

Disclosure on Certain Financial Instruments

The following disclosure provides additional information on certain investments the Group has made.

COLLATERALISED DEBT/LOAN OBLIGATIONS (CDO)

Type of CDO (\$m)	31 Dec 2008		31 Dec 2007	
	Exposure	Allowance	Exposure	Allowance
Investment Portfolio	1,056	459	1,211	270
ABS CDO	264	246	267	240
Non-ABS CDO	792	213	944	30
CLO	691	193	771	30
Other CDOs	101	20	173	–
Trading Book	206	–	975	–
Total	1,262	459	2,186	270

MOODY'S RATINGS

Type of CDO	Aaa	Aa	A	Baa to B	Caa to Ca	Not Rated by Moody's (rated by the other)	Total
Investment Portfolio							
ABS CDO	–	–	3%	4%	13%	5%	25%
Non-ABS CDO	8%	23%	42%	–	1%	1%	75%
CLO	8%	23%	34%	–	–	1%	66%
Other CDOs	–	–	8%	–	1%	–	9%
Total	8%	23%	45%	4%	14%	6%	100%

STANDARD & POOR'S RATINGS

Type of CDO	AAA	AA	A	BBB to B	CC	Not Rated by S&P (rated by the other)	Total
Investment Portfolio							
ABS CDO	–	5%	1%	4%	13%	2%	25%
Non-ABS CDO	11%	13%	31%	–	–	20%	75%
CLO	11%	13%	31%	–	–	10%	65%
Other CDOs	–	–	–	–	–	10%	10%
Total	11%	18%	32%	4%	13%	22%	100%

The CDO portfolio comprised \$264 million asset-backed (ABS) CDOs and \$792 million non-ABS CDOs in the investment portfolio, and \$206 million of CDOs in the trading portfolio.

The ABS CDOs have mortgage-backed securities (such as US sub-prime mortgages, Alt-A mortgages and ABS CDO tranches) as one of their asset classes, the percentage of which differs among the CDOs. By vintage, 36% of these CDOs were issued in 2004 or earlier, 59% in 2005 and 5% in 2006 or later. These ABS CDOs are 93% covered by allowances.

Of the non-ABS CDOs in the investment portfolio, a portion was in collateralised loan obligations (CLOs), which have corporate loans as their dominant underlying collateral. The other CDOs

have either credit default swaps or trust preferred securities as their dominant underlying collateral.

Allowances totalling \$213 million or 27% of the portfolio have been made for the non-ABS investment CDOs, of which 97% are rated A or above by Moody's or Standard & Poor's or both.

The CDOs in the trading portfolio, which are designated at fair value, were valued at \$206 million. As they are designated at fair value, no allowances have been taken for them.

OTHER US SUB-PRIME AND ALT-A EXPOSURE

The Group does not have direct exposure to US sub-prime mortgages and Alt-A mortgages other than through its ABS CDOs as disclosed above.

COMMERCIAL MORTGAGE-BACKED SECURITIES

The Group had \$133 million of investments in commercial mortgage-backed securities, representing less than 0.1% of the Group's total assets. By geography, 87% were in Singapore and 13% were in Hong Kong. By industry, commercial properties accounted for 41% of the portfolio, retail 15%, commercial-cum-retail 35% and industrial 9%. All the securities are rated A or above by Moody's or Standard & Poor's or both, with 87% rated AA or higher.

LEVERAGED FINANCE

Leveraged finance is defined in this disclosure as acquisition financing sponsored by funds (private equity or investment) and supported by leverage. The Group's exposure to such loans, amounting to \$493 million, represented less than 0.2% of its total assets. Of the exposure, 4% was in Singapore, 44% in Rest of Greater China, 31% in South and South-east Asia, and the remaining 21% in other parts of Asia. By industry, they were primarily in finance, media, information technology services and manufacturing.

SPECIAL PURPOSE ENTITIES (SPE)

The list of material operating SPEs is summarised in the following table, all of which are involved in the issuance or distribution of structured investment products. None of the SPEs has any liquidity facility with the Group.

SPE Description	Collateral	Risk Factors
Constellation Investment Ltd (incorporated in Cayman Islands) <ul style="list-style-type: none"> • 100% consolidated under INT FRS12 Consolidation-SPE • SPE activity: Issuance of structured equity/credit-linked notes to clients • SPE size: \$0.9 billion • Group's role: Arranger, Market Agent, Calculation Agent, Custodian for assets held as collateral, Swap Counterparty 	Cash deposits, Hong Kong government securities, structured notes from Zenesis SPC (collateral rated AAA to BB by Fitch or S&P, with maturity of up to 6 years)	Investment product risk is borne by clients. Should the structured notes be redeemed early and the unwind cost of the structure be larger than the early redemption value of the collateral, the Group may have to bear the difference
Zenesis SPC (incorporated in Cayman Islands) <ul style="list-style-type: none"> • 100% consolidated under INT FRS12 Consolidation-SPE • SPE activity: Issuance of rated credit-linked notes to Constellation Investment Ltd and rated/unrated notes to other clients • SPE size: \$0.4 billion • Group's role: Calculation Agent, Substitution Agent, Swap Counterparty 	Cash deposits, 5-year notes from a Hong Kong bank (bond rating of Aa2 by Moody's and AA- by S&P), FSA-guaranteed bonds	Investment product risk is borne by clients. Should the structured notes be redeemed early and the unwind cost of the structure be larger than the early redemption value of the collateral, the Group may have to bear the difference