

**DBS BANK LTD**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31**

<b>In S\$ millions</b>	<b>Note</b>	<b>2003</b>	<b>2002</b>
Interest income		2,228	2,723
Less: Interest expense		775	1,029
<b>Net interest income</b>	5	<u>1,453</u>	<u>1,694</u>
Fee and commission income	6	457	427
Dividends	7	109	198
Rental income	8	20	17
Other income	9	651	558
<b>Income before operating expenses</b>		<u>2,690</u>	<u>2,894</u>
Less: Staff costs		500	531
Other operating expenses		550	542
<b>Operating expenses</b>	10	<u>1,050</u>	<u>1,073</u>
<b>Operating profit before provisions</b>		1,640	1,821
Less: Provision for possible loan losses and diminution in value of other assets	11	643	595
<b>Net profit before taxation</b>		<u>997</u>	<u>1,226</u>
Less: Taxation	12	255	279
<b>Net profit after taxation</b>		<u>742</u>	<u>947</u>

Figures for 2002 have been restated to reflect the change in accounting policy (Note 2.2).

(see notes on pages 5 to 59 , which form part of these financial statements)

**DBS BANK LTD**  
**BALANCE SHEET AS AT DECEMBER 31**

<b>In S\$ millions</b>	<b>Note</b>	<b>2003</b>	<b>2002</b>		<b>Note</b>	<b>2003</b>	<b>2002</b>
<b>SHARE CAPITAL</b>				<b>ASSETS</b>			
Share capital	14	<b>1,962</b>	1,962	Cash, and balances and placements with central banks		<b>4,861</b>	2,005
<b>RESERVES</b>							
Share premium account	15.1	<b>10,134</b>	10,134				
Non-distributable reserve	15.2	<b>2,313</b>	2,061	Singapore Government securities and treasury bills	22	<b>11,438</b>	9,006
Revenue reserve	15.3	<b>1,841</b>	1,506	Trading securities	23	<b>5,548</b>	2,676
		<b>14,288</b>	13,701				
<b>SHAREHOLDERS' FUNDS</b>		<b>16,250</b>	15,663	Balances, placements with, and loans and advances to banks		<b>21,768</b>	31,833
<b>LIABILITIES</b>							
Deposits and balances of banks		<b>7,199</b>	4,490	Bills receivable from non-bank customers	24	<b>1,051</b>	1,210
Deposits and other accounts of non-bank customers	16	<b>77,293</b>	71,185	Loans and advances to non-bank customers	24	<b>39,382</b>	35,904
Bills payable		<b>275</b>	376	Investment securities	26	<b>14,469</b>	7,634
Current taxation		<b>433</b>	359	Subsidiary companies	28	<b>12,276</b>	12,727
Other liabilities	18	<b>12,015</b>	13,016	Associated and joint venture companies	29	<b>613</b>	874
Other borrowings		<b>376</b>	393	Fixed assets	30	<b>645</b>	739
Other debt securities in issue	19	<b>2,382</b>	1,756	Deferred taxation assets	17	<b>115</b>	112
Due to holding company		<b>30</b>	216	Other assets	31	<b>9,890</b>	8,568
Due to subsidiary companies	20	<b>2,227</b>	2,179				
Due to related companies		<b>5</b>	6				
Subordinated term debts	21	<b>3,571</b>	3,649				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>122,056</b>	113,288	<b>TOTAL ASSETS</b>	35, 38	<b>122,056</b>	113,288
<b>OFF-BALANCE SHEET ITEMS</b>							
Contingent liabilities	32	<b>5,494</b>	5,551				
Commitments	33	<b>47,661</b>	45,961				
Financial derivatives	34	<b>1,225,945</b>	738,576				

Figures for 2002 have been restated to reflect the change in accounting policy (Note 2.2).

(see notes on pages 5 to 59 , which form part of these financial statements)

**DBS BANK LTD**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

<b>In S\$ millions</b>	<b>Note</b>	<b>Ordinary shares</b>	<b>6% Non-Cumulative Preference Shares</b>	<b>Share Premium</b>	<b>Non-distributable Reserve</b>	<b>Revenue Reserve</b>	<b>Total Reserves</b>
Balance at January 1, 2003		1,962	#	10,134	2,061	1,459	13,654
Effect of change in accounting policy	2.2					47	47
Balance at January 1, 2003 (restated)		1,962	#	10,134	2,061	1,506	13,701
Net exchange translation adjustments during the year					67		67
Appropriation from profit and loss account					185	(185)	-
Net profit after taxation						742	742
6% dividends on preference shares						(52)	(52)
8.66% dividends paid to DBSH						(170)	(170)
Balance at December 31, 2003		<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>2,313</u>	<u>1,841</u>	<u>14,288</u>
Balance at January 1, 2002		1,636	#	8,944	1,624	2,342	12,910
Effect of change in accounting policy	2.2					(9)	(9)
Balance at January 1, 2002 (restated)		1,636	#	8,944	1,624	2,333	12,901
Issue of ordinary and preference shares		326	-	1,190			1,190
Net exchange translation adjustments during the year					214		214
Appropriation from profit and loss account					223	(223)	-
Net profit after taxation						947	947
6% dividends on preference shares						(51)	(51)
104.1% dividends paid to DBSH						(1,500)	(1,500)
Balance at December 31, 2002		<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>2,061</u>	<u>1,506</u>	<u>13,701</u>

# Amount under S\$500,000

Figures for 2002 have been restated to reflect the change in accounting policy (Note 2.2).  
(see notes on pages 5 to 59 , which form part of these financial statements)

**DBS BANK LTD**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31**

In S\$ millions	2003	2002
<b>Cash flow from operating activities</b>		
Net profit before taxation	997	1,226
<b>Adjustments for non-cash items:-</b>		
Provision for possible loan losses and diminution in value of other assets	643	595
Depreciation of fixed assets	98	94
Net gain on disposal of fixed assets	-	(2)
Net gain on disposal of investment securities	(208)	(224)
Operating profit before changes in operating assets & liabilities	1,530	1,689
<b>Increase/(Decrease) in:</b>		
Deposits and other accounts of non- bank customers	6,108	(3,068)
Deposits and balances of banks	2,709	(2,655)
Other liabilities including bills payable	2,340	5,079
Due to holding, related and subsidiary companies	(139)	(21)
<b>(Increase)/Decrease in:</b>		
Singapore Government securities and treasury bills	(2,443)	(54)
Trading securities	(2,872)	(1,411)
Accounts receivable and other assets	(1,325)	(4,249)
Balances, placements with, and loans and advances, to other banks	10,047	2,240
Loans and advances to non-bank customers including bills receivable	(3,526)	4,597
Due from subsidiary companies	(346)	(268)
Tax paid	(184)	(152)
<b>Net cash generated from operating activities (1)</b>	<b>11,899</b>	<b>1,727</b>
<b>Cash flows from investing activities</b>		
Acquisition of additional interests in subsidiary companies	(3,654)	-
Capital reduction in subsidiary companies	1,019	-
Disposal of subsidiary companies	-	95
Acquisition of additional interests in associate companies	(49)	(16)
Disposal of interests in associate companies	-	4
Purchase of fixed assets	(42)	(63)
Net increase in investment securities	(6,664)	(3,291)
Proceeds from sale of fixed assets	37	50
<b>Net cash used in investing activities (2)</b>	<b>(9,353)</b>	<b>(3,221)</b>
<b>Cash flows from financing activities</b>		
<b>Increase/(Decrease) in:</b>		
Share capital and share premium	-	1,305
Debt securities and borrowings	532	331
Dividends paid to shareholder	(222)	(1,551)
<b>Net cash generated from financing activities (3)</b>	<b>310</b>	<b>85</b>
<b>Net change in cash, and balances and placements with central banks (1)+(2)+(3)</b>	<b>2,856</b>	<b>(1,409)</b>
<b>Cash, and balances and placements with central banks as at January 1</b>	<b>2,005</b>	<b>3,414</b>
<b>Cash, and balances and placements with central banks as at December 31</b>	<b>4,861</b>	<b>2,005</b>

Figures for 2002 have been restated to reflect the change in accounting policy (Note 2.2).  
(see notes on pages 5 to 59 , which form part of these financial statements)

## **NOTES TO THE FINANCIAL STATEMENTS**

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

### **1 GENERAL**

The financial statements of DBS Bank Ltd (formerly known as The Development Bank of Singapore Ltd) (“DBS Bank”) for the year ended December 31, 2003 were approved and authorised for issue by the Board of Directors on February 19, 2004.

The financial statements are expressed in Singapore dollars. DBS Bank is principally engaged in the business of banking including the operations of an Asian Currency Unit under terms and conditions specified by the Monetary Authority of Singapore. The principal activities of the subsidiary companies of DBS Bank are disclosed in Note 28.2.

DBS Bank is a wholly owned subsidiary of DBS Group Holdings Ltd (“DBSH”). The registered office of DBS Bank is located at 6 Shenton Way, DBS Building Tower One, Singapore 068809.

Pursuant to Section 201(3BA) of the Singapore Companies Act, DBS Bank is not required to prepare consolidated financial statements. The results of DBS Bank’s subsidiary companies, and newly acquired and incorporated subsidiary companies have been included in the consolidated financial statements of DBSH Group from the date they became subsidiary companies.

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies applied by DBS Bank and, except where noted, are consistent with those applied in the previous financial year. The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### **2.1 BASIS OF PRESENTATION**

**2.1.1** These financial statements of DBS Bank are prepared in accordance with the historical cost convention, modified by the revaluation of certain treasury instruments to market value.

The financial statements comply with Singapore Financial Reporting Standards (“FRS”) including related Interpretations promulgated by the Council on Corporate Disclosure and Governance (“CCDG”). The financial statements were previously prepared in accordance with the Singapore Statements of Accounting Standard (“SAS”). The transition from SAS to FRS has no material impact on the financial statements of DBS Bank.

**2.1.2** FRS 39, “Financial Instruments: Recognition and Measurement” has been adopted by the CCDG during the financial year but the Standard will be effective from January 1, 2005. The implementation of FRS 39 is expected to have a significant impact on certain financial assets and liabilities. An opening adjustment to reserve will also be required, representing

unrealised gains or losses on financial assets recorded as available for sale, and derivatives designated as cash flow hedges.

## **2.2 CHANGE IN SIGNIFICANT ACCOUNTING POLICY**

The Monetary Authority of Singapore revised MAS Notice 605 during the third quarter of 2003, allowing for the measurement of trading book positions at fair value. Following the revision, DBS Bank revised its classification guidelines and measurement of its trading and investment securities.

Prior to the revision, Singapore Government securities and other trading securities were separately stated at cost (adjusted for amortisation of premium or discount) less provision. Provision was made based on the shortfall between cost and market value determined on an aggregate portfolio basis and recognised as a charge to the profit and loss account as they arise.

With the revision, a security is classified as held for trading if it is acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A security is also classified as held for trading if it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, regardless of why it was acquired. These securities are recorded at fair value on the balance sheet, with changes in fair value recorded in "Other income" in the profit and loss account.

Securities that are not classified as held for trading are classified as investment securities. These securities are stated at cost less provision. Specific provision is made for an individual investment when there has been a diminution in value, except where such diminution is temporary, and is charged to the profit and loss account as they arise. In addition, for corporate debt securities, a general provision charge in line with the DBS Bank's existing provisioning policies is also recorded in the profit and loss account.

The accounting policy change has been applied retroactively, and the comparable financial results for DBS Bank have been restated to conform to the new accounting policy.

As a result of the change, the net profit after taxation ("NPAT") of DBS Bank for 2003 was S\$7 million higher than it would have been had the change not been made. Accordingly, the previously reported NPAT for 2002 increased by S\$56 million and the beginning revenue reserves at January 1, 2002 decreased by S\$9 million.

## **2.3 SUBSIDIARY COMPANIES**

Subsidiary companies are companies in which DBS Bank has an interest of more than 50% in the issued share capital at balance sheet date.

Investments in subsidiary companies are stated in the financial statements at cost less impairment losses.

## **2.4 ASSOCIATED AND JOINT VENTURE COMPANIES**

Associated companies are companies in which DBS Bank has an equity interest of between 20% and 50% and over whose financial decisions and operating policies DBS Bank exercises

significant influence. A joint venture is a contractual arrangement whereby DBS Bank and its joint venture partners undertake an economic activity, which is subject to joint control, and none of the parties involved unilaterally have control over the economic activity.

Investments in associated and joint venture companies are stated in the financial statements at cost less impairment losses.

## **2.5 FOREIGN CURRENCIES**

Assets and liabilities denominated in foreign currencies are translated into Singapore dollars using the closing exchange rate at balance sheet date. Income and expense are translated using exchange rates at the transaction date. All resulting changes are recognised in the profit and loss account.

The income statement of foreign entities not reporting in Singapore dollars are translated at the average rates of exchange. Balance sheets are translated at closing rate. Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences resulting from retranslation of the result for the year from average rate to the year end rate are accounted for in reserves.

## **2.6 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with the central banks.

## **2.7 LOANS AND ADVANCES**

Loans and advances are carried at recoverable amounts i.e., outstanding balances after deduction of provisions for bad and doubtful debts.

Loans are classified in accordance with MAS' guidelines as well as internal loan grading policies. These classifications, and underlying collateral valuations, are used to determine the amount of provision required. MAS' guidelines require banks to classify their loan portfolios into five categories – two categories for performing loans (Pass and Special Mention) and three categories for classified, or non-performing loans (Substandard, Doubtful or Loss).

When concessions are granted to the original terms of the loan for reasons that related to the financial difficulties of the borrower, the loan is considered a Restructured Loan. A Restructured Loan is generally graded as Substandard or worse. Restructured Loans are not returned to performing status until specific conditions have been met, including there being no longer any reasonable doubt regarding the timely collection of principal and interest and there having been a reasonable period of sustained performance under the restructured terms.

## **2.8 PROVISION FOR LOAN LOSSES**

Provision for loan losses comprise specific provisions against certain loans and advances and a general provision on total loans and advances.

A specific provision is made when a loan is classified as Substandard or worse and there is insufficient collateral security or other unencumbered assets available to repay loans in full. Specific provisions are based on several factors including: loan amount, other commitments to the borrower, the borrower's payment history and business prospects, collateral value, and the estimated costs to obtain repayment. The actual percentage provided depends on management's judgement and whether the loan is graded "Substandard", "Doubtful", or "Loss". Substandard loans will generally have a specific provision of 10% to 49% of the unsecured principal amount. Doubtful loans will typically have a specific provision of 50% to less than 100% of the unsecured principal amount, and Loss grade loans are provisioned at 100% of the unsecured principal amount. Interest on Substandard and worse loans is provisioned at 100% of the accrued amount.

General provisions are maintained for losses that can reasonably be expected to arise, based on historical experience, from the existing overall loan portfolio over its remaining life but which are not yet identifiable. In determining the level of general provision, reference is also made to country conditions, the composition of the portfolio and industry practices.

In the case of loans managed on an individual basis, bad debts are written off against provisions when recovery action has been instituted and the losses can be determined with reasonable certainty. For loans managed on a portfolio basis, unsecured bad debts are written off against provisions when amounts owing are 180 days past due while secured bad debts are written off to provisions when the collateral has been disposed of or sold. DBS Bank continues to make every effort to recover amounts owing, even after write-offs have been recorded.

## **2.9 DEBT SECURITIES AND EQUITIES**

### **2.9.1 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS**

With the change in accounting policy as disclosed in Note 2.2, Singapore Government securities and treasury bills classified for trading purposes are recorded at fair value on the balance sheet, with changes in fair value recorded in "Other income" in the profit and loss account, and those classified for investment purposes are stated at cost less provision. Provision is made for the investment portfolio when there is deemed to be a permanent diminution in value and this is recognised as a charge to the profit and loss account as they arise.

### **2.9.2 TRADING SECURITIES**

With the change in accounting policy as disclosed in Note 2.2, trading securities are recorded at fair value on the balance sheet, with changes in fair value recorded in "Other income" in the profit and loss account. Where the market price may not be achievable as a result of operating in illiquid markets, appropriate adjustments to the market value are made.

### **2.9.3 INVESTMENT SECURITIES**

Investments in other government securities and treasury bills, equity securities and debt securities not classified as held for trading are classified as investment securities, and are stated at cost less provision. Specific provision is made for an individual investment when there has been a diminution in value, except where such diminution is temporary and is recognised as a



charge to the profit and loss account as they arise. General provision is made for corporate debt securities for possible losses that may arise, but which are not yet identifiable.

## **2.10 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS (“REPOS” AND “REVERSE REPOS”)**

Repos are treated as collateralised borrowing and the amount borrowed is shown as a liability. The securities sold under repos are treated as pledged assets and remain on the balance sheet as an asset, included in “Singapore Government securities and treasury bills” (Note 22), “Trading securities” (Note 23) and “Investment securities” (Note 26). Reverse repos are treated as collateralised lending and the amount lent is shown as an asset. The difference between the amount received and the amount paid under repos, and reverse repos is amortised as interest expense and interest income respectively on a straight-line basis.

## **2.11 FORECLOSED PROPERTIES**

Foreclosed properties are acquired in full or partial satisfaction of debts, and are accounted for at the lower of settlement or market value on an individual asset basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding is recognised as a loss in the profit and loss account in the year the foreclosed properties are taken over in satisfaction of the debt. Market value is based on the appraised value of an independent appraiser less selling costs. The excess of the cost over the market value is recognised as a loss in the profit and loss account. Gains or losses on disposals of such properties are recognised in the profit and loss account at the date of disposal.

## **2.12 FIXED ASSETS, INCLUDING INVESTMENT PROPERTIES**

Fixed assets are stated at historical cost less accumulated depreciation. The basis of depreciation is as follows: -

**2.12.1** Leasehold land, where the balance of the leasehold period is 100 years or less, is amortised over the remaining period of the lease. No amortisation is made on freehold land and on leasehold land where the unexpired lease period is more than 100 years.

**2.12.2** Buildings, excluding plant and machinery installed therein, are depreciated on a straight-line basis over their useful lives estimated at 50 years or over the period of the respective leases, whichever is shorter.

**2.12.3** Computer software costs are capitalised and amortised on a straight-line basis over the estimated useful lives of the software ranging from 3 to 5 years.

**2.12.4** Other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows: -

Plant and machinery	5 - 15 years
Computer hardware and office equipment	1 - 10 years
Furniture and fittings	1 - 10 years

The estimated useful lives of these fixed assets are assessed on a periodic basis to ensure that they continue to be appropriate.

Fixed assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

## **2.13 TREASURY RELATED OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

The accounting treatment applied to treasury related off-balance sheet financial instruments, including forwards, swaps, futures and options, is based upon the intention for entering into the transactions as elaborated below.

### **2.13.1 NON-TRADING TRANSACTIONS**

Derivatives may be used to hedge interest rate, exchange rate or other price exposures that are inherent in the assets and liabilities of DBS Bank.

The criteria required for a derivative instrument to be classified as a designated hedge are:

- (i) the derivative instrument must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cashflows being hedged; and
- (ii) there is adequate evidence of the intention to hedge. Linkage with the underlying risk inherent in the assets, liabilities, other positions or cashflows being hedged, must be established at the outset of the transaction.

Profits and losses on derivatives entered into for specifically designated hedging purposes against assets, liabilities, other positions or cashflows measured on an accrual accounting basis are included in the related category of income or expense in the profit and loss account on the same basis as that arising from the underlying hedging transactions.

Hedging transactions, which have been superseded, cease to be effective or are terminated prior to the end of the life of the assets, liabilities, other positions or cashflows being hedged, are measured at fair value. Any profit or loss arising from the fair value measurement is deferred and amortised as interest income or expense in the profit and loss account over the remaining life of the items previously being hedged.

When the underlying assets, liabilities, other positions or cashflows are terminated prior to the hedging transactions, or anticipated transactions are no longer likely to occur, the hedging transactions are measured at fair value prior to being transferred to the trading portfolio. The

profit or loss arising from the fair value measurement prior to the transfer to the trading portfolio is included in the category of income and expense in the profit and loss account relating to the previously hedged transactions.

### **2.13.2 TRADING TRANSACTIONS**

Derivative transactions, which do not meet the criteria to be designated as hedges, are deemed to be trading transactions except as described in Note 2.13.1.

Transactions undertaken for trading purposes are stated at fair value. Quoted market prices, when available, are used to determine the fair values of derivatives held for trading. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices. In addition, where appropriate, a liquidity adjustment is made when a market price may not be achievable as a result of certain material positions held by DBS Bank and a model reserve is set aside for positions where the models used may be a proxy or there may be numerical uncertainty within certain ranges.

Resultant gains and losses from changes in fair value of trading transactions are recognised as “Other income” in the profit and loss account. Unrealised valuation gains or losses are included in “Other assets” or “Other liabilities” respectively.

### **2.14 OFFSETTING FINANCIAL INSTRUMENTS**

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

### **2.15 INTEREST INCOME**

Interest income is recognised on an accrual basis.

Interest earned but not received on non-performing loans is not recognised as income in the profit and loss account until receipt. All interest accrued previously and recognised in the profit and loss account is reversed from interest income once a loan is classified as non-performing.

Amortisation of premiums and accretion of discounts are recognised as interest expense or interest income on straight-line basis over the life of the asset or liability.

### **2.16 FEE AND COMMISSION INCOME**

Fee and commissions are recognised in the profit and loss account as and when the service is performed and when considered recoverable. Fee income relating to loans and guarantees is recognised over the period during which the related service is provided or credit risk is undertaken. Where a fee is charged in lieu of interest, such fee is amortised over the same period as the related income is recognised.

## **2.17 DIVIDENDS**

Dividends from equities are recognised when declared payable.

## **2.18 STAFF COSTS, EQUITY COMPENSATION AND SHARE OPTION PLANS**

DBS Bank has adopted a total compensation package that consists of base pay, cash bonuses, other staff-related allowances and long-term incentive schemes/plans. These long-term incentives are the DBSH Share Ownership Scheme, the DBSH Performance Share Plan, the DBSH Employee Share Plan, the DBSH Share Option Scheme and the DBSH Share Option Plan. The details of these share schemes/plans are described in the Directors' Report and Note 13.

Remuneration expenses on base pay, cash bonuses, contributions to defined contribution plans e.g., Central Provident Fund, other staff-related allowances and contributions to the DBSH Share Ownership Scheme are recognised in the profit and loss account once 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, DBS Bank has no further payment obligations.

For the DBSH Performance Share Plan and the DBSH Employee Share Plan, a trust is set up for each share plan. The shares purchased are recorded as "Other assets" in the balance sheet at cost less provision for diminution in value. When the shares are awarded, remuneration expenses are computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

Options granted under the DBSH Share Option Scheme and the DBSH Share Option Plan are not recognised as remuneration expenses. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and share premium accounts.

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.

## **2.19 OPERATING LEASES**

Operating leases are charged to the profit and loss account 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 required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

## **2.20 TAXATION**

The current taxation charged to the profit and loss account represents tax at the current rate based on taxable profits earned during the financial year. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets

and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation of fixed assets, provision for loan losses, tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

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

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

## **2.21 PROVISIONS AND OTHER LIABILITIES**

Provisions are recognised when DBS Bank 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.

## **2.22 SHARE CAPITAL**

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

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

## **2.23 FIDUCIARY ACTIVITIES**

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the financial statements where DBS Bank acts in a fiduciary capacity such as nominee, trustee or agent.

## **2.24 BORROWINGS**

Borrowings are recognised initially at "cost", being their issue proceeds (fair value of consideration received) net of transaction costs incurred.

## **2.25 DEPOSITS AND OTHER ACCOUNTS OF CUSTOMERS**

These balances are stated at cost, which are the initial amount deposited.

## **2.26 PLACEMENTS WITH AND DEPOSITS OF BANKS**

The balances due from and to banks are stated at the initial amount placed or deposited. Provision, if required, is made for any placements or loans considered to be doubtful of collection.

## **2.27 AMOUNTS DUE TO/FROM HOLDING COMPANY, SUBSIDIARY COMPANIES AND RELATED COMPANIES**

These balances are stated at cost.

## **3 COMPARATIVES**

The comparatives were restated to conform to the change in accounting policy as described in Note 2.2. Where necessary, certain comparative figures were adjusted in order to provide proper comparison with current year's presentation.

## **4 SEGMENTAL PRESENTATION**

The business segment results are prepared based on information and data generated from DBS Bank's internal financial reporting systems and adjusted to reflect the organisation's management reporting structure. The activities of DBS Bank 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.

Unless otherwise stated, the analyses of geographical segments are generally based on the location of the office recording the transactions.

Descriptions of business and geographical segments are set out in Note 38.

## **5 NET INTEREST INCOME**

Interest income comprises interest arising from various types of lending activities and includes interest on debt securities.

Interest expense comprises interest incurred on deposits and debt securities, and borrowings from financial institutions and other sources.

## **6 FEE AND COMMISSION INCOME**

Fee and commission income comprises the following:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Loan-related (include guarantees fees)	<b>120</b>	109
Trade and remittances	<b>56</b>	57
Deposit-related	<b>70</b>	74
Wealth management (unit trust distribution and bancassurance)	<b>69</b>	57
Credit cards	<b>45</b>	43
Investment banking	<b>60</b>	60
Others (includes stockbroking)	<b>37</b>	27
<b>Total</b>	<b>457</b>	427

## **7 DIVIDENDS**

Dividends include gross dividend income from trading and investment equity holdings.

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Dividends (gross) from subsidiary companies	<b>34</b>	151
Dividends (gross) from associated companies	<b>33</b>	28
Dividends (gross) from other investments	<b>42</b>	19
<b>Total</b>	<b>109</b>	198

## **8 RENTAL INCOME**

Rental income represents income on the tenanted areas of the buildings owned by DBS Bank.

## **9 OTHER INCOME**

Other income comprises the following:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Net gain on treasury activities (including structured investment products) <sup>(a)</sup>	<b>438</b>	329
Net gain on investment securities <sup>(b)</sup>	<b>208</b>	224
Net gains on fixed assets	-	2
Others	<b>5</b>	3
<b>Total</b>	<b>651</b>	558

(a) Net gain on treasury activities include gains and losses from market making, structuring and trading of financial products including foreign exchange, securities, and interest rate/ credit/ equity/ foreign exchange derivatives, from proprietary and customer driven activities.

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(b) Net gain on investment securities include net gains and losses on debt securities, including Singapore Government securities, and equities in the investment portfolio. Included in 2002 was a S\$96 million gain from the sale of equity stake in Natsteel Ltd.

**10 OPERATING EXPENSES**

Operating expenses comprises the following:

In S\$ millions	2003	2002
Staff costs	500	531
Other operating expenses	550	542
- Technology-related expenses	197	152
- Occupancy expenses	129	138
- Revenue-related expenses	85	79
- Office administration expenses	31	40
- Other expenses	108	128
Restructuring and integration costs	-	5
<b>Total</b>	<b>1,050</b>	<b>1,073</b>

**10.1** Staff costs include salaries, bonuses, contributions to defined contribution plans, e.g., the Central Provident Fund, and all other staff-related expenses (Note 2.18). Contributions to defined contribution plans was S\$38 million (2002: S\$39 million). At December 31, 2003, DBS Bank employed 5,760 (2002: 5,895) staff.

**10.2** Technology-related expenses include depreciation, hire and maintenance of computer hardware and software, fees for outsourcing certain technology-related functions, and other computer-related expenses.

Occupancy expenses include amounts incurred in the maintenance and service of buildings owned by DBS Bank, rental and depreciation expenses of office and branch premises, and other occupancy expenses.

Revenue-related expenses include commission and brokerage expenses, and other expenses directly related to revenue generation.

Office administration expenses include postages, printing & stationary, telecommunication and office equipment expenses.

Other expenses include advertising, professional and consultancy fees, security guard expenses and other general expenses.



**10.3** Operating expenses include the following:

In S\$ millions	2003	2002
(1) Auditors' remuneration	4	3
Audit fees		
- E&Y / PwC Singapore <sup>(a)</sup>	2	2
- Other auditors including associated firms of E&Y / PwC Singapore <sup>(a)</sup>	#	#
Fee for non-audit services <sup>(b)</sup>		
- E&Y / PwC Singapore <sup>(a)</sup>	1	#
- Other auditors including associated firms of E&Y / PwC Singapore <sup>(a)</sup>	#	#
(2) Hire and maintenance of fixed assets including building-related expenses	83	101
(3) Rental of premises	50	56
(4) Depreciation of fixed assets	98	94

# Amount under S\$500,000

(a) E&Y : Ernst & Young/ PwC : PricewaterhouseCoopers.

(b) Fees are mainly for services provided for specific projects closely related to audit activities such as due diligence on merger and acquisition projects.

**11 PROVISION FOR POSSIBLE LOAN LOSSES AND DIMINUTION IN VALUE OF OTHER ASSETS**

The charge to the profit and loss account is analysed as follows:

In S\$ millions	2003	2002
Loans (Note 25)	207	168
- Specific Provision	184	224
- General Provision	23	(56)
Investment Securities (Note 27)	422	388
- Specific Provision	391	355
- General Provision	31	33
Fixed assets and others (Note 27)	14	39
- Specific Provision	(8)	50
- General Provision	22	(11)
<b>Total</b>	<b>643</b>	<b>595</b>

## **12 TAXATION**

Taxation charge in respect of profit for the financial year is analysed as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Current taxation		
- current year	<b>258</b>	308
Deferred taxation (Note 17)		
- origination and reversal of temporary differences	<b>(3)</b>	(27)
- reduction in tax rate	-	(2)
<b>Total</b>	<b>255</b>	<b>279</b>

**12.1** The deferred (credit)/charge in the profit and loss account comprises the following temporary differences:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Accelerated tax depreciation	<b>3</b>	(12)
Provision for loan losses	<b>6</b>	(36)
Other temporary differences	<b>(12)</b>	19
<b>Deferred taxation charged to profit and loss account</b>	<b>(3)</b>	<b>(29)</b>

**12.2** The tax on DBS Bank's operating profit differs from the theoretical amount that would arise using the Singapore basic tax rate as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Operating profit	<b>997</b>	1,226
Prima facie tax calculated at a tax rate of 22% (2002: 22%)	<b>219</b>	269
Effect of different tax rates in other countries	<b>(8)</b>	(5)
Effect of change in tax rate	-	(2)
Income not subject to tax	<b>(2)</b>	(37)
Income taxed at concessionary rate	<b>(72)</b>	(85)
Non-tax deductible provisions	<b>78</b>	116
Others	<b>40</b>	23
<b>Taxation charged to profit and loss account</b>	<b>255</b>	<b>279</b>

Further information on deferred income tax is presented in Note 17.

### 13 SHARE OPTIONS AND SHARE PLANS

#### 13.1 DBSH SHARE OWNERSHIP SCHEME

The DBSH Share Ownership Scheme (the “SOS”) is a fund set up to hold units of DBSH ordinary shares and is administered by DBS Trustee Ltd, a wholly owned subsidiary company of DBS Bank. All confirmed employees with at least one year of service and who are not participating in the DBSH Share Option Plan/Scheme are eligible to contribute up to 10% of their monthly base pay to buy units of DBSH ordinary shares. DBSH Group will top up 50% of the employee’s contribution as additional incentive to the employee.

Details of the DBSH ordinary shares held by DBS Trustee Ltd pursuant to the DBSH Share Ownership Scheme are as follows:

	Number of DBSH ordinary shares		Market value of DBSH ordinary shares (S\$ millions)	
	2003	2002	2003	2002
At beginning of the year	3,281,329	2,807,529	36	38
At end of the year	3,580,829	3,281,329	53	36

#### 13.2 DBSH SHARE OPTION SCHEME

The DBSH Share Option Scheme (“Option Scheme”) was terminated on October 18, 1999. Options granted under the Option Scheme in 1998 expired on April 7, 2003 and there are no further outstanding unexercised options under the Option Scheme.

The movements of the unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding existing unexercised options are as follows:

DBSH Options	Number of unissued ordinary shares	During the year		Number of unissued ordinary shares	Subscription price per ordinary share	Date of expiration
	January 1, 2003	Exercised	Lapsed	December 31, 2003		
1998	906,788	906,745	43	-	S\$7.69	April 7, 2003

Ordinary shares of DBSH of par value S\$1.00 issued upon exercise of share options during the year ended December 31, 2003 yielded the following proceeds, at the following market value:

In S\$ millions	2003	2002
Ordinary share capital – at par	1	1
Share premium	6	9
Proceeds	7	10
Market value, at exercise date, of shares issued	9	19

### **13.3 DBSH SHARE OPTION PLAN**

Under the DBSH Share Option Plan (the “Option Plan”), options to subscribe for DBSH ordinary shares could be granted to DBSH Group executives who hold the rank of Vice President (or equivalent rank) and above and selected employees of DBSH Group of a rank below the rank of Vice President (or equivalent rank). This would also include executives of associated companies of DBSH Group who hold the rank of Vice President (or equivalent rank) and non-executive directors of DBSH.

The movements of the unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding DBSH options granted under the Option Plan were as follows:

<b>DBSH Options</b>	<b>Number of unissued ordinary shares</b>	<b>During the year</b>			<b>Number of unissued ordinary shares</b>	<b>Subscription price per ordinary share</b>	<b>Date of expiration</b>
		<b>January 1, 2003</b>	<b>Granted</b>	<b>Exercised</b>			
1999	4,256,461	-	-	455,425	3,801,036	S\$15.30	July 27, 2009
March 2000	1,697,000	-	-	110,800	1,586,200	S\$20.87	March 5, 2010
July 2000	1,153,800	-	-	39,200	1,114,600	S\$22.33	July 26, 2010
March 2001	12,193,000	-	-	568,000	11,625,000	S\$17.70	March 14, 2011
June 2001	21,000	-	-	-	21,000	S\$14.76	May 31, 2011
August 2001	1,500,000	-	60,000	26,000	1,414,000	S\$12.93	July 31, 2011
October 2001	11,655	-	11,655	-	-	S\$10.73	October 30, 2011
January 2002	50,500	-	-	-	50,500	S\$13.70	January 1, 2012
March 2002	12,328,240	-	38,000	524,000	11,766,240	S\$14.73	March 27, 2012
August 2002	1,290,000	-	4,000	71,000	1,215,000	S\$12.27	August 15, 2012
October 2002	9,260	-	-	-	9,260	S\$11.73	October 9, 2012
December 2002	20,000	-	-	-	20,000	S\$11.47	December 17, 2012
February 2003	-	14,318,100	96,800	703,700	13,517,600	S\$10.40	February 23, 2013
March 2003	-	15,000	-	-	15,000	S\$9.18	March 9, 2013
	34,530,916	14,333,100	210,455	2,498,125	46,155,436		

Ordinary shares of DBSH of par value S\$1.00 issued upon exercise of share options during the year yielded the following proceeds, at the following market value:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Ordinary share capital – at par	#	-
Share premium	2	-
Proceeds	2	-
Market value, at exercise date, of shares issued	3	-

# Amount under S\$500,000

#### **13.4 DBSH PERFORMANCE SHARE PLAN**

The DBSH Performance Share Plan (the “PSP”) is a stock-based plan where DBSH ordinary shares are given free to eligible employees. Eligible employees currently are similar to the DBSH Share Option Plan (Note 13.3).

During the financial year, awards in respect of an aggregate of 768,360 (2002: 598,380) DBSH ordinary shares were granted to selected employees pursuant to the PSP. When the shares are awarded, remuneration expenses are computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

#### **13.5 DBSH EMPLOYEE SHARE PLAN**

The DBSH Employee Share Plan (the “ESP”) is intended to cater to all employees of the DBSH Group and associated companies of the DBSH Group who are not eligible to participate in the DBSH Share Option Plan, the DBSH Performance Share Plan or other equivalent plans.

During the financial year, there were no DBSH ordinary shares granted to eligible employees pursuant to the ESP (2002 : 438,940 shares). When the shares were awarded, remuneration expenses were computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

## **14 SHARE CAPITAL**

The share capital of DBS Bank at December 31, 2003, is as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
<b><u>Authorised</u></b>		
2,000,000,000 ordinary shares of S\$1 each	<b>2,000</b>	2,000
600,000,000 non-redeemable convertible preference shares of S\$2 each	<b>1,200</b>	1,200
300,000,000 non-voting convertible preference shares of S\$1 each	<b>300</b>	300
800,000 non-cumulative redeemable non-convertible perpetual preference shares of US\$0.01 each and each with a liquidation preference of US\$1,000	<b>#</b>	#
17,500 non-cumulative redeemable non-convertible perpetual preference shares of S\$0.01 each and each with a liquidation preference of S\$10,000	<b>- (a)</b>	- (a)
1,100,000,000 non-cumulative non-convertible perpetual preference shares of S\$0.01 each and each with a liquidation preference of S\$100	<b>11</b>	11
	<b>1,511</b>	1,511
<b><u>Issued and fully paid-up</u></b>		
1,962,302,697 (2002: 1,962,302,697) ordinary shares of S\$1 each	<b>1,962</b>	1,962
11,000,000 (2002: 11,000,000) non-cumulative non-convertible perpetual preference shares S\$0.01 each	<b>#</b>	#
<b>Total</b>	<b>1,962</b>	<b>1,962</b>

# Amount under S\$500,000

(a) Amounted to S\$175.

## **15 RESERVES**

### **15.1 SHARE PREMIUM ACCOUNT**

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Balance at January 1	<b>10,134</b>	8,944
Issue of ordinary shares for acquisition	<b>-</b>	1,190
Balance at December 31	<b>10,134</b>	10,134

## **15.2 NON-DISTRIBUTABLE RESERVES**

Non-distributable reserves comprise the following:

<b>In S\$ millions</b>	<b>2003</b>		<b>Total</b>
	<b>General reserve <sup>(a)</sup></b>	<b>Capital reserve <sup>(b)</sup></b>	
Balance at January 1, 2003	<b>1,951</b>	<b>110</b>	<b>2,061</b>
Appropriation from profit and loss account	<b>185</b>	<b>-</b>	<b>185</b>
Net exchange translation adjustments during the year	<b>-</b>	<b>67</b>	<b>67</b>
<b>Balance at December 31, 2003</b>	<b>2,136</b>	<b>177</b>	<b>2,313</b>

<b>In S\$ millions</b>	<b>2002</b>		<b>Total</b>
	<b>General reserve <sup>(a)</sup></b>	<b>Capital reserve <sup>(b)</sup></b>	
Balance at January 1, 2002	1,728	(104)	1,624
Appropriation from profit and loss account	223	-	223
Net exchange translation adjustments during the year	-	214	214
<b>Balance at December 31, 2002</b>	<b>1,951</b>	<b>110</b>	<b>2,061</b>

- (a) The appropriation from profit and loss account relates to amounts transferred to the Reserve Fund to comply with the Banking Act.
- (b) The Capital reserve comprises net exchange translation adjustments arising from translation differences on opening net investments in foreign subsidiaries and branches, and the related foreign currency borrowings designated as a hedge.

## **15.3 REVENUE RESERVE**

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Balance at January 1		
As previously reported	<b>1,459</b>	2,342
Effect of change in accounting policy (Note 2.2)	<b>47</b>	(9)
Balance at January 1 as restated	<b>1,506</b>	2,333
Net profit after taxation	<b>742</b>	947
Transfer to general reserve (Note 15.2)	<b>(185)</b>	(223)
Amount available for distribution	<b>2,063</b>	3,057
Less: 8.66% (2002 : 104.1%) ordinary dividends net of 22% tax paid	<b>170</b>	1,500
6% on preference dividends of net of 22% tax paid	<b>52</b>	51
<b>Balance at December 31</b>	<b>1,841</b>	<b>1,506</b>

## **15.4 DIVIDEND PROPOSED**

There is no dividend proposed for the financial year ended December 31, 2003.

## 16 DEPOSITS AND OTHER ACCOUNTS OF NON-BANK CUSTOMERS

In S\$ millions	2003	2002
<b>Analysed by Currency</b>		
Singapore dollar	56,562	53,601
US dollar	15,770	13,410
Hong Kong dollar	674	981
Others	4,287	3,193
<b>Total</b>	<b>77,293</b>	<b>71,185</b>
<b>Analysed by Product</b>		
Savings accounts (include S\$ Autosave)	39,429	38,304
Current accounts	8,498	7,464
Fixed deposits	25,556	22,480
Other deposits	3,810	2,937
<b>Total</b>	<b>77,293</b>	<b>71,185</b>

## 17 DEFERRED TAXATION

The movement in deferred tax is as follows:

In S\$ millions	2003	2002
Balance at January 1	(112)	(83)
Provision during the year (Note 12)	(3)	(29)
<b>Balance at December 31</b>	<b>(115)</b>	<b>(112)</b>

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

In S\$ millions	2003	2002
<b>Deferred income tax liabilities/(assets)</b>		
Accelerated tax depreciation	28	25
Provision for loan losses	(127)	(133)
Other temporary differences	(16)	(4)
<b>Balance at December 31</b>	<b>(115)</b>	<b>(112)</b>

Deferred tax assets and liabilities are offset when there is 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.



## **18 OTHER LIABILITIES**

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Balances arising from revaluation of financial instruments (Note 34)	<b>8,114</b>	6,786
Payable arising from acquisition of a subsidiary company (Note 18.1)	-	3,415
Sundry creditors	<b>866</b>	605
Interest payable	<b>390</b>	498
Other payables	<b>1,924</b>	1,005
Liabilities arising from collaterals received	<b>721</b>	707
<b>Total</b>	<b>12,015</b>	13,016

**18.1** As at December 31, 2002, DBS Bank recognised the monies payable to minority shareholders of DBS Diamond Holdings Limited (“DDH”) when DBS Bank exercised its call option to acquire the minority shareholders’ interest in DDH on January 10, 2003. This was reflected as a “Payable arising from acquisition of a subsidiary company”.

## **19 OTHER DEBT SECURITIES IN ISSUE**

The following is a summary of the other debt securities in issue (unsecured unless otherwise stated) at December 31:

### **19.1 NEGOTIABLE CERTIFICATES OF DEPOSITS**

<b>In S\$ millions</b>				<b>2003</b>	<b>2002</b>
<i>Face Value</i>	<i>Interest Rate and Repayment Terms</i>	<i>Issue Date</i>	<i>Maturity Date</i>		
HK\$150m	5.18%, payable quarterly	Apr 10, 2001	Apr 10, 2003	-	34
HK\$5m	3.00%, payable yearly	Nov 2, 2001	Nov 3, 2003	-	1
HK\$100m	3-mth interbank offer rate for HK\$ deposits + 0.18%, payable monthly	Jun 15, 2000	Jun 16, 2003	-	22
TWD50m	1.73%, payable on maturity	Nov 19, 2002	Jan 19, 2003	-	2
TWD100m	1.465%, payable on maturity	Apr 12, 2002	Apr 1, 2003	-	5
TWD100m	1.465%, payable on maturity	Sep 12, 2002	Sep 1, 2003	-	5
TWD120m	0.985%, payable on maturity	Dec 2, 2003	Jan 2, 2004	<b>6</b>	-
TWD150m	1.475%, payable on maturity	Dec 23, 2002	Jan 23, 2003	-	8
TWD200m	1.030%, payable on maturity	Dec 31, 2003	Jan 31, 2004	<b>10</b>	-
TWD300m	0.985%, payable on maturity	Dec 8, 2003	Jan 8, 2004	<b>15</b>	-
TWD300m	1.030%, payable on maturity	Dec 25, 2003	Mar 25, 2004	<b>15</b>	-

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<b>In S\$ millions</b>				<b>2003</b>	<b>2002</b>
<i>Face Value</i>	<i>Interest Rate and Repayment Terms</i>	<i>Issue Date</i>	<i>Maturity Date</i>		
TWD500m	1.025%, payable on maturity	Dec 31, 2003	Mar 31, 2004	<b>25</b>	-
<b>Total</b>				<b>71</b>	<b>77</b>
<b>Repayable :</b>					
- Less than one year				<b>71</b>	<b>77</b>
- Over one year				-	-
<b>Total Negotiable Certificates of Deposits</b>				<b>71</b>	<b>77</b>

**19.2 OTHER DEBT SECURITIES**

<b>In S\$ millions</b>	<b>Note</b>	<b>2003</b>	<b>2002</b>
Equity linked notes	19.2.1	<b>640</b>	350
Credit linked notes	19.2.2	<b>1,356</b>	984
Interest rate linked notes	19.2.3	<b>314</b>	203
Exchange linked notes	19.2.4	<b>1</b>	128
Commodity linked notes		-	14
<b>Total</b>		<b>2,311</b>	<b>1,679</b>
<b>Repayable :</b>			
- Less than one year		<b>514</b>	685
- Over one year		<b>1,797</b>	994
<b>Total other debt securities</b>		<b>2,311</b>	<b>1,679</b>
<b>Total other debt securities in issue</b>		<b>2,382</b>	<b>1,756</b>

**19.2.1** The outstanding notes at December 31, 2003, with an embedded equity option, were issued between December 13, 2000 and December 30, 2003 and mature between January 2, 2004 to August 18, 2008. The payouts at maturity are linked to the closing value of certain underlying equities listed on various stock exchanges or the closing value of certain underlying stock exchange indices or the net asset value of certain underlying equity funds.

**19.2.2** The outstanding notes at December 31, 2003, with an embedded credit default swap, were issued between February 9, 2001 and December 30, 2003 and mature between January 15, 2004 and December 18, 2013. The notes would be redeemed at face value on maturity date provided there is no occurrence of a credit event. If there is an occurrence of a credit event, the underlying asset or the market value of the underlying asset in cash term, depending on the terms of the contract, would be delivered to the holders of the notes.

**19.2.3** The outstanding notes at December 31, 2003, with an embedded interest rate derivative, were issued between January 23, 2002 and December 1, 2003 and mature between January 2, 2004 and December 3, 2013. The payouts at maturity are linked to the market interest rate of certain indices.

**19.2.4** The outstanding note at December 31, 2003, with an embedded foreign exchange rate derivative, was issued on September 19, 2003 and matures on March 26, 2004. The payouts at maturity are linked to the market foreign exchange rate of the underlying foreign currencies.

## **20 DUE TO SUBSIDIARY COMPANIES**

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Subordinated term debts	<b>1,331</b>	1,358
Amounts due to subsidiary companies	<b>896</b>	821
<b>Total</b>	<b>2,227</b>	2,179

**20.1** The subordinated term debts, issued on March 21, 2001 comprised the Series A Subordinated Note of US\$725 million and the Series B Subordinated Note of S\$100 million, and mature on March 15, 2051. The notes were issued by DBS Bank to DBS Capital Funding Corporation, both wholly owned subsidiary companies of DBSH.

**20.2** Interest is payable in arrears on March 15 and September 15 each year at a fixed rate of 7.657% per annum (Series A) and 5.35% per annum (Series B), up to March 15, 2011. Thereafter, interest is payable quarterly in arrears on March 15, June 15, September 15 and December 15 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).

## **21 SUBORDINATED TERM DEBTS**

Subordinated term debts are junior or secondary long-term debts that have a lower priority claim on the Bank's assets in the case of a default or liquidation.

### **21.1 DATED SUBORDINATED TERM DEBTS**

The following is a summary of the dated subordinated term debts (unsecured unless otherwise stated) outstanding at December 31:

<b>In S\$ millions</b>				<b>Note</b>	<b>2003</b>	<b>2002</b>
<i>Face Value</i>		<i>Issue Date</i>	<i>Maturity Date</i>			
US\$750m	7 7/8% Subordinated Notes	Aug 10, 1999	Aug 10, 2009	21.1.1	<b>1,275</b>	1,303
US\$500m	7 7/8% Subordinated Notes	Apr 15, 2000	Apr 15, 2010	21.1.2	<b>850</b>	869
US\$850m	7 1/8% Subordinated Notes	May 15, 2001	May 15, 2011	21.1.3	<b>1,446</b>	1,477
<b>Total Dated Subordinated Term Debts</b>					<b>3,571</b>	3,649

**21.1.1** Interest is payable semi-annually on February 10 and August 10 commencing February 10, 2000. The fixed rate funding has been converted to floating rate at three-month London Interbank Offered Rate ("LIBOR") + 1.0475% via interest rate swaps. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

**21.1.2** Interest is payable semi-annually on April 15 and October 15 commencing October 15, 2000. The fixed rate funding has been converted to floating rate at six-month LIBOR + 0.9569%, fixing in arrears via interest rate swaps. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

**21.1.3** Interest is payable semi-annually on May 15 and November 15 commencing November 15, 2001. The fixed rate funding has been converted to floating rate at three-month LIBOR + 1.252% via interest rate swaps. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

## **22 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS**

Singapore Government securities and treasury bills are classified into the trading book and investment book according to the investment intention. The trading book is recorded at fair value, while the investment book is stated at cost less permanent diminution in value, on the balance sheet.

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Trading book	<b>2,432</b>	550
Investment book	<b>9,006</b>	8,456
<b>Total</b>	<b>11,438</b>	9,006
<b>Investment book</b>		
Cost, adjusted for unamortised premium and discount	<b>9,017</b>	8,456
Less : Provision for diminution in value (Note 27)	<b>11</b>	-
<b>Net book value of investment book</b>	<b>9,006</b>	8,456
<b>Market value of investment book</b>	<b>9,006</b>	8,602

## **23 TRADING SECURITIES**

Trading securities include other Government securities and treasury bills, corporate debt and equity securities held principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin. A security is also classified as held for trading if it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, regardless of why it was acquired.

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<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
<b>Quoted</b>		
Other Government securities and treasury bills	<b>709</b>	1,062
Corporate debt securities	<b>4,432</b>	1,544
Equity securities	<b>407</b>	70
<b>Total</b>	<b>5,548</b>	2,676
<b>Industry Breakdown</b>		
Manufacturing	<b>528</b>	166
Building and Construction	<b>122</b>	61
General Commerce	<b>16</b>	-
Transportation, Storage and Communications	<b>475</b>	240
Financial Institutions, Investment and Holding Companies	<b>2,349</b>	616
Others (includes other Government securities and treasury bills)	<b>2,058</b>	1,593
<b>Total net book value</b>	<b>5,548</b>	2,676

**24 LOANS TO, AND BILLS RECEIVABLE FROM NON-BANK CUSTOMERS**

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Gross	<b>41,738</b>	38,503
Less :		
Specific provisions (Note 25)	<b>615</b>	722
General provisions (Note 25)	<b>690</b>	667
Net total	<b>40,433</b>	37,114
Including :		
Bills receivable	<b>1,051</b>	1,210
Loans	<b>39,382</b>	35,904
Net total	<b>40,433</b>	37,114
<b>Industry Breakdown</b>		
Manufacturing	<b>3,766</b>	3,487
Building and Construction	<b>4,908</b>	5,241
Housing Loans	<b>13,224</b>	12,289
General Commerce	<b>2,554</b>	2,531
Transportation, Storage and Communications	<b>2,917</b>	2,636
Financial Institutions, Investment and Holding Companies	<b>5,254</b>	3,269
Professionals and Private Individuals (except Housing Loans)	<b>4,705</b>	5,173
Others	<b>4,410</b>	3,877
Gross total	<b>41,738</b>	38,503
<b>Analysed by Currency and Fixed/ Variable Rates</b>		
<u>Fixed rate</u> <sup>(a)</sup>		
Singapore dollar	<b>8,867</b>	8,359
Others	<b>73</b>	9
Sub-total	<b>8,940</b>	8,368
<u>Variable rate</u> <sup>(b)</sup>		
Singapore dollar	<b>20,827</b>	21,500
Hong Kong dollar	<b>1,244</b>	1,172
US dollar	<b>7,221</b>	6,062
Others	<b>3,506</b>	1,401
Sub-total	<b>32,798</b>	30,135
Total (Gross)	<b>41,738</b>	38,503

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

(b) Variable rate loans refer to loans that are pegged to prime, short-term cost of funds or inter-bank rates, as well as fixed rate loans that have effectively been converted to variable rate loans through interest rate swaps.

## 25 PROVISION FOR POSSIBLE LOAN LOSSES AND INTEREST-IN-SUSPENSE

In S\$ millions	Specific	General	Total	Interest-in-suspense
<b>2003</b>				
Balance at January 1	722	667	1,389	80
Amounts written off during the year	(285)	-	(285)	(42)
Charge to profit and loss account	184	23	207	-
Interest suspended during the year	3	-	3	12
Exchange and other movements	(9)	-	(9)	6
Balance at December 31	615	690	1,305	56
<b>2002</b>				
Balance at January 1	610	753	1,363	68
Amounts written off during the year	(119)	-	(119)	(14)
Charge/(credit) to profit and loss account	224	(56)	168	-
Interest suspended/(recovered) during the year	(8)	-	(8)	23
Exchange and other movements	15	(30)	(15)	3
Balance at December 31	722	667	1,389	80

## 26 INVESTMENT SECURITIES

In S\$ millions	2003	2002
<b>Quoted</b>		
Other Government securities & treasury bills	3,466	2,028
Corporate debt securities	10,340	4,941
Equity securities	530	475
<b>Unquoted</b> equity securities	339	360
	14,675	7,804
Less: Provision for diminution in value (Note 27)	206	170
Total net book value	14,469	7,634
Market value of quoted securities	14,671	7,530
<b>Industry Breakdown</b>		
Manufacturing	818	215
Building and Construction	739	403
General Commerce	64	36
Transportation, Storage and Communications	814	407
Financial Institutions, Investment and Holding Companies	5,759	3,907
Others (includes other Government securities and treasury bills)	6,275	2,666
Total net book value	14,469	7,634

**27 PROVISION FOR DIMINUTION IN VALUE OF OTHER ASSETS**

In S\$ millions	Debt and equity securities		Fixed assets and Others		Total
	Specific	General	Specific	General	
<b>2003</b>					
Balance at January 1	603	34	102	47	786
Amounts written off during the year	(48)	-	(3)	-	(51)
Charge/(credit) to profit and loss account	391	31	(8)	22	436
Exchange and other movements	-	-	3	-	3
Balance at December 31	946	65	94	69	1,174

Specific and general provisions are in respect of the following:

Singapore Government securities and treasury bills (Note 22)	-	11	-	-	11
Investment securities (Note 26)	152	54	-	-	206
Subsidiary companies (Note 28)	144	-	-	-	144
Associated companies (Note 29)	650	-	-	-	650
Fixed assets (Note 30)	-	-	22	-	22
Other banking risks <sup>(a)</sup>	-	-	27	65	92
Other assets	-	-	45	4	49
	946	65	94	69	1,174

**2002**

Balance at January 1	282	1	54	48	385
Amounts written off during the year	(20)	-	(2)	-	(22)
Charge/(credit) to profit and loss account	355	33	50	(11)	427
Exchange and other movements	(14)	-	-	10	(4)
Balance at December 31	603	34	102	47	786

Specific and general provisions are in respect of the following:

Investment securities (Note 26)	136	34	-	-	170
Subsidiary companies (Note 28)	126	-	-	-	126
Associated companies (Note 29)	341	-	-	-	341
Fixed assets (Note 30)	-	-	20	-	20
Other banking risks <sup>(a)</sup>	-	-	59	46	105
Other assets	-	-	23	1	24
	603	34	102	47	786

- (a) Provision for other banking risks include specific provisions and general provisions made against inter-bank loans or contingent items.



## 28 SUBSIDIARY COMPANIES

**28.1** At December 31, directly owned subsidiary companies of DBS Bank are as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Quoted equity shares	-	-
Unquoted equity shares	<b>11,554</b>	12,334
	<b>11,554</b>	12,334
Less : Provision for diminution in value (Note 27)	<b>144</b>	126
	<b>11,410</b>	12,208
Amount due from subsidiary companies (Note 28.5)	<b>866</b>	519
Total	<b>12,276</b>	12,727
Market value of quoted equity shares	<b>243</b>	232

**28.2** The directly and indirectly owned subsidiary companies of DBS Bank at December 31 are as follows:

Subsidiary Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank / subsidiary companies	
			DBS Bank		Subsidiary Companies		2003	2002
			2003	2002	2003	2002	S\$ millions	S\$ millions
			%	%	%	%		
<b>Quoted</b>								
<b>DBS Thai Danu Bank Public Company Limited<sup>(b)</sup></b>	Thailand	Commercial banking and financial services	<b>51.7</b>	51.7	-	-	- <sup>(a)</sup>	- <sup>(a)</sup>
(Market value : 2003: S\$243 million; 2002: S\$232 million)								
<b>Unquoted</b>								
<b>DBS Asia Ltd<sup>(b)</sup></b>	Hong Kong	Financial services and investment holding	<b>100</b>	100	-	-	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Asia Capital Limited<sup>(b)</sup></b>	Hong Kong	Corporate finance and advisory services	<b>100</b>	100	-	-	<b>22</b>	22
<b>DBS Asset Management Ltd</b>	Singapore	Investment management services and unit trusts	<b>100</b>	100	-	-	<b>4</b>	4
DBSAM Funds	Luxembourg	Collective investment scheme	-	-	100	-	-	-
DBS Asset Management (Cayman) Limited (Liquidated)	Cayman Island	Investment management services	-	-	-	100	-	- <sup>(c)</sup>
DBS Asset Management (Hong Kong) Ltd <sup>(b)</sup>	Hong Kong	Investment management services	-	-	100	100	<b>3</b>	3
DBS Asset Management (United States) Pte Ltd	Singapore	Investment management services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Card Centre Pte Ltd (Under liquidation)</b>	Singapore	Dormant	<b>100</b>	100	-	-	<b>8</b>	8
<b>DBS Capital Funding Corporation</b>	Cayman Island	Special purpose vehicle for capital raising	<b>100</b>	100	-	-	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Capital Investments Ltd</b>	Singapore	Venture capital investments	<b>100</b>	100	-	-	<b>18</b> <sup>(d)</sup>	18 <sup>(d)</sup>
<b>DBS China Square Ltd</b>	Singapore	Property investment holding	<b>70</b>	70	-	-	<b>160</b> <sup>(c)</sup>	160 <sup>(c)</sup>
<b>DBS Computer Services Pte Ltd</b>	Singapore	Computer services and IT consultancy	<b>100</b>	100	-	-	- <sup>(a)</sup>	- <sup>(a)</sup>

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Subsidiary Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank / subsidiary companies	
			DBS Bank		Subsidiary Companies		2003	2002
			2003	2002	2003	2002	2003	2002
			%	%	%	%	S\$ millions	S\$ millions
<b>DBS Diamond Holdings Ltd</b>	Bermuda	Investment holding	<b>100</b>	100	-	-	<b>9,919</b>	10,713
Benchmark Farm Finance (Four) Limited (Under liquidation)	United Kingdom	Dormant	-	-	<b>100</b>	100	- <sup>(a)</sup>	- <sup>(a)</sup>
Dao Heng Bank Group Limited <sup>(b)</sup>	Bermuda/Hong Kong	Investment holding	-	-	<b>100</b>	100	<b>9,430</b>	9,445
Dao Heng Bank Trustee (BVI) Limited <sup>(b)</sup> (Under liquidation)	British Virgin Islands	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Dao Heng Bank Trustee Limited <sup>(b)</sup>	Hong Kong	Trustee services	-	-	<b>100</b>	100	<b>1</b>	1
Dao Heng Bullion Limited (Under liquidation)	Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Dao Heng Finance Limited <sup>(b)</sup>	Hong Kong	Finance company	-	-	<b>100</b>	100	<b>7</b>	8
Dao Heng London plc (formerly "Dao Heng Bank [London] Plc") (Under liquidation)	United Kingdom	Dormant	-	-	<b>100</b>	100	- <sup>(a)</sup>	- <sup>(a)</sup>
Dao Heng Nominees Limited (Under liquidation)	United Kingdom	Dormant	-	-	<b>100</b>	100	- <sup>(a)</sup>	- <sup>(a)</sup>
DBS Bank (Hong Kong) Limited <sup>(b)</sup> (formerly "Dao Heng Bank Ltd")	Hong Kong	Commercial banking and financial securities	-	-	<b>100</b>	100	<b>1,267</b>	1,289
DBS Corporate Services (Hong Kong) Limited <sup>(b)</sup> (formerly "Dao Heng Corporate Services Ltd")	Hong Kong	Investment holding and corporate services	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS H.K. Capital (BVI) Limited (formerly "Dao Heng Capital (BVI) Limited")	British Virgin Islands	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Kwong On Finance Limited <sup>(b)</sup>	Hong Kong	Deposit-taking finance company	-	-	<b>100</b>	100	<b>5</b>	6
DBS Kwong On Futures Limited <sup>(b)</sup>	Hong Kong	Dormant	-	-	<b>100</b>	100	<b>1</b>	1
DBS Kwong On (Nominees) Limited <sup>(b)</sup> (formerly "DBS Kwong On Bank Nominees Limited")	Hong Kong	Nominee services	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Kwong On Securities Limited (Under liquidation)	Hong Kong	Dormant	-	-	<b>100</b>	100	<b>3</b>	3
DBS Overseas Limited <sup>(b)</sup> (formerly "Overseas Trust Bank Limited")	Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	864
DBS Trustee H.K. (Jersey) Limited <sup>(b)</sup> (formerly Dao Heng Trustee (Jersey) Limited)	Jersey/Hong Kong	Corporate services	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DHB Limited <sup>(b)</sup>	Hong Kong	Investment holding	-	-	<b>100</b>	100	<b>18</b>	18
DHJ Management Limited <sup>(b)</sup>	British Virgin Islands/Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Dransfield Resources Limited (Under liquidation)	British Virgin Islands/United Kingdom	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
EFI Nominees Limited <sup>(b)</sup>	Hong Kong	Nominee services	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Hang Lung Bank (Nominee) Limited <sup>(b)</sup>	Hong Kong	Nominee services	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Hang Lung Godown Company Limited (Under liquidation)	Hong Kong	Dormant	-	-	<b>100</b>	100	<b>1</b>	1
JT Administration Limited <sup>(b)</sup>	British Virgin Islands/Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Kenson Asia Ltd <sup>(b)</sup>	Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Kingly Management Ltd <sup>(b)</sup>	Hong Kong	Dormant	-	-	<b>100</b>	100	- <sup>(c)</sup>	- <sup>(c)</sup>

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Subsidiary Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank / subsidiary companies	
			DBS Bank		Subsidiary Companies		2003	2002
			2003	2002	2003	2002	2003	2002
			%	%	%	%	S\$ millions	S\$ millions
Market Success Limited <sup>(b)</sup>	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Omega One Limited <sup>(b)</sup>	Hong Kong	Dormant	-	-	100	-	- <sup>(c)</sup>	-
Omega Two Limited <sup>(b)</sup>	Hong Kong	Dormant	-	-	100	-	- <sup>(c)</sup>	-
OTB Card Company Limited <sup>(b)</sup>	Hong Kong	Property investment	-	-	100	100	17	17
OTB International Factors Limited <sup>(b)</sup>	Hong Kong	Dormant	-	-	100	100	2	2
O.T.B. Investment Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
OTB Property Management Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
OTB Services Limited <sup>(b)</sup>	Hong Kong	Provision of consultancy services	-	-	100	100	1	1
Overseas Trust Bank Nominees Limited <sup>(b)</sup>	Hong Kong	Nominee services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Ting Hong Nominees Limited <sup>(b)</sup>	Hong Kong	Nominee services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Worldson Services Ltd <sup>(b)</sup>	Hong Kong	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Factors Pte Ltd</b>	Singapore	Dormant	100	100	-	-	5	5
<b>DBSF Ltd</b> (Under liquidation)	Singapore	Dormant	100	100	-	-	7	7
DBSF Investments Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	17	17
<b>DBS Finance Nominees Pte Ltd</b> (Under liquidation)	Singapore	Dormant	100	100	-	-	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Forex Centre Philippines, Inc.</b> (Liquidated)	Philippines	Dormant	-	100	-	-	-	- <sup>(c)</sup>
<b>DBS Group Holdings (Hong Kong) Ltd</b>	Bermuda	Investment holding	100	100	-	-	683	940
DBS Kwong On Limited <sup>(b)</sup> (formerly "DBS Kwong On Bank Limited")	Hong Kong	Dormant	-	-	100	100	-	719
<b>DBS Nominees Pte Ltd</b>	Singapore	Nominee services	100	100	-	-	- <sup>(c)</sup>	- <sup>(c)</sup>
Kendrick Services Limited	British Virgin Islands	Corporate directorship services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Lushington Investment Limited	British Virgin Islands	Corporate shareholding services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
<b>DBS Trustee Ltd</b> <sup>(f)</sup>	Singapore	Trustee services	20	20	80	80	3	3
<b>DBS Vickers Securities Holdings Pte Ltd</b>	Singapore	Investment holding	100	59.5	-	-	538	323
Ballas Nominees (Private) Limited (Under liquidation)	Singapore	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Futures Hong Kong Ltd (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	2
DBS Securities Holding Pte Ltd (Under liquidation)	Singapore	Investment holding	-	-	100	100	277	285
DBS Securities Nominees (HK) Ltd (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- <sup>(c)</sup>
DBS Securities Philippines, Inc (Liquidated)	Philippines	Dormant	-	-	-	100	-	11
DBS TD Waterhouse Holdings Pte Ltd	Singapore	Investment holding	-	-	73	-	24	-
DBS TD Waterhouse (Hong Kong) Ltd <sup>(b)</sup>	Hong Kong	Securities broker and margin financing	-	-	100	-	28	-
DBS TD Waterhouse Securities (Hong Kong) Ltd <sup>(b)</sup>	Hong Kong	Securities broker	-	-	100	-	1	-

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Subsidiary Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank / subsidiary companies	
			DBS Bank		Subsidiary Companies		2003	2002
			2003	2002	2003	2002	2003	2002
			%	%	%	%	S\$ millions	S\$ millions
DBS TD Waterhouse (Singapore) Pte Ltd	Singapore	Securities broker	-	-	100	-	10	-
DBS Trading Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Vickers Futures (Hong Kong) Limited <sup>(b)</sup>	Hong Kong	Futures broker	-	-	100	100	8	8
DBS Vickers (Hong Kong) Limited <sup>(b)</sup>	Hong Kong	Securities broker	-	-	100	100	51	72
DBS Vickers Research Singapore Pte Ltd	Singapore	Investment advisory services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Vickers Securities (Hong Kong) Ltd <sup>(b)</sup>	Hong Kong	Securities broker	-	-	100	100	2	42
DBS Vickers Securities Malaysia Pte Ltd (Under liquidation)	Singapore	Investment holding	-	-	100	100	17	17
DBS Vickers Securities Nominees (Hong Kong) Limited <sup>(b)</sup>	Hong Kong	Nominee services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Vickers Securities Nominees (Singapore) Pte Ltd	Singapore	Nominee services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Vickers Securities (Phils.), Inc. (Under liquidation)	Philippines	Dormant	-	-	100	100	10	10
DBS Vickers Securities (Singapore) Pte Ltd	Singapore	Securities and futures broker	-	-	100	100	25	25
DBS Vickers Securities (Thailand) Co Ltd <sup>(b)</sup>	Thailand	Securities broker	-	-	100	100	50	82
DBS Vickers Securities (UK) Ltd <sup>(b)</sup>	United Kingdom	Securities broker	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
DBS Vickers Securities (USA), Inc <sup>(b)</sup>	United States	Securities broker	-	-	100	100	4	4
First Independent Insurance Brokerage Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Hwang-DBS Vickers Research (Malaysia) Sdn Bhd (formerly "DBS Vickers Research (Malaysia) Sdn Bhd")	Malaysia	Investment advisory services	-	-	(g)	100	(g)	1
J. Ballas (Hong Kong) Company Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	1
PT DBS Securities Indonesia (Under liquidation)	Indonesia	Dormant	-	-	75	75	5	9
PT DBS Vickers Securities (Indonesia) <sup>(b)</sup>	Indonesia	Securities broker	-	-	75	75	8	6
Vickers Ballas & Co. Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	65	65
Vickers Ballas Asset Management Pte Ltd	Singapore	Fund management	-	-	100	100	1	1
Vickers Ballas (B.V.I) Holdings Limited (Liquidated)	British Virgin Islands/Hong Kong	Dormant	-	-	-	100	-	- <sup>(c)</sup>
Vickers Ballas Capital Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- <sup>(c)</sup>
Vickers Ballas Consultancy Services Limited <sup>(b)</sup>	Hong Kong	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Vickers Ballas Futures Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	1	1
Vickers Ballas Hong Kong Holdings Ltd (Liquidated)	Bermuda/Hong Kong	Dormant	-	-	-	100	-	- <sup>(c)</sup>
Vickers Ballas Hong Kong Securities Ltd (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	3
Vickers Ballas Investment Management Limited <sup>(b)</sup>	Hong Kong	Direct investment and investment advisory services	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>

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Subsidiary Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank / subsidiary companies	
			DBS Bank		Subsidiary Companies		2003	2002
			2003	2002	2003	2002	2003	2002
			%	%	%	%	S\$ millions	S\$ millions
Vickers Ballas Investment Research Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Vickers Ballas Nominees Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- <sup>(c)</sup>	- <sup>(c)</sup>
Vickers Ballas (UK) PLC (Under liquidation)	United Kingdom	Dormant	-	-	100	100	1	1
Vidasia Nominees Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- <sup>(c)</sup>
NDC Capital Holdings Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	56	56
POSB Computer Services Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	9	9
PT Bank DBS Indonesia <sup>(b)</sup>	Indonesia	Commercial banking and financial services	99	99	-	-	62	60
Singapore Factory Development Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	5	5

(a) Written down to zero value.

(b) Audited by associated firms of Ernst & Young, Singapore.

(c) Amount under S\$500,000.

(d) Included cost of investment in preference shares held amounting to S\$18 million.

(e) Included cost of investment in preference shares held amounting to S\$74 million.

(f) Included 20% held by DBSH in trust for DBS Bank.

(g) Ceased to be a subsidiary company during the financial year (Note 28.3.2).

## 28.3 ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

**28.3.1** DBS Vickers Securities Holdings Pte Ltd (“DBSV”), a wholly owned subsidiary of DBS Bank, increased its equity stake in DBS TD Waterhouse from 50% to 73% for a consideration of S\$3 million. The net attributable tangible assets of DBS TD Waterhouse as at the date of the additional acquisition were S\$3 million.

**28.3.2** During the financial year, DBSV disposed 51% equity stake in Hwang DBS Vickers Research (Malaysia) Sdn Bhd (formerly “DBS Vickers Research (Malaysia) Sdn Bhd”). The cash consideration received and the net attributable tangible assets disposed were not material. On completion of the sale, at end December 2003, Hwang DBS Vickers Research (Malaysia) Sdn Bhd is an associated company of DBSH Group.

**28.3.3** During the financial year, the following subsidiaries were liquidated : DBS Forex Centre Philippines, Inc., DBS Asset Management (Cayman) Limited, Vickers Ballas (Hong Kong) Holdings Limited, DBS Futures Hong Kong Limited, DBS Securities Nominees (Hong Kong) Ltd, J. Ballas (Hong Kong) Company Limited, Vickers Ballas (B.V.I) Holdings Limited, Vickers Ballas Capital Limited, Vickers Ballas Hong Kong Securities Ltd, Vidasia Nominees Limited and DBS Securities Philippines, Inc.

## **28.4 ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARY COMPANIES**

### **28.4.1 DBS Bank (Hong Kong) Limited**

DBS Group's financial statements for the year ended December 31, 2002 took into account the effect of the exercise of DBS Bank's call option on the minority shareholders of DBS Diamond Holdings Limited ("DDH") to acquire the remaining 28.4% of the share capital of DDH on January 10, 2003, and reflected an increase in DBS Bank's equity interest in DDH from 71.6% to 100%. DDH owned 100% of Dao Heng Bank Group Limited ("DHG"). Pursuant to the Hong Kong legislative and regulatory requirements, the legal merger of Dao Heng Bank Limited, Overseas Trust Bank Limited and DBS Kwong On Bank Limited was completed on July 21, 2003. The merged entity was named DBS Bank (Hong Kong) Limited on the same date.

### **28.4.2 DBS Vickers Securities Holdings Pte Ltd**

On September 11, 2003, DBS Bank purchased the remaining 336,175,960 ordinary shares in DBS Vickers Securities Holdings Pte Ltd ("DBSV"). As a result, DBS Bank's equity interest in DBSV increased from 59.5% to 100%. The consideration paid for the additional acquisition was S\$239 million.

## **28.5 AMOUNTS DUE FROM SUBSIDIARY COMPANIES**

These amounts mainly comprise secured loans and advances to subsidiary companies.

## **29 ASSOCIATED AND JOINT VENTURE COMPANIES**

**29.1** The investments in associated and joint venture companies at December 31 are as follows:

<b>In S\$ millions</b>	<b>DBSH Group</b>	
	<b>2003</b>	<b>2002</b>
Quoted equity securities at cost	<b>1,220</b>	1,194
Unquoted equity securities at cost	<b>43</b>	21
	<b>1,263</b>	1,215
Less: Provision for diminution in value (Note 27)	<b>650</b>	341
Total net book value	<b>613</b>	874
Market value of quoted equity securities	<b>620</b>	424

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**29.2** The associated and joint venture companies held by DBS Bank at December 31 are as follows:

Associated and joint venture companies	Country of incorporation/ business	Principal activities	Interest held by DBS Bank (%)	
			2003	2002
<b>Quoted associated companies</b>				
Bank of the Philippine Islands	The Philippines	Commercial banking and financial services	20.8	20.8
Vanda Systems & Communications Holding Limited <sup>(a)</sup>	Hong Kong	System integration and related services	25.7	-
<b>Unquoted associated companies</b>				
Clearing and Payment Services Pte Ltd	Singapore	Provides service infrastructure for clearing payment and settlement of financial transactions	33.3	33.3
Fujitec Singapore Corporation Ltd	Singapore	Manufactures elevators, escalators and related components	-	26.3
Network for Electronic Transfers (Singapore) Pte Ltd	Singapore	Electronic funds transfer	33.3	33.3
Orix Leasing Singapore Ltd	Singapore	Lease and hire-purchase financing of equipment	30.0	30.0
Venture Investment Management (S) Pte Ltd	Singapore	Investment management services	-	24.5
Investment and Capital Corporation of the Philippines	The Philippines	Financial services	20.0	20.0
Nextmall Holdings Corporation <sup>(a)</sup>	Cayman Islands	Supermarket	27.3	27.3
Merlion CDO 1 Limited	Cayman Islands	Special purpose entity for note issuance programme	29.3 <sup>(b)</sup>	-
Capital OK Company Limited (Note 29.4)	Thailand	Consumer finance	40.0	-
<b>Unquoted joint venture companies</b>				
Ayala DBS Holdings Inc	The Philippines	Investment holding	40.0	40.0
Integrated Payment Venture Pte Ltd	Singapore	Dormant	50.0	50.0

(a) This is a private equity investment and is not intended to be a long-term investment. Consequently, equity accounting was not applied.

(b) The interest held refers to DBS Bank's proportionate holding of the subordinate debts issued by the company, and is included as an investment in associated companies in accordance with Interpretation of Financial Reporting Standard 12, "Consolidation – Special Purpose Entities" although it is not legally owned by DBS Bank

**29.3** On December 11, 2003, DBS Bank announced the formation of an associated company Capital OK Company Limited, in Thailand. DBS Bank owns 40% in the company for an initial capital injection of Thai Baht 400 million.

**29.4** The investment in the Bank of Philippine Islands ("BPI") was purchased by DBS Bank in December 1999. In accordance to FRS 36, the Board and Management have made appropriate assessment of the investment value in BPI. Using the higher of net selling price and value in use, an impairment loss of S\$309 million (2002: S\$341 million) was recorded in the profit and loss account.

### 30 FIXED ASSETS

**30.1** Net book values at December 31, at cost less accumulated depreciation, and movements during the year are as follows:

In S\$ millions	Leasehold properties	Freehold properties	Total properties	Equipment, furniture and other assets	Total
<b>Cost</b>					
Balance at January 1, 2003	676	39	715	412	1,127
Additions	10	#	10	33	43
Disposals	(51)	(3)	(54)	(32)	(86)
Exchange differences	#	#	#	#	#
Balance at December 31, 2003	635	36	671	413	1,084
<b>Accumulated depreciation</b>					
Balance at January 1, 2003	199	7	206	162	368
Depreciation charge	27	1	28	70	98
Disposals	(26)	#	(26)	(23)	(49)
Exchange differences	#	#	#	#	#
Balance at December 31, 2003	200	8	208	209	417
<b>Less: Provision for diminution in value (Note 27)</b>	20	2	22	-	22
Net book value at December 31, 2003	415	26	441	204	645
Market value at December 31, 2003	772	31	803	-	803
<b>Cost</b>					
Balance at January 1, 2002	690	57	747	396	1,143
Additions	16	1	17	46	63
Disposals	(30)	(19)	(49)	(30)	(79)
Exchange differences	#	#	#	#	#
Balance at December 31, 2002	676	39	715	412	1,127
<b>Accumulated depreciation</b>					
Balance at January 1, 2002	178	10	188	115	303
Depreciation charge	27	1	28	66	94
Disposals	(6)	(4)	(10)	(19)	(29)
Exchange differences	#	#	#	#	#
Balance at December 31, 2002	199	7	206	162	368
<b>Less: Provision for diminution in value (Note 27)</b>	18	2	20	-	20
Net book value at December 31, 2002	459	30	489	250	739
Market value at December 31, 2002	854	45	899	-	899

# Amount under S\$500,000

**30.2** The net book value of DBS Building Tower Two, being investment property held for the purpose of generating rental income, at December 31, 2003 is S\$197 million (2002: S\$207 million). The market value is independently appraised at S\$374 million (2002: S\$400 million).



### **31 OTHER ASSETS**

<b>In S\$ millions</b>	<b>2003</b>		<b>2002</b>	
Accrued interest receivable <sup>(a)</sup>	<b>647</b>		686	
Accrued income	<b>55</b>		51	
Balances arising from revaluation of financial instruments (Note 34)	<b>8,684</b>		7,280	
Less: Valuation adjustments (Note 31.1)	<b>250</b>	<b>8,434</b>	111	7,169
Deposits and prepayments (Note 31.2)		<b>172</b>		173
Sundry debtors and others		<b>582</b>		489
<b>Total</b>		<b>9,890</b>		8,568

(a) Accrued interest receivable is net of interest-in-suspense (Notes 25).

**31.1** Valuation adjustments includes bid-offer spread adjustments made to mark all long positions to bid prices and short positions to offer prices; liquidity reserves to reflect possible price adjustments to the market values to liquidate certain material positions held by the Bank; and model risk reserves for positions where the models used may be a proxy or there may be numerical uncertainty within certain ranges. (Note 2.13.2).

**31.2** Included in “Deposits and prepayments” at December 31, 2003, was an amount of S\$78 million (2002: S\$101 million) relating to an advance placed in a trust. The trust is for the purchase of shares in connection with the DBSH Performance Share Plan and the DBSH Employee Share Plan (Note 13). The advance at December 31, 2003 had been written down to its recoverable amount at reporting date. The cumulative provision at December 31, 2003 amounting to S\$44 million (2002: S\$23 million) represents the shortfall in the value of shares held in the trust when compared against the purchase cost of the shares.

### **32 CONTINGENT LIABILITIES**

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

#### *Nature of instruments*

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. DBS Bank expects most acceptances to be presented, but reimbursement by the customer is usually immediate. Endorsements are residual liabilities of DBS Bank in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees, performance bonds and assets pledged as collateral security are generally written by a bank to support the performance of a customer to third parties. As DBS Bank 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.

**32.1** The amounts outstanding at December 31 comprise the following:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Acceptances on account of customers	<b>53</b>	24
Guarantees on account of customers	<b>3,394</b>	4,008
Endorsements and other obligations on account of customers		
Letters of credit	<b>1,632</b>	1,136
Others	<b>326</b>	292
Other contingent items	<b>89</b>	91
<b>Total</b>	<b>5,494</b>	5,551
<b>Industry Breakdown</b>		
Manufacturing	<b>974</b>	1,109
Building and Construction	<b>270</b>	332
General Commerce	<b>1,438</b>	963
Transportation, Storage and Communications	<b>336</b>	380
Financial Institutions, Investment and Holding Companies	<b>669</b>	966
Professionals and Private Individuals (except Housing Loans)	<b>747</b>	779
Others	<b>1,060</b>	1,022
<b>Total</b>	<b>5,494</b>	5,551

**32.2** DBS Bank has an existing outsourcing agreement with IBM with respect to the provision of information technology and related support to DBS Bank's operations in Singapore and Hong Kong. As with all similar market standard arrangements, there are various termination clauses contained within the agreement that under certain circumstances could require DBS Bank to pay a penalty on early termination of the contract. The exact amount of any penalty amount cannot be reliably determined, as it is dependent upon business volumes over the period of the contract and on the timing of the termination itself.

**32.3** Included in "Other contingent items" at December 31, 2003, is an amount of S\$89 million (2002: S\$91 million), representing the termination fee payable by DBS Bank should it terminate its Life Insurance Bancassurance Distribution Agreement with Aviva Ltd prematurely before the expiry date.

**32.4** Included in "Guarantees on account of customers" at December 31, 2003, was a guarantee of S\$590 million (2002: S\$631 million) which was given by DBS Bank to holders of "DBS UP Guaranteed Fund 3.5/1, DBS UP Guaranteed Fund 5.0/1, DBS UP Guaranteed Fund 5.0/2, DBS UP Guaranteed Fund 5.0/3, DBS UP Guaranteed Fund 7.0/2, and DBS UP Guaranteed Fund 7.0/3". The guaranteed value is payable on June 23, 2004, December 23, 2005, April 30, 2006, June 30, 2006, April 30, 2008 and June 30, 2008 respectively.

### **33 COMMITMENTS**

#### **33.1 Undrawn Commitments**

The commitments, which are not reflected in the balance sheet at December 31, comprise the following:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
<b>Loans and other facilities</b>		
Undrawn credit facilities	<b>44,399</b>	41,345
Undisbursed commitments in debt securities and equities	<b>120</b>	170
Underwriting commitments in debt securities and equities	<b>50</b>	-
Spot foreign exchange contracts	<b>2,887</b>	4,242
Sub-total	<b>47,456</b>	45,757
<b>Capital Commitments</b>		
	<b>44</b>	15
Total	<b>47,500</b>	45,772
<b>Industry Breakdown</b>		
Manufacturing	<b>8,554</b>	7,895
Building and Construction	<b>3,872</b>	3,132
Housing Loans	<b>1,442</b>	958
General Commerce	<b>5,627</b>	6,038
Transportation, Storage and Communications	<b>5,124</b>	4,552
Financial Institutions, Investment and Holding Companies	<b>9,486</b>	11,793
Professionals and Private Individuals (except Housing Loans)	<b>5,625</b>	5,744
Others	<b>7,770</b>	5,660
Total	<b>47,500</b>	45,772

#### **33.2 Operating Lease Commitments**

The total future minimum lease payments under non-cancellable leases at end December 31 were as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Not later than 1 year	<b>64</b>	79
Later than 1 year but not later than 5 years	<b>85</b>	97
Later than 5 years	<b>12</b>	13
Total	<b>161</b>	189
Total commitments (Note 33.1 and Note 33.2)	<b>47,661</b>	45,961

## 34 FINANCIAL DERIVATIVES

**34.1** 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 outlines the nature and terms of the most common types of derivatives used by DBS Bank:

### 34.1.1 Interest rate contracts

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

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

*Interest rate options* give the buyer on payment of 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.

*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 calculated by reference to the difference between the contracted rate and the market rate prevailing on the settlement date.

*Swaptions* give the buyer on payment of a premium the right, but not the obligation, to enter into an interest rate swap as either the payer or receiver of the fixed side of the swap.

### 34.1.2 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.

### 34.1.3 Equity related contracts

*Equity option* provides 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.

### 34.1.4 Credit related contracts

*Credit derivatives* are off-balance sheet instruments that allow for the isolation and transfer of credit risk from one party (the “Protection Buyer”) to another (the “Protection Seller”) without necessarily effecting an upfront exchange of physical assets. The pay-off under a credit derivative contract is linked to the credit performance of an underlying reference credit.

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

In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in “Other assets” or “Other liabilities” respectively. Non-trading derivative financial instruments are accounted for on an accrual basis.

In S\$ millions	2003					
	Trading			Non-Trading		
	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value
<b>Interest Rate Derivatives</b>						
Forward rate agreements bought	72,950	23	99	-	-	-
Forward rate agreements sold	82,946	107	32	-	-	-
Interest rate swaps	716,853	6,208	5,666	13,644	831 <sup>(b)</sup>	192
Financial futures purchased	32,319	30	#	-	-	-
Financial futures sold	16,598	1	20	9,398	#	17
Swaptions purchased	7,714	109	-	-	-	-
Swaptions sold	6,339	-	63	306	-	2
Interest rate futures options purchased	11,714	6	-	-	-	-
Interest rate futures options written	18,695	-	4	-	-	-
Interest rate caps / floor written	8,236	53	163	-	-	-
Interest rate caps / floor purchased	9,638	79	11	-	-	-
<b>Sub-total</b>	<b>984,002</b>	<b>6,616</b>	<b>6,058</b>	<b>23,348</b>	<b>831</b>	<b>211</b>
<b>Foreign Exchange Derivatives</b>						
FX Forwards	40,019	427	442	67	#	2
FX Swaps	97,592	856	633	4,522	33	86
Currency swaps	23,845	381	351	875	-	44
Currency options purchased	15,713	284	-	-	-	-
Currency options written	15,368	-	330	-	-	-
<b>Sub-total</b>	<b>192,537</b>	<b>1,948</b>	<b>1,756</b>	<b>5,464</b>	<b>33</b>	<b>132</b>
<b>Equity Derivatives</b>						
Equity options purchased	2,132	39	-	-	-	-
Equity options sold	6,153	-	201	319	-	-
<b>Sub-total</b>	<b>8,285</b>	<b>39</b>	<b>201</b>	<b>319</b>	<b>-</b>	<b>-</b>
<b>Credit Derivatives</b>						
Credit default swaps	9,343	81	99	2,647	78	-
<b>Sub-total</b>	<b>9,343</b>	<b>81</b>	<b>99</b>	<b>2,647</b>	<b>78</b>	<b>-</b>
<b>Total</b>	<b>1,194,167</b>	<b>8,684</b>	<b>8,114</b>	<b>31,778</b>	<b>942</b>	<b>343</b>
<b>Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 18/31)</b>		<b>8,684<sup>(a)</sup></b>	<b>8,114<sup>(a)</sup></b>			

# Amount under S\$500,000

(a) These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value to liquidate certain material positions held by the Bank (Note 2.13.2).

(b) Include fair value of interest rate swaps used to hedge the subordinated debts issued by DBS Bank (Note 36).

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The following table shows an analysis of DBS Bank's derivatives financial instruments at December 31, 2002:

In S\$ millions	2002					
	Trading			Non-Trading		
	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value
<b>Interest Rate Derivatives</b>						
Forward rate agreements bought	13,553	#	33	-	-	-
Forward rate agreements sold	22,186	64	#	-	-	-
Interest rate swaps	362,039	4,826	4,328	10,684	1,049 <sup>(a)</sup>	144
Financial futures purchased	54,345	56	3	-	-	-
Financial futures sold	10,465	2	33	-	-	-
Swaptions purchased	2,729	77	-	-	-	-
Swaptions sold	2,085	-	38	-	-	-
Interest rate futures options purchased	11,750	9	-	-	-	-
Interest rate futures options written	23,322	-	6	-	-	-
Interest rate caps / floor written	5,344	-	117	-	-	-
Interest rate caps / floor purchased	4,335	94	-	-	-	-
<b>Sub-total</b>	<b>512,153</b>	<b>5,128</b>	<b>4,558</b>	<b>10,684</b>	<b>1,049</b>	<b>144</b>
<b>Foreign Exchange Derivatives</b>						
FX Forwards	21,045	306	325	76	2	#
FX Swaps	116,139	892	812	11,315	182	556
Currency swaps	20,906	656	744	988	-	31
Currency options purchased	18,668	243	-	-	-	-
Currency options written	17,543	-	280	-	-	-
<b>Sub-total</b>	<b>194,301</b>	<b>2,097</b>	<b>2,161</b>	<b>12,379</b>	<b>184</b>	<b>587</b>
<b>Equity Derivatives</b>						
Equity options purchased	1,463	27	-	-	-	-
Equity options sold	1,525	-	45	357	-	-
<b>Sub-total</b>	<b>2,988</b>	<b>27</b>	<b>45</b>	<b>357</b>	<b>-</b>	<b>-</b>
<b>Credit Derivatives</b>						
Credit default swaps	3,049	28	22	2,651	77	-
<b>Sub-total</b>	<b>3,049</b>	<b>28</b>	<b>22</b>	<b>2,651</b>	<b>77</b>	<b>-</b>
<b>Commodity Derivatives</b>						
Gold options purchased	7	#	-	-	-	-
Gold options sold	7	-	#	-	-	-
<b>Sub-total</b>	<b>14</b>	<b>#</b>	<b>#</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>712,505</b>	<b>7,280</b>	<b>6,786</b>	<b>26,071</b>	<b>1,310</b>	<b>731</b>
<b>Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 18/31)</b>						
		<b>7,280 <sup>(b)</sup></b>	<b>6,786</b>			<b>-</b>

# Amount under S\$500,000

(a) These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value to liquidate certain material positions held by the Bank (Note 2.13.2).

(b) Include fair value of interest rate swaps used to hedge the subordinated debts issued by DBS Bank (Note 36).

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties amounted to S\$1,014,215 million (2002: S\$560,377 million) and S\$211,730 million (2002: S\$178,199 million) respectively.

## 35 FINANCIAL INSTRUMENTS – USAGE AND RISK MANAGEMENT

### 35.1 USE OF FINANCIAL INSTRUMENTS

DBS Bank's activities include the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for varying periods and seeks to earn above average interest margins by investing these funds in high quality assets. DBS Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining interest rate risk within targets as well as sufficient liquidity to meet all due obligations.

DBS Bank takes positions in exchange-traded and over-the-counter financial instruments including derivatives to take advantage of short-term market movements in, inter alia, the equity, bond, currency, interest rate and commodity rates and prices. These positions can be for its own dealing purposes or as part of its services to meet customers' needs. Trading limits on the daily level of market risk exposure that can be taken are set by the Board and monitored by

DBS Bank's Group Risk Department. With the exception of specific hedging arrangements, exposures associated with these derivatives are normally offset by entering into counter balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions and the net amount of market risk taken. The investment portfolio comprises mainly highly rated government and corporate bonds, and includes other investments such as third-party managed funds. Derivatives may be used to gain or to hedge market exposure in such investments.

## **35.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

DBS Bank has set up objectives and policies to manage the risks that arise in connection with the use of financial instruments. Business units have primary responsibility for managing specific risk exposures while Group Risk exercises independent oversight on risk management for the Bank as a whole.

### **35.2.1 Market Risk**

Market risk arises from changes in market rates such as interest rates, foreign exchange rates and equity prices, as well as in their correlation and volatility levels. DBS Bank's trading and investment market risk appetite is determined by the Board of Directors, with detailed limit frameworks governing the different activities approved by the Board Risk Management Committee. The principal risk measures and controls on market risk are Value at Risk (VaR) and stress loss. VaR expresses the potential loss on the current portfolio assuming a specified time horizon before positions can be adjusted (holding period), and measured to a specified level of confidence, based on historical market movements. Stress loss is assessed against a set of forward-looking scenarios using stress moves in the market variables. At the business unit operations level, trading exposures are measured and controlled by various market risk limits (such as stop loss and time bucket concentration limits). All trading activities are subject to mark-to-market valuation to reflect the current market value of the trading portfolio and their profit and loss. Investments are subject to limits by market risk type as well as concentration limits. The Asset and Liability Management Committee oversees structural interest rate risk arising from mismatches in the customer loans and deposits, and structural foreign exchange risk.

### **35.2.2 Interest Rate 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. It results primarily from the timing mismatch in re-pricing of interest-bearing assets and liabilities. DBS Bank manages its interest rate risk by way of entering into on and off-balance-sheet interest rate hedging instruments to hedge the interest rate exposure based on market and economic conditions.

The following tables summarise DBS Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Actual dates may differ from contractual dates owing to prepayments and the exercise of options. It should also be noted that any representation of interest rate risk at a specific date offers only a snapshot of the risks taken by the Bank, since the position is being actively managed and can vary significantly on a daily basis. As such, it may not be representative of the level of risk at other times.

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In S\$ millions	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
<b>December 31, 2003</b>								
Cash, and balances and placements with central banks and banks	4,376	7,668	7,008	6,083	-	-	1,494	26,629
Securities <sup>(a)</sup>	294	1,119	2,179	3,587	5,638	17,440	1,198	31,455
Loans to, and bills receivable from, non-bank customers	5,948	15,943	7,319	9,044	1,317	795	67	40,433
Other assets <sup>(b)</sup>	-	-	-	-	-	-	23,539	23,539
<b>Total assets</b>	<b>10,618</b>	<b>24,730</b>	<b>16,506</b>	<b>18,714</b>	<b>6,955</b>	<b>18,235</b>	<b>26,298</b>	<b>122,056</b>
Subordinated term debts	-	-	-	-	-	3,571	-	3,571
Deposits and balances of banks	1,757	1,967	1,464	1,161	850	-	-	7,199
Deposits and other accounts of non-bank customers	51,976	11,295	4,789	3,629	1,859	3,745	-	77,293
Other liabilities <sup>(c)</sup>	54	322	739	429	647	566	14,986	17,743
<b>Total liabilities</b>	<b>53,787</b>	<b>13,584</b>	<b>6,992</b>	<b>5,219</b>	<b>3,356</b>	<b>7,882</b>	<b>14,986</b>	<b>105,806</b>
Equity	-	-	-	-	-	-	16,250	16,250
<b>Total liabilities and equity</b>	<b>53,787</b>	<b>13,584</b>	<b>6,992</b>	<b>5,219</b>	<b>3,356</b>	<b>7,882</b>	<b>31,236</b>	<b>122,056</b>
<b>On-balance sheet interest rate gap</b>	<b>(43,169)</b>	<b>11,146</b>	<b>9,514</b>	<b>13,495</b>	<b>3,599</b>	<b>10,353</b>	<b>(4,938)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives	7,780	1,619	(5,631)	(264)	(1,185)	(2,319)	-	-

- (a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.  
(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.  
(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.

In S\$ millions	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
<b>December 31, 2002</b>								
Cash, and balances and placements with central banks and banks	6,972	9,574	7,905	6,405	916	84	1,982	33,838
Securities <sup>(a)</sup>	2,803	997	1,982	2,416	2,640	7,632	846	19,316
Loans to, and bills receivable from, non-bank customers	7,296	12,728	6,332	8,104	854	1,770	30	37,114
Other assets <sup>(b)</sup>	-	-	-	-	-	-	23,020	23,020
<b>Total assets</b>	<b>17,071</b>	<b>23,299</b>	<b>16,219</b>	<b>16,925</b>	<b>4,410</b>	<b>9,486</b>	<b>25,878</b>	<b>113,288</b>
Subordinated term debts	-	-	-	-	-	3,649	-	3,649
Deposits and balances of banks	1,679	1,510	907	363	31	-	-	4,490
Deposits and other accounts of non-bank customers	49,590	10,914	4,624	3,691	626	1,740	-	71,185
Other liabilities <sup>(c)</sup>	385	149	99	951	484	2,174	14,059	18,301
<b>Total liabilities</b>	<b>51,654</b>	<b>12,573</b>	<b>5,630</b>	<b>5,005</b>	<b>1,141</b>	<b>7,563</b>	<b>14,059</b>	<b>97,625</b>
Equity	-	-	-	-	-	-	15,663	15,663
<b>Total liabilities and equity</b>	<b>51,654</b>	<b>12,573</b>	<b>5,630</b>	<b>5,005</b>	<b>1,141</b>	<b>7,563</b>	<b>29,722</b>	<b>113,288</b>
<b>On-balance sheet interest rate gap</b>	<b>(34,583)</b>	<b>10,726</b>	<b>10,589</b>	<b>11,920</b>	<b>3,269</b>	<b>1,923</b>	<b>(3,844)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives	7,560	(6,174)	(10,099)	8,735	(5,393)	5,371	-	-

- (a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.  
(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.  
(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.



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The table below summarises the effective average interest rate at December 31 by major currencies for monetary financial instruments:

	Singapore Dollar %	US Dollar %
<b>December 31, 2003</b>		
<b>Assets</b>		
Cash, and balances and placements with central banks	0	0
Securities <sup>(a)</sup>	0.56 – 3.72	2.65 – 3.52
Balances, placements with, and loans to banks	0.59 – 0.76	1.00 – 1.20
Loans to, and bills receivable from, non-bank customers	2.98 – 3.34	2.46 – 3.59
<b>Liabilities</b>		
Subordinated term debts	Not applicable	7.13 – 7.88
Deposits and balances of banks	0.21 – 0.53	1.08 – 1.21
Deposits and other accounts of non-bank customers	0 – 0.49	0.16 – 0.79
<b>December 31, 2002</b>		
<b>Assets</b>		
Cash, and balances and placements with central banks	0	0
Securities <sup>(a)</sup>	0.90 – 3.74	3.38 – 4.19
Balances, placements with, and loans to banks	0.92 – 0.98	1.29 – 2.01
Loans to, and bills receivable from, non-bank customers	3.39 – 4.34	2.68 – 2.74
<b>Liabilities</b>		
Subordinated term debts	Not applicable	7.13 – 7.88
Deposits and balances of banks	0.38 – 1.03	1.24 – 1.56
Deposits and other accounts of non-bank customers	0 – 0.89	0.19 – 1.50

(a) Securities include Singapore Government securities and treasury bills, trading debt securities and investment securities. Excludes trading and investment equities.

### 35.2.3 Currency risk

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

In S\$ millions	Singapore Dollar	US Dollar	Hong Kong Dollar	Thai Baht	Others	Total
<b>December 31, 2003</b>						
Cash, and balances and placements with central banks and banks	7,390	15,666	127	-	3,446	26,629
Securities <sup>(a)</sup>	13,259	11,502	725	20	5,949	31,455
Loans to, and bills receivable from, non-bank customers	28,034	7,226	1,223	-	3,950	40,433
Other assets <sup>(b)</sup>	5,302	4,920	11,517	47	1,753	23,539
<b>Total assets</b>	<b>53,985</b>	<b>39,314</b>	<b>13,592</b>	<b>67</b>	<b>15,098</b>	<b>122,056</b>
Subordinated term debts	-	3,571	-	-	-	3,571
Deposits and balances of banks	334	4,785	21	-	2,059	7,199
Deposits and other accounts of non-bank customers	56,424	15,915	646	3	4,305	77,293
Other liabilities <sup>(c)</sup>	4,582	8,708	1,922	50	2,481	17,743
<b>Total liabilities</b>	<b>61,340</b>	<b>32,979</b>	<b>2,589</b>	<b>53</b>	<b>8,845</b>	<b>105,806</b>
Equity	16,250	-	-	-	-	16,250
<b>Total liabilities and equity</b>	<b>77,590</b>	<b>32,979</b>	<b>2,589</b>	<b>53</b>	<b>8,845</b>	<b>122,056</b>
<b>Net on-balance sheet position</b>	<b>(23,605)</b>	<b>6,335</b>	<b>11,003</b>	<b>14</b>	<b>6,253</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>15,515</b>	<b>(5,916)</b>	<b>(5,583)</b>	<b>8</b>	<b>(4,024)</b>	<b>-</b>

(a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.

(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.

(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.

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<b>In S\$ millions</b>	<b>Singapore Dollar</b>	<b>US Dollar</b>	<b>Hong Kong Dollar</b>	<b>Thai Baht</b>	<b>Others</b>	<b>Total</b>
<b>December 31, 2002</b>						
Cash, and balances and placements with central banks and banks	6,828	21,736	326	#	4,948	33,838
Securities <sup>(a)</sup>	10,834	4,802	346	13	3,321	19,316
Loans to, and bills receivable from, non-bank customers	27,920	6,579	1,165	1	1,449	37,114
Other assets <sup>(b)</sup>	4,773	3,601	12,880	3	1,763	23,020
<b>Total assets</b>	<b>50,355</b>	<b>36,718</b>	<b>14,717</b>	<b>17</b>	<b>11,481</b>	<b>113,288</b>
Subordinated term debts	-	3,649	-	-	-	3,649
Deposits and balances of banks	713	2,166	22	-	1,589	4,490
Deposits and other accounts of non-bank customers	53,601	13,410	981	14	3,179	71,185
Other liabilities <sup>(c)</sup>	5,914	6,334	5,194	6	853	18,301
<b>Total liabilities</b>	<b>60,228</b>	<b>25,559</b>	<b>6,197</b>	<b>20</b>	<b>5,621</b>	<b>97,625</b>
Equity	15,663	-	-	-	-	15,663
<b>Total liabilities and equity</b>	<b>75,891</b>	<b>25,559</b>	<b>6,197</b>	<b>20</b>	<b>5,621</b>	<b>113,288</b>
<b>Net on-balance sheet position</b>	<b>(25,536)</b>	<b>11,159</b>	<b>8,520</b>	<b>(3)</b>	<b>5,860</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>15,276</b>	<b>(8,503)</b>	<b>(2,472)</b>	<b>(100)</b>	<b>(4,201)</b>	<b>-</b>

# Amount under S\$500,000.

(a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.

(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.

(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.

The table below analyses DBS Bank's net structural currency exposure at December 31:

<b>In S\$ millions</b>	<b>Net investments in overseas operations <sup>(a)</sup></b>	<b>Borrowings which hedge the net investments <sup>(b)</sup></b>	<b>Remaining structural currency exposures</b>
Functional currency of the operation involved			
<b>December 31, 2003</b>			
US Dollar	199	195	4
Hong Kong Dollar	3,595	3,531	64
Thai Baht	(48)	(48)	-
Others	651	313	338
<b>Total</b>	<b>4,397</b>	<b>3,991</b>	<b>406</b>
Functional currency of the operation involved			
<b>December 31, 2002</b>			
US Dollar	148	139	9
Hong Kong Dollar	4,038	4,013	25
Thai Baht	(59)	(59)	#
Others	645	292	353
<b>Total</b>	<b>4,772</b>	<b>4,385</b>	<b>387</b>

# Amount under S\$500,000.

(a) Refer to net tangible assets of subsidiary/associated companies and capital funds/retained earnings of overseas branches operations.

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

### **35.2.4 Credit Risk**

Credit risk represents the loss which DBS Bank would suffer if a client or counterparty failed to meet its 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. DBS Bank is guided by a set of credit principles and policies embodied in its Core Credit Risk Policy, to which all extensions of credit must adhere. These principles and policies have been developed with the objective of promoting best practices and consistent credit risk management standards throughout the organisation.

Exposure to credit risk is managed through a sound, well-defined credit granting process which includes the assessment of repayment likelihood, the establishment of appropriate credit limits, and the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and / or third party support. The Bank also uses credit derivative instruments to manage its credit risk exposures through risk transfer to third parties.

#### **35.2.4.1 Derivatives**

At any one time, the credit exposure of derivatives transactions is limited to the positive mark-to-market value to the Bank, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Bank enters into collateralised margin transactions with counterparties.

#### **35.2.4.2 Master Netting Arrangements**

DBS Bank further manages its credit exposure by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. 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.

#### **35.2.4.3 Credit related commitments**

Guarantees and standby letters of credit, which represent undertakings that DBS Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of a customer, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing.

Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is usually less than the total unused commitments since most commitments to extend credit are contingent upon customers observing or meeting certain credit terms and conditions.

#### **35.2.4.4 Non-performing loans and provisions**

DBS Bank's policy is to establish, through charges against profit, a provision in respect of the estimated loss inherent in the lending book. The overall provision represent the aggregate amount by which management considers it necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated ultimate net realisable value. Non-performing loans ("NPLs") are loans, contingent facilities and debt instruments classified as Substandard, Doubtful or Loss in accordance with MAS Notice 612, which determines the level of provisioning.

Details of DBS Bank's NPLs at December 31 are as follows:

In S\$ millions	Regional Countries	Singapore	Other Countries	Total
<b><u>2003</u></b>				
<b>Non- Performing Loans (NPLs) <sup>(a)</sup></b>	<b>448</b>	<b>1,253</b>	<b>420</b>	<b>2,121</b>
- Substandard	335	842	334	1,511
- Doubtful	48	42	27	117
- Loss	65	369	59	493
<b><u>2002</u></b>				
<b>Non- Performing Loans (NPLs) <sup>(a)</sup></b>	635	1,545	403	2,583
- Substandard	445	1,052	278	1,775
- Doubtful	96	23	68	187
- Loss	94	470	57	621

(a) NPLs include classified bank loans, contingent facilities and debt securities.

### **35.2.5 Concentration Risk**

DBS Bank's risk management processes also ensure that an acceptable level of risk diversification is maintained across the Bank 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 action is taken if limits are breached.

### **35.2.6 Liquidity Risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in meeting its financial obligations. DBS Bank's objective in liquidity management is to ensure that there is sufficient liquidity to meet obligations under normal as well as adverse circumstances and take advantage of lending and investment opportunities as they arise. As part of its liquidity risk management, DBS Bank focuses on a number of components, including limits on behavioural maturity mismatches, key ratios, diversification of funding sources, liquid assets, funding capacity and contingency planning.

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The table below analyses assets and liabilities of DBS Bank based on the remaining period at balance sheet date to the contractual maturity date. However, contractual terms are not representative of the behaviour of assets and liabilities.

In S\$ millions	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	Total
<b>December 31, 2003</b>								
Cash, and balances and placements								
with central banks and banks	5,798	7,651	6,194	6,582	293	111	-	26,629
Securities <sup>(a)</sup>	5,688	494	727	3,142	5,313	15,301	790	31,455
Loans to, and bills receivable from, non-bank customers	4,116	3,547	2,952	4,587	7,337	17,894	-	40,433
Other assets <sup>(b)</sup>							23,539	23,539
<b>Total assets</b>	<b>15,602</b>	<b>11,692</b>	<b>9,873</b>	<b>14,311</b>	<b>12,943</b>	<b>33,306</b>	<b>24,329</b>	<b>122,056</b>
Subordinated term debts	-	-	-	-	-	3,571	-	3,571
Deposits and balances of banks	1,788	1,942	1,461	1,152	850	6	-	7,199
Deposits and other accounts of non-bank customers	51,976	11,295	4,789	3,629	1,859	3,745	-	77,293
Other liabilities <sup>(c)</sup>	30	125	230	771	932	1,102	14,553	17,743
<b>Total liabilities</b>	<b>53,794</b>	<b>13,362</b>	<b>6,480</b>	<b>5,552</b>	<b>3,641</b>	<b>8,424</b>	<b>14,553</b>	<b>105,806</b>
Equity							16,250	16,250
Total liabilities and equity	53,794	13,362	6,480	5,552	3,641	8,424	30,803	122,056
<b>Net liquidity gap</b>	<b>(38,192)</b>	<b>(1,670)</b>	<b>3,393</b>	<b>8,759</b>	<b>9,302</b>	<b>24,882</b>	<b>(6,474)</b>	<b>-</b>

(a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.

(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.

(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.

In S\$ millions	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	Total
<b>December 31, 2002</b>								
Cash, and balances and placements								
with central banks and banks	8,954	9,574	7,900	6,388	934	88	-	33,838
Securities <sup>(a)</sup>	2,925	536	1,404	2,424	2,708	8,543	776	19,316
Loans to, and bills receivable from, non-bank customers	2,695	7,772	2,049	2,627	5,647	16,324	-	37,114
Other assets <sup>(b)</sup>	-	-	-	-	-	-	23,020	23,020
<b>Total assets</b>	<b>14,574</b>	<b>17,882</b>	<b>11,353</b>	<b>11,439</b>	<b>9,289</b>	<b>24,955</b>	<b>23,796</b>	<b>113,288</b>
Subordinated term debts	-	-	-	-	-	3,649	-	3,649
Deposits and balances of banks	1,679	1,510	907	363	31	-	-	4,490
Deposits and other accounts of non-bank customers	49,590	10,914	4,624	3,691	626	1,740	-	71,185
Other liabilities <sup>(c)</sup>	385	3,563	99	938	484	2,174	10,658	18,301
<b>Total liabilities</b>	<b>51,654</b>	<b>15,987</b>	<b>5,630</b>	<b>4,992</b>	<b>1,141</b>	<b>7,563</b>	<b>10,658</b>	<b>97,625</b>
Equity	-	-	-	-	-	-	15,663	15,663
Total liabilities and equity	51,654	15,987	5,630	4,992	1,141	7,563	26,321	113,288
<b>Net liquidity gap</b>	<b>(37,080)</b>	<b>1,895</b>	<b>5,723</b>	<b>6,447</b>	<b>8,148</b>	<b>17,392</b>	<b>(2,525)</b>	<b>-</b>

(a) Securities include Singapore Government securities and treasury bills, trading securities and investment securities.

(b) Other assets include associated and joint venture companies, goodwill, fixed assets and other assets.

(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred taxation and other liabilities.

### **36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

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In addition, fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of FRS 32 which requires the fair value information to be disclosed. These include fixed assets and intangibles.

Except for loans to and bills receivable from customers, the following table summarises the carrying amounts and fair values of the Bank's financial assets and liabilities. The Bank has computed the fair values of loans to and bills receivable from customers, taking into account the relevant market interest rates and credit spread by product types and noted that the total fair value is not materially different from the total carrying amount at year-end.

In S\$ millions	<u>2003</u>		<u>2002</u>	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash, and balances and placements with central banks and banks	26,629	26,650	33,838	33,863
Securities	31,455	31,762	19,316	19,654
<b>Financial liabilities</b>				
Deposits and balances of banks	7,199	7,202	4,490	4,493
Deposits and other accounts of non-bank customers	77,293	77,297	71,185	71,184
Other borrowings, debt securities issued and bills payable	3,033	3,033	2,525	2,525
Subordinated term debts	4,902	5,593	5,007	5,883

**Cash, and balances and placements with central banks and 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.

**Securities**

Securities include Singapore Government securities and treasury bills, trading securities and investment securities. Fair value is based on the market prices or broker/dealer price quotations. Where market price are not available, fair values are estimated based on validated internal valuation models. For equities, where market price information is not available, fair value has been estimated by reference to the net tangible asset backing of the investee.

**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. The fixed rate USD subordinated term debts issued by DBS Bank have been converted to floating rate via interest rate swaps. The difference between fair value and carrying amount will be largely offset by the corresponding fair value of hedging the interest rate swaps (Note 34.2).

### **Deposits, and balances of banks and 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.

### **Other borrowings, debt securities and bills payable**

The fair value approximates their carrying amounts.

## **37 ASSETS PLEDGED**

The aggregate carrying amounts of assets that have been mortgaged or pledged in the normal course of business to secure the liabilities of DBS Bank at December 31 was S\$1,440 million (2002: S\$1,272 million). These relate to securities sold under repurchase agreements.

## **38 SEGMENTAL ANALYSIS**

### **38.1 BUSINESS SEGMENT ANALYSIS**

The business segment results represent the customer segments of the respective businesses and are determined by:

- Income and direct expenses attributable to each customer and other segment; and
- Management accounting policies relating to the allocation of indirect expenses and funds transfer pricing between the central treasury unit and the customer/other segments.

The various customer segments are described below:

- **Consumer Banking**  
Consumer Banking focuses on providing products and services to individual customers. The products and services offered to customers include credit facilities (mortgage, personal loans, etc.), credit cards, deposit collection, remittance services, and asset management products.
- **Enterprise Banking**  
Enterprise Banking focuses on providing products and services to small and medium enterprises. The products and services offered to customers include credit facilities (overdraft, factoring/accounts receivable purchase, trade financing, commercial/industrial property financing, hire purchase and government financing and assistance schemes), deposit, payment and collection services and treasury products.
- **Investment Banking**  
Investment Banking caters to the business needs of large corporate customers and financial institutions. The products and services offered to customers include direct lending, advisory banking services, bond issuance, equity financing, syndicated financing, mergers and acquisitions advisory services, debt restructuring advisory services, private equity, nominee and trustee services and cash management services.

**- Treasury and Markets**

Treasury and Markets is primarily involved in market making, structuring and trading of financial products including foreign exchange, securities and interest rate/ credit/ equity/ foreign exchange derivatives. Income from treasury products and services relating to customers of other segments is reflected in the respective customer segments.

The other segments are:

**- Funding Portfolio**

The Funding Portfolio managed by Treasury and Markets is the net aggregate of the Bank's interest earning assets and interest bearing liabilities. The income generated from this portfolio is predominantly interest rate in nature.

**- Central Operations**

Central Operations encompasses a range of activities, with corporate decisions made at the centre and the related income and expenses not attributed to business segments. These include central treasury unit, funding costs of DBS Bank's associated and subsidiary companies and gains/ losses on properties.

The following tables analyse the results, total assets and total liabilities by business segments:

<b>In S\$ millions</b>	<b>Consumer Banking</b>	<b>Enterprise Banking</b>	<b>Investment Banking</b>	<b>Treasury and Markets <sup>(a)</sup></b>	<b>Funding Portfolio <sup>(a)</sup></b>	<b>Central Operations</b>	<b>Total</b>
<b>2003</b>							
Income before operating expenses	861	233	628	239	385	344	2,690
Operating profit before provisions and taxation	380	146	438	161	286	229	1,640
<b>Net profit before taxation</b>	<b>323</b>	<b>99</b>	<b>357</b>	<b>161</b>	<b>299</b>	<b>(242)</b>	<b>997</b>
Taxation	(70)	(21)	(48)	(35)	(44)	(37)	(255)
<b>Net profit after taxation</b>	<b>253</b>	<b>78</b>	<b>309</b>	<b>126</b>	<b>255</b>	<b>(279)</b>	<b>742</b>
<b>Other Information</b>							
<b>Total assets</b>	<b>16,311</b>	<b>3,594</b>	<b>25,936</b>	<b>18,393</b>	<b>25,205</b>	<b>32,617</b>	<b>122,056</b>
<b>Total liabilities</b>	<b>46,221</b>	<b>5,734</b>	<b>13,150</b>	<b>12,505</b>	<b>11,004</b>	<b>17,192</b>	<b>105,806</b>
<b>Capital expenditure</b>	<b>6</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>#</b>	<b>31</b>	<b>43</b>
<b>Depreciation</b>	<b>23</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>68</b>	<b>98</b>
<b>2002</b>							
Income before operating expenses	907	236	647	364	306	434	2,894
Operating profit before provisions and taxation	384	151	452	276	218	340	1,821
<b>Net profit before taxation</b>	<b>360</b>	<b>101</b>	<b>352</b>	<b>276</b>	<b>224</b>	<b>(87)</b>	<b>1,226</b>
Taxation	(76)	(21)	(47)	(42)	(42)	(51)	(279)
<b>Net profit after taxation</b>	<b>284</b>	<b>80</b>	<b>305</b>	<b>234</b>	<b>182</b>	<b>(138)</b>	<b>947</b>
<b>Other Information</b>							
<b>Total assets</b>	<b>15,580</b>	<b>3,635</b>	<b>20,105</b>	<b>10,754</b>	<b>30,932</b>	<b>32,282</b>	<b>113,288</b>
<b>Total liabilities</b>	<b>47,723</b>	<b>4,401</b>	<b>11,195</b>	<b>10,107</b>	<b>5,401</b>	<b>18,798</b>	<b>97,625</b>
<b>Capital expenditure</b>	<b>37</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>18</b>	<b>63</b>
<b>Depreciation</b>	<b>29</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>57</b>	<b>94</b>

# Amount under S\$500,000.

(a) Operating expenses and provisions have been determined by prorating between Treasury and Markets and the Funding Portfolio based on the share of income before operating expenses.



## 38.2 GEOGRAPHICAL SEGMENT ANALYSIS

DBS Bank operates in four main geographical areas:

- “**Singapore**”, which includes all the operations of the Asian Currency Unit.
- “**Hong Kong**”, which includes branch operations in Hong Kong.
- “**Regional Countries**”, which includes branch operations in Malaysia, Indonesia, Thailand, Korea and the Philippines.
- “**Rest of the World**”, which are mainly branch operations in China, India, Taiwan, United States and United Kingdom.

Income before operating expenses and net profit after taxation are based on the country in which the transactions are booked except for special general provisions for regional exposures and additional provisions for DBS Thai Danu Bank Public Company Limited (“DTDB”)’s loans which are booked in Singapore. 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 before operating expenses and net profit attributable to members are stated after elimination of inter-unit assets and revenues.

The following tables analyse total assets, income before operating expenses and net profit after taxation by geographical segments:

In S\$ millions	Total assets	Income before operating expenses	Net profit after taxation
<b>2003</b>			
Singapore <sup>(a)</sup>	108,188	2,456	639
Hong Kong	3,566	98	40
Regional Countries <sup>(a)</sup>	2,197	49	24
Rest of the World	8,105	87	39
<b>Total</b>	<b>122,056</b>	<b>2,690</b>	<b>742</b>
<b>2002</b>			
Singapore <sup>(a)</sup>	104,331	2,685	831
Hong Kong	3,097	99	61
Regional Countries <sup>(a)</sup>	979	29	20
Rest of the World	4,881	81	35
<b>Total</b>	<b>113,288</b>	<b>2,894</b>	<b>947</b>

(a) Special general provisions for regional exposures, additional provisions for DTDB’s loans are booked in Singapore.

## 39 RELATED PARTY TRANSACTIONS

**39.1** During the financial year, DBS Bank has banking transactions with related parties, consisting of associated companies, joint ventures, directors and key management personnel of the Bank. These include deposit taking, loans and credit card facilities. These transactions are 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 in respect of their services rendered during the financial year. Non-cash benefits which include share options and performance shares were also granted.

### **39.1 DIRECTORS AND KEY MANAGEMENT PERSONNEL REMUNERATION AND FEES**

Total remuneration and fees paid to DBS Bank Directors, as well as key management personnel were as follows:

<b>In S\$ millions</b>	<b>2003</b>	<b>2002</b>
Remuneration of DBS Bank directors	<b>10</b>	7
Fees of DBS Bank directors	#	#
Total directors' remuneration and fees	<b>10</b>	7
Remuneration of key management personnel <sup>(a)</sup>	<b>8</b>	9
Total remuneration and fees	<b>18</b>	16

# Amount under S\$500,000

(a) Refers to members of the Management Committee, excluding members who are also DBS Bank Directors.

### **39.2 SHARE OPTIONS GRANTED TO DBS BANK DIRECTORS AND KEY MANAGEMENT PERSONNEL**

The aggregate number of share options granted to DBS Bank Directors and key management personnel during the financial year were 102,200 and 340,500 (2002: 475,500 and 280,000) respectively. The share options were granted on the same terms and conditions as those offered to other employees of DBS Bank. The outstanding number of share options granted to DBS Bank Directors and key management personnel at the end of the financial year were 705,225 and 1,269,150 (2002: 603,025 and 792,302) respectively.

### **39.3 PERFORMANCE SHARES GRANTED TO DBS BANK DIRECTORS AND KEY MANAGEMENT PERSONNEL**

During the financial year, 57,700 and 35,250 (2002: 70,000 and 34,740) awards in respect of DBSH ordinary shares were granted to DBS Bank Directors and key management personnel respectively. The award numbers represent a 100% payout. The payout at the end of the performance period could range from a minimum of 50% of the shares awarded to 200%, dependent on the DBSH Group's performance vis-a-vis target performance levels measured by return on equity.

## **40 SUBSEQUENT EVENTS**

On January 28, 2004, Thai Military Bank PCL ("TMB"), DBS Bank ("DBS") and DBS Thai Danu Bank PCL ("DTDB") announced that a Memorandum of Understanding ("MoU") was signed to combine TMB and DTDB in a strategic merger to create the 6th largest banking group in Thailand by assets. The MoU sets out, among others, the principles and structure of the merger, management and areas of governance and business cooperation. The proposed structure

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is a tender offer by TMB for all the shares of DTDB in consideration for new TMB shares. The parties have also agreed to explore incorporating The Industrial Finance Corporation of Thailand (“IFCT”) in a three-way merger to create Thailand's 5th largest bank.

The proposed merger is subject to approvals from the Thai Minister of Finance, the Bank of Thailand, the Stock Exchange of Thailand, the Securities and Exchange Commission of Thailand, the Thai Ministry of Commerce, the Monetary Authority of Singapore and DBSH shareholders.

The effect of the proposed merger of TMB, DTDB and IFCT on DBS Bank's financials will depend on finalisation of the details. It is expected to have a positive non-cash accounting impact on DBS Bank's financials and capital adequacy ratios.

## **DBS BANK LTD**

### **DIRECTORS' REPORT**

The Directors are pleased to submit their report to the Member together with the audited financial statements of DBS Bank Ltd (formerly known as The Development Bank of Singapore Ltd) (“DBS Bank”) for the financial year ended December 31, 2003, which have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards.

### **BOARD OF DIRECTORS**

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

S Dhanabalan	-	Chairman
Jackson Tai	-	Chief Executive Officer & Vice Chairman
Frank Wong Kwong Shing	-	Vice Chairman
Bernard Chen Tien Lap		
Fock Siew Wah		
Gail D. Fosler (Ms)		
Kwa Chong Seng	-	(Appointed on July 29, 2003)
Moses Lee Kim Poo		
N R Narayana Murthy	-	(Appointed on August 19, 2003)
Leung Chun Ying		
Peter Ong Boon Kwee	-	(Appointed on March 26, 2003)
John Alan Ross	-	(Appointed on February 6, 2003)
Thean Lip Ping		
Yeo Ning Hong		

In accordance with Article 95 of DBS Bank's Articles of Association, Messrs S Dhanabalan, Fock Siew Wah and Gail D. Fosler, will retire and being eligible, will offer themselves for re-election pursuant to Article 95.

In accordance with Article 74(b) of DBS Bank's Articles of Association, Messrs Kwa Chong Seng, N R Narayana Murthy and Peter Ong Boon Kwee will retire and, being eligible, will offer themselves for re-election pursuant to Article 74(b).

Mr Thean Lip Ping will retire pursuant to Section 153(2) of the Singapore Companies Act, Chapter 50. A Resolution will be proposed for his re-appointment under section 153(6) of the said Act to hold office until the next annual general meeting of DBS Bank.

### **ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

Neither at the end of nor at any time during the financial year, was DBS Bank a party to any arrangement, the object of which, is to enable the Directors to acquire benefits through the acquisition of shares in or debentures of DBS Bank or any other body corporate save as disclosed in this report under the headings "**DIRECTORS' INTEREST IN SHARES AND DEBENTURES**", "**SHARE OPTIONS**" and "**DBSH PERFORMANCE SHARE PLAN**".

## DIRECTORS' INTEREST IN SHARES AND DEBENTURES

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

	<u>Holdings in which Directors have a direct interest</u>		<u>Holdings in which Directors are deemed to have an interest</u>	
	<u>As at Dec 31 2003</u>	<u>As at Dec 31 2002</u> (or date of appointment if later)	<u>As at Dec 31 2003</u>	<u>As at Dec 31 2002</u> (or date of appointment if later)
<b><u>Ordinary Shares of par value S\$1.00 each</u></b>				
S Dhanabalan	<b>38,000</b>	35,000	<b>31,534</b>	31,534
Jackson Tai	<b>80,800</b>	44,050	-	-
Frank Wong Kwong Shing	<b>177,850</b>	161,100	-	-
Bernard Chen Tien Lap	<b>19,000</b>	19,000	-	-
Fock Siew Wah	<b>50,000</b>	50,000	-	-
Gail D. Fosler	<b>3,400</b>	3,400	-	-
Kwa Chong Seng	<b>42,129</b>	42,129	-	-
John Alan Ross	<b>5,000</b>	-	-	-
Thean Lip Ping	<b>6,448</b>	6,448	<b>15,004</b>	15,004
Yeo Ning Hong	<b>10,000</b>	10,000	-	-
<b><u>Unissued Ordinary Shares of par value S\$1.00 each under the DBSH Share Option Plan</u></b>				
Jackson Tai	<b>348,675</b>	287,375	-	-
Frank Wong Kwong Shing	<b>356,550</b>	315,650	-	-
<b><u>Number of DBS Bank 6% Non-Cumulative Non-Convertible Perpetual Preference Shares of par value S\$0.01 each</u></b>				
S Dhanabalan	<b>500</b>	500	-	-
Jackson Tai	<b>250</b>	250	-	-
Thean Lip Ping	-	-	<b>500</b>	500

There was no change in any of the above-mentioned interests between the end of the financial year and January 21, 2004.

## 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 DBS Bank.

## SHARE OPTIONS

### (a) DBSH SHARE OPTION SCHEME

The DBSH Share Option Scheme (the “Option Scheme”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on September 18, 1999, to replace the DBS Bank Share Option Scheme (the “DBS Bank Option Scheme”) previously implemented by DBS Bank, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH.

The Option Scheme was terminated on October 18, 1999. Options granted under the Option Scheme in 1998 (the "1998 DBSH Options") expired on April 7, 2003 and there are no further outstanding unexercised options under the Option Scheme. Particulars of the 1998 DBSH Options have been set out in the Directors' Report for the year ended December 31, 1998 except for the modification in Rules 1, 4 and 8 of the Option Scheme.

The movements of the unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding existing unexercised options are as follows:

DBSH Options	Number of unissued ordinary shares		During the year		Number of unissued ordinary shares December 31, 2003	Subscription price per ordinary share	Date of expiration
	January 1, 2003	Exercised	Lapsed				
1998	906,788	906,745	43	-	S\$7.69	April 7, 2003	

### (b) DBSH SHARE OPTION PLAN

The DBS Bank Share Option Plan (the “DBS Bank Option Plan”) was adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on June 19, 1999 to replace the DBS Bank Option Scheme. At an Extraordinary General Meeting held on September 18, 1999, the shareholders of DBSH adopted the DBSH Share Option Plan (the “Option Plan”) to replace the DBS Bank Option Plan, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH. Particulars of the share options granted under the Option Plan in 1999, 2000, 2001 and 2002 (herewith called “1999 DBSH Options”, “March/July 2000 DBSH Options” and “March/June/August/October 2001 DBSH Options” and “January/March/August/October/December 2002 DBSH Options” respectively) have been set out in the Directors’ Reports for the years ended December 31, 1999, 2000, 2001 and 2002 respectively.

The movements of the unissued ordinary shares of DBSH of par value S\$1.00 each comprised 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	Subscription price per ordinary share	Date of expiration
	January 1, 2003	Granted	Exercised	Lapsed	December 31, 2003		
1999	4,256,461	-	-	455,425	3,801,036	S\$15.30	July 27, 2009
March 2000	1,697,000	-	-	110,800	1,586,200	S\$20.87	March 5, 2010
July 2000	1,153,800	-	-	39,200	1,114,600	S\$22.33	July 26, 2010
March 2001	12,193,000	-	-	568,000	11,625,000	S\$17.70	March 14, 2011
June 2001	21,000	-	-	-	21,000	S\$14.76	May 31, 2011
August 2001	1,500,000	-	60,000	26,000	1,414,000	S\$12.93	July 31, 2011
October 2001	11,655	-	11,655	-	-	S\$10.73	October 30, 2011
January 2002	50,500	-	-	-	50,500	S\$13.70	January 1, 2012
March 2002	12,328,240	-	38,000	524,000	11,766,240	S\$14.73	March 27, 2012
August 2002	1,290,000	-	4,000	71,000	1,215,000	S\$12.27	August 15, 2012
October 2002	9,260	-	-	-	9,260	S\$11.73	October 9, 2012
December 2002	20,000	-	-	-	20,000	S\$11.47	December 17, 2012
February 2003	-	14,318,100	96,800	703,700	13,517,600	S\$10.40	February 23, 2013
March 2003	-	15,000	-	-	15,000	S\$9.18	March 9, 2013
	34,530,916	14,333,100	210,455	2,498,125	46,155,436		

Total options of 102,200 were granted to executive directors Mr Jackson Tai and Mr Frank Wong Kwong Shing during the financial year.

Information on the Option Plan, “February 2003 DBSH Options” and “March 2003 DBSH Options” granted under the Option Plan are as follows:

- (i) Options to subscribe for DBSH ordinary shares could be granted to DBSH Group executives who hold the rank of Vice President (or equivalent rank) and above and selected employees of DBSH Group of a rank below the rank of Vice President (or equivalent rank). This would also include executives of associated companies of DBSH Group who hold the rank of Vice President (or equivalent rank); and non-executive directors of DBSH.

The persons to whom the “February 2003 DBSH Options” and “March 2003 DBSH Options” have been granted may be eligible to participate in the DBSH Performance Share Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

- (ii) The dates of expiration of the “February 2003 DBSH Options” and “March 2003 DBSH Options” are February 23, 2013 and March 9, 2013 respectively unless they have been cancelled or have lapsed prior to that date.
- (iii) The subscription price for each share in respect of which a DBSH Option (other than “February 2003 DBSH Options” and “March 2003 DBSH Options”) is exercisable is

the average of the last dealt prices (“Market Price”) for the DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd (“SGX-ST”), for the three consecutive trading days immediately preceding the date of the grant.

- (iv) DBSH Options with subscription prices that are equal to the Market Price may be exercised, in whole or in part, one year after the date of the grant up to the date of expiration of the options, and in accordance with a vesting schedule to be determined by the Compensation Committee.
- (v) Adjustments may be made to the number of DBSH shares which may be acquired by a participant, or the subscription price or both, in the event of any variation in the issued ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

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

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

## **DBSH PERFORMANCE SHARE PLAN**

The DBS Bank Performance Share Plan was adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on June 19, 1999. At an Extraordinary General Meeting held on September 18, 1999, the shareholders of DBSH adopted the DBSH Performance Share Plan (the “Performance Share Plan”), to replace the DBS Bank Performance Share Plan, following the restructuring of DBS Bank as a wholly owned subsidiary of DBSH.

During the financial year, awards in respect of an aggregate of 768,360 ordinary shares of par value S\$1.00 each were granted, pursuant to the DBSH Performance Share Plan, to selected employees of DBSH Group. This included 57,700 awards granted to executive directors Mr Jackson Tai and Mr Frank Wong Kwong Shing. The award numbers represent a 100% payout. The payout at the end of the performance period could range from a minimum of 50% of the shares awarded to 200% dependent on the DBSH Group’s performance vis-à-vis target performance levels measured by return on equity.

Information on the Performance Share Plan are as follows:

- (i) DBSH ordinary shares could be granted to DBSH Group executives who hold the rank of Vice President (or equivalent rank) and above and selected employees of DBSH Group of a rank below the rank of Vice President (or equivalent rank). This would also include executives of associated companies of DBSH Group who hold the rank of Vice President (or equivalent rank); and non-executive directors of DBSH.

The participants of the Performance 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) Participants are awarded ordinary shares of DBSH, their equivalent cash value or combinations thereof (“DBSH Awards”), when the prescribed performance targets are met. The DBSH Awards are granted at the absolute discretion of the Compensation Committee.
- (iii) The Performance Share Plan shall continue to be in force at the discretion of the Compensation Committee, subject to a maximum period of ten years commencing from September 18, 1999, provided always that the Performance 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) DBSH Awards 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 the participant, being a non-executive director, ceases to be a director, or a take-over, winding up or reconstruction of DBSH.
- (v) The aggregate nominal amount of new DBSH shares which may be delivered (pursuant to DBSH Awards granted) under the Performance Share Plan, when added to the nominal amount of new DBSH shares issued and issuable in respect of all DBSH Awards granted under the Performance Share Plan, and all options granted under the Option Plan, shall not exceed 15 per cent of the issued share capital of DBSH on the day preceding the relevant date of the DBSH Award. The number of existing DBSH shares purchased from the market which may be delivered pursuant to the DBSH Award will not be subject to any limit.
- (vi) Subject to the prevailing legislation and SGX-ST guidelines, DBSH will have the flexibility to deliver DBSH shares to participants upon vesting of their DBSH Awards by way of an issue of new DBSH shares and/or the purchase of existing DBSH shares.
- (vii) The nominal amount, class and/or number of DBSH shares comprised in a DBSH 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 issued ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

## **AUDITORS**

Ernst & Young have expressed their willingness to accept re-appointment as external auditors.

On behalf of the Directors

S DHANABALAN

JACKSON TAI

February 19, 2004  
Singapore

## **STATEMENT BY THE DIRECTORS**

We, S Dhanabalan and Jackson Tai, being two of the Directors of DBS Bank Ltd (“DBS Bank”) state that, in the opinion of the Directors, the profit and loss account, balance sheet, statement of changes in shareholders’ equity and cash flow statement, together with the notes thereon as set out on pages 1 to 59 are drawn up so as to give a true and fair view of the state of affairs of DBS Bank at December 31, 2003, the results of the business, the changes in equity and the cash flows of DBS Bank for the financial year ended on that date and there are reasonable grounds to believe that DBS Bank will be able to pay their debts as and when they fall due.

On behalf of the Directors

S DHANABALAN

JACKSON TAI

February 19, 2004  
Singapore

**REPORT OF THE AUDITORS  
TO THE MEMBER OF DBS BANK LTD (INCORPORATED IN SINGAPORE)**

We have audited the accompanying financial statements of DBS Bank Ltd (“the Company”) for the financial year ended December 31, 2003 set out on pages 1 to 59. These financial statements are the responsibility of the Company’s Directors. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2002 were audited by another firm of auditors whose report dated February 20, 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements of the Company are properly drawn up in accordance with the provisions of the Companies Act (“the Act”) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at December 31, 2003, the results of the Company, changes in equity and cash flows of the Company for the financial year ended on that date; and
- (b) the accounting and other records (excluding registers) required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young  
Certified Public Accountants

February 19, 2004  
Singapore