia)*	Securities broker	Indonesia	IDR	55,000	99	99
39. DBS Vickers Securities (Thailand) Co. Ltd*	Securities broker	Thailand	THB	690	100	100
40. DHJ Management Limited**	Corporate services	British Virgin Islands	USD	#	100	100
41. JT Administration Limited**	Corporate services	British Virgin Islands	USD	#	100	100
42. Market Success Limited**	Corporate services	British Virgin Islands	USD	#	100	100
43. Kendrick Services Limited**	Corporate directorship services	British Virgin Islands	USD	#	100	100
44. Lushington Investment Limited**	Corporate shareholding services	British Virgin Islands	USD	#	100	100
45. Quickway Limited**	Corporate directorship services	British Virgin Islands	USD	#	100	100
46. DBS Group (Hong Kong) Limited*	Investment holding	Bermuda	USD	356	100	100
47. DBS Vickers Securities (UK) Ltd*	Securities broker	United Kingdom	GBP	#	100	100
48. DBS Vickers Securities (USA), Inc***	Securities broker	United States	USD	3	100	100
49. DBS Trustee H.K. (Jersey) Limited*	Trustee services	Jersey	GBP	#	100	100
50. DBS Trustee H.K. (New Zealand) Limited**	Trustee services	New Zealand	NZD	#	100	–
51. DNZ Limited**	Nominee services	Samoa	USD	#	100	–
52. Asian Islamic Investment Management Sdn Bhd <sup>(b)*</sup>	Investment management services	Malaysia	RM	10	51	–

# Amount under \$500,000

\* Audited by PricewaterhouseCoopers LLP 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 26.4% (2007: 10.8%) held through the Bank. In addition, there is an indirect shareholding of 10.6% (2007: 9.5%) held through Network for Electronic Transfers (Singapore) Pte Ltd

(b) In addition to the effective shareholding of 51%, there is an indirect shareholding of 13.6% held through Hwang-DBS (Malaysia) Bhd



The significant joint ventures in the Group are listed below:

Name of joint venture	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2008	2007
<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. Cholamandalam DBS Finance Limited***	Consumer finance	India	INR	665	<b>37.5</b>	37.5
<b>Held by other subsidiaries</b>						
3. Hutchinson DBS Card Limited*	Provision of credit card services	British Virgin Islands	HKD	1	<b>50.0</b>	50.0

\* Audited by PricewaterhouseCoopers LLP firms outside Singapore

\*\*\* Audited by other auditors

The significant associates in the Group are listed below:

Name of associate	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2008	2007
<b>Quoted – Held by the Bank</b>						
1. Bank of the Philippine Islands***	Commercial banking and financial services	The Philippines	PHP	32,456	<b>20.3</b>	20.3
<b>Quoted – Held by other subsidiaries</b>						
2. Hwang – DBS (Malaysia) Bhd <sup>(a)</sup> *	Investment holding	Malaysia	RM	255	<b>27.7</b>	27.7
<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	3	<b>33.3</b>	33.3
5. Network for Electronic Transfers (Singapore) Pte Ltd	Electronic funds transfer	Singapore	SGD	7	<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. Raffles Fund 1 Limited**	Investment holding	Cayman Islands	USD	3	<b>29.0</b>	–
8. Investment and Capital Corporation of the Philippines***	Financial services	The Philippines	PHP	300	<b>20.0</b>	20.0

# Notes to the Financial Statements

for the year ended 31 December 2008

Name of associate	Principal activities	Country of incorporation	Share capital		Effective shareholding %	
			Currency	In millions	2008	2007
<b>Unquoted – Held by other 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 Consortium Investment Management Ltd	Investment management services	Singapore	SGD	1	<b>33.3</b>	33.3
12. Changsheng Fund Management Company***	Establishment and management of investment	China	RMB	100	<b>33.0</b>	33.0

# Amount under \$500,000

\* Audited by PricewaterhouseCoopers LLP 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 4.15% held through the Bank

(b) In addition to the effective shareholding of 49%, there is an indirect shareholding of 14.1% (2007: 14.1%) held through Hwang-DBS (Malaysia) Bhd. There is no control over indirect shareholding, thus consolidation was not applied

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

Name of entity	Purpose of special purpose entity	Country of incorporation
1. Zenesis SPC	Issuance of structured products	Cayman Islands
2. Constellation Investment Ltd	Issuance of structured notes	Cayman Islands

## 53 SUBSEQUENT EVENTS

**53.1** On 22 December 2008, the Group announced a rights issue to raise net proceeds of approximately \$4 billion at an issue price of \$5.42 for each rights share, on the basis of one rights share for every two ordinary shares held on 31 December 2008. On 30 January 2009, the Group allotted and issued 760,480,229 rights shares for valid acceptances received, and credited the share capital account with \$4 billion. Refer to Note 15 for the impact on Earnings Per Ordinary Share data.

**53.2** The Group's deferred tax liabilities have been computed on the corporate tax rate and tax laws prevailing at balance sheet date. On 22 January 2009, the Singapore Minister of Finance announced a reduction in corporate tax rate from 18% to 17% with effect from the year of assessment 2010. The Group's deferred tax expense for the current financial year have not taken into consideration the effect of the reduction in the corporate tax rate, which will be accounted for in the Group's deferred tax expense in the financial year ending 31 December 2009. If the new corporate tax rate of 17% is applied, the impact on the Group's deferred tax liabilities as of 31 December 2008 will not be material.

# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

DBS Group Holdings Ltd and its subsidiaries (the Group) have adopted Basel II as set out in the revised Monetary Authority of Singapore Notice to Banks No. 637 (Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore or MAS Notice 637) with effect from 1 January 2008.

The Group views Basel II as part of continuing efforts to strengthen its risk management culture and ensure that the Group pursues business growth across segments and markets with the right risk management discipline, practices and processes in place.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report, and does not form part of the audited accounts.

## 1 SCOPE OF APPLICATION

The Group applies the Basel II Internal Ratings-Based Approach (IRBA) for computing part of its regulatory capital requirements for credit risk. Approved wholesale portfolios are on the Foundation IRBA, while the approved retail portfolios are on the Advanced IRBA. DBS Bank (Hong Kong) Limited will adopt IRBA and Standardised Approach (SA) with effect from 1 January 2009. For 2008, the Hong Kong Monetary Authority prescribed Basic Approach was adopted for the credit exposures of DBS Bank (Hong Kong) Limited. Most of the remaining credit exposures are on the Standardised Approach. The Group also adopts the Standardised Approaches for operational and market risks.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, as discussed in Note 2.2 to the Financial Statements, except where deductions from eligible capital are required under MAS Notice 637 or where entities meet separation requirements set by the MAS. Refer to Note 52 to the Financial Statements for the list of consolidated entities.

Certain subsidiaries are subject to minimum capital requirements imposed by their respective regulatory agencies. During the course of the year, these subsidiaries did not experience any impediments in the distribution of dividends.

## 2 REGULATORY CAPITAL MANAGEMENT

### 2.1 Key capital management principles

The Group's 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 Group. 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.

### 2.2 Capital structure and adequacy

The following table sets forth details on the capital resources and capital adequacy ratios for the Group as of 31 December 2008. The capital adequacy ratios of the Group are not materially different from that of DBS Bank Group (DBS Bank Ltd and its subsidiaries). MAS Notice 637 sets out the current requirements relating to the minimum capital adequacy ratios for a bank incorporated in Singapore and the methodology for calculating these ratios. The Group's tier 1 and total capital adequacy ratios as of 31 December 2008 were 10.1% and 14.0% respectively, which are above the MAS minimum requirements of 6.0% and 10.0%.

The constituents of total eligible capital are set out in MAS Notice 637 Part VI. These include shareholders' funds after regulatory-related adjustments, minority interests, and eligible capital instruments issued by the Group. Refer to Notes 36 and 38 to the Financial Statements for the terms of these capital instruments.

In \$ millions	2008
Tier 1 Capital	
Share capital	4,215
Disclosed reserves	15,996
Paid-up non-cumulative preference shares	1,100
Minority interests	463
Innovative Tier 1 instruments	2,621
Less: Deductions from Tier 1 capital	
Goodwill and deferred tax assets	5,916
Other deductions (50%)	106
<b>Eligible Tier 1 capital</b>	<b>18,373</b>
Tier 2 capital subject to limits	7,254
Less: Deductions from Tier 2 capital	
Other deductions (50%)	106
<b>Total eligible capital</b>	<b>25,521</b>
<b>Risk-Weighted Assets (RWA)</b>	
Credit	144,088
Market	28,394
Operational	10,203
<b>Total RWA</b>	<b>182,685</b>
<b>Tier 1 Capital Adequacy Ratio (%)</b>	<b>10.1</b>
<b>Total Capital Adequacy Ratio (%)</b>	<b>14.0</b>

# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

In \$ millions	RWA 2008
<b>Credit risk:</b>	
Internal ratings-based approach (IRBA)	
Retail exposures	
Residential mortgage exposures	2,644
Other retail exposures	839
Wholesale exposures	
Sovereign exposures	2,619
Bank exposures	16,169
Corporate exposures	53,756
Corporate small business exposures	2,592
Specialised lending exposures	17,603
Equity exposures	4,596
Securitisation exposures	240
<b>Total IRBA RWA</b>	<b>101,058</b>
Adjusted IRBA RWA post scaling factor of 1.06	107,121
Standardised approach (SA)	
Residential mortgage exposures	559
Regulatory retail exposures	614
Corporate exposures	3,249
Private equity and venture capital (PE/VC) investment exposures	145
Other exposures	
Real estate, premises, equipment and other fixed assets	1,031
Exposures to individuals	3,414
Others	4,326
<b>Total SA RWA</b>	<b>13,338</b>
Basic approach	23,629
<b>Total RWA for credit risk</b>	<b>144,088</b>
<b>Market risk:</b>	
Standardised approach (SA)	
Interest rate risk	22,510
Equity position risk	185
Foreign exchange risk	5,699
Commodity risk	#
<b>Total RWA for market risk</b>	<b>28,394</b>
<b>Operational risk standardised approach</b>	<b>10,203</b>
<b>Total RWA</b>	<b>182,685</b>

# Amount under \$500,000

## 3 CREDIT RISK – GENERAL DISCLOSURES

### 3.1 Credit risk management

Credit risk is the risk of loss resulting from the failure of a borrowers or counterparties to meet their debt or contractual obligations. Credit exposure can arise from financial activities including lending, sales, trading, derivatives, payment transactions and securities settlements.

The Group Credit Risk Committee serves as an executive forum for discussion on credit trends and all aspects of credit risk management, including the identification, measurement, monitoring, mitigation and control processes.

The Group Credit Risk Committee sets and ensures adherence to the credit limits and policies at the country, sector and business levels. An enterprise-wide Core Credit Risk Policy sets forth the principles by which the Group conducts its credit risk management activities. The Policy ensures consistency in credit risk underwriting across the Group, and provides guidance in the formulation of business-specific credit policies.

Consumer credit risks are generally managed on a portfolio basis. Each account is assigned to a risk pool, taking into consideration factors such as borrower characteristics and collateral type. On the other hand, wholesale credit risks are analysed individually and approved by experienced credit officers who consider a number of factors related to the borrower's financial condition in the identification and assessment of credit risk. Validated credit risk rating tools are used in these assessments so that deteriorating exposures are systematically identified and appropriate remedial actions can be taken.

Credit control functions ensure that credit risks are being taken and maintained in compliance with group-wide credit policies and guidelines. These functions ensure proper activation of approved limits, appropriate endorsement of excesses and policy exceptions, and also monitor compliance with credit standards and/or credit covenants established by management and/or regulators.

An independent credit risk review team conducts regular reviews of credit exposures and judgmental credit risk management processes. It also conducts independent validation of internal credit risk rating processes on an annual basis. These reviews provide senior management with objective and timely assessments of the effectiveness of credit risk management practices and ensure group-wide policies, internal rating models and guidelines are being adopted consistently across different business units including relevant subsidiaries.

Stress testing of credit risk has assumed increasing importance in the discipline of credit risk management. DBS uses credit risk stress testing approaches to assess the vulnerability of the portfolio to "exceptional but plausible" adverse credit risk events.

### 3.2 Country risk

The principles and approach in the management of cross-border risk are set out in the Group's Country Risk Management Framework. The Framework includes an internal country (and sovereign) risk rating system where the assessments are made independent of business decisions. Benchmark country limits are set to alert the Group when exposures rise to levels that may imply concentration risk. Day-to-day operational country limits, called working limits, are also imposed to manage the shape and growth of the cross-border exposures as they build up. A rigorous scanning process is established, with the objective of adjusting country exposures according to risks perceived at the global, regional and country level. There are close consultations with the businesses and credit management in right sizing cross-border exposures to take into account not only risks and opportunities, but also the strategic intent of the Group.

### 3.3 Summary of credit exposures<sup>(a)</sup>

The following table summarises the Group's credit exposures:

In \$ millions	2008 Exposures
<b>Advanced IRBA</b>	
Retail exposures	
Residential mortgage exposures	21,554
Other retail exposures	3,045
<b>Foundation IRBA</b>	
Wholesale exposures	
Sovereign exposures	31,680
Bank exposures	62,680
Corporate exposures	78,459
Corporate small business exposures	3,341
Specialised lending exposures	16,875
<b>IRBA for equity exposures</b>	2,417
<b>IRBA for securitisation exposures</b>	1,246
<b>Total IRBA</b>	<b>221,297</b>
<b>SA</b>	
Residential mortgage exposures	1,591
Regulatory retail exposures	818
Corporate exposures	3,288
PE/VC investment exposures	72
Other exposures	
Real estate, premises, equipment and other fixed assets	1,031
Exposures to individuals	3,398
Other exposures	5,721
<b>Total SA</b>	<b>15,919</b>
<b>Total Basic Approach</b>	<b>34,312</b>
<b>Total</b>	<b>271,528</b>

(a) Above amounts represent exposures after credit risk mitigation and where applicable include on-balance sheet amounts and credit equivalent amounts of off-balance sheet items determined in accordance with MAS Notice 637

Refer to Notes 46.1 and 48 to the Financial Statements for analysis of maximum exposures to credit risk by geographic, industry and residual contractual maturity distribution.

## 4 CREDIT RISK ASSESSED USING INTERNAL RATINGS-BASED APPROACH

### 4.1 Scope of application

The Group adopts various rating systems for the different asset classes under IRBA. There is a robust governance process for the development and approval of a credit risk model. Credit risk models developed are validated by an independent risk unit in the Group to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by Group Credit Risk Committee and have to be approved by the Board Risk Management Committee before use.

To ensure the adequacy and robustness of these rating systems on a continual basis, the Group conducts monthly performance monitoring on these rating systems and reports the results to the Group Credit Risk Committee. This process will highlight any material deterioration in the credit systems for management attention. In addition, an independent risk unit conducts formal validation annually for each of the rating systems. The validation processes are also subject to an independent review by Group Audit.

The internal credit risk ratings produced by credit rating models are used to calculate the IRBA capital requirements. In addition, the ratings from the credit models are used as the basis to support the underwriting of credit, monitoring the performance of the portfolios and determining business strategies.

The Group applies the supervisory Loss Given Default (LGD) estimate provided by MAS for its Foundation IRBA portfolios. These supervisory LGD estimates are used in the computation of risk-weights and regulatory capital calculations for the portfolios. For its Advanced IRBA portfolios, the LGD is estimated based on internal models, and used in capital calculations and risk return assessments.

Exposure or Exposure-at-Default (EAD) is the sum of the on-balance sheet amount and/or credit equivalent of the off-balance sheet item multiplied by a credit conversion factor determined in accordance with MAS Notice 637.

### 4.2 Retail exposures

Retail portfolios are categorised into asset classes under the Advanced IRBA, namely Residential Mortgages and Other Retail Exposures, including vehicle loans extended to individuals.

Within each asset class, exposures are managed on a portfolio basis. Each account is assigned to a risk pool, taking into consideration factors such as borrower characteristics and collateral type. Loss estimates are based on historical default and realised losses within a defined period. The definition of

# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

default is applied at the level of a particular facility, rather than at the level of the obligor. Business-specific credit risk policies and procedures including underwriting criteria, scoring models, approving authorities, frequency of asset quality and business strategy reviews; as well as systems, processes and techniques to monitor portfolio performance against benchmarks are in place. Risk models are being used for secured loans to update risk level of each loan on a monthly basis, reflecting the broad usage of risk models in portfolio quality reviews in accordance with Basel II principles.

The following tables summarise the Group's retail credit exposures measured using IRBA as of 31 December 2008:

## (A) Residential mortgage exposures<sup>(c)</sup>

EL% range	Exposure-weighted	
	Exposures (In \$ millions)	average risk-weights <sup>(a)</sup> (%)
Up to 0.10%	15,984	4
> 0.10% to 0.50%	5,374	36
> 0.50%	196	68 <sup>(b)</sup>
Total	21,554	12 <sup>(b)</sup>

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures

(c) Includes undrawn commitments set out in table (C) below

## (B) Other retail exposures

EL% range	Exposure-weighted	
	Exposures (In \$ millions)	average risk-weights <sup>(a)</sup> (%)
Up to 0.30%	2,524	21
> 0.30%	521	61 <sup>(b)</sup>
Total	3,045	28 <sup>(b)</sup>

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures

## (C) Undrawn commitment for retail exposures

In \$ millions	Notional amount	Credit equivalent amount <sup>(a)</sup>
Residential mortgage exposures	2,390	1,943
Total	2,390	1,943

(a) Credit equivalent amount represents notional amounts multiplied by the applicable credit conversion factors

### 4.3 Wholesale exposures

Wholesale exposures comprised sovereign, bank, corporate, corporate small business, specialised lending and securitisation exposures. These exposures are assessed under the Foundation IRBA. The risk ratings for the wholesale exposures (other than securitisation exposures) have been mapped to likely

corresponding external rating equivalents. A description of the rating grades is provided in the following table to give a qualitative explanation of the risk benchmarks.

Sovereign exposures are risk rated using internal risk rating models and guidelines in line with IRBA portfolios. Country specific macro-economic risk factors, political risk factors, social risk factors and liquidity risk factors are reviewed objectively in the sovereign rating models to assess the sovereign credit risk in a disciplined and systematic approach.

Bank exposures are assessed using a bank rating model covering various credit risk factors such as capital levels and liquidity, asset quality, earnings, management and market sensitivity. The risk ratings derived are benchmarked against external credit risk ratings, ensuring the internal rating systems are well aligned and appropriately calibrated.

Individual corporate credit are assessed using approved credit models, and reviewed and analysed by experienced credit approvers taking into consideration the relevant credit risk factors. Large corporate credits are assessed using approved models as well as reviews by designated credit approvers. Credit factors considered in the risk assessment process include the obligor's financial standing and outlook, industry and economic conditions, market position, access to capital and management strength. The Counterparty Risk Rating assigned to smaller business borrowers is primarily based on the borrower's financial position and strength, which are assessed via the use of a validated quantitative tool. This is supplemented by expert judgement of qualitative factors such as management strength by credit officers.

Credit ratings under the IRBA portfolios are reviewed on an annual basis at a minimum unless credit conditions require more frequent assessment. The Counterparty Risk Rating process is reinforced by the Facility Risk Rating Systems which considers other exposure risk mitigants, such as collateral, third party guarantees and transfer risk.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place.

- Subjective default: Obligor is unlikely to pay its credit obligations in full, without recourse by the Group to actions such as realising security (if held).
- Technical default: Obligor is past due more than 90 days on any credit obligation to the Group.

This is consistent with the guidance provided under MAS Notice 637.

A description of the internal ratings used for the various portfolios is as follows:

<b>DBS Group PD Grade (ACRR)</b>	<b>Description of Rating Grade</b>	<b>Internal Classification</b>	<b>Likely Corresponding MAS Classification</b>	<b>Likely Corresponding S&amp;P Rating Equivalent</b>
PD Grade 1	Taking into account the impact of relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is exceptional	Exceptional	Passed	AAA
PD Grade 2	Taking into account the impact of the relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is excellent	Excellent	Passed	AA+, AA, AA-
PD Grade 3	More susceptible to adverse economic, social, geopolitical conditions and other circumstances. Capacity to meet its financial commitment is strong	Strong	Passed	A+, A, A-
PD Grade 4A/4B	Adequate protection against adverse economic, social or geopolitical conditions or changing circumstances. More likely to lead to a weakened capacity of the obligor to meet its financial commitment	Good	Passed	BBB+/BBB
PD Grade 5	Relatively worse off than an obligor rated "4B" but exhibits adequate protection parameters	Satisfactory	Passed	BBB-
PD Grade 6A/6B	Satisfactory capacity to meet its financial commitment but capacity may become inadequate due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Acceptable	Passed	BB+/BB
PD Grade 7A/B	Marginal capacity to meet its financial commitment but capacity may become inadequate or uncertain due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Marginal	Passed	BB-
PD Grade 8A	Sub-marginal capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Sub-Marginal	Passed	B+
PD Grade 8B/8C	Low capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Special Caution	Special Mention	B/B-
PD Grade 9	Vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment. Likely to have little capacity to meet its financial commitment under adverse conditions	Sub-Performing	Sub-Standard (Non-Defaulting)	CCC-C
PD Grade 10 and Above	An obligor rated "10" and above is in default (as defined under Basel II)	Default	Sub-Standard and Below (Defaulting)	D



# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

The following tables summarise the Group's wholesale credit exposures using IRBA as of 31 December 2008:

## (A) Sovereign exposures

PD grade	PD range (%)	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
PD grade 1-3	0.00 – 0.10	30,508	6
PD grade 4A/4B	0.10 – 0.33	145	35
PD grade 6A/6B	0.47 – 1.11	784	70
PD grade 7A-9	1.11 – 99.99	243	101
Total		31,680	8

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

## (B) Bank exposures

PD grade	PD range (%)	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
PD grade 1-3	0.03 <sup>(c)</sup> – 0.10	42,764	13
PD grade 4A/4B	0.10 – 0.33	10,635	41
PD grade 5	0.33 – 0.47	3,073	53
PD grade 6A/6B	0.47 – 1.11	4,691	66
PD grade 7A-9	1.11 – 99.99	1,469	111
PD grade 10	Default	48	NA
Total		62,680	26 <sup>(b)</sup>

NA Not Applicable

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures

(c) For bank exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

## (C) Corporate exposures

PD grade	PD range (%)	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
PD grade 1-3	0.03 <sup>(c)</sup> – 0.10	10,905	17
PD grade 4A/4B	0.10 – 0.33	8,058	44
PD grade 5	0.33 – 0.47	13,786	55
PD grade 6A/6B	0.47 – 1.11	23,135	72
PD grade 7A-9	1.11 – 99.99	21,618	112
PD grade 10	Default	957	NA
Total		78,459	69 <sup>(b)</sup>

NA Not Applicable

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures

(c) For corporate exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

## (D) Corporate small business<sup>(c)</sup> exposures

PD grade	PD range (%)	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
PD grade 4A/4B	0.10 – 0.33	35	48
PD grade 5	0.33 – 0.47	257	49
PD grade 6A/6B	0.47 – 1.11	1,837	67
PD grade 7A-9	1.11 – 99.99	1,130	108
PD grade 10	Default	82	NA
Total		3,341	80 <sup>(b)</sup>

NA Not Applicable

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures

(c) Corporate small business refers to corporations with reported annual sales of less than \$100 million as defined under MAS Notice 637

## 4.4 Specialised lending exposures

Specialised lending IRBA portfolios consisting of income-producing real estate finance, project finance, object finance, hotel finance and structured trade/commodities finance adopt the supervisory slotting criteria specified under Annex 7V of MAS Notice 637. The supervisory slotting criteria guidelines under the supervisory rating categories are used to determine the risk-weights to calculate the credit risk-weighted exposures.

The following table summarises the Group's specialised lending exposures as of 31 December 2008:

2008	RWA (In \$ millions)	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
Strong	1,872	3,136	60
Good	6,218	8,080	77
Satisfactory	3,712	3,229	115
Weak	5,801	2,375	244
Default	NA	55	NA
Total	17,603	16,875	105 <sup>(b)</sup>

NA Not Applicable

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes default exposures



#### 4.5 Securitisation exposures

The Group invests in securitised assets to meet various corporate objectives, including asset diversification and yield enhancement. Securitised assets are typically rated by external rating agencies, and the Ratings-Based Method (RBM) is used to calculate the risk-weights of the exposures. The Group only accepts ratings from Standard & Poor's, Moody's and Fitch for such exposures.

The Group's investments in securitised assets are accounted for using the principles of Financial Reporting Standards (FRS) 39. Refer to Note 2.7 to the Financial Statements for the Group's accounting policies on financial assets. The Group is not active in securitisation activities that are motivated by credit risk transfer or other strategic considerations.

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by risk-weights:

2008 In \$ millions	Exposures subject to		RWA	Deductions from Tier 1 capital and Tier 2 capital
	Rating-Based Method (RBM)	Exposures not subject to RBM		
<b>Risk-weights</b>				
0% - 12%	192	–	21	–
15% - 18%	455	–	69	–
20% - 50%	563	–	130	–
60% - 650%	20	–	20	–
Deducted	6	10	–	16
<b>Total</b>	<b>1,236</b>	<b>10</b>	<b>240</b>	<b>16</b>

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by exposure type:

2008 In \$ millions	Total exposures	Exposures subject to RBM	Deductions from Tier 1 capital and Tier 2 capital
ABS collateralised debt/loan obligations (CDO)	81	75	6
Non-ABS CDO, Mortgage-Backed Securities (MBS) and others	1,165	1,155	10
<b>Total</b>	<b>1,246</b>	<b>1,230</b>	<b>16</b>

There was no other divestment of securitised assets except for the redemption of notes by their respective issuers during the year.

#### 4.6 Provisioning policies for past due and impaired exposures

Refer to the Notes to the Financial Statements listed in the following table for the Group's provisioning policies in relation to past due and impaired exposures.

Notes to the Financial Statements	Financial disclosures
2.8	The Group's accounting policies on the assessment of specific and general allowances on financial assets
46.3	Classified loans and past due loans by geographic and industry distribution
13, 20, 21 and 33	Movements in specific and general allowances during the year for the Group

#### 4.7 Analysis of actual losses

The following table indicates the actual loss during the financial year ended 31 December 2008. Actual loss refers to impairment loss allowance and charge-off to the Group's income statement during the financial year ended 31 December 2008.

In \$ millions	2008 Actual loss
Retail exposures	
Residential mortgage and other retail exposures	(5)
Wholesale exposures	
Bank and sovereign exposures	40
Corporate and specialised lending exposures	131
<b>Total</b>	<b>166</b>

### 5 CREDIT RISK ASSESSED USING STANDARDISED APPROACH

#### 5.1 Scope of application

The Group applies the SA for portfolios which are individually immaterial in terms of both size and risk profile and for transitioning portfolios. These portfolios include:

- IRBA-transitioning retail exposures
- IRBA-exempt retail exposures
- IRBA-exempt wholesale exposures

The transitioning retail exposures, namely revolving clean line of credit and credit cards portfolios, are expected to transit to the Advanced IRBA over the next few years subject to certification by MAS. In the meantime, the SA has been applied.

# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

The portfolios under the SA are subject to the Group's overall governance framework and credit risk management practices. Under this framework, the Group continues to monitor the size and risk profile of these portfolios and will look to enhance the sophistication of risk measurement process should these risk exposures become material.

The Group uses external ratings for credit exposures under the SA, where relevant, and the Group only accepts ratings from Standard & Poor's, Moody's and Fitch in such cases. The Group follows the process prescribed in MAS Notice 637 to map the ratings to the relevant risk-weights.

For DBS Bank (Hong Kong) Limited, the Hong Kong Monetary Authority prescribed Basic Approach was adopted for its credit exposures for 2008. With effect from 1 January 2009, DBS Bank (Hong Kong) Limited will adopt IRBA and SA.

## 5.2 Exposures by risk-weights

The following table represents the exposures under SA (excluding PE/VC investment exposures disclosed in Note 10 to the Basel II Pillar 3 Disclosures), analysed by risk-weights:

In \$ millions	2008 Exposures
<b>Risk-weights</b>	
0%	1,364
20%	39
35%	1,587
50%	83
75%	817
100%	11,920
150%	37
<b>Total</b>	<b>15,847</b>

## 6 CREDIT RISK MITIGATION

Credit risk mitigation techniques are taken into account when analysing credit risk-weighted asset amount. Amounts are adjusted for eligible financial collateral or other eligible collaterals allowed under MAS Notice 637.

Recognised collaterals include both financial and physical assets. Financial collaterals consist of mainly cash deposits, debt securities and shares, while physical collaterals include lands and buildings, vehicles and equipments.

Eligible credit protection is also used to abate credit losses in the event that the exposure defaults. Refer to Note 46 to the Financial Statements for the policies and procedures on credit risk mitigation techniques. The Group adopts the comprehensive approach for credit risk mitigation and the impact on PD or LGD is based on the same guidelines for Foundation IRBA portfolios.

The following table summarises the extent to which credit exposures are covered by eligible financial collateral, other eligible collateral and eligible credit protection after the application of haircuts:

2008 In \$ millions	Eligible financial collateral	Other eligible collateral	Amount by which credit exposure have been reduced by eligible credit protection
<b>Foundation IRBA</b>			
Wholesale exposures			
Sovereign exposures	375	–	–
Bank exposures	774	–	63
Corporate exposures	2,555	3,326	2,040
Corporate small business exposures	78	1,313	11
<b>Sub-total</b>	<b>3,782</b>	<b>4,639</b>	<b>2,114</b>
<b>SA</b>			
Residential mortgage exposures	118	–	–
Regulatory retail exposures	9	–	–
Corporate exposures	1,756	–	11
<b>Sub-total</b>	<b>1,883</b>	<b>–</b>	<b>11</b>
<b>Total</b>	<b>5,665</b>	<b>4,639</b>	<b>2,125</b>

The above table excludes exposures where collateral has been taken into account directly in the risk-weights such as the specialised lending exposures and the residential mortgage exposures. It also excludes exposures where the collateral generally considered as eligible under Basel II may not meet the required legal/operational standards under Basel II in specific locations as in the case of legal enforcement uncertainty in specific jurisdictions. Certain exposures where the collateral is eligible under Foundation IRBA and not under SA have also been excluded under the SA section (for example, exposures collateralised by commercial properties).

## 7 COUNTERPARTY CREDIT RISK-RELATED EXPOSURES

### 7.1 Notional principal amounts of credit derivatives

In \$ millions	Notional of Credit Derivatives	
	Protection Bought	Protection Sold
Own Credit Portfolio	39,109	38,198
Client Intermediation Activities	18,145	18,387
<b>Total</b>	<b>57,254</b>	<b>56,585</b>
Credit default swaps	57,083	56,585
Total return swaps	171	–
<b>Total</b>	<b>57,254</b>	<b>56,585</b>

Notional values of credit derivatives do not accurately reflect their economic risks. They comprise both beneficiary and guarantor (buy and sell protection) positions.

The Group generally has a mismatch between the total notional amounts of protection bought and sold as these credit derivatives are used to hedge risks from other instruments, including those from customer flows. The protection sold in credit derivatives are largely matched with the protection bought after notional amounts are adjusted, either to a duration-based equivalent basis, or to reflect the level of subordination in tranching structures.

The Group actively monitors its counterparty credit risk in credit derivative contracts. More than 95% of the notional value of the Group's credit derivative positions as of 31 December 2008 is to 15 large, established names with which the Group maintains collateral agreements.

## 7.2 Counterparty risk management

Counterparty credit exposure is viewed similarly to loan exposures and included under the Group's overall lending limits to counterparties.

The Group actively monitors and manages its exposure to counterparties in over-the-counter derivative trades to protect its balance sheet in event of counterparty default. Counterparty risk exposures which may be materially and adversely affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees. The current exposure method is used for calculating the Group's net credit exposure and regulatory capital for counterparty exposures, using the mark-to-market exposures with an appropriate add-on factor for potential future exposures.

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. 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.

The Group may also enter into Credit Support Annexes with counterparties for credit risk reduction and increased competitiveness. These are governed by internal guidelines with respect to the eligibility of various collaterals and the frequency of collateral calls.

## 7.3 Credit equivalent amounts for counterparty exposures

In \$ millions	2008
Replacement cost	34,708
Potential future exposure	18,181
Gross credit equivalent amount	52,889
Comprising:	
Interest rates contracts	17,040
Credit derivative contracts	11,449
Equity contracts	473
Foreign exchange contracts and gold	23,926
Commodities contracts	1
Gross credit equivalent amount	52,889
Less: Effect of netting arrangement	13,451
Credit equivalent amount after netting	39,438
Less: Collateral amount	
Eligible financial collateral	861
Other eligible collateral	22
Net credit equivalent amount	38,555

Counterparty credit exposure is mitigated by exposure netting through ISDA agreements and recognition of eligible collateral, effects of which have been included in regulatory capital calculations where appropriate.

## 8 MARKET RISK

### 8.1 Trading market risk management

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 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 Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including limit setting and independent model validation, monitoring and valuation.

The Board establishes the Group's risk appetite for trading market risk. The CEO delegates responsibility to the Group Market Risk Committee to allocate risk appetite limits to risk-taking units. The Committee also oversees the Group's market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

The independent market risk management function comprising risk control, model analytics, risk architecture and policy reports to the Chief Risk Officer and is responsible for day-to-day risk monitoring and analysis.

# Basel II Pillar 3 Disclosures

Year ended 31 December 2008

The principal market risk appetite measures for trading market risk are Value-at-Risk (VaR) and stress loss. The VaR is supplemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as stop-loss limits.

The Group's general market risk 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 Group's trading market risk. VaR risk factor scenarios are generally aligned to parameters and market data used for valuation. These are maintained in the risk system and are used to compute VaR daily for each trading business unit and location, and at 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. Quantitative data regarding the Group's VaR may be found in Note 47.1 to the Financial Statements.

Although VaR provides valuable insights, no single measure can capture all aspects of trading market risk. Therefore, regular stress testing is carried out to monitor the Group's vulnerability to shocks.

## 8.2 Non-trading market risk management

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 Group's management of funds arising from banking intermediation and (b) the 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 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 strategic investments in associates and other major stakes.

To optimise its income and balance sheet management, the Group deploys funds in debt securities, equities and funds or in the interbank market. Derivatives may be used to hedge non-trading market risk. Senior Management establishes a framework governing the Group's investment of its surplus funds. The market risk arising in the course of managing these funds comprises interest rate and equity price risks. Risk appetite limits are allocated and risk oversight for these risks is performed in a manner similar to that for traded market risk.

### (A) Interest rate risk in banking book

The Group distinguishes two major sources of non-trading interest rate risk arising from (a) the deployment of funds in investments (and associated hedges) and interbank market activities and (b) from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) in major funding currencies. The Group Market Risk Committee is charged with oversight of non-trading interest rate risk from an economic value perspective. Major funding currencies are SGD in Singapore and HKD and USD in Hong

Kong. The principal market risk appetite measure for the former source of non-trading interest rate risk is value-at-risk, complemented by more granular risk and loss limits, in a similar manner as for trading market risk, as described above and subject to similar methodological limitations.

Interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges) 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 limits established by the Board. The Group Asset-Liability Committee is charged with oversight and broad strategy for this risk. To monitor this risk, the Group uses various tools, including re-pricing gap reports, sensitivity analysis and income scenario simulations. The Group manages and monitors its interest rate sensitivity to these mismatches by various currencies.

Refer to Note 47.2 to the Financial Statements for the interest rate sensitivity analysis of the Group's interest rate risk in the banking book. Outcomes may differ from the sensitivity impact as the 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.

### (B) Foreign 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 are reviewed by senior management and may be managed with alternative strategies or left unhedged. This foreign exchange risk is subject to limits established by the Board and is monitored using foreign exchange net open position reports.

## 8.3 Capital treatment for market risk

As at 31 December 2008, the Group used the Standardised Approach to calculate market risk capital requirements under MAS Notice 637.

The following table summarises the capital amounts by risk types:

In \$ millions	2008
Interest rate risk <sup>(a)</sup>	1,801
Equity risk <sup>(b)</sup>	15
Foreign exchange risk <sup>(c)</sup>	456
Commodity risk	#
<b>Total</b>	<b>2,272</b>

# Amount under \$500,000

(a) Includes market risk capital on credit derivative transactions

(b) Comprises general and specific risks

(c) Includes positions arising from investments denominated in foreign currencies

## 9 OPERATIONAL RISK

### 9.1 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including legal risk, but does not include strategic or reputation risk. An Operational Risk Management Framework, approved by the Board Risk Management Committee, has been developed with the objective to ensure that operational risks within the 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, risk event management, key risk indicator monitoring and process risk mapping. Risk events, including any significant incidents that may impact the 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 risk 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 and outsourcing 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 Group, including any residual risks.

The Group Operational Risk Committee oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Group Operational Risk Committee also performs regular review of the operational risk profiles of the Group, and endorses and recommends corporate operational risk policies to be approved by senior management.

### 9.2 Capital treatment for operational risk

The Standardised Approach has been adopted to calculate operational risk equivalent amounts as of 31 December 2008.

## 10 EQUITY EXPOSURES IN BANKING BOOK

### 10.1 Scope of application

The Group's banking book equity investments consists of:

- Investments held for yield and/or long-term capital gains;
- Strategic stakes in entities held as part of growth initiatives and/or in support of business operations.

The Group's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as either Available for Sale investments or Investments in associates. Refer to Notes 2.2 and 2.7 to the Financial Statements for the Group's accounting policies. Entities in which the Group holds significant interests are disclosed in Note 52 to the Financial Statements.

### 10.2 Capital treatment

The Group has adopted the IRBA simple risk-weight method to calculate regulatory capital for equity exposures in its banking book, except for private equity and venture capital (PE/VC) investments which are subject to supervisory risk-weights and capital deductions as set out in MAS Notice 637.

## Basel II Pillar 3 Disclosures

Year ended 31 December 2008

The following table summarises the Group's exposures to equity, in the banking book, including investments in Tier 1 capital instrument of financial institutions:

2008 In \$ millions	Fair value	Amounts disclosed in the balance sheet	Exposures subject to risk- weighting	Risk- weights (%)	Deductions in Tier 1 or Tier 2 Capital
Simple risk-weight method					
Equities listed on MAS recognised exchanges	371	424	478	150	23
Equities not listed on MAS recognised exchanges	2,177	1,795	1,939	200	56
Sub-total	2,548	2,219	2,417	–	79
Supervisory risk-weight method					
PE/VC	72	72	72	200	#
Total	2,620	2,291	2,489	–	79

# Amount under \$500,000

Equity exposures under simple risk-weight method are further analysed by equity groupings as follows:

2008	Exposures (In \$ millions)	Exposure-weighted average risk-weights <sup>(a)</sup> (%)
Major stake companies approved under section 32 of the Banking Act	524	194
Capital investments in financial institutions incorporated in Singapore, approved, licensed, registered or otherwise regulated by the Authority ≤ 2% of Eligible Total Capital	37	150
Other equity exposures	1,856	189
Total	2,417	190

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

Realised gains arising from sales and liquidations of equity exposures:

In \$ millions	Realised gains
2008	271

Total unrealised gains for equity that have not been reflected in the Group's income statement, but have been included in Tier 2 Capital, amounted to \$27 million.

# Income Statement

for the year ended 31 December 2008

In \$ millions	Note	2008	2007
<b>Income</b>			
Interest income		<b>6,077</b>	6,581
Interest expense		<b>3,078</b>	3,800
Net interest income		<b>2,999</b>	2,781
Net fee and commission income		<b>837</b>	806
Net trading income		<b>112</b>	365
Net (loss)/income from financial instruments designated at fair value		<b>(133)</b>	15
Net income from financial investments	2	<b>431</b>	578
Other income		<b>10</b>	4
Total income		<b>4,256</b>	4,549
<b>Expenses</b>			
Employee benefits		<b>782</b>	873
Depreciation of properties and other fixed assets		<b>82</b>	72
Other expenses		<b>760</b>	737
Allowances for credit and other losses		<b>338</b>	816
Total expenses		<b>1,962</b>	2,498
<b>Profit before tax</b>		<b>2,294</b>	2,051
Income tax expense		<b>356</b>	428
<b>Net profit for the year</b>		<b>1,938</b>	1,623

(see notes on pages 137 to 139, which form part of these financial statements)

# Balance Sheet

at 31 December 2008

In \$ millions	Note	2008	2007
<b>Assets</b>			
Cash and balances with central banks		<b>14,684</b>	17,680
Singapore Government securities and treasury bills		<b>14,797</b>	15,433
Due from banks		<b>17,512</b>	16,833
Financial assets at fair value through profit or loss		<b>8,714</b>	17,389
Positive replacement values for financial derivatives		<b>33,049</b>	13,714
Loans and advances to customers		<b>92,536</b>	76,165
Financial investments		<b>16,538</b>	13,421
Securities pledged		<b>448</b>	2,093
Subsidiaries	3	<b>12,685</b>	12,059
Due from special purpose entities	4	–	1,116
Investments in joint ventures		<b>91</b>	107
Investments in associates		<b>877</b>	557
Properties and other fixed assets		<b>534</b>	462
Deferred tax assets		<b>128</b>	–
Other assets		<b>4,832</b>	3,070
<b>Total assets</b>		<b>217,425</b>	190,099
<b>Liabilities</b>			
Due to banks		<b>8,013</b>	14,034
Due to non-bank customers		<b>123,885</b>	106,501
Financial liabilities at fair value through profit or loss		<b>9,569</b>	14,144
Negative replacement values for financial derivatives		<b>32,746</b>	13,689
Bills payable		<b>681</b>	340
Current tax liabilities		<b>712</b>	740
Deferred tax liabilities		–	117
Other liabilities		<b>3,685</b>	3,355
Other debt securities in issue		<b>28</b>	738
Due to holding company		<b>17</b>	21
Due to subsidiaries	5	<b>9,009</b>	6,078
Due to special purpose entities		<b>195</b>	994
Subordinated term debts		<b>9,085</b>	8,954
<b>Total liabilities</b>		<b>197,625</b>	169,705
<b>Net assets</b>		<b>19,800</b>	20,394
<b>Equity</b>			
Share capital	6	<b>12,096</b>	12,096
Other reserves	7	<b>2,105</b>	3,314
Revenue reserves	7	<b>5,599</b>	4,984
<b>Shareholders' funds</b>		<b>19,800</b>	20,394
<b>Total equity</b>		<b>19,800</b>	20,394
<b>Off-balance sheet items</b>			
Contingent liabilities and commitments		<b>71,260</b>	88,718
Financial derivatives		<b>1,716,365</b>	1,847,378

(see notes on pages 137 to 139, which form part of these financial statements)



# Notes to the Supplementary Financial Statements

for the year ended 31 December 2008

The supplementary financial statements of DBS Bank Ltd (the Bank) are extracted from the Audited Statutory Financial Statements of DBS Bank Ltd and its subsidiaries (the Bank Group) for the financial year ended 31 December 2008. The statutory financial statements of the Bank and the Bank Group which contained an unqualified audit report, will be delivered to the Accounting & Corporate Regulatory Authority in accordance with the Singapore Companies Act.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Bank and the Bank Group are consistent with those applied by the Group as disclosed in Note 2 of the "Notes to the Financial Statements" (Notes) in the Group's Consolidated Financial Statements.

## 2 NET INCOME FROM FINANCIAL INVESTMENTS

Net income from financial investments includes the following:

In \$ millions	2008	2007
Dividends from subsidiaries	70	45
Dividends from joint ventures/associates	56	62
Total	126	107

## 3 SUBSIDIARIES

In \$ millions	2008	2007
Unquoted equity shares <sup>(a)</sup>	10,488	11,004
Less: impairment allowances	768	768
Sub-total	9,720	10,236
Due from subsidiaries	2,965	1,823
Total	12,685	12,059

Movements in impairment allowances during the year are as follows:

In \$ millions	2008	2007
Balance at 1 January	768	821
Write-back to income statement	–	(53)
Total	768	768

(a) The carrying amounts of certain investments which are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risks

## 4 DUE FROM SPECIAL PURPOSE ENTITIES

In \$ millions	2008	2007
Due from special purpose entities <sup>(a)</sup>	–	1,392
Less: impairment allowances	–	276
Total	–	1,116

(a) 2007 includes \$1,378 million due from Red Orchid Secured Assets Limited (Rosa)

Movements in impairment allowances during the year are as follows:

In \$ millions	2008	2007
Balance at 1 January	276	–
Charge to income statement <sup>(a)</sup>	6	276
Write-off	(282)	–
Balance at 31 December	–	276

(a) Includes impairment allowances on a loan to Rosa

## 5 DUE TO SUBSIDIARIES

In \$ millions	2008	2007
Subordinated term debts issued to DBS Capital Funding Corporation (Note 5.1)	1,183	1,188
Subordinated term debts issued to DBS Capital Funding Corporation II (Note 5.2)	1,500	–
Due to subsidiaries	6,326	4,890
Total	9,009	6,078

5.1 The subordinated term debts were issued by the Bank to DBS Capital Funding Corporation, both wholly-owned subsidiaries of the Group, 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 \$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).

5.2 The \$1,500 million 5.75% subordinated note was issued on 27 May 2008 by the Bank to DBS Capital Funding II Corporation, both wholly-owned subsidiaries of the Group. Interest is payable in arrears on 15 June and 15 December each year at a fixed rate of 5.75% per annum up to 15 June 2018. 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 Singapore Swap Offer Rate + 3.415% per annum.

# Notes to the Supplementary Financial Statements

for the year ended 31 December 2008

## 6 SHARE CAPITAL

Issued and fully paid up	2008	2007
1,962,302,697 (2007: 1,962,302,697) ordinary shares	1,962	1,962
11,000,000 (2007: 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

## 7 OTHER RESERVES AND REVENUE RESERVES

### 7.1 Other reserves

In \$ millions	2008	2007
Available-for-sale revaluation reserves	(255)	929
General reserves	2,360	2,360
Share plan reserves	–	25
Total	2,105	3,314

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

In \$ millions	Available-for-sale revaluation reserves	General reserves <sup>(a)</sup>	Share plan reserves	Total
Balance at 1 January 2008	929	2,360	25	3,314
Transfer of share plan reserves to holding company	–	–	(25)	(25)
Available-for-sale:				
– net valuation taken to equity	(1,130)	–	–	(1,130)
– transferred to income statement due to impairment	16	–	–	16
– transferred to income statement on sale	(312)	–	–	(312)
– tax on items taken directly to or transferred from equity	242	–	–	242
Balance at 31 December 2008	(255)	2,360	–	2,105
Balance at 1 January 2007	482	2,330	35	2,847
Appropriation from prior year's net profit	–	30	–	30
Cost of share-based payments	–	–	30	30
Draw-down of reserves upon vesting of performance shares	–	–	(40)	(40)
Available-for-sale/cash flow hedge:				
– 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

(a) 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.

**7.2 Revenue reserves**

<b>In \$ millions</b>	<b>2008</b>	<b>2007</b>
Balance at 1 January	<b>4,984</b>	4,263
Net profit attributable to shareholders	<b>1,938</b>	1,623
Transfer to general reserves <sup>(a)</sup>	–	(30)
Amount available for distribution	<b>6,922</b>	5,856
Less: \$0.16 (2007: \$0.03) tax exempt ordinary final dividends	<b>304</b>	65
\$0.49 (2007: \$0.38) tax exempt ordinary interim dividends	<b>953</b>	753
6% tax exempt preference dividends (2007: net of 18% tax)	<b>66</b>	54
Balance at 31 December	<b>5,599</b>	4,984

*(a) Includes appropriation from prior year's net profit*

# Directors' Report

The Directors are pleased to submit their report to the Members together with the audited consolidated financial statements of DBS Group Holdings Ltd (the Company) and its subsidiaries (the Group) and the balance sheet of the Company for the financial year ended 31 December 2008, 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
Richard Daniel Stanley	–	Chief Executive Officer (Appointed 1 May 2008)
Ang Kong Hua		
Andrew Robert Fowell Buxton		
Bart Joseph Broadman	–	(Appointed 17 December 2008)
Christopher Cheng Wai Chee		
Euleen Goh Yiu Kiang	–	(Appointed 1 December 2008)
Kwa Chong Seng		
John Alan Ross		
Wong Ngit Liong		

Messrs Koh Boon Hwee and Christopher Cheng Wai Chee will retire at the forthcoming annual general meeting. Messrs Koh Boon Hwee and Christopher Cheng Wai Chee will offer themselves for re-election.

Messrs Richard Daniel Stanley, Euleen Goh Yiu Kiang and Bart Joseph Broadman will retire in accordance with article 101 of the Company's Articles of Association, and will offer themselves for re-election.

Mr Andrew Robert Fowell Buxton will be turning 70 years of age on April 5, 2009, he is required to retire pursuant to Section 153(2) of the Companies Act, Chapter 50 but is eligible to stand for re-election, 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 Company 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 Company or any other body corporate save as disclosed in this report.

## DIRECTORS' INTEREST IN SHARES OR 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 Company 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 2008	As at 31 Dec 2007 (or date of appointment if later)	As at 31 Dec 2008	As at 31 Dec 2007 (or date of appointment if later)
<b>DBS Group Holdings Ltd (DBSH) ordinary shares</b>				
Koh Boon Hwee	27,870	–	–	–
Richard Daniel Stanley (appointed on 1 May 2008)	240,789	240,789	–	–
Ang Kong Hua	–	–	–	–
Andrew Robert Fowell Buxton	6,000	6,000	–	–
Bart Joseph Broadman (appointed on 17 December 2008)	–	–	–	–
Christopher Cheng Wai Chee	–	–	–	–
Euleen Goh Yiu Kiang (appointed on 1 December 2008)	2,790	2,790	–	–
Kwa Chong Seng	42,129	42,129	100,000	100,000
John Alan Ross	20,000	20,000	–	–
Wong Ngit Liong	–	–	–	–

	Holdings in which Directors have a direct interest		Holdings in which Directors are deemed to have an interest	
	As at 31 Dec 2008	As at 31 Dec 2007 (or date of appointment if later)	As at 31 Dec 2008	As at 31 Dec 2007 (or date of appointment if later)
<b>DBS Bank 6% non-cumulative non-convertible perpetual preference shares</b>				
Wong Ngit Liong	6,000	6,000	–	–
Euleen Goh Yiu Kiang	500	500	–	–
<b>DBS Capital Funding II Corporation 5.75% non-cumulative non-convertible non-voting guaranteed preference shares</b>				
Kwa Chong Seng	2	–	–	–

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2009.

#### DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director has received or 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 Company and of the Group.

#### DBSH SHARE OPTION PLAN

Particulars of the share options granted under the 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 since 2006.

The movements of the unissued ordinary shares of the Company 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 2008	Exercised	Forfeited	31 December 2008		
July 1999	765,469	97,800	3,425	664,244	\$15.30	27 July 2009
March 2000	945,000	–	46,000	899,000	\$20.87	5 March 2010
July 2000	796,000	–	34,000	762,000	\$22.33	26 July 2010
March 2001	3,665,150	540,900	75,300	3,048,950	\$17.70	14 March 2011
August 2001	262,400	112,000	–	150,400	\$12.93	31 July 2011
March 2002	3,155,680	529,000	–	2,626,680	\$14.73	27 March 2012
August 2002	245,000	107,100	–	137,900	\$12.27	15 August 2012
December 2002	10,000	–	–	10,000	\$11.47	17 December 2012
February 2003	2,943,450	635,350	3,000	2,305,100	\$10.40	23 February 2013
March 2004	3,247,792	700,705	13,080	2,534,007	\$14.73	2 March 2014
March 2005	1,740,732	450,741	55,080	1,234,911	\$15.07	1 March 2015
	17,776,673	3,173,596	229,885	14,373,192		

Other than the DBSH Options granted under the Option Plan as disclosed herein, there were no further options granted by the Company during 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.

# Directors' Report

## DBSH SHARE PLAN

During the financial year, time-based awards in respect of an aggregate of 2,464,268 ordinary shares were granted pursuant to the DBSH Share Plan, to selected employees of the DBSH Group. This included 267,380 ordinary shares comprised in awards granted to directors Mr Koh Boon Hwee and Mr Richard D. Stanley. The number of ordinary shares comprised in the awards granted represents a 100% payout.

Information on the DBSH Share Plan is as follows:

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

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 Share Plan at the absolute discretion of the Compensation and Management Development Committee.
- (iii) The DBSH Share Plan shall continue to be in force at the discretion of the Compensation and Management Development Committee, 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 DBSH.
- (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 the Company 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 auditor of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

## AUDIT COMMITTEE

The Audit Committee comprised non-executive directors Mr Ang Kong Hua (Chairman), Mr Christopher Cheng, Mr Wong Ngit Liong and Ms Euleen Goh Yiu Kiang. As part of its functions, it assists the Board in discharging its responsibilities for the Group's financial announcements, internal control issues and regulatory compliance as well as to oversee the objectivity and effectiveness of the internal and external auditors.

In its review of the audited financial statements for the financial year ended 31 December 2008, the Audit Committee has discussed with management and the external auditor the accounting principles that were applied and their judgement on the items that might affect the financials. Based on the review and discussions with management and the external auditor, the Audit Committee is of the view that the financial statements are fairly presented in conformity with generally accepted accounting principles in all material aspects.

The Audit Committee has received the requisite information from PricewaterhouseCoopers LLP (PwC) and has considered the financial, business and professional relationship between PwC and the Group. It is of the view that such relationship is compatible with maintaining PwC's independence.

The Audit Committee recommends to the Board of Directors the re-appointment of PwC as independent external auditor at the forthcoming Annual General Meeting of the Company on 8 April 2009.

**INDEPENDENT AUDITOR**

PricewaterhouseCoopers LLP has expressed its willingness to accept re-appointment as independent external auditor.

On behalf of the Directors

**Koh Boon Hwee****Ang Kong Hua**

12 February 2009  
Singapore

# Statement by the Directors

We, Koh Boon Hwee and Ang Kong Hua, being two of the Directors of DBS Group Holdings Ltd (the Company), state that, in the opinion of the Directors, the consolidated financial statements of the Group, consisting of the Company and its subsidiaries and the balance sheet of the Company, together with the notes thereon, as set out on pages 50 to 122, are drawn up so as to give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008, and the results, changes in equity and cash flows of the Group for the financial year ended on that date and there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they fall due.

On behalf of the Directors

**Koh Boon Hwee**

**Ang Kong Hua**

12 February 2009  
Singapore



# Independent Auditor's Report

## TO THE MEMBERS OF DBS GROUP HOLDINGS LTD (INCORPORATED IN SINGAPORE)

We have audited the accompanying financial statements of DBS Group Holdings Ltd (the Company) and its subsidiaries (the Group) set out on pages 50 to 122, which comprise the balance sheets of the Company and of the Group as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act (Cap. 50) (the Act) and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

### Auditor's 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 as to whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion,

- (a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore, so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

### Other Matters

The consolidated financial statements for the year ended 31 December 2007 were reported on by auditors other than PricewaterhouseCoopers LLP. The auditor's report dated 14 February 2008 issued by the predecessor auditors on the consolidated financial statements for the financial year ended 31 December 2007 was unqualified.

### PricewaterhouseCoopers LLP

Public Accountants and Certified Public Accountants

12 February 2009

# Share Price



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Share Price (\$) <sup>(1)</sup></b>										
High	23.97	23.21	18.02	12.67	13.18	14.28	14.28	19.21	21.17	17.55
Low	6.23	14.62	8.08	9.10	7.06	11.39	11.82	13.43	16.07	7.68
Close	23.21	16.66	11.73	9.35	12.50	13.69	14.03	19.21	17.60	8.42
Average	13.10	17.97	12.32	11.02	9.82	12.87	13.09	15.50	18.60	14.23
<b>Per Ordinary Share (\$)</b>										
Gross dividend yield <sup>(2)</sup>	1.7	2.1	2.1	2.3	2.6	2.6	3.8	4.2	3.7	4.6
Price-to-earnings ratio (number of times) <sup>(3)</sup>	19.2	18.7	20.4	15.0	11.5	11.7	14.0	12.7	13.4	12.5
Price-to-book ratio (number of times)	1.8	2.6	1.6	1.4	1.2	1.4	1.5	1.6	1.8	1.4

(1) Figures have been adjusted for a bonus issue in 1999 and a rights issue in 2008 (exercised in January 2009)

(2) Dividend amounts are on gross basis prior to Fourth Quarter 2007 and on one-tier tax-exempt basis thereafter. 2000 and 2006 include special dividends of 13 cents and 4 cents respectively

(3) Earnings exclude one-time items and goodwill charges

## Further Information on Directors

### MR KOH BOON HWEE

Academic and Professional Qualifications:

- Bachelor of Science in Mechanical Engineering (1st Class Hons) Imperial College, University of London
- Master in Business Administration (Distinction) Harvard Business School

#### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Chairman
2. DBS Bank Ltd	Chairman
3. MediaRing Ltd	Executive Director
4. Sunningdale Tech Ltd	Chairman & Director
5. Agilent Technologies, Inc.	Director
6. AAC Acoustic Technologies Holdings Ltd	Chairman
7. Infiniti Solutions Ltd	Chairman
8. Temasek Holdings (Pte) Ltd	Director
9. First Spring Ltd	Director
10. 800buy.com	Chairman
11. Harvard Singapore Foundation	Director
12. Lee Kuan Yew School of Public Policy	Member
13. Nanyang Technological University Board of Trustees	Chairman
14. Research, Innovation & Enterprise Council	Member
15. EDB International Advisory Council	Deputy Chairman
16. The William and Flora Hewlett Foundation	Director
17. Yeo Hiap Seng Limited	Director
18. Yeo Hiap Seng (Malaysia) Berhad	Director

#### Directorships for the past 3 years

Company	Title
1. Nanyang Technological University Council	Chairman
2. Singapore Business Federation	Council Member
3. Pacific Internet Ltd	Director
4. Four Soft Ltd	Director
5. Geoscope Information Systems India Private Limited	Director
6. Wuthelam Holdings Ltd	Chairman

### MR RICHARD DANIEL STANLEY

Academic and Professional Qualifications:

- Master of Business Administration, Finance Columbia University, New York
- Bachelor of Arts, Economics State University of New York, Stony Brook

#### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Chief Executive Officer
2. DBS Bank Ltd	Chief Executive Officer
3. Dr Goh Keng Swee Scholarship Fund	Director
4. The Association of Banks in Singapore	Council Member
5. The Institute of Banking and Finance	Council Member
6. Hutchison DBS Card Limited	Director
7. The Islamic Bank of Asia Limited	Vice Chairman
8. Columbia Business School – Board of Overseers	Member
9. Seoul International Business Advisory Council	Member

#### Directorships for the past 3 years

Company	Title
1. Shanghai Pudong Development Bank	Director
2. Guangdong Development Bank	Director
3. Citibank (China) Company Ltd	Director
4. Citicorp Software & Technology (Shanghai) Ltd	Director
5. Citicorp Data Processing Services Ltd	Director
6. Citigroup Management Consulting Ltd	Director

### MR ANG KONG HUA

Academic and Professional Qualifications:

- Bachelor of Science in Economics (2nd Class Upper Hons) University of Hull

#### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. Bangkok Synthetics Co. Ltd	Director
4. GIC Special Investments Private Limited	Director
5. Government of Singapore Investment Corporation Private Limited	Director
6. Lieng Chung Corporation (Kowloon) Ltd	Director
7. NSL Ltd	Executive Director
8. Yantai Raffles Shipyard Limited	Director
9. Foamtec International Co Ltd	Director

## Further Information on Directors

### Directorships for the past 3 years

Company	Title
1. k1 Ventures Limited	Director
2. Neptune Orient Lines Ltd	Vice Chairman
3. ERC Holdings Pte. Ltd	Director

### MR BART JOSEPH BROADMAN

Academic and Professional Qualifications:

- Bachelor of Science in Agricultural and Management University of California at Davis
- MBA in Financial Economics University of Southern California, Graduate School of Business
- Ph.D in Financial Economics University of Southern California, Graduate School of Business

### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. Alphadyne Asset Management Pte Ltd	Director
4. Alphadyne Asset Management (Hong Kong) Limited	Director
5. Alphadyne Asset Management LLC	Managing Member
6. Alphadyne Capital, LLC	Managing Member
7. Central Provident Fund Board	Director
8. Singapore American School	Director
9. JCK Mirai, LLC	Director
10. SAS Foundation Limited	Committee Member

### Directorships for the past 3 years

Company	Title
1. Nil	

### MR ANDREW ROBERT FOWELL BUXTON

Academic and Professional Qualifications:

- Honorary Doctorate of Science City University, London
- Master of Arts, Politics, Philosophy, Economics Oxford University (Pembroke College)
- Fellow, Institute of Bankers

### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. Pigeon Properties Ltd	Chairman
4. Saad Investments Company Limited	Director
5. Cibitas Limited	Director

6. National Education Business Partnership Network	Patron
7. MerchantBridge & Co. Ltd.	Chairman of the Advisory Board
8. The Islamic Bank of Asia Limited	Director
9. Xtec Communications Ltd	Advisor

### Directorships for the past 3 years

Company	Title
1. CapitaLand Limited	Director
2. CapitaLand Financial Limited	Director
3. Xansa PLC	Deputy Chairman
4. Cygnet Properties and Leisure Plc	Chairman
5. Akbank, Istanbul, Turkey	Adviser
6. Allied Schools Limited	Chairman

### MR CHRISTOPHER CHENG WAI CHEE

Academic and Professional Qualifications:

- Bachelor of Business Administration University of Notre Dame
- Master of Business Administration Columbia University

### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. DBS Bank (Hong Kong) Ltd	Director
4. DBS Bank (China) Limited	Director
5. Asian Tower Co. Ltd	Director
6. Bestime Resources Ltd	Director
7. Bestmark Co. Ltd	Director
8. Bettercourt Co. Ltd	Director
9. Bolden Place Co. Ltd	Director
10. Bostar Ltd	Director
11. Brightech Co. Ltd	Director
12. Brightfield Development Co. Ltd	Director
13. Bryden Co. Ltd	Director
14. Brystone Co. Ltd	Director
15. China Economic Research Foundation Ltd	Director
16. Clothing Enterprises Ltd	Director
17. Continental Success Co. Ltd	Director
18. Conwood Co. Ltd	Director
19. Corriland Co. Ltd	Director
20. CPY Development (HK) Ltd	Director
21. Deakin Investment Co. Ltd	Director
22. Diamond String Ltd	Director
23. Eagle Asset Management (CP) Ltd	Director
24. Eastern Hall Co. Ltd	Director
25. Fortune Centre Co. Ltd	Director
26. Ginsberg Co. Ltd	Director
27. Global Fair Development Ltd	Director

28. Glory Charm Development Ltd	Director	79. Wing Fu Garment Factory Ltd	Director
29. Glory Success Co. Ltd	Director	80. Wing Tai Building Products Ltd	Director
30. Golden Centre Development (HK) Ltd	Director	81. Wing Tai (Cheng) Holdings Ltd	Director
31. Harvest Moon Developments Ltd	Director	82. Wing Tai Corporation Ltd	Director
32. Hecta Co. Ltd	Director	83. Wing Tai Enterprises Ltd	Director
33. HKJC Horse Race Betting Limited	Director	84. Wing Tai Garment Industrial Holdings Ltd	Director
34. HKJC Lotteries Limited	Director	85. Wing Yuen Investment Co. Ltd	Director
35. HKU School of Professional and Continuing Education	Director	86. Winner Max Enterprises Ltd	Director
36. Holdswell Co. Ltd	Director	87. Witrend Ltd	Director
37. Hong Kong Business Aviation Centre Ltd	Director	88. WT Administration Ltd	Director
38. Hong Kong Business Aviation Holding Ltd	Director	89. Yuen Chun Investment Ltd	Director
39. Hong Kong Marina Ltd	Director	90. Accuway Investments Ltd	Director
40. Jeans of France Ltd	Director	91. Aldburg Assets Ltd	Director
41. Joy Alliance Ltd	Director	92. Brave Dragon Ltd	Director
42. Joyaca Co. Ltd	Director	93. Broxbourne Assets Ltd	Director
43. Joyful Land Properties Ltd	Director	94. Caringbah Ltd	Director
44. Junus Co. Ltd	Director	95. Churrasco Holdings Ltd	Director
45. Kinston Ltd	Director	96. Delimont Holdings Ltd	Director
46. Kinvoss Co. Ltd	Director	97. Dynamics Ways Ltd	Director
47. La Eau Enterprises (H.K.) Ltd	Director	98. Fair Alliance Investment Ltd	Director
48. Landyork Investment Ltd	Director	99. Fourace Investments Ltd	Director
49. Mancas Investment Ltd	Director	100. Fruitful Gain Ltd	Director
50. Missleton Finance Ltd	Director	101. Fu Keung Ltd	Director
51. Newpark Co. Ltd	Director	102. Gainford Ltd	Director
52. Outrade Industrial Ltd	Director	103. Galloway Assets Ltd	Director
53. Pacific Coast Highway (Far East) Ltd	Director	104. Grapewood Ltd	Director
54. Pacific Star Industries Ltd	Director	105. Great Crown Ltd	Director
55. Pangold Development Ltd	Director	106. Guthrie Assets Ltd	Director
56. Parex International Ltd	Director	107. Hampton Court Ltd	Director
57. Renowned Development Ltd	Director	108. Herridge Ltd	Director
58. Sawi Co. Ltd	Director	109. Hologram Developments Ltd	Director
59. Securities and Futures Commission	Director	110. Honeycomb Assets Ltd	Director
60. Senior Development Co. Ltd	Director	111. Hong Kong Executive Aviation Ltd	Director
61. Star Land Investment Co. Ltd	Director	112. Horana Ltd	Director
62. Star Reef Co. Ltd	Director	113. Kosheen Investments Ltd	Director
63. Superland Co. Ltd	Director	114. Maitland Trading Ltd	Director
64. Textile Council of Hong Kong Limited	Director	115. Marvinbond Ltd	Director
65. The Cross Straits Youths Exchange Foundation Ltd	Director	116. Metro Champion Ltd	Director
66. The Hong Kong General Chamber of Commerce	Director	117. Nian Sheng Investments Ltd	Director
67. The Hong Kong Jockey Club	Director	118. Pofung Investments Ltd	Director
68. The Hong Kong Jockey Club (Charities) Ltd	Director	119. Potter Enterprises Ltd	Director
69. The Hong Kong Jockey Club (Managers) Ltd	Director	120. Prism Crystal Ltd	Director
70. The Jockey Club Kau Sai Chau Public Golf Course Ltd	Director	121. Rescom Ltd	Director
71. The Jockey Club Membership Services Ltd	Director	122. Shuster Ltd	Director
72. The Style-Land Ltd	Director	123. Stanfield Resources Ltd	Director
73. Topway Resources Ltd	Director	124. Throng Ltd	Director
74. United Success Co. Ltd	Director	125. Top Benefits Ltd	Director
75. United Success International Ltd	Director	126. Townhill Enterprises Ltd	Director
76. Universal Team Industrial Ltd	Director	127. Truefame Investments Limited	Director
77. USI Properties Ltd	Director	128. Twin Dragon Investments Ltd	Director
78. Wellpace Co. Ltd	Director	129. Universal Plus Ltd	Director
		130. USI Holdings (B.V.I.) Ltd	Director
		131. USI Properties International Ltd	Director
		132. Vision Asset Holdings Ltd	Director
		133. Wallasey Ltd	Director

## Further Information on Directors

134. Welch Enterprises International Ltd
135. Wesselhoft Ltd
136. World Vision Holdings Ltd
137. Yenston Profits Ltd
138. Kingboard Chemical Holdings Ltd
139. NWS Holdings Ltd
140. USI Holdings Ltd
141. Wing Tai Properties Ltd
142. i-Security Solutions (Holdings) Ltd
143. New World China Land Ltd
144. Winsor Properties Holdings Limited
145. Sedimas Sdn Berhad
146. Sri Rampaian Sdn Berhad
147. Lanson Place Hotels & Residences (Netherlands) B.V.
148. PICC Property and Casualty Company Ltd
149. Temasek Foundation CLG Ltd
150. Mocame Investment Inc
151. Pacific Investment Exponents Inc
152. Gieves & Hawkes plc

Director	<b>MS EULEEN GOH YIU KIANG</b>
Director	Academic and Professional Qualifications:
Director	– Association of Chartered Accountants in England and Wales
Director	– Institute of Taxation, UK
Director	– Institute of Certified Public Accountant of Singapore
Chairman	– Institute of Bankers, UK

### Current Directorships

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. Singapore Airlines Limited	Director
4. MediaCorp Pte Ltd	Director
5. Singapore Exchange Limited	Director
6. Singapore Chinese Girl's School	Director
7. Singapore International Foundation	Chairman, Board of Governors
8. NorthLight School	Chairperson, Board of Governors
9. Accounting Standards Council	Chairperson
10. Singapore Institute of International Affairs	Adviser
11. Aviva Plc	Director

### Directorships for the past 3 years

Company	Title
1. Lanson Place Hospitality Management Ltd	Director
2. Maple Court Ltd	Director
3. Shine Hill Development Ltd	Director
4. Fuscastus Ltd	Director
5. Harvest Star Ltd	Director
6. Lanson Place Hospitality Management (Malaysia) Ltd	Director
7. Lanson Place Hospitality Management (Jakarta) Ltd	Director
8. Lanson Place Hotels & Residences (Holdings) Ltd	Director
9. Lanson Place Hotels & Residences (Bermuda) Ltd	Director
10. Lanson Place Hospitality Management (Singapore) Pte Ltd	Director
11. Citimind Limited	Director
12. Fighting Irish Co. Ltd	Director
13. i-Security Solutions Ltd	Director

### Directorships for the past 3 years

Company	Title
1. Raffles Nominees (Pte.) Limited	Director
2. Chartered Corporate Services Singapore Limited	Director
3. Standard Chartered (1996) Limited	Director
4. Standard Chartered (2000) Limited	Director
5. Standard Chartered International Trade Products Limited	Director
6. MOH Holdings Pte Ltd	Director
7. S C Learning Pte Ltd	Director
8. The Association of Banks in Singapore	Council Member
9. Singapore International Chamber of Commerce	Director
10. International Enterprise Singapore	Chairman
11. Standard Chartered Bank (Thai) pcl	Director
12. Standard Chartered Bank Malaysia Berhad	Director
13. CapitaLand Financial Limited	Deputy Chairman
14. The Institute of Banking and Finance	Council Member
15. Financial Industry Competency Standards Committee	Chairperson

**MR KWA CHONG SENG**

Academic and Professional Qualifications:

- Bachelor of Engineering  
University of Singapore

**Current Directorships**

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. DBS Bank (Hong Kong) Limited	Chairman/Director
4. ExxonMobil Asia Pacific Pte Ltd	Chairman & MD
5. Esso China Inc.	Chairman
6. Temasek Holdings (Pte) Ltd	Deputy Chairman
7. ExxonMobil Oil Singapore Pte Ltd (In members' voluntary winding up)	Director
8. Esso Asia Pacific (Petroleum) Pte Ltd (In members' voluntary winding up)	Director
9. Sinopec SenMei (Fujian) Petroleum Company Limited	Director
10. Public Service Commission	Member

**Directorships for the past 3 years**

Company	Title
1. Mobil Asia Marketing Pte Ltd (In members' voluntary winding up)	Director
2. Mobil South Asia Investments Ltd	Director

**MR JOHN ALAN ROSS**

Academic and Professional Qualifications:

- Master of Business Administration  
The Wharton School of The University  
of Pennsylvania
- Bachelor of Arts  
Hobart College

**Current Directorships**

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. DBS Bank (China) Limited	Director
4. AirTV Holdings, Inc	President

**Directorships for the past 3 years**

Company	Title
1. Jewish Museum, New York	Board Member/Trustee
2. Hobart & William Smith Colleges	Trustee
3. Metropolitan Opera Guild	Board Member/Trustee
4. German Marshall Fund of US, Washington, D.C.	Board Member/Trustee

**MR WONG NGIT LIONG**

Academic and Professional Qualifications:

- Bachelor of Engineering (1st Class Hons)  
University of Malaya
- Master of Science (Electronics Engineering)  
University of California at Berkeley
- Master of Business Administration (Distinction)  
McGill University

**Current Directorships**

Company	Title
1. DBS Group Holdings Ltd	Director
2. DBS Bank Ltd	Director
3. Advanced Products Corporation Pte Ltd	Director
4. Cebelian Holdings Pte Ltd	Director
5. NUS Board of Trustees	Chairman
6. EAS Security Systems Pte Ltd	Director
7. Innovative Trek Technology Pte Ltd	Director
8. Multitech Systems Pte Ltd	Director
9. NLW Pte Ltd	Director
10. Pintarmas Sdn Bhd	Director
11. PT Venture Electronics Indonesia	Director
12. V-Design Services (M) Sdn Bhd	Director
13. Technocom Systems Sdn Bhd	Director
14. Univac Precision Engineering Pte Ltd	Director
15. Ventech Data Systems Pte Ltd	Director
16. Ventech Investments Ltd	Director
17. Venture Corporation Limited	Chairman & CEO
18. Venture Electronics (Europe) B.V.	Director
19. Venture Electronics International, Inc.	Director
20. Venture Electronics Solutions Pte Ltd	Director
21. Venture Electronics Spain, S.L.	Director
22. Venture Hungary Electronics Manufacturing Limited Liability Company	Director
23. VIPColor Technologies Pte Ltd	Director
24. VIPColor Technologies USA, Inc.	Director
25. VM Services, Inc.	Director
26. VS Electronics Pte Ltd	Director
27. Royal Philips Electronics	Director
28. Research, Innovation and Enterprise Council	Member
29. GES International Limited	Director
30. GES (Singapore) Pte Ltd	Director
31. GES Investment Pte Ltd	Director
32. Shanghai GES Information Technology Co., Ltd	Director
33. Scinetic Engineering Pte Ltd	Director

**Directorships for the past 3 years**

Company	Title
1. SIA Engineering Company Ltd	Director

# Shareholding Statistics

## I. Class of Shares – Ordinary Shares Voting Rights – One vote per share

As at 19 February 2009

Size of holdings	No. of		No. of	
	Shareholders	%	Shares	%
1 – 999	3,956	10.50	1,106,435	0.05
1,000 – 10,000	30,117	79.96	86,869,107	3.81
10,001 – 1,000,000	3,552	9.43	113,514,365	4.97
1,000,001 & above	39	0.11	2,079,950,780	91.17
<b>Total</b>	<b>37,664</b>	<b>100.00</b>	<b>2,281,440,687</b>	<b>100.00</b>
<b>Location of Shareholders</b>				
Singapore	35,570	94.44	2,264,475,452	99.26
Malaysia	1,232	3.27	8,575,654	0.37
Overseas	862	2.29	8,389,581	0.37
<b>Total</b>	<b>37,664</b>	<b>100.00</b>	<b>2,281,440,687</b>	<b>100.00</b>

## Twenty Largest Shareholders (As shown in the Register of Members and Depository Register)

	No. of shareholdings	%
1 DBS Nominees Pte Ltd	564,179,692	24.73
2 Maju Holdings Pte Ltd	351,745,560	15.42
3 Temasek Holdings (Pte) Ltd	278,510,692	12.21
4 DBSN Services Pte Ltd	271,805,422	11.91
5 Citibank Nominees Singapore Pte Ltd	182,053,766	7.98
6 HSBC (Singapore) Nominees Pte Ltd	172,653,790	7.57
7 United Overseas Bank Nominees Pte Ltd	75,937,641	3.33
8 Raffles Nominees Pte Ltd	66,343,923	2.91
9 DB Nominees (S) Pte Ltd	21,226,363	0.93
10 Lee Pineapple Company Pte Ltd	10,750,000	0.47
11 Lee Foundation	8,250,000	0.36
12 Morgan Stanley Asia (Singapore) Securities Pte Ltd	7,106,404	0.31
13 TM Asia Life Singapore Ltd – Par Fund	5,761,000	0.25
14 Paramount Assets Investments Pte Ltd	5,375,000	0.24
15 Oversea Chinese Bank Nominees Pte Ltd	5,206,136	0.23
16 DBS Vickers Securities (S) Pte Ltd	5,098,071	0.22
17 Merrill Lynch (Singapore) Pte Ltd	4,687,580	0.21
18 KEP Holdings Limited	3,750,000	0.16
19 BNP Paribas Nominees Singapore Pte Ltd	3,151,775	0.14
20 UOB Kay Hian Pte Ltd	3,011,893	0.13
<b>Total</b>	<b>2,046,604,708</b>	<b>89.71</b>

## II. Class of Shares – Non-Voting Redeemable Convertible Preference Shares (“NVRCPs”)

Voting Rights – Please see Article 6A of the Articles of Association.

Sole Shareholder of 99,713,061 NVRCPs: Maju Holdings Pte Ltd

## III. Class of Shares – Non-Voting Convertible Preference Shares (“NVCPs”)

Voting Rights – Please see Article 6 of the Articles of Association.

Sole Shareholder of 180,654 NVCPs: Maju Holdings Pte Ltd



Substantial ordinary shareholders (As shown in the Register of Substantial Shareholders as at 19 February 2009)

	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Maju Holdings Pte Ltd	351,745,560	15.42	0	0.00
Temasek Holdings (Pte) Ltd	278,510,692	12.21	358,705,935	15.72

1. Maju Holdings Pte Ltd ("Maju") is a wholly-owned subsidiary of Temasek Holdings (Pte) Ltd.
2. Temasek Holdings (Pte) Ltd, a company wholly-owned by Minister for Finance Incorporated, is deemed interested in the 351,745,560 shares held by Maju.
3. Percentage shareholding is based on issued share capital as at 19 February 2009.

As at 19 February 2009, approximately 72% of DBSH's issued ordinary shares is held by the public and, therefore, Rule 723 of the Listing Manual is complied with.

# Financial Calendar

22 April 2008	Payment date of 2007 Final Dividend on Ordinary Shares, Non-Voting Convertible Preference Shares and Non-Voting Redeemable Convertible Preference Shares
4 June 2008	Payment date of 2008 first quarter Dividend on Ordinary Shares, Non-Voting Convertible Preference Shares and Non-Voting Redeemable Convertible Preference Shares
3 September 2008	Payment date of 2008 second quarter Dividend on Ordinary Shares, Non-Voting Convertible Preference Shares and Non-Voting Redeemable Convertible Preference Shares
4 December 2008	Payment date of 2008 third quarter Dividend on Ordinary Shares, Non-Voting Convertible Preference Shares and Non-Voting Redeemable Convertible Preference Shares
31 December 2008	Financial Year-end
7 May 2008	Announcement of first quarter results for 2008
7 August 2008	Announcement of half-year results 2008
7 November 2008	Announcement of third quarter results 2008
13 February 2009	Announcement of full-year results 2008
8 April 2009	Annual General Meeting
29 April 2009	Proposed payment date of 2008 Final Dividend on Ordinary Shares, Non-Voting Convertible Preference Shares and Non-Voting Redeemable Convertible Preference Shares
August 2009	Announcement of half-year results 2009
February 2010	Announcement of full-year results 2009