# Management Discussion and Analysis (MD&A)

MD&A of financial condition and results of operations

The following discussion is based upon, and should be read in conjunction with, the audited consolidated financial statements of DBS Group Holdings Ltd ("DBSH"), including the notes thereto. Except as otherwise noted, financial and statistical information presented in this report is presented for DBSH Group on a consolidated basis.

# Management Discussion and Analysis

**Financial review**

Financial results of Dao Heng Bank Group Limited ("DHG") and DBS Vickers Securities Holdings Pte Ltd ("DBSV") were consolidated from June 29, 2001 and September 12, 2001 respectively. Consequently, the Group's financial results had the full year impact of the acquisitions in 2002. The consolidation of Group Profit & Loss Statement is based on ownership interest of 71.6% for DBS Diamond Holdings Ltd ("DDH") and 59.5% for DBSV. DDH owns 100% of DHG.

DBSH Group's operating profit before goodwill amortisation and provisions increased by 22.9% to S$2,215 million in 2002 over 2001 contributed by higher net interest income and fee and commission income. However, due to the higher goodwill amortisation (full year impact) and provision charge (reflecting the uncertain economic environment and a soft property market), net profit attributable to members ("NPAM") increased by 1.9% to S$1,017 million. Cost-to-income ratio (excluding goodwill amortisation) improved to 45.5% compared to 48.9% for 2001.

**Selected financial information**

The following tables present selected consolidated financial information for DBSH Group, which have been extracted from the consolidated financial statements of DBSH Group for the respective years.

| | Year ended December 31 | |
|---|---|---|
| In S$'million | **2002** | 2001 [1] |
| **Selected statement of profit and loss data** | | |
| Interest income | **4,406** | 5,271 |
| Less: Interest expense | **1,761** | 3,014 |
| Net interest income | **2,645** | 2,257 |
| Non-interest income | **1,421** | 1,275 |
| **Income before operating expenses** | **4,066** | 3,532 |
| Less: Operating expenses | **1,851** | 1,729 |
| **Operating profit before goodwill amortisation and provisions** | **2,215** | 1,803 |
| Less: Goodwill amortisation | **278** | 133 |
| **Operating profit before provisions** | **1,937** | 1,670 |
| Less: Provisions [2] | **534** | 379 |
| **Operating profit** | **1,403** | 1,291 |
| Add: Share of profit and loss of associated and joint venture companies | **45** | 70 |
| **Net profit before taxation** | **1,448** | 1,361 |
| Less: Taxation | **298** | 266 |
| Minority interests | **133** | 98 |
| **Net profit attributable to members** | **1,017** | 997 |
| **NPAM excluding goodwill amortisation** | **1,295** | 1,130 |

**Notes:**

(1) Figures for 2001 have been restated to reflect the adoption of Statement of Accounting Standard 12 "Income Taxes".
(2) Provisions for possible loan losses and diminution in value of other assets.

| In S$'million | 2002 | 2001 [1] |
|---|---|---|
| | At and for year ended December 31 | |
| **Selected balance sheet data** | | |
| **Assets** | | |
| Total assets | **149,375** | 151,462 |
| Total loans | **99,476** | 109,331 |
| Customer loans and advances [3] | **60,709** | 68,208 |
| Interbank items [4] | **38,767** | 41,123 |
| Investment in quoted and unquoted securities and shares | **27,731** | 24,922 |
| **Liabilities** | | |
| Total liabilities | **134,930** | 137,849 |
| Total deposits | **106,192** | 115,217 |
| Customer deposits | **101,315** | 106,771 |
| Interbank liabilities [5] | **4,877** | 8,446 |
| Borrowings and debt securities | **10,686** | 10,490 |
| **Capital and reserves** | | |
| Total shareholders' funds | **14,445** | 13,613 |
| **Financial ratios** | | |
| **On a GAAP basis** | | |
| Return on assets [6] | **0.68%** | 0.76% |
| Return on equity [7] | **7.23%** | 8.81% |
| **Excluding goodwill amortisation** | | |
| Return on assets [6] | **0.86%** | 0.86% |
| Return on equity [7] | **9.21%** | 9.99% |
| Cost-to-income ratio (excluding goodwill amortisation) | **45.5%** | 48.9% |
| As a percentage of total operating income: | | |
| Net interest income | **65.1%** | 63.9% |
| Non-interest income | **34.9%** | 36.1% |
| Customer non-performing loans [8] as a % of Gross customer loans and advances | **6.1%** | 5.7% |
| Total non-performing loans [8] as a % of: | | |
| Gross total loans | **4.1%** | 4.0% |
| Total assets | **2.8%** | 3.0% |
| Total cumulative loan loss provisions as a % of: | | |
| Gross total loans | **2.4%** | 2.4% |
| Total assets | **1.7%** | 1.8% |
| Total non-performing loans [8] | **59.0%** | 60.0% |
| Net interest margin [9] | **1.99%** | 1.87% |
| Net interest spread [10] | **1.88%** | 1.74% |

**Notes:**

(1) Figures for 2001 have been restated to reflect the adoption of Statement of Accounting Standard 12 "Income Taxes".
(2) Provisions for possible loan losses and diminution in value of other assets.
(3) Loans and advances to, and bills receivable from, non-bank customers (including government and quasi-government entities), net of cumulative provisions.
(4) Balances, placements with, and loans and advances to banks, net of cumulative provisions.
(5) Deposits and balances of banks.
(6) Net profit attributable to members divided by two-point average assets.
(7) Net profit attributable to members divided by weighted average shareholders' funds, based on yearly and daily averages.
(8) Non-performing loans are loans whereby loan repayments have been overdue for more than 90 days, borrowers have weak financial status, or borrowers have requested for debt restructuring or rescheduling of loan repayments.
(9) Net interest income divided by monthly average interest bearing assets.
(10) The difference between the rate earned on average interest bearing assets and the rate paid on average interest bearing liabilities based on monthly averages.

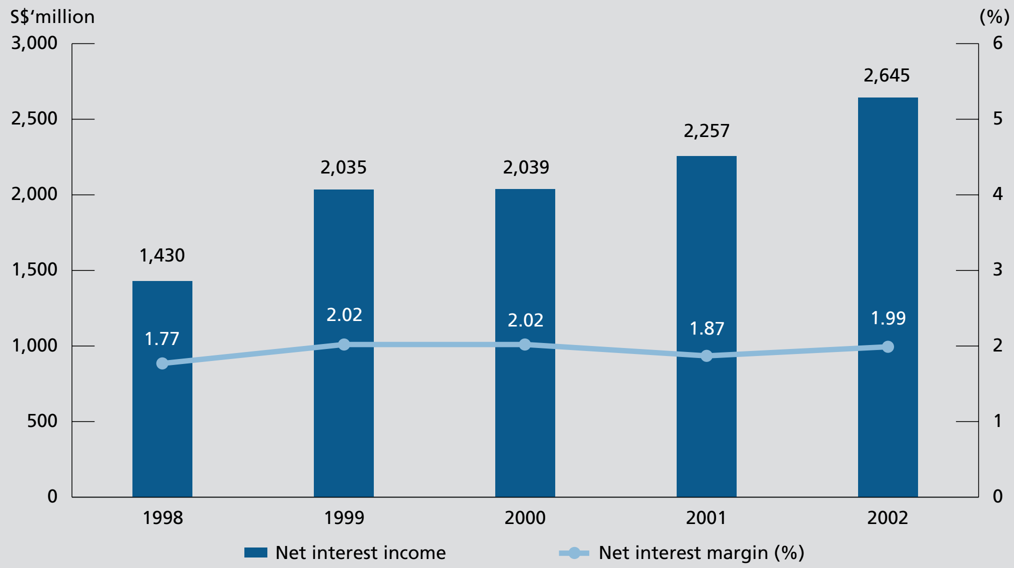
**Net interest income and net interest margin**
Net interest income for 2002 increased by 17.2% to S$2,645 million. The increase was due primarily to the inclusion of DHG's full year net interest income compared to six months in 2001. Excluding DHG, net interest income was 5.3% higher than 2001 due to higher net interest margin.

Net interest margin was 1.99% for 2002, an improvement of 12 basis points over same period last year reflecting the benefit of lower funding costs.

*Interest income*
In 2002, DBSH Group's total interest income decreased 16.4% to S$4,406 million. The decline was mainly due to lower average yields on customer loans and advances, and interbank items. This was partially offset by higher average volume of customer loans and advances, and securities due to the consolidation of DHG. The average yield on interest bearing assets was 3.32% compared with 4.37% in 2001.

*Interest expense*
Total interest in 2002 decreased 41.6% to S$1,761 million, mainly due to lower average costs of customer deposits attributable to the repricing of customer deposits. The average interest cost on interest bearing liabilities was 1.44% compared with 2.63% in 2001.

**Net interest income and net interest margin**



**Average balance sheets and interest rates**

The following tables show monthly average balances, net interest income and average interest rates for the periods indicated.

| | | | | | | Year ended December 31 |
|---|---|---|---|---|---|---|
| | | **2002** | | | 2001 | |
| In S$'million | **Average balance** | **Interest** | **Average rate (%)** | **Average balance** | **Interest** | **Average rate (%)** |
| **Interest bearing assets** | | | | | | |
| Customer loans and advances | **64,221** | **2,705** | **4.21** | 60,190 | 3,266 | 5.43 |
| Interbank items | **45,055** | **766** | **1.70** | 44,284 | 1,317 | 2.97 |
| Securities [1] | **23,375** | **935** | **4.00** | 16,182 | 688 | 4.25 |
| Total interest bearing assets | **132,651** | **4,406** | **3.32** | 120,656 | 5,271 | 4.37 |
| **Non-interest bearing assets** | | | | | | |
| Other assets [2] | **16,875** | **–** | **–** | 11,823 | – | – |
| Total non-interest bearing assets | **16,875** | **–** | **–** | 11,823 | – | – |
| Total assets | **149,526** | **–** | **–** | 132,479 | – | – |
| **Interest bearing liabilities** | | | | | | |
| Customer deposits | **103,697** | **1,066** | **1.03** | 96,113 | 2,197 | 2.29 |
| Interbank liabilities | **8,464** | **176** | **2.08** | 10,526 | 312 | 2.96 |
| Other borrowings [3] | **10,553** | **519** | **4.92** | 7,883 | 505 | 6.40 |
| Total interest bearing liabilities | **122,714** | **1,761** | **1.44** | 114,522 | 3,014 | 2.63 |
| **Non-interest bearing liabilities** | | | | | | |
| Other liabilities [4] | **12,806** | **–** | **–** | 6,447 | – | – |
| Total non-interest bearing liabilities | **12,806** | **–** | **–** | 6,447 | – | – |
| Total liabilities | **135,520** | | | 120,969 | | |
| **Net interest income** | | **2,645** | | | 2,257 | |
| **Net interest income as a % of average interest-bearing assets** | | | **1.99** | | | 1.87 |

**Notes:**

(1) Refers to Singapore Government securities and treasury bills, trading and investment debt securities.

(2) Includes equity investments, fixed assets, accrued interest receivable, sundry debtors, deposits/prepayments, balances arising from revaluation of financial instruments and goodwill.

(3) Refers to debt securities in issue, bills payable and other borrowings.

(4) Includes minority interests, interest payable, accrued operating expenses, sundry creditors, balances arising from revaluation of financial instruments and interest/other income received in advance.

**Volume and rate analysis**

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rate for 2002 compared with 2001. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on monthly average interest bearing assets and liabilities. Variances caused by changes in both volume and rate have been allocated to both volume and rate based on the proportional change in either volume or rate.

| | Increase/(Decrease) for 2002/2001 | | |
|---|---|---|---|
| In S$'million | **Volume** | **Rate** | **Net change** |
| **Interest income** | | | |
| Customer loans and advances | 219 | (783) | (564) |
| Interbank items | 23 | (572) | (549) |
| Securities | 306 | (58) | 248 |
| Total interest income | 548 | (1,413) | (865) |
| **Interest expense** | | | |
| Customer deposits | 174 | (1,307) | (1,133) |
| Interbank liabilities | (61) | (74) | (135) |
| Other borrowings | 171 | (156) | 15 |
| Total interest expense | 284 | (1,537) | (1,253) |

**Non-interest income**

The following table shows information with respect to DBSH Group's non-interest income for the periods indicated:

| | Year ended December 31 | |
|---|---|---|
| In S$'million | **2002** | 2001 [1] |
| Non-interest income: | | |
| **Fee and commission income** | **797** | 626 |
| Stockbroking | **126** | 73 |
| Investment banking | **72** | 72 |
| Trade and remittances | **111** | 96 |
| Loan related | **138** | 110 |
| Deposit related | **109** | 100 |
| Credit card | **95** | 69 |
| Fund management | **35** | 20 |
| Wealth management | **77** | 65 |
| Others | **34** | 21 |
| **Dividends** | **29** | 27 |
| **Rental income** | **32** | 36 |
| **Other income** | **563** | 586 |
| Net gains on | | |
| – foreign exchange, securities and derivatives | **307** | 324 |
| – Singapore Government securities | **103** | 80 |
| Net gains/(losses) on trading equities | **100** | (1) |
| Net gains on disposal of investment securities | | |
| – Sale of ICS shares | – | 120 |
| – Others | **18** | 10 |
| Net gains on disposal of fixed assets | **10** | 22 |
| Others | **25** | 31 |
| Total non-interest income | **1,421** | 1,275 |

Fee and commission income for 2002 increased by 27.3%. The increase was partially driven by the full year contributions from DHG and DBSV. Excluding the contributions from these acquisitions, fee and commission was 10.3% higher than 2001. The increase was due mainly to fees received from fund management, credit card operations and loan related fees. Fee and commission income contributed to 19.6% of operating income, compared with 17.7% for 2001.

Other income for 2002 decreased 3.8%. Higher profits from sale of shares were included in 2001 compared to 2002. Profits of S$181 million from the sale of shares in The Insurance Corporation of Singapore Limited and Keppel Capital Holdings Limited and profit of S$96 million from sale of shares in NatSteel Ltd were included in 2001 and 2002 respectively.

Non-interest income was 34.9% and 36.1% of operating income in 2002 and 2001 respectively.

**Daily earnings at risk ("DEaR") and trading income**

The Group uses a Daily Earnings at Risk ("DEaR") measure as one of the mechanisms for controlling trading risk. The DEaR is calculated using a one-day time horizon and a 99% confidence interval. The following table shows the year-end, average, high and low DEaR for the trading risk exposure of the DBSH Group during the year.

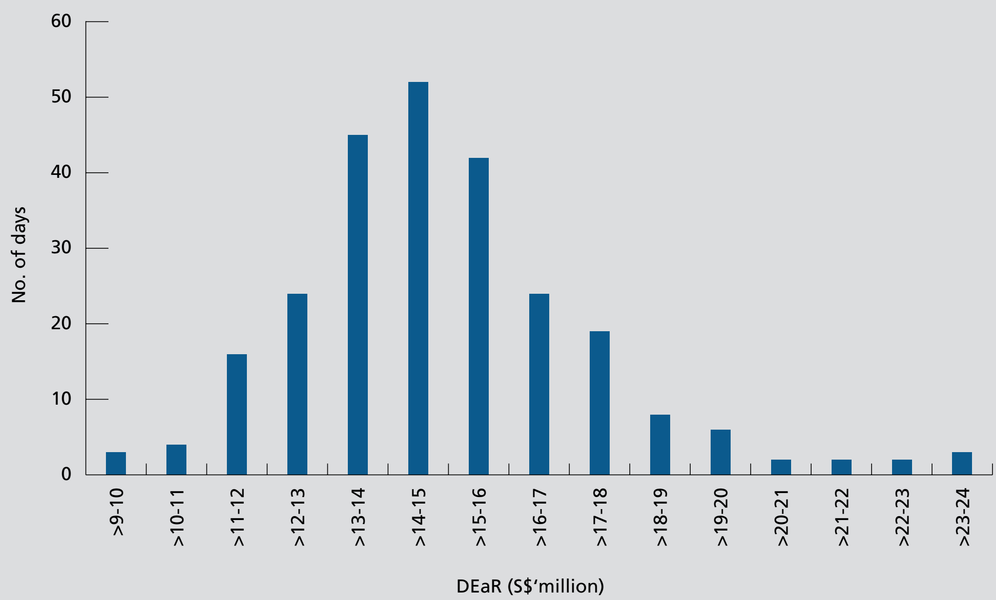
| | At December 31, 2002 | Year ended December 31, 2002 | | |
|---|---|---|---|---|
| In S$'million | | **Average** | **High** [(1)] | **Low** [(1)] |
| Interest rate | **14.9** | 13.5 | 23.9 | 8.5 |
| FX | **7.9** | 5.0 | 11.0 | 2.0 |
| Equity | **2.4** | 2.6 | 4.9 | 0.3 |
| Diversification effect | **(8.5)** | (6.2) | | |
| Total | **16.7** | 14.9 | 23.5 | 9.6 |

**Note:**

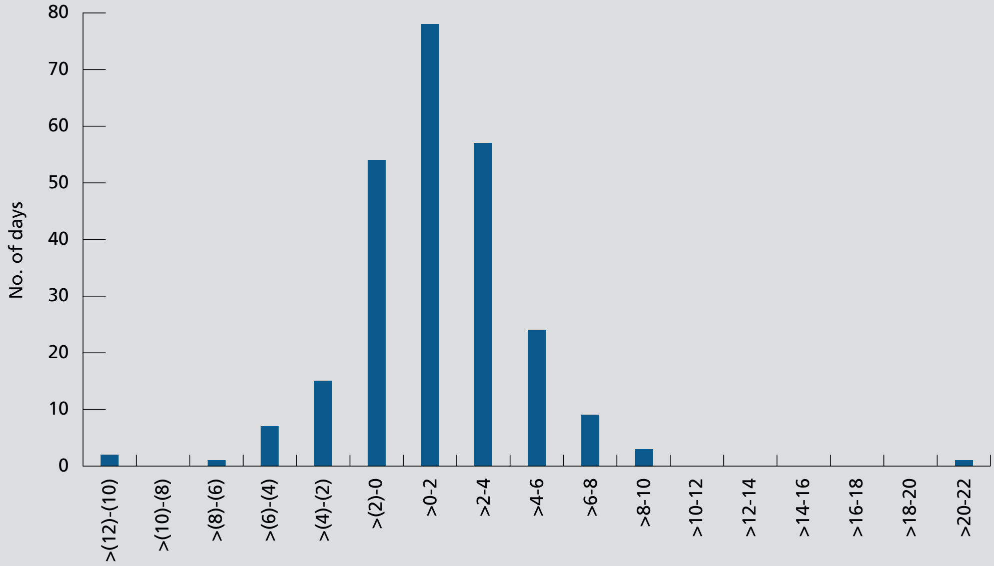
(1) The high (& low) DEaR figures reported for each risk class did not necessarily occur on the same day as the high (& low) reported for total. A corresponding diversification effect cannot be calculated and is therefore omitted from the table.

The charts below provide the range of DEaR and the daily distribution of trading income in the trading portfolio in 2002.

**DEaR for trading book**



**Daily distribution of trading income**




**Operating expenses**

The following table shows information with respect to DBSH Group's operating expenses for the periods indicated:

| | Year ended 31 December | |
|---|---|---|
| In S$'million | **2002** | 2001 (1) |
| Staff costs | **654** | 714 |
| Occupancy expenses | **156** | 166 |
| Technology-related expenses | **183** | 173 |
| Others | **303** | 340 |
| Sub total | **1,296** | 1,393 |
| DHG | **371** | 205 |
| DBSV/DBS Securities Group | **162** | 91 |
| Restructuring & integration costs | **22** | 40 (2) |
| Goodwill amortisation | **278** | 133 |
| Total operating expenses | **2,129** | 1,862 |
| Cost/income ratio (excluding goodwill amortisation) (1) | **45.5%** | 48.9% |

**Note:**

(1) Operating expenses (excluding goodwill amortisation) divided by operating income.

(2) The expenses were incurred for integrating the operations and processes of DHG, DBS Kwong On Bank and DBSV.

Excluding operating expenses of DHG and DBSV, goodwill amortisation and restructuring and integration costs, 2002 operating expenses declined 7.0% over the same period in 2001. Staff costs were 8.4% lower as a result of a 11.1% headcount reduction that arose from rationalisation of workflow and businesses. Other operating expenses also declined as a result of the implementation of cost management initiatives. Last year's divestment of the Group's stake in former subsidiary companies The Insurance Corporation of Singapore Limited and DBS Bank Philippines Inc., also resulted in lower costs as their operating expenses have been excluded.

The Group's cost-to-income ratio (excluding goodwill amortisation) was 45.5% for 2002 compared with 48.9% for the same period in 2001.

**Provision charge**
The following table shows information with respect to DBSH Group's provisions for the periods indicated:

| | Year ended 31 December | |
|---|---|---|
| In S$'million | **2002** | 2001 [1] |
| Loans | **397** | 332 |
| Equities | **61** | 22 |
| Properties & other assets | **117** | 89 |
| Specific provisions | **575** | 446 |
| General provisions | **(41)** | (67) |
| Total | **534** | 379 |

Provision charge was S$534 million for 2002. Approximately 33% of the total charge was due to valuation shortfall for properties as well as equity investments held by the Group.

**Provisioning policy**
It is DBSH Group's policy to establish, through charges against profit, a provision in respect of the estimated loss inherent in the lending book. The provision consists of an element which is specific to individual counterparties and also a general element which, whilst determined as reflecting losses already within the lending book, cannot be specifically applied. In addition to general and specific provisions, DBSH Group also holds a country risk provision. The overall provision should 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.

*Specific element of the provision*
In determining the specific provisions, management considers the amount of the loan and its other commitments to the borrower, the payment history of the borrower, the borrower's business prospects, the collateral value of the loan (how easily it could be realised and for how much) and the costs to obtain repayment. When a loan is classified, specific provision will be provided based on a percentage of the difference between the loan principal and its related collateral value (the unsecured portion). The actual percentage provided would depend on management's judgement and whether the loan is graded "Substandard", "Doubtful" or "Loss". The quantum of the provision is directly impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognize the impact of forced sale or quick liquidation.

*General element of the provision*
The general element of the provision is made to cover losses which, although not specifically identified, are known from experience to exist in any loan portfolio. The factors that management should consider in determining the overall level of the general provisions are past experience, concentration, economic and political factors, past balance sheet provisions and exceptional events.

*Country risk provisions*
In assessing country risk, DBSH Group considers whether the political stability of a country or the management of its economy is such that the conditions of companies in the private sector might deteriorate, despite their apparent strength. In addition, circumstances may exist where certain governments might prevent companies in their country from honoring their obligations.

*Loan interest*
DBSH Group stops accruing interest once a loan has been classified as non-performing, whether or not any collateral would be adequate to cover such payments or continue to charge the customer's account with interest and raise 100% provision on this interest income on the non-performing loans. It is a matter of judgement when the collectibility of interest becomes doubtful. The fact that a loan is classified as doubtful does not remove the Group's entitlement to interest income; it merely cast doubt on whether the Group will be able to collect it.

*Write-offs*

For loans managed on an individual basis, DBSH Group would consider writing off a portion of the loan when recovery action has been instituted, and the loss can be determined with reasonable certainty. For loans managed on a portfolio basis, the policy is to write off loans that are overdue after 180 days. DBSH Group continues to make every effort to recover amounts owing, even after write-offs have been recorded.

**Classification of non-performing loans**

DBSH Group classifies its loans in accordance with MAS' guidelines as well as internal loan grading policies. MAS' guidelines require banks to classify their loan portfolios which take into account the risks inherent in the portfolio. These classifications, and underlying collateral valuations, are used to determine minimum levels of loan loss reserves which banks are required to maintain.

MAS' guidelines require banks to categorise 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 and Loss).

Pass grades are applicable for loans that have no indication of default and full repayment of principal and interest from normal sources is not in any doubt. Special Mention grade is appropriate when there is potential weakness in the borrower's credit worthiness, but such weakness is not to the extent that a substandard or inferior grade is warranted. Special Mention loans generally have adequate debt service capacity but require close and active supervision because potential weakness, if not corrected, may result in deterioration of repayment prospects. Substandard and worse grade is appropriate when there are well defined weakness(es) in a borrower's position that jeopardise repayment of principal or interest from normal sources.

The following table set forth the various categories for classified loans:

| Grade assigned to loan | Criteria | Provision level |
|---|---|---|
| Substandard | • Well defined weakness(es) that may jeopardize normal repayment;<br>• Default has occurred or is likely to occur;<br>• Borrower is assessed to be viable but requires prompt corrective action;<br>• All credits ≥ 90 days past due;<br>• Restructured loans (subject to performance criteria). | Loans which are fully secured based on net realizable value of collateral considering current market conditions:<br>• No provision is required for the principal amount;<br>• Interest provision is 100%.<br>Loans with security shortfall:<br>• Principal provision is generally 10-49% of unsecured amount;<br>• Interest provision is 100%.<br>In addition, a general provision is made on the outstanding principal |
| Doubtful | • Credit with severe weakness(es);<br>• Borrower viability is highly questionable;<br>• Full repayment is highly questionable;<br>• Vigorous remedial action required. | • 50% to less than 100% of loan principal amount, determined on a case by case basis;<br>• Interest provision is 100%.<br>In addition, a general provision is made on the outstanding principal. |
| Loss | • Loss recovery is assessed to be insignificant with no security available as alternative recourse. | • 100% of loan principal and interest.<br>In addition, a general provision is made on the outstanding principal. |

DBSH Group may also apply a split classification in appropriate cases. For instances, where a loan is partially secured, the portion covered by collateral may be classified as Substandard while the unsecured portion of the loan will be classified as Loss.

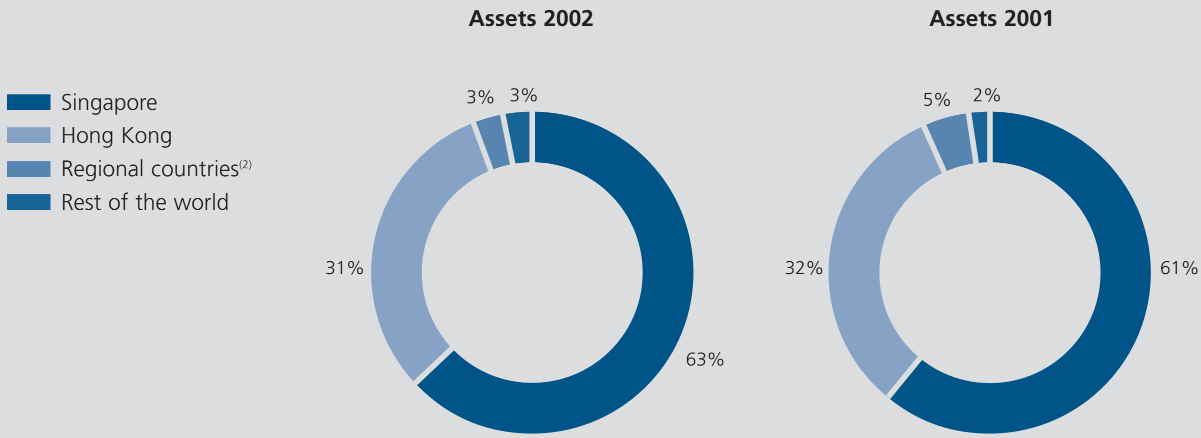
Loans are classified as restructured loans when concessions are granted to the original contractual terms for reasons related to the financial difficulties of the borrower. A restructured loan is generally graded as substandard or worse. Such loans are not returned to non-classified status until specific conditions have been met, including a reasonable period of sustained performance under the restructured terms.

**Taxation**
DBSH Group's taxation expense was S$298 million in 2002 compared with S$266 million in 2001. This resulted in effective tax rates of 20.6% for 2002 and 19.5% for 2001. Effective for financial periods beginning on or after April 1, 2001, companies in Singapore are required to adopt the revised Statement of Accounting Standard ("SAS") 12 on Income Taxes. As a result, DBSH Group had applied the revised Standard in 2002 financial statements. The comparative figures for 2001 had been restated accordingly to conform with SAS 12.

**Minority interests**
Minority interests represent the earnings attributable to third parties' interest in the equity shares of the Group's subsidiary companies, as well as dividends paid/payable to investors of the non-cumulative redeemable preference shares of S$1,100 million issued by DBS Bank in May 2001.

**Financial condition**

**Total assets** (1)
At December 31, 2002, DBSH Group's total assets was S$149,375 million, a marginal decline of 1.4% compared with total assets at December 31, 2001. Singapore and Hong Kong accounted for 63% and 31% respectively of the total assets at December 31, 2002.




**Notes:**

(1) Total assets are based on the location of the bank, branch or office booking the assets.

(2) The regional countries are Malaysia, Indonesia, Thailand, Korea and The Philippines.

**Customer loans and advances**

At December 31, 2002, DBSH Group's customer loans and advances, net of cumulative provisions, were S$60,709 million, a decline of 11.0% from customer loans and advances of S$68,208 million at December 31, 2001. This was mainly due to the low loan demand in a highly competitive environment.

At December 31, 2002, loans booked in Singapore accounted for 55% of DBSH Group's customer loans and advances, while loans booked in Hong Kong accounted for 35%, and the remaining 10% in other overseas branches and subsidiary companies.

The following table sets forth DBSH Group's gross customer loan portfolio by geographical classification [1] at end of the periods indicated:

| | At December 31 | | | |
|---|---|---|---|---|
| | **2002** | | 2001 | |
| In S$'million | | % | | % |
| Singapore | **34,399** | **54.7** | 38,635 | 54.7 |
| Hong Kong | **22,218** | **35.3** | 25,112 | 35.5 |
| Regional countries | **3,907** | **6.2** | 4,139 | 5.9 |
| Rest of the world | **2,377** | **3.8** | 2,763 | 3.9 |
| Total gross customer loans | **62,901** | **100.0** | 70,649 | 100.0 |

**Note:**

(1) Based on the location of the bank, branch or office booking the loan.

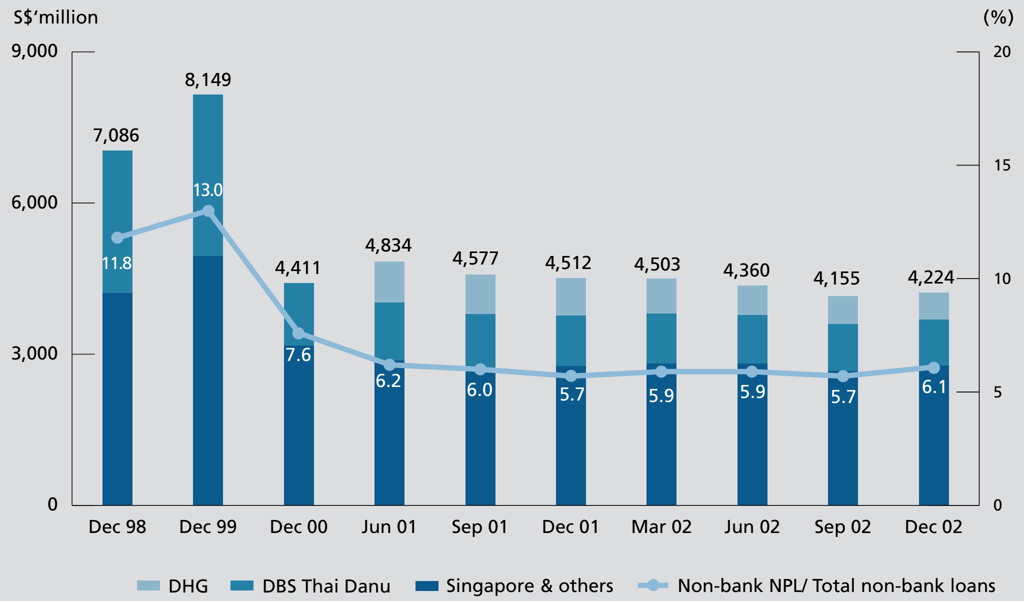
**Asset quality**

DBSH Group's volume of non-performing loans ("NPLs") was S$4,224 million at the end of December 2002. This includes S$1,470 million of restructured NPLs. (A loan is considered restructured when concessions are granted to the original terms of the loan for reasons that related to the financial difficulties of the borrower). Compared to NPLs of S$4,512 million at end of December 2001, the decline in NPLs in 2002 was mainly due to recoveries and write-off of previously provided debts.

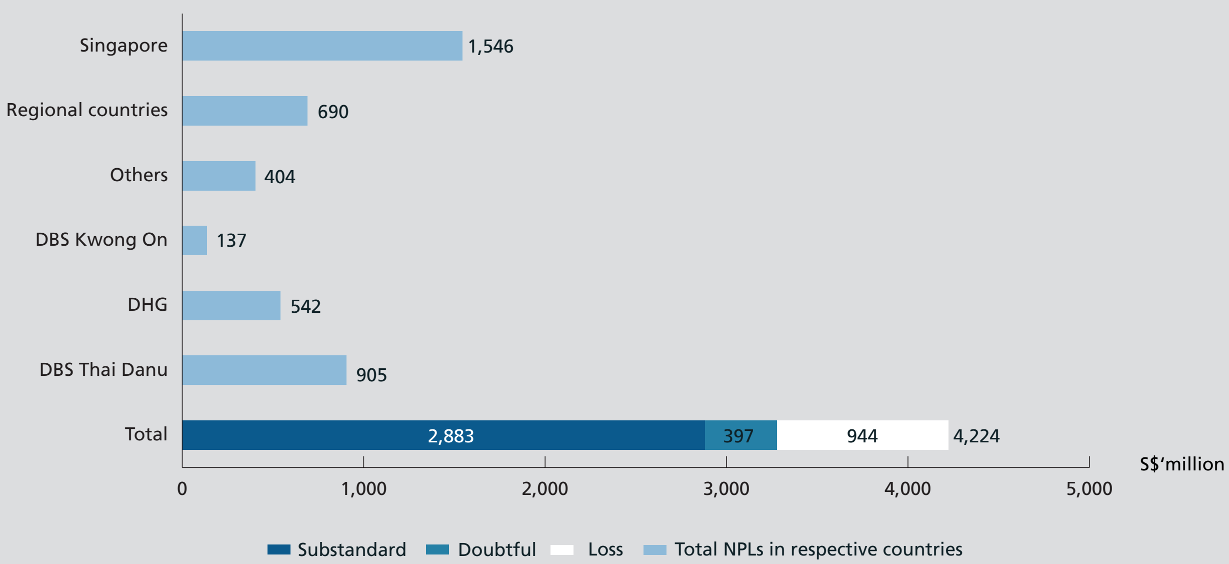
The ratio of non-bank NPLs to the total non-bank loans ("NPL rate") increased from 5.7% at the end of December 2001 to 6.1% at the end of December 2002 due mainly to higher NPLs and a lower non-bank loan base. If the loan base had remained unchanged, the NPL rate at end December 2002 would have been 5.5%.

The NPL rate for Hong Kong operations was 3.5% at the end of December 2002 (2001 : 4.3%). Our Hong Kong credit card business recorded a 1.16% loan delinquent rate for 90 days past due. The net charge-off rate rose to 11.6%, reflecting the higher unemployment rate and increases in personal bankruptcy filings.

### Non-performing loans




### Non-performing loans – by loan grading



**Regional non-performing loans and associated Specific Provisions**
The following table sets forth information with respect to the regional breakdown of DBSH Group's non-performing loans and the associated specific provisions at end of the periods indicated:

At December 31

| In S$'million | 2002 NPLs | 2002 Specific Provisions | 2001 NPLs | 2001 Specific Provisions |
|---|---|---|---|---|
| Malaysia | **329** | **119** | 409 | 138 |
| Indonesia | **110** | **45** | 105 | 34 |
| Thailand (excluding DBS Thai Danu ("DTDB") ) | **197** | **86** | 59 | 48 |
| Korea | **17** | **–** | 28 | 7 |
| The Philippines | **37** | **22** | 30 | 17 |
| | **690** | **272** | 631 | 244 |
| DTDB | **905** | **372** | 1,004 | 545 |
| Total regional countries | **1,595** | **644** | 1,635 | 789 |
| Hong Kong | **772** | **227** | 1,085 | 304 |
| China | **167** | **63** | 118 | 49 |
| Total | **2,534** | **934** | 2,838 | 1,142 |

**Non-performing loans and associated Specific Provisions by loan grade**
The following table sets forth information with respect to the breakdown of DBSH Group's non-performing loans and the associated specific provisions by loan grade at end of the periods indicated:

At December 31

| In S$'million | 2002 NPLs | 2002 Specific Provisions | 2001 NPLs | 2001 Specific Provisions |
|---|---|---|---|---|
| **Loan grade** | | | | |
| Sub-standard | **2,883** | **436** | 3,085 | 806 |
| Doubtful | **397** | **181** | 521 | 214 |
| Loss | **944** | **894** | 906 | 639 |
| Total | **4,224** | **1,511** | 4,512 | 1,659 |

**Secured non-performing loans and associated collaterals**

The following table sets forth information with respect to the breakdown of the type of collateral held against DBSH Group's non-performing loans at end of the periods indicated:

| | At December 31 | |
|---|---|---|
| In S$'million | **2002** | 2001 |
| **Unsecured NPLs** | **2,071** | 1,908 |
| **Collateral type of secured NPLs** | **2,153** | 2,604 |
| Properties | **1,756** | 2,139 |
| Shares and debentures | **145** | 150 |
| Vessels and aircrafts | **36** | 30 |
| Fixed deposits | **33** | 39 |
| Others | **183** | 246 |
| Total | **4,224** | 4,512 |

**Non-performing loans and associated Specific Provisions by business segments**

The following table sets forth information with respect to the breakdown of DBSH Group's non-performing loans and the associated specific provisions by business segments at end of the periods indicated:

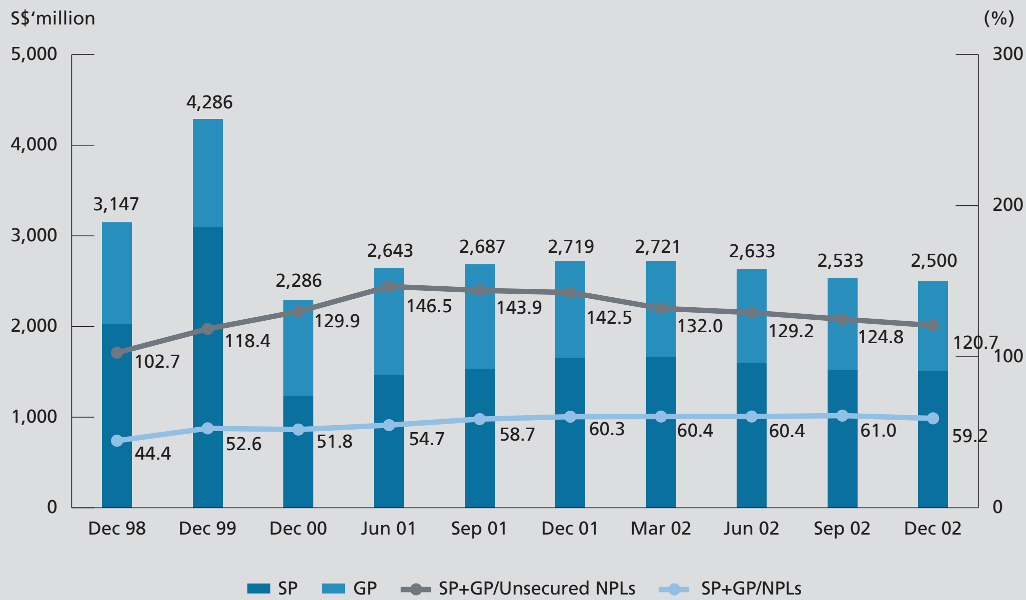
| | At December 31 | | | |
|---|---|---|---|---|
| | **2002** | | 2001 | |
| In S$'million | **NPLs** | **Specific Provisions** | **NPLs** | **Specific Provisions** |
| Consumer Banking | **593** | **203** | 707 | 203 |
| Enterprise Banking | **974** | **271** | 1,192 | 301 |
| Investment Banking | **2,072** | **742** | 1,948 | 698 |
| Others [(1)] | **585** | **295** | 665 | 457 |
| Total | **4,224** | **1,511** | 4,512 | 1,659 |

**Note:**

(1) Refers to NPLs under special asset management in DBS Thai Danu.

**Cumulative Specific and General Provisions ("SP" and "GP")**

Total cumulative specific and general provisions at the end of December 2002 was 121% of unsecured NPLs, and 59% of total NPLs (or 61% of total NPLs of S$4,081 million under United States Securities and Exchange Commission guidelines). The provision coverage were 143% of unsecured NPLs, and 60% of total NPLs at end of December 2001.




**Shareholders' funds and liabilities**

DBSH Group raise a substantial portion of its funding requirements from deposit-taking activities. At December 31, 2002, approximately 68% of its funding requirements were met by customer deposits. Although DBSH Group's funding consists primarily of short-term deposits, its experience has been that its customers often roll over their deposits at maturity, historically providing DBSH Group with a stable source of long-term funds.

Other major sources of funds include borrowings from offshore currency markets, domestic money markets in countries in which DBSH Group operates and has bilateral arrangements with financial institutions in various countries. The Group has also obtained funds from public offerings and private placements of debt instruments, as well as rights offerings. In 2001, DBS Bank through DBS Capital Funding Corporation (100% owned), issued US$725 million and S$100 million subordinated term debts. This was followed by the issuance of Tier II US$850 million subordinated term debts by DBS Bank.

Borrowings from commercial banks and other financial institutions have accounted for a relatively small portion of DBSH Group's total domestic borrowings. However, DBSH Group meets a more significant portion of its foreign currency requirements from borrowings.

The following table sets forth a breakdown of DBSH Group's funding sources at end of the periods indicated:

| | At December 31 | |
|---|---|---|
| In S$'million | **2002** | 2001 [1] |
| Shareholders' funds | **14,445** | 13,613 |
| Customer deposits | **101,315** | 106,771 |
| Interbank liabilities | **4,877** | 8,446 |
| Other borrowings and other liabilities | **28,738** | 22,632 |
| Total | **149,375** | 151,462 |

**Note:**

(1) Figures for 2001 have been restated to reflect the adoption of Statement of Accounting Standard 12 "Income Taxes".

**Customer deposits**
At December 31, 2002, DBSH Group's customer deposits were S$101,315 million, a decrease of 5.1% as compared with S$106,771 million at December 31, 2001, contributed mainly by lower fixed deposits balances.

The loan-to-deposit ratio was 59.9% for 2002 compared with 63.9% for 2001.

**Capital management**
DBSH's capital management policies are to diversify its sources of capital, to allocate capital efficiently and to maintain a prudent relationship between the capital and the risks of its underlying business. DBSH Group monitors the capital adequacy position and market conditions to determine desirability and timing of raising additional capital. In determining capital requirements, DBSH Group projects business growth, capital investment plans, earnings and reserve requirements.

| | At December 31 | |
|---|---|---|
| In S$'million | **2002** | 2001 (1) |
| **Tier I capital** | | |
| Paid ordinary/preference shares | **1,555** | 1,538 |
| Disclosed reserves/others (1) | **6,838** | 8,936 |
| | **8,393** | 10,474 |
| **Tier II capital** | | |
| Asset revaluation reserves (2) | **92** | 172 |
| Cumulative general provisions | **682** | 728 |
| Subordinated debts | **3,696** | 3,843 |
| Deductions against capital (3) | **(237)** | (248) |
| | **4,233** | 4,497 |
| **Total capital** | **12,626** | 14,971 |
| **Risk weighted assets including market risks** | **81,239** | 85,892 |
| **Capital adequacy ratio (%)** | | |
| Tier I ratio | **10.3** | 12.2 |
| Tier II ratio | **5.2** | 5.2 |
| Total (Tier I & II) ratio | **15.5** | 17.4 |

**Notes:**

(1) Net of unamortised goodwill in connection with acquisitions.

(2) After discount of 55% based on BIS guidelines.

(3) Includes capital deductions for certain investments.

For 2002, the total Capital Adequacy Ratio ("CAR") for DBSH Group, measured according to the Bank for International Settlements ("BIS") guidelines was 15.5%, which is above the minimum CAR requirement of 8.0%. The Tier I CAR ratio was 10.3% after deducting goodwill of S$7.8 billion in connection with the acquisitions of DHG and DBSV, and additional interests in DBS Group Holdings (Hong Kong) Limited.