

SINGAPORE ISLAND BANK LIMITED
(formerly known as Bank of Singapore Limited)
(Incorporated in Singapore. Registration Number: 195400071R)

FINANCIAL STATEMENTS
For the financial year ended 31 December 2009

SINGAPORE ISLAND BANK LIMITED

FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

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SINGAPORE ISLAND BANK LIMITED

DIRECTORS' REPORT

For the financial year ended 31 December 2009

The directors present their report to the members of Singapore Island Bank Limited (formerly known as Bank of Singapore Limited) ("the Bank") together with the audited financial statements of the Bank for the financial year ended 31 December 2009. The Bank has been renamed Singapore Island Bank Limited with effect from 29 January 2010.

Directors

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

David Philbrick Conner
Lee Kok Keng Andrew
Lee Lap Wah George
Samuel N Tsien
Soon Tit Koon

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

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

| | Direct interest | | Deemed interest | |
|--|------------------|-------------|-------------------------------|-------------------------|
| | At 31.12.2009 | At 1.1.2009 | At 31.12.2009 | At 1.1.2009 |
| Oversea-Chinese Banking Corporation Limited ("OCBC") | | | | |
| <i>Ordinary shares</i> | | | | |
| David Philbrick Conner | 1,333,094 | 1,120,542 | 778,967 ⁽¹⁾ | 401,493 ⁽²⁾ |
| Lee Kok Keng Andrew | 109,382 | 86,554 | 88,300 ⁽³⁾ | 77,777 ⁽⁴⁾ |
| Lee Lap Wah George | 55,024 | 45,403 | 114,672 ⁽⁵⁾ | 94,799 ⁽⁶⁾ |
| Samuel Tsien | – | – | 113,221 ⁽⁷⁾ | 34,764 ⁽⁸⁾ |
| Soon Tit Koon | 97,491 | 211,802 | 296,020 ⁽⁹⁾ | 226,244 ⁽¹⁰⁾ |
| <i>4.2% non-cumulative non-convertible Class G preference shares</i> | | | | |
| David Philbrick Conner | 50,000 | 50,000 | – | – |
| Lee Kok Keng Andrew | 368 | 368 | 3,000 ⁽¹¹⁾ | 3,000 ⁽¹¹⁾ |
| <i>4.5% non-cumulative non-convertible Class E preference shares</i> | | | | |
| Lee Lap Wah George | – | – | 200 ⁽¹¹⁾ | 200 ⁽¹¹⁾ |

SINGAPORE ISLAND BANK LIMITED

DIRECTORS' REPORT

For the financial year ended 31 December 2009

| | Direct interest | | Deemed interest | |
|--|-----------------|-------------|------------------------|------------------------|
| | At 31.12.2009 | At 1.1.2009 | At 31.12.2009 | At 1.1.2009 |
| 5.1% non-cumulative non-convertible class B preference shares | | | | |
| Lee Lap Wah George | – | – | 400 ⁽¹¹⁾ | 400 ⁽¹¹⁾ |
| OCBC Capital Corporation | | | | |
| 3.93% non-cumulative non-convertible guaranteed OCC-A preference shares | | | | |
| Lee Lap Wah George | – | – | 200 ⁽¹¹⁾ | 200 ⁽¹¹⁾ |
| Soon Tit Koon | – | – | 10,000 ⁽¹¹⁾ | 10,000 ⁽¹¹⁾ |

Notes on deemed interests

| | Ordinary shares | | | |
|------|-----------------|---------------------------------|----------------|---------|
| | OCBC DSP | Acquisition rights in OCBC ESPP | Held by spouse | Total |
| (1) | 773,521 | 5,446 | – | 778,967 |
| (2) | 392,787 | 8,706 | – | 401,493 |
| (3) | 82,854 | 5,446 | – | 88,300 |
| (4) | 64,071 | 8,706 | 5,000 | 77,777 |
| (5) | 105,966 | 8,706 | – | 114,672 |
| (6) | 86,093 | 8,706 | – | 94,799 |
| (7) | 104,515 | 8,706 | – | 113,221 |
| (8) | 26,058 | 8,706 | – | 34,764 |
| (9) | 290,574 | 5,446 | – | 296,020 |
| (10) | 217,538 | 8,706 | – | 226,244 |

(11) Preference shares held by spouse.

According to the register of directors' shareholdings, certain of the directors holding office at the end of the financial year had interests in options to acquire ordinary shares of the Bank's holding company, granted pursuant to the OCBC Share Option Schemes, as set out below:

| | Number of unissued ordinary shares | |
|------------------------|------------------------------------|-------------|
| | At 31.12.2009 | At 1.1.2009 |
| David Philbrick Conner | 3,053,000 | 3,845,000 |
| Lee Kok Keng Andrew | 254,480 | 204,480 |
| Lee Lap Wah George | 279,680 | 428,680 |
| Samuel Tsien | 500,000 | 250,000 |
| Soon Tit Koon | 948,000 | 848,000 |

SINGAPORE ISLAND BANK LIMITED

DIRECTORS' REPORT

For the financial year ended 31 December 2009

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive any benefit under a contract which is required to be disclosed under Section 201(8) of the Singapore Companies Act, except that certain directors received remuneration from the holding company and related companies as directors or employees of those companies and were entitled to benefits under the OCBC Executives' Share Option Scheme 1994, OCBC Share Option Scheme 2001, OCBC Deferred Share Plan and/or OCBC Employee Share Purchase Plan administered by its holding company, Oversea-Chinese Banking Corporation Limited.

Share options

The Bank did not issue any options on its shares during the financial year, and there were no unissued shares of the Bank under options at the end of the financial year.

Auditors

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

On behalf of the Board of Directors

David Philbrick Conner
Director

Lee Kok Keng Andrew
Director

Singapore
11 February 2010

SINGAPORE ISLAND BANK LIMITED

STATEMENT BY DIRECTORS

For the financial year ended 31 December 2009

In the opinion of the directors:

- (a) the financial statements set out on pages 7 to 34 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2009 and of the results, changes in equity and cash flows of the Bank for the year ended on that date in accordance with the provision of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

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

On behalf of the Board of Directors

David Philbrick Conner
Director

Lee Kok Keng Andrew
Director

Singapore
11 February 2010

INDEPENDENT AUDITORS' REPORT

To the Members of Singapore Island Bank Limited

We have audited the accompanying financial statements of Singapore Island Bank Limited (formerly known as Bank of Singapore Limited) ("the Bank"), which comprise the balance sheet as at 31 December 2009, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 34.

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, Chapter 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes:

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 financial statements of the Bank are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning by Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore, to give a true and fair view of the state of affairs of the Bank as at 31 December 2009 and the results, changes in equity and cash flows of the Bank for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

KPMG LLP

*Public Accountants and
Certified Public Accountants*

Singapore

11 February 2010

SINGAPORE ISLAND BANK LIMITED

BALANCE SHEET

As at 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|-------------------------------------|---------|--------------------|--------------------|
| Equity | | | |
| Share capital | 3 | 100,000,000 | 100,000,000 |
| Statutory reserve | 4 | 25,209,476 | 37,814,215 |
| Fair value reserve | | 15,157,033 | 23,558,794 |
| Retained earnings | | 70,757,177 | 42,148,304 |
| Total equity | | 211,123,686 | 203,521,313 |
| Liabilities | | | |
| Deposits of non-bank customers | 5 | 104,031,369 | 87,423,531 |
| Amounts due to holding company | 6 | 425,144,597 | 106,864,279 |
| Other liabilities | 7 | 3,923,794 | 3,357,224 |
| Current tax | | 2,738,032 | 1,321,347 |
| Deferred tax | 8 | 1,684,115 | 2,617,644 |
| Total liabilities | | 537,521,907 | 201,584,025 |
| Total equity and liabilities | | 748,645,593 | 405,105,338 |
| Assets | | | |
| Cash and balances with central bank | 9 | 13,459,046 | 2,719,863 |
| Amounts due from holding company | 9 | 48,591,702 | 55,061,492 |
| Available-for-sale financial assets | 10 | 166,275,000 | 175,545,000 |
| Loans to non-bank customers | 11 & 12 | 518,146,338 | 169,618,401 |
| Other assets | 13 | 2,138,790 | 2,119,567 |
| Plant and equipment | 14 | 34,717 | 41,015 |
| Total assets | | 748,645,593 | 405,105,338 |

The accompanying notes form an integral part of these financial statements.

SINGAPORE ISLAND BANK LIMITED

INCOME STATEMENT

For the financial year ended 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|---|------|--------------------|-------------|
| Interest income | 15 | 23,514,044 | 25,871,159 |
| Interest expense | 16 | (1,737,583) | (6,038,708) |
| Net interest income | | 21,776,461 | 19,832,451 |
| Fees and commissions | 17 | 388,578 | 550,960 |
| Total income | | 22,165,039 | 20,383,411 |
| Staff costs | 18.1 | (584,142) | (656,248) |
| Other operating expenses | 18.2 | (3,864,718) | (4,073,996) |
| Total operating expenses | | (4,448,860) | (4,730,244) |
| Operating profit before allowances | | 17,716,179 | 15,653,167 |
| Write-back/(allowances) on loans | | 393,656 | (6,561,300) |
| Profit before income tax | | 18,109,835 | 9,091,867 |
| Income tax expense | 19 | (2,105,701) | (1,321,347) |
| Profit for the year | | 16,004,134 | 7,770,520 |

The accompanying notes form an integral part of these financial statements.

SINGAPORE ISLAND BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|--|------|--------------------|------------|
| Profit for the year | | 16,004,134 | 7,770,520 |
| Other comprehensive income, net of tax | | | |
| Available-for-sale financial assets | | | |
| Fair value (loss)/gain | 10 | (9,335,290) | 9,429,531 |
| Deferred tax credit/(charge) | 8 | 933,529 | (942,953) |
| | | (8,401,761) | 8,486,578 |
| Total comprehensive income for the year | | 7,602,373 | 16,257,098 |

The accompanying notes form an integral part of these financial statements.

SINGAPORE ISLAND BANK LIMITED

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2009

| | Note | Share capital \$ | Statutory reserve \$ | Fair value reserve \$ | Retained earnings \$ | Total \$ |
|--|------|------------------------|----------------------------|-----------------------------|----------------------------|--------------------|
| Balance at 1 January 2009 | | 100,000,000 | 37,814,215 | 23,558,794 | 42,148,304 | 203,521,313 |
| Total comprehensive income for the year | | – | – | (8,401,761) | 16,004,134 | 7,602,373 |
| Transfers | 4 | – | (12,604,739) | – | 12,604,739 | – |
| Balance at 31 December 2009 | | 100,000,000 | 25,209,476 | 15,157,033 | 70,757,177 | 211,123,686 |
| Balance at 1 January 2008 | | 100,000,000 | 50,418,954 | 15,072,216 | 21,773,045 | 187,264,215 |
| Total comprehensive income for the year | | – | – | 8,486,578 | 7,770,520 | 16,257,098 |
| Transfers | 4 | – | (12,604,739) | – | 12,604,739 | – |
| Balance at 31 December 2008 | | 100,000,000 | 37,814,215 | 23,558,794 | 42,148,304 | 203,521,313 |

The accompanying notes form an integral part of these financial statements.

SINGAPORE ISLAND BANK LIMITED

CASH FLOW STATEMENT

For the financial year ended 31 December 2009

| | Note | 2009 \$ | 2008 \$ |
|---|------|-------------------|---------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 18,109,835 | 9,091,867 |
| Adjustments for: | | | |
| (Write-back)/allowances for loans | | (393,656) | 6,561,300 |
| Accretion of discount on available-for-sale financial assets | 10 | (65,290) | (65,469) |
| Depreciation of plant and equipment | 18.2 | 11,345 | 8,140 |
| Operating profit before change in operating assets and liabilities | | 17,662,234 | 15,595,838 |
| Change in operating assets and liabilities: | | | |
| Deposits of non-bank customers | | 16,607,838 | 5,461,852 |
| Amounts due to holding company | | 318,280,318 | (445,519,223) |
| Other liabilities | | 566,570 | (8,187,526) |
| Loans to customers | | (348,134,281) | 448,781,403 |
| Other assets | | (19,223) | 94,982 |
| Cash from operating activities | | 4,963,456 | 16,227,326 |
| Income tax paid | | (689,016) | (806,791) |
| Net cash from operating activities | | 4,274,440 | 15,420,535 |
| Investing activities | | | |
| Purchases of plant and equipment | 14 | (5,047) | (43,635) |
| Net cash from investing activities | | (5,047) | (43,635) |
| Net change in cash and cash equivalents | | 4,269,393 | 15,376,900 |
| Cash and cash equivalents at beginning of the year | | 57,781,355 | 42,404,455 |
| Cash and cash equivalents at end of the year | 9 | 62,050,748 | 57,781,355 |

The accompanying notes form an integral part of these financial statements.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

These notes form an integral part of the financial statements.

1. General

Singapore Island Bank Limited (formerly known as Bank of Singapore Limited) (“the Bank”) is incorporated and domiciled in Singapore and has its registered office at 65 Chulia Street, #26-00 OCBC Centre, Singapore 049513. The Bank has been renamed to Singapore Island Bank Limited with effect from 29 January 2010.

The Bank is principally engaged in the business of providing banking and financial services, including the operation of an Asian Currency Unit under the terms and conditions specified by the Monetary Authority of Singapore.

The immediate and ultimate holding company is Oversea-Chinese Banking Corporation Limited, a company incorporated in Singapore.

2. Significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollar which is the Bank’s functional currency. All financial information is presented to the nearest dollar, unless otherwise stated.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement, use estimates and make assumptions in the application of accounting policies on the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a high degree of judgement or complexity, are disclosed in Note 2.14.

The following revised FRS were applied with effect from 1 January 2009:

- FRS 1 *Presentation of Financial Statements*
- FRS 107 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- Improvements to FRSs 2008

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. The revised standard also introduces the statement of comprehensive income. The requirement is to present all items of income and expense recognised in profit or loss, together with all other items of comprehensive income, either in one single statement of comprehensive income, or in two linked statements. The Bank has opted to present comprehensive income in two linked statements. Under the revised FRS 1, a statement of financial position is also required at the beginning of the earliest comparative period following any retrospective application of an accounting policy, retrospective restatement of items in the financial statements or reclassification of items in the financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

With the amendments to FRS 107, an entity is required to disclose its financial assets and liabilities using a fair value hierarchy that reflects the significance of inputs used in measuring the fair value of these assets and liabilities. An entity shall also disclose a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities.

2.2 Revenue recognition

Interest income and expense

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

Fees and commissions

Fees and commissions earned from providing transaction-type services are recognised in the period that the service is rendered. These include fees from distribution of unit trusts and bancassurance products, as well as referral fees.

2.3 Employee benefits

Compensation package for staff consists of base salaries, allowances, cash bonuses and equity compensation plans. Salaries, allowances, bonuses and defined contributions under regulations, such as the Central Provident Fund Act in Singapore, are recognised in the income statement when incurred. Employee leave entitlements are estimated according to the terms of the employment contract and accrued on balance sheet date.

Government Grants - Jobs Credit Scheme

Cash grants received from the government in relation to the Jobs Credit Scheme are recognised as a receivable when there is reasonable assurance that the grant will be received and the Bank will comply with all the attached conditions.

Government grants receivable are offset against staff costs in the period which these expenses are incurred.

2.4 Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for computation. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that does not affect accounting or taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.5 Cash and cash equivalents

For the preparation of the cash flow statement, cash and cash equivalents comprise cash and balances with central bank and current account balances with the holding company.

2.6 Foreign currency transactions

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

Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rate on the date when the fair value is determined. Exchange differences on non-monetary items classified as available-for-sale financial assets are recognised in other comprehensive income and presented in the fair value reserve within equity.

2.7 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Subsequent expenditure relating to plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Bank and the cost can be reliably measured. Other subsequent expenditure is recognised in the income statement during the financial year in which the expenditure is incurred.

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

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

| | |
|------------------------|----------|
| Furniture and fixtures | 10 years |
| Office equipment | 5 years |
| Renovation | 3 years |

An item of plant and equipment is de-recognised upon disposal or when no future economic benefit is expected from its use. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year the asset is de-recognised.

2.8 Financial instruments

Recognition

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

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

De-recognition

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

Offsetting

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

Sale and repurchase agreements

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

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

Classification

The Bank classifies its non-derivative financial assets as loans and receivables or available-for-sale financial assets, according to the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and evaluates this designation at every reporting date.

Loans and receivables

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

Available-for-sale financial assets

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

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

The fair value of the Bank's quoted investments is derived from market bid prices.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

2.9 Impairment of assets

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

Loans and receivables

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

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

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

Other non-derivative financial assets

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

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

2.10. Financial liabilities

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

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

2.11 Provisions and other liabilities

Provisions and other liabilities are recognised when there is a present legal or constructive obligation as a result of past events, it is likely that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

2.12 Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the term of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

2.13 Fair value estimation

The carrying amounts of financial assets and liabilities, including loans to customers, deposits of non-bank customers, cash and balances with central banks, and amounts due from/to holding company approximate their fair values as they are either repayable on demand or short term in nature.

Singapore Government Securities held by the Bank are carried at fair value on the balance sheet.

2.14 Critical accounting estimates and judgments

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

Income taxes

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

Impairment of loans

The Bank assesses impairment of loans by calculating the present value of future recoverable cash flows and the fair value of the underlying collaterals, which is determined based on credit assessment on a loan-by-loan basis. The assumptions and judgements used by management may affect the allowances set aside for loans.

3. Share capital

| | 2009 | 2008 | 2009 | 2008 |
|--------------------------|--------------------|------------------|--------------------|-------------|
| | Number | Number | | |
| | of shares | of shares | \$ | \$ |
| <i>Ordinary shares</i> | | | | |
| At 1 January/31 December | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 |

The holder of ordinary shares is entitled to receive dividends as declared from time to time and to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

4. Statutory reserve

The statutory reserve represented reserve which was required to be set aside under section 22(1) of the Banking Act (Cap 19). This section was repealed with effect from 31 March 2007 and no further transfer of profits to the statutory reserve is required.

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

The Bank transferred \$12,604,739 from the statutory reserve to the retained earnings during the financial year ended 31 December 2009 (2008: \$12,604,739).

5. Deposits of non-bank customers

| | 2009 \$ | 2008 \$ |
|--------------------------|--------------------|-------------------|
| Share financing deposits | 53,687,018 | 38,187,925 |
| Savings deposits | 37,760,970 | 26,294,620 |
| Term deposits | 12,583,381 | 22,940,986 |
| | <u>104,031,369</u> | <u>87,423,531</u> |

Analyses of deposits of non-bank customers by currency and by maturity are disclosed in Note 22.

6. Amounts due to holding company

| | 2009 \$ | 2008 \$ |
|----------------------|--------------------|--------------------|
| Inter-bank borrowing | 424,724,702 | 105,200,000 |
| Interest payable | 419,895 | 1,664,279 |
| | <u>425,144,597</u> | <u>106,864,279</u> |

Amounts due to holding company are unsecured and bear interest between 0.03% and 1.00% (2008: 0.25% and 2.38%).

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For the financial year ended 31 December 2009

7. Other liabilities

| | 2009 \$ | 2008 \$ |
|---|------------------|------------------|
| Uncompleted contracts – share financing | 2,789,649 | 2,967,479 |
| Commission payable | 226,611 | 49,007 |
| Bills payable | 58,404 | 58,404 |
| Interest payable | 52,674 | 68,370 |
| Accrued expenses | 42,000 | 40,257 |
| Others | 754,456 | 173,707 |
| | <u>3,923,794</u> | <u>3,357,224</u> |

8. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

| | 2009 \$ | 2008 \$ |
|------------------------|------------------|------------------|
| Deferred tax liability | <u>1,684,115</u> | <u>2,617,644</u> |

The movement in deferred tax liability is as follows:

| | | |
|---|------------------|------------------|
| At 1 January | 2,617,644 | 1,674,691 |
| Deferred tax (credited)/charged directly to other comprehensive income | <u>(933,529)</u> | 942,953 |
| At 31 December | <u>1,684,115</u> | <u>2,617,644</u> |

The deferred tax charge for the financial years ended 31 December 2009 and 31 December 2008 pertained to the tax on change in fair value of available-for-sale financial assets.

9. Cash and cash equivalents

| | 2009 \$ | 2008 \$ |
|--|-------------------|-------------------|
| Cash and balances with central bank | 13,459,046 | 2,719,863 |
| Amounts due from holding company - current accounts | <u>48,591,702</u> | <u>55,061,492</u> |
| | <u>62,050,748</u> | <u>57,781,355</u> |

Cash and balances with central bank include mandatory reserve deposits of \$12,282,086 (2008: \$2,655,470).

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

10. Available-for-sale financial assets

| | 2009 \$ | 2008 \$ |
|---|--------------------|--------------------|
| At 1 January | 175,545,000 | 166,050,000 |
| Accretion of discount taken to income statement | 65,290 | 65,469 |
| Fair value (loss)/gain | (9,335,290) | 9,429,531 |
| At 31 December | <u>166,275,000</u> | <u>175,545,000</u> |

The Bank's available-for-sale financial assets comprise government securities which earn interest at 4% (2008: 4%) per annum. The available-for-sale financial assets are measured at fair value based on quoted bid price, which is categorised as Level 1 measurement under the fair value hierarchy.

11. Loans to non-bank customers

| | 2009 \$ | 2008 \$ |
|---------------------|--------------------|--------------------|
| Gross loans | 524,216,738 | 176,179,701 |
| Specific allowances | (6,070,400) | (6,561,300) |
| Net loans | <u>518,146,338</u> | <u>169,618,401</u> |

Specific allowances

| | | |
|--|------------------|------------------|
| At 1 January | 6,561,300 | – |
| (Write-back)/allowances for loans | (393,656) | 6,561,300 |
| Interest recognition on impaired loans | 338,507 | – |
| Bad debts written off | (435,751) | – |
| At 31 December | <u>6,070,400</u> | <u>6,561,300</u> |

Loans to non-bank customers refer to share financing loans extended to customers at variable interest rates. Analyses of loans by currency and by maturity are disclosed in Note 22. Collaterals held by the Bank for these loans are mainly equity securities listed on various stock exchanges.

Assessment for impairment of loans is made on a case-by-case basis. Allowances for loans are made when there is potential loss arising from default by that customer.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

Analyses of the loans by industry and geography are as follows:-

| | 2009 \$ | 2008 \$ |
|-------------------------------|--------------------|--------------------|
| Professionals and individuals | 495,839,310 | 166,707,818 |
| Others | 28,377,428 | 9,471,883 |
| | 524,216,738 | 176,179,701 |
| | | |
| Singapore | 459,461,923 | 152,463,801 |
| Malaysia | 12,074,943 | 8,719,267 |
| Other ASEAN | 13,733,956 | 9,180,094 |
| Greater China | 929,508 | 558,984 |
| Other Asia Pacific | 35,890,918 | 4,438,971 |
| Rest of the World | 2,125,490 | 818,584 |
| | 524,216,738 | 176,179,701 |

Loans to customers by geography are determined based on where the credit risk resides regardless of where the transactions are recorded.

12. Non-performing loans

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

| | 2009 \$ | 2008 \$ |
|--|------------------|------------------|
| Classified loans to customers | | |
| Substandard | – | 100,728 |
| Doubtful | 6,070,400 | 6,604,313 |
| Loss | – | – |
| | 6,070,400 | 6,705,041 |
| | | |
| Specific allowances made for classified loans | | |
| Substandard | – | – |
| Doubtful | 6,070,400 | 6,561,300 |
| Loss | – | – |
| | 6,070,400 | 6,561,300 |

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| | Singapore \$ | Malaysia \$ | Others \$ | Total \$ |
|------------------------------|--------------------|------------------|--------------------|--------------------|
| Analysed by geography | | | | |
| 2009 | | | | |
| Substandard | – | – | – | – |
| Doubtful | 906,978 | – | 5,163,422 | 6,070,400 |
| Loss | – | – | – | – |
| | 906,978 | – | 5,163,422 | 6,070,400 |
| Specific allowances | (906,978) | – | (5,163,422) | (6,070,400) |
| | – | – | – | – |
| 2008 | | | | |
| Substandard | 99,898 | – | 830 | 100,728 |
| Doubtful | 1,575,903 | 164,391 | 4,864,019 | 6,604,313 |
| Loss | – | – | – | – |
| | 1,675,801 | 164,391 | 4,864,849 | 6,705,041 |
| Specific allowances | (1,534,909) | (164,391) | (4,862,000) | (6,561,300) |
| | 140,892 | – | 2,849 | 143,741 |

Non-performing loans by geography are determined based on where the credit risk resides regardless of where the transactions are recorded.

| | 2009 \$ | 2008 \$ |
|-----------------------------------|------------------|------------------|
| Analysed by period overdue | | |
| Over 180 days | 6,070,400 | 527,568 |
| Over 90 days to 180 days | – | 161,290 |
| 30 days to 90 days | – | 5,951,251 |
| Less than 30 days | – | 64,932 |
| Not overdue | – | – |
| | 6,070,400 | 6,705,041 |

There were no restructured/renegotiated loans for the financial years ended 31 December 2009 and 31 December 2008.

13. Other assets

| | 2009 \$ | 2008 \$ |
|---------------------|------------------|------------------|
| Interest receivable | 2,022,099 | 2,022,099 |
| Sundry debtors | 68,953 | 57,735 |
| Prepayments | 31,250 | 31,610 |
| Others | 16,488 | 8,123 |
| | 2,138,790 | 2,119,567 |

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For the financial year ended 31 December 2009

14. Plant and equipment

| | Office and computer equipment \$ | Furniture and fixtures and renovation \$ | Total \$ |
|---------------------------------|---|---|---------------------|
| Cost | | | |
| At 1 January 2009 | 131,769 | 50,351 | 182,120 |
| Additions | – | 5,047 | 5,047 |
| At 31 December 2009 | <u>131,769</u> | <u>55,398</u> | <u>187,167</u> |
| Accumulated depreciation | | | |
| At 1 January 2009 | 120,948 | 20,157 | 141,105 |
| Depreciation charge | 2,712 | 8,633 | 11,345 |
| At 31 December 2009 | <u>123,660</u> | <u>28,790</u> | <u>152,450</u> |
| Carrying amount | | | |
| At 31 December 2009 | <u>8,109</u> | <u>26,608</u> | <u>34,717</u> |
| Cost | | | |
| At 1 January 2008 | 136,414 | 19,905 | 156,319 |
| Additions | 13,189 | 30,446 | 43,635 |
| Disposals | (17,834) | – | (17,834) |
| At 31 December 2008 | <u>131,769</u> | <u>50,351</u> | <u>182,120</u> |
| Accumulated depreciation | | | |
| At 1 January 2008 | 136,124 | 14,675 | 150,799 |
| Depreciation charge | 2,658 | 5,482 | 8,140 |
| Disposals | (17,834) | – | (17,834) |
| At 31 December 2008 | <u>120,948</u> | <u>20,157</u> | <u>141,105</u> |
| Carrying amount | | | |
| At 31 December 2008 | <u>10,821</u> | <u>30,194</u> | <u>41,015</u> |

15. 15. Interest income

| | 2009 \$ | 2008 \$ |
|-------------------------------------|--------------------|--------------------|
| Loans to customers | 17,201,487 | 19,357,653 |
| Available-for-sale financial assets | 6,065,290 | 6,076,580 |
| Amounts due from holding company | 245,507 | 434,706 |
| Others | 1,760 | 2,220 |
| | <u>23,514,044</u> | <u>25,871,159</u> |

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16. Interest expense

| | 2009 \$ | 2008 \$ |
|--------------------------------|------------------|------------------|
| Amounts due to holding company | 1,145,435 | 5,280,840 |
| Deposits of non-bank customers | 592,148 | 757,868 |
| | <u>1,737,583</u> | <u>6,038,708</u> |

17. Fees and commissions

| | 2009 \$ | 2008 \$ |
|-------------------------|----------------|----------------|
| Unit trust distribution | 388,406 | 550,360 |
| Bancassurance | 172 | 600 |
| | <u>388,578</u> | <u>550,960</u> |

18. Staff costs and other operating expenses

18.1 Staff costs

| | 2009 \$ | 2008 \$ |
|--|----------------|----------------|
| Salaries and other costs | 549,552 | 604,982 |
| Contribution to defined contribution plans | 34,590 | 50,266 |
| | <u>584,142</u> | <u>655,248</u> |
| Directors' fees | – | 1,000 |
| Total staff costs | <u>584,142</u> | <u>656,248</u> |

Salaries and other costs (including contribution to defined contribution plans) are in relation to staff employed by the holding company and seconded to the Bank. These costs are recharged by the holding company to the Bank.

Government grant received in relation to the Jobs Credit Scheme of \$23,442 (2008: Nil) was offset against salaries and other costs.

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NOTES TO THE FINANCIAL STATEMENTS

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18.2 Other operating expenses

| | 2009 | 2008 |
|--|------------------|------------------|
| | \$ | \$ |
| Maintenance of plant and equipment | 867 | 10,147 |
| Depreciation of plant and equipment | 11,345 | 8,140 |
| Office and computer equipment | 2,712 | 2,658 |
| Furniture, fixtures and renovation | 8,633 | 5,482 |
| Paid to related companies | 2,820,682 | 3,027,460 |
| IT and hub-processing | 1,889,985 | 2,117,759 |
| Management fees | 741,000 | 741,000 |
| Rental | 187,696 | 160,199 |
| Other operation charges | 2,001 | 8,502 |
| IT and operating costs paid to holding company | 140,500 | 140,500 |
| Commissions paid | 533,826 | 514,086 |
| Foreign exchange (gain)/loss | (2,714) | 40 |
| Others | 360,212 | 373,623 |
| | 3,864,718 | 4,073,996 |

19. Income tax expense

| | 2009 | 2008 |
|-------------------------------|------------------|------------------|
| | \$ | \$ |
| Current tax | 2,738,032 | 1,321,347 |
| Overprovision for prior years | (632,331) | - |
| | 2,105,701 | 1,321,347 |

The income tax on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

| | 2009 | 2008 |
|--|------------------|------------------|
| | \$ | \$ |
| Profit before income tax | 18,109,835 | 9,091,867 |
| Tax calculated using Singapore tax rate of 17% (2008: 18%) | 3,078,672 | 1,636,536 |
| Effects of: | | |
| Income taxed at concessionary rate | (309,489) | (291,668) |
| Expenses not deductible for tax purposes | 5,520 | 1,943 |
| Income not subjected to tax | (3,985) | - |
| Partial tax exemption | (25,925) | (27,450) |
| Others | (6,761) | 1,986 |
| | 2,738,032 | 1,321,347 |

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For the financial year ended 31 December 2009

20. Significant related party transactions

For the purpose of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

There are no transactions with related parties other than those disclosed elsewhere in the financial statements.

Key management personnel

Key management personnel of the Bank are appointed by its holding company. Non-executive directors' fees are borne by the Bank, while all other compensation paid to key management personnel are borne by the holding company and not recharged to the Bank.

21. Commitments

Commitments comprise credit commitments (agreements to provide credit facilities to customers) and operating lease commitments.

Credit commitments

Credit commitments granted to customers have no specific maturity but are cancellable by the Bank, subject to notice requirements. Undrawn credit commitments at balance sheet date amounted to \$614,394,420 (2008: \$159,359,827) and mature within one year.

Lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities are as follows:

| | 2009 | 2008 |
|---|----------------|-------------|
| | \$ | \$ |
| Not later than one year | 114,156 | 160,150 |
| Later than one year and not later than five years | – | 160,150 |

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

22. Financial risk management

Financial risk factors

The Bank's activities expose it to a variety of financial risks, including credit risk, market risk, currency risk, interest rate risk and liquidity risk. The financial risk management of the Bank is undertaken by its holding company, Oversea-Chinese Banking Corporation Limited ("OCBC"), as part of the operations of the OCBC Group. The risk management policies and processes are described in the financial statements of the holding company.

Credit risk

Credit risk is the risk of loss due to borrower or counterparty default on payment arising from the lending activities of the Bank.

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

| | 2009 \$ | 2008 \$ |
|---|-----------------------------|---------------------------|
| Credit risk exposure relating to on-balance sheet assets | | |
| Amounts due from holding company | 48,591,702 | 55,061,492 |
| Available-for-sale financial assets | 166,275,000 | 175,545,000 |
| Loans to non-bank customers | 518,146,338 | 169,618,401 |
| Other assets, including interest receivables and sundry debtors | 2,096,518 | 2,079,834 |
| | <u>735,109,558</u> | <u>402,304,727</u> |
| Credit risk exposure relating to off-balance sheet items | | |
| Loan commitments and other credit-related liabilities | 614,394,420 | 159,359,827 |
| Total maximum credit risk exposure | <u>1,349,503,978</u> | <u>561,664,554</u> |

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Loans and advances are required, under FRS 107, to be categorised into “neither past due nor impaired”, “past due but not impaired” and “impaired”. Past due loans refer to loans that are overdue by one day or more. Impaired loans are classified loans under MAS Notice 612, for which specific allowances have been made.

| | 2009 \$ | 2008 \$ |
|-------------------------------|--------------------|--------------------|
| Neither past due nor impaired | 518,146,338 | 169,474,660 |
| Past due but not impaired | – | 143,741 |
| Impaired | 6,070,400 | 6,561,300 |
| Gross loans | 524,216,738 | 176,179,701 |
| Specific allowances | (6,070,400) | (6,561,300) |
| Net loans | <u>518,146,338</u> | <u>169,618,401</u> |

Analysis of loans to customers that are neither past due nor impaired analysed based on OCBC Group’s internal credit grading system is as follows:

| | 2009 \$ | 2008 \$ |
|--------------------------------------|--------------------|--------------------|
| Grades | | |
| Satisfactory and special mention | 518,146,338 | 169,474,660 |
| Substandard but not impaired | – | – |
| Neither past due nor impaired | <u>518,146,338</u> | <u>169,474,660</u> |

Loans to customers which are past due but not impaired are as follows:

| | 2009 \$ | 2008 \$ |
|----------------------------------|------------|----------------|
| Past due | | |
| Less than 30 days | – | 64,933 |
| 30 to 90 days | – | 78,808 |
| Over 90 days | – | – |
| Past due but not impaired | <u>–</u> | <u>143,741</u> |

Details of movements of specific allowances and non-performing loans are set out in Notes 11 and 12.

Market risk

Market risk refers to the risk arising from uncertainty in the future values of financial instruments resulting from movements in interest and foreign exchange rates. The Bank’s available-for-sale investments are mainly in Singapore government securities, which are generally held to meet liquidity requirements; while its loans are extended to customers and funded on a back-to-back basis at market rates. There is therefore insignificant currency risk and interest rate risk undertaken by the Bank.

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Currency risk

The Bank's foreign exchange position by the respective currencies is shown below.

| | SGD \$'000 | HKD \$'000 | USD \$'000 | AUD \$'000 | Total \$'000 |
|--|----------------|---------------|---------------|---------------|-----------------|
| 31 December 2009 | | | | | |
| Financial assets | | | | | |
| Cash and balances with central bank | 13,459 | – | – | – | 13,459 |
| Amounts due from holding company | 48,306 | 89 | 134 | 63 | 48,592 |
| Available-for-sale financial assets | 166,275 | – | – | – | 166,275 |
| Loans to non-bank customers | 509,755 | 7,258 | 1,133 | – | 518,146 |
| Other assets | 2,139 | – | – | – | 2,139 |
| Total financial assets | 739,934 | 7,347 | 1,267 | 63 | 748,611 |
| Financial liabilities | | | | | |
| Deposits of non-bank customers | 103,614 | 212 | 205 | – | 104,031 |
| Amounts due to holding company | 417,720 | 7,061 | 364 | – | 425,145 |
| Other liabilities | 3,640 | (171) | 455 | – | 3,924 |
| Total financial liabilities | 524,974 | 7,102 | 1,024 | – | 533,100 |
| Net financial assets/(liabilities) exposure | 214,960 | 245 | 243 | 63 | |
| 31 December 2008 | | | | | |
| Financial assets | | | | | |
| Cash and balances with central bank | 2,720 | – | – | – | 2,720 |
| Amounts due from holding company | 55,061 | – | – | – | 55,061 |
| Available-for-sale financial assets | 175,545 | – | – | – | 175,545 |
| Loans to non-bank customers | 169,618 | – | – | – | 169,618 |
| Other assets | 2,120 | – | – | – | 2,120 |
| Total financial assets | 405,064 | – | – | – | 405,064 |
| Financial liabilities | | | | | |
| Deposits of non-bank customers | 87,424 | – | – | – | 87,424 |
| Amounts due to holding company | 106,864 | – | – | – | 106,864 |
| Other liabilities | 3,357 | – | – | – | 3,357 |
| Total financial liabilities | 197,645 | – | – | – | 197,645 |
| Net financial assets/(liabilities) exposure | 207,419 | – | – | – | |

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Interest rate risk

The table below summarises the Bank's financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

| | Within 7 days \$'000 | 1 week to 1 month \$'000 | 1 to 3 months \$'000 | 3 to 12 months \$'000 | Over 3 years \$'000 | Non- interest sensitive \$'000 | Total \$'000 |
|-------------------------------------|----------------------------|--------------------------------|----------------------------|-----------------------------|---------------------------|---|-----------------|
| 31 December 2009 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and balances with central bank | - | - | - | - | - | 13,459 | 13,459 |
| Amounts due from holding company | 48,044 | - | - | - | - | 548 | 48,592 |
| Available-for-sale financial assets | - | - | - | - | 166,275 | - | 166,275 |
| Loans to non-bank customers | 518,146 | - | - | - | - | - | 518,146 |
| Other assets | - | - | - | - | - | 2,139 | 2,139 |
| Total financial assets | 566,190 | - | - | - | 166,275 | 16,146 | 748,611 |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 96,211 | 2,329 | 5,418 | 73 | - | - | 104,031 |
| Amounts due to holding company | 344,728 | 50,281 | - | 30,136 | - | - | 425,145 |
| Other liabilities | - | - | - | - | - | 3,924 | 3,924 |
| Total financial liabilities | 440,939 | 52,610 | 5,418 | 30,209 | - | 3,924 | 533,100 |
| Net interest sensitivity gap | 125,251 | (52,610) | (5,418) | (30,209) | 166,275 | | |

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| | Within 7 days | 1 week to 1 month | 1 to 3 months | 3 to 12 months | Over 3 years | Non- interest sensitive | Total |
|-------------------------------------|--------------------------|------------------------------|--------------------------|---------------------------|-------------------------|--|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 31 December 2008 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and balances with central bank | – | – | – | – | – | 2,720 | 2,720 |
| Amounts due from holding company | 54,979 | – | – | – | – | 82 | 55,061 |
| Available-for-sale financial assets | – | – | – | – | 175,545 | – | 175,545 |
| Loans to non-bank customers | 169,618 | – | – | – | – | – | 169,618 |
| Other assets | – | – | – | – | – | 2,120 | 2,120 |
| Total financial assets | 224,597 | – | – | – | 175,545 | 4,922 | 405,064 |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 65,472 | 2,164 | 6,928 | 12,860 | – | – | 87,424 |
| Amounts due to holding company | 75,251 | 31,613 | – | – | – | – | 106,864 |
| Other liabilities | – | – | – | – | – | 3,357 | 3,357 |
| Total financial liabilities | 140,723 | 33,777 | 6,928 | 12,860 | – | 3,357 | 197,645 |
| Net interest sensitivity gap | 83,874 | (33,777) | (6,928) | (12,860) | 175,545 | | |

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Liquidity risk

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

| | Within 7 days \$'000 | 1 week to 1 month \$'000 | 1 to 3 months \$'000 | 3 to 12 months \$'000 | 1 to 3 years \$'000 | Over 3 years \$'000 | Total \$'000 |
|-------------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-----------------|
| 31 December 2009 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and balances with central bank | 13,459 | - | - | - | - | - | 13,459 |
| Amounts due from holding company | 48,592 | - | - | - | - | - | 48,592 |
| Available-for-sale financial assets | - | - | - | - | - | 166,275 | 166,275 |
| Loans to non-bank customers | 518,146 | - | - | - | - | - | 518,146 |
| Other assets | # | 26 | 2,113 | - | - | - | 2,139 |
| Total financial assets | 580,197 | 26 | 2,113 | - | - | 166,275 | 748,611 |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 96,211 | 2,329 | 5,418 | 73 | - | - | 104,031 |
| Amounts due to holding company | 344,728 | 50,281 | - | 30,136 | - | - | 425,145 |
| Other liabilities | 3,482 | 237 | 98 | 99 | 8 | - | 3,924 |
| Total financial liabilities | 444,421 | 52,847 | 5,516 | 30,308 | 8 | - | 533,100 |
| Net liquidity gap | 135,776 | (52,821) | (3,403) | (30,308) | (8) | 166,275 | |

Amount less than \$1,000.

SINGAPORE ISLAND BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2009

| | Within 7 days \$'000 | 1 week to 1 month \$'000 | 1 to 3 months \$'000 | 3 to 12 months \$'000 | 1 to 3 years \$'000 | Over 3 years \$'000 | Total \$'000 |
|-------------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-----------------|
| 31 December 2008 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and balances with central bank | 2,720 | – | – | – | – | – | 2,720 |
| Amounts due from holding company | 55,061 | – | – | – | – | – | 55,061 |
| Available-for-sale financial assets | – | – | – | – | – | 175,545 | 175,545 |
| Loans to non-bank customers | 169,618 | – | – | – | – | – | 169,618 |
| Other assets | # | 18 | 2,102 | # | – | – | 2,120 |
| Total financial assets | 227,399 | 18 | 2,102 | # | – | 175,545 | 405,064 |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 65,472 | 2,164 | 6,928 | 12,860 | – | – | 87,424 |
| Amounts due to holding company | 75,251 | 31,613 | – | – | – | – | 106,864 |
| Other liabilities | 3,081 | 58 | 97 | 120 | 1 | – | 3,357 |
| Total financial liabilities | 143,804 | 33,835 | 7,025 | 12,980 | 1 | – | 197,645 |
| Net liquidity gap | 83,595 | (33,817) | (4,923) | (12,980) | (1) | 175,545 | |

Amount less than \$1,000.

The table below shows the undiscounted cash outflows of the Bank's financial liabilities by remaining contractual maturities.

| | Within 7 days \$'000 | 1 week to 1 month \$'000 | 1 to 3 months \$'000 | 3 to 12 months \$'000 | 1 to 3 years \$'000 | Over 3 years \$'000 | Total \$'000 |
|--------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-----------------|
| 31 December 2009 | | | | | | | |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 96,237 | 2,340 | 5,445 | 73 | – | – | 104,095 |
| Amounts due to holding company | 344,736 | 50,298 | – | 30,281 | – | – | 425,315 |
| Other liabilities | 3,482 | 237 | 98 | 99 | 8 | – | 3,924 |
| Total financial liabilities | 444,455 | 52,875 | 5,543 | 30,453 | 8 | – | 533,334 |
| 31 December 2008 | | | | | | | |
| Financial liabilities | | | | | | | |
| Deposits of non-bank customers | 65,477 | 2,174 | 6,966 | 12,956 | – | – | 87,573 |
| Amounts due to holding company | 75,265 | 31,639 | – | – | – | – | 106,904 |
| Other liabilities | 3,081 | 58 | 97 | 120 | 1 | – | 3,357 |
| Total financial liabilities | 143,823 | 33,871 | 7,063 | 13,076 | 1 | – | 197,834 |

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23. Capital policy

The Bank's capital is managed by its immediate and ultimate holding company, OCBC Bank. A description of OCBC Bank's capital management policy, including the objectives and processes for managing capital, as well as OCBC Bank's regulatory capital positions, are included in OCBC Bank's Annual Report.

Capital adequacy ratio

The Bank's capital adequacy ratios at the end of the respective years were:

| \$ million | 2009 | 2008 |
|--------------------------------------|--------------|-------------|
| Tier 1 capital | | |
| Ordinary shares | 100 | 100 |
| Disclosed reserves | 96 | 80 |
| | 196 | 180 |
| Tier 2 capital | - | - |
| Total eligible capital | 196 | 180 |
| Risk weighted assets | 475 | 173 |
| Tier 1 capital adequacy ratio | 41.2% | 104.0% |
| Total capital adequacy ratio | 41.2% | 104.0% |

24. New accounting standards and interpretations

New standards, amendments and interpretations to existing standards have been issued as at balance sheet date but are not yet effective for the year ended 31 December 2009. None of these is expected to have any material impact on the Bank's financial statements.

25. Authorisation of financial statements

The financial statements were authorised for issue by the Board of Directors on 11 February 2010.