# Management Discussion and Analysis

## OVERVIEW

| | 2010 | 2009 | % chg |
|---|---|---|---|
| **Selected income statement items ($m)** | | | |
| Net interest income | **4,318** | 4,455 | (3) |
| Net fee and commission income | **1,397** | 1,394 | 0 |
| Net trading income | **915** | 700 | 31 |
| Net (loss) from financial instruments designated at fair value | **(20)** | (267) | 93 |
| Net income from financial investments | **310** | 254 | 22 |
| Other income | **146** | 67 | >100 |
| Total income | **7,066** | 6,603 | 7 |
| Less: Expenses | **2,925** | 2,604 | 12 |
| Profit before allowances | **4,141** | 3,999 | 4 |
| Less: Allowances for credit and other losses | **911** | 1,529 | (40) |
| Share of profits of associates | **102** | 66 | 55 |
| Profit before tax | **3,332** | 2,536 | 31 |
| Net profit | **2,650** | 2,064 | 28 |
| Add: One-time items and goodwill charges | **(1,018)** | (23) | (>100) |
| Net profit including one-time items and goodwill charges | **1,632** | 2,041 | (20) |
| **Selected balance sheet items ($m)** | | | |
| Customer loans [1] | **152,094** | 130,583 | 16 |
| Interbank assets [1] | **23,298** | 24,189 | (4) |
| Total assets | **283,710** | 258,644 | 10 |
| Customer deposits [2] | **193,692** | 183,432 | 6 |
| Total liabilities | **250,608** | 229,145 | 9 |
| Shareholders' funds | **26,599** | 25,373 | 5 |
| **Key financial ratios (excluding one-time items and goodwill charges) (%)** | | | |
| Net interest margin | **1.84** | 2.02 | – |
| Non-interest/total income | **38.9** | 32.5 | – |
| Cost/income ratio | **41.4** | 39.4 | – |
| Return on assets | **0.98** | 0.80 | – |
| Return on equity | **10.20** | 8.44 | – |
| Loan/deposit ratio | **78.5** | 71.2 | – |
| NPL ratio | **1.9** | 2.9 | – |
| Specific allowances (loans)/average loans (bp) | **43** | 85 | – |
| Core Tier 1 capital adequacy ratio | **11.8** | 11.0 | – |
| Tier 1 capital adequacy ratio | **15.1** | 13.1 | – |
| Total capital adequacy ratio | **18.4** | 16.7 | – |
| **Per share data ($)** | | | |
| Per basic share | | | |
| – earnings excluding one-time items and goodwill charges | **1.15** | 0.91 | – |
| – earnings | **0.70** | 0.90 | – |
| – net book value | **11.25** | 10.85 | – |
| Per diluted share | | | |
| – earnings excluding one-time items and goodwill charges | **1.11** | 0.88 | – |
| – earnings | **0.68** | 0.87 | – |
| – net book value | **11.04** | 10.65 | – |

1 *Includes financial assets at fair value through profit or loss*

2 *Includes financial liabilities at fair value through profit or loss*

DBS Group Holdings reported net profit excluding one-time items and goodwill charges of $2,650 million for 2010, a 28% increase from a year ago.

The record performance reflected the early success of strategic initiatives implemented during the year. The results were driven by strong loan growth across the region, higher income from cross-selling treasury products and an improvement in asset quality.

Underpinned by its strong capital and liquidity position, DBS continued to support customers' financing needs during the year. Total loans rose 16% to $152,094 million; and if currency effects were excluded, loans grew 21%. In Singapore, DBS' differentiated products resulted in faster domestic loan growth than the industry. In Hong Kong, China, Taiwan, India and Indonesia, healthy corporate and SME lending demand resulted in double-digit loan growth. The higher volumes alleviated the impact of margin pressures arising from a soft interest rate environment and normalising credit conditions. Net interest income declined 3% to $4,318 million.

The Group's trading income doubled to $895 million as efforts to cross-sell treasury products to corporate and consumer customers yielded early results. Customer-related flows accounted for three-quarters of trading income. Fee income from wealth management, stockbroking, investment banking and cards also rose. Overall non-interest income rose 28% to $2,748 million.

The higher business volumes led to a record $4,141 million in profit before allowances, an increase of 4% from a year ago, with revenues gaining 7% to $7,066 million. Expenses increased 12% to $2,925 million to support higher business volumes and as investments in staff and infrastructure were made for future growth.

Asset quality improved. Allowances declined significantly from $1,529 million in the previous year to $911 million. Specific allowances fell from 85 basis points of loans a year ago to 43 basis points as the NPL ratio fell from 2.9% to 1.9%.

Return on equity rose to 10.2% from 8.4% and return on assets improved to 0.98% from 0.80%. The capital adequacy ratio on December 31, 2010 was at 18.4%, with Tier 1 at 15.1% and core Tier 1 at 11.8%. DBS issued $2.5 billion of Tier 1 preference shares during the year to replace, subject to regulatory approval, existing ones due to be called in 2011.

A one-time goodwill impairment charge of $1,018 million was taken for DBS Bank (Hong Kong) Limited to reflect heightened deposit competition. The charge has no impact on the Group's ability to carry out ongoing business or pay dividends as goodwill was deducted from regulatory capital on consolidation. Including one-time items, net profit amounted to $1,632 million, a 20% decrease from the prior year.

There were no significant accounting changes for the year.

# Management Discussion and Analysis

## NET INTEREST INCOME

| Average balance sheet | 2010 Average balance ($m) | 2010 Interest ($m) | 2010 Average rate (%) | 2009 Average balance ($m) | 2009 Interest ($m) | 2009 Average rate (%) |
|---|---|---|---|---|---|---|
| **Interest-bearing assets** | | | | | | |
| Customer loans | **141,245** | **3,937** | **2.79** | 127,832 | 4,075 | 3.20 |
| Interbank assets | **43,190** | **358** | **0.83** | 41,782 | 378 | 0.91 |
| Securities | **50,272** | **1,404** | **2.79** | 51,031 | 1,661 | 3.26 |
| Total | **234,707** | **5,699** | **2.43** | 220,645 | 6,114 | 2.78 |
| **Interest-bearing liabilities** | | | | | | |
| Customer deposits | **184,792** | **970** | **0.53** | 178,064 | 1,131 | 0.64 |
| Other borrowings | **30,834** | **411** | **1.33** | 26,272 | 528 | 2.02 |
| Total | **215,626** | **1,381** | **0.64** | 204,336 | 1,659 | 0.81 |
| Net interest income/margin | | **4,318** | **1.84** | | 4,455 | 2.02 |

Net interest income amounted to $4,318 million, representing 61% of total income.

Net interest income fell 3% from a year ago. While loans increased, the impact was more than offset by a decline in interest margins. Net interest margins fell 18 basis points to 1.84% on lower asset yields, partly offset by reductions in funding costs.

Average customer loans grew 10% from a year ago, with the expansion spread across most regions and across corporate, SME and consumer borrowers.

Overall asset yields fell by 35 basis points to 2.43%. Loan yields were affected by low interest rates and tightening spreads amid a normalising credit environment. Securities yields were also lower as higher-yielding securities were replaced with higher-quality bonds with lower yields.

Funding costs fell 17 basis points to 0.64% as market rates declined and as the customer deposit mix shifted towards Singapore-dollar savings and current accounts.

| Volume and rate analysis ($m)<br>Increase/(decrease) due to change in | Volume | Rate | Net change |
|---|---|---|---|
| **Interest income** | | | |
| Customer loans | **426** | **(564)** | **(138)** |
| Interbank assets | **13** | **(33)** | **(20)** |
| Securities | **(24)** | **(233)** | **(257)** |
| Total | **415** | **(830)** | **(415)** |
| **Interest expense** | | | |
| Customer deposits | **42** | **(203)** | **(161)** |
| Other borrowings | **39** | **(156)** | **(117)** |
| Total | **81** | **(359)** | **(278)** |
| Due to change in number of days | | | **–** |
| **Net Interest Income** | **334** | **(471)** | **(137)** |

## NET FEE AND COMMISSION INCOME

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| Stockbroking | **179** | 170 | 5 |
| Investment banking | **154** | 146 | 5 |
| Trade and remittances | **227** | 244 | (7) |
| Loan related | **333** | 375 | (11) |
| Guarantees | **59** | 57 | 4 |
| Deposit related | **85** | 84 | 1 |
| Credit card | **149** | 143 | 4 |
| Fund management | **22** | 20 | 10 |
| Wealth management | **136** | 101 | 35 |
| Others | **53** | 54 | (2) |
| Total | **1,397** | 1,394 | 0 |

Net fee and commission income was little changed from a year ago at $1,397 million, as higher revenues from capital market-related activities and cards were offset by lower fees from trade- and loan-related activities. Fee income accounted for 20% of total income for 2010.

Regional equity markets enjoyed strong gains over the year from expanded investment flows, lifting stockbroking commissions and wealth management product sales income by 5% and 35% respectively. Stronger markets also encouraged a higher level of mergers and acquisitions and IPO activity. For the year, DBS led in managing and underwriting IPOs in Singapore by value as investment banking fees rose 5%.

Trade and remittances fell 7% as margins declined, while loan-related fees fell 11% from an exceptionally strong performance in the previous year. DBS continued to rank among the top 10 in the Asia Pacific (ex-Australia and Japan) league table for arranging syndicated loan deals.

## OTHER NON-INTEREST INCOME

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| Net trading income | **915** | 700 | 31 |
| Net income from financial instruments designated at fair value | **(20)** | (267) | 93 |
| Net income from financial investments | **310** | 254 | 22 |
| Net gain from fixed assets | **103** | 13 | >100 |
| Others | **43** | 54 | (20) |
| Total | **1,351** | 754 | 79 |

Other non-interest income rose 79% to $1,351 million in 2010, accounting for 19% of total income.

The increase from the prior year was mainly from trading. Trading activities (including financial instruments designated at fair value) recorded a gain of $895 million in 2010, compared to $433 million in 2009, led by higher revenues from the sale of treasury products to customers.

Other non-interest income was supported by higher gains from the sale of financial investments and by higher gains from the sale of fixed assets.

# Management Discussion and Analysis

## EXPENSES

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| Staff | **1,422** | 1,292 | 10 |
| Occupancy | **269** | 265 | 2 |
| Computerisation | **569** | 473 | 20 |
| Revenue-related | **136** | 132 | 3 |
| Others | **529** | 442 | 20 |
| Total | **2,925** | 2,604 | 12 |

Expenses rose 12% to $2,925 million to support higher business volumes and investments for future growth.

Investments made included initiatives to improve customer service, create regional standards and enhance technology platforms to support business growth. Staff costs rose 10% on a 13% increase in headcount. Non-wage costs collectively rose 15%.

## ALLOWANCES FOR CREDIT AND OTHER LOSSES

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| General allowances ("GP") | **232** | 154 | 51 |
| **Specific allowances ("SP") for loans [1]** | **614** | 1,113 | (45) |
| Singapore | **18** | 149 | (88) |
| Hong Kong | **14** | 185 | (92) |
| Rest of Greater China | **25** | 54 | (54) |
| South and South-east Asia | **47** | 31 | 52 |
| Rest of the world | **510** | 694 | (27) |
| Specific allowances ("SP") for securities, properties and other assets | **65** | 262 | (75) |
| Total | **911** | 1,529 | (40) |

1 *Specific allowances for loans are classified according to where the borrower is incorporated. Historical comparatives have been restated to conform to the current year presentation*

Total allowances amounted to $911 million, a decrease of 40% from a year ago, as asset quality improved.

Specific allowances for loans fell 45% to $614 million with broad-based declines across regions as economic conditions strengthened. Specific allowances due to Rest of the world, while lower than the previous year, included residual charges for certain corporate loans.

General allowances of $232 million were taken for loan growth.

## PERFORMANCE BY BUSINESS UNIT

| ($m) | Consumer/ Private Banking | Institutional Banking | Treasury | Others |
|---|---|---|---|---|
| **2010** | | | | |
| Net interest income | **1,398** | **1,995** | **840** | **85** |
| Non-interest income | **667** | **1,518** | **393** | **170** |
| Total income | **2,065** | **3,513** | **1,233** | **255** |
| Less: Expenses | **1,471** | **1,119** | **368** | **(33)** |
| Profit before allowances | **594** | **2,394** | **865** | **288** |
| Less: Allowances | **55** | **812** | **(2)** | **46** |
| Share of profits of associates | **0** | **25** | **0** | **77** |
| Profit before tax | **539** | **1,607** | **867** | **319** |
| Net profit | **458** | **1,360** | **733** | **99** |
| **2009** | | | | |
| Net interest income | 1,399 | 1,844 | 1,223 | (11) |
| Non-interest income | 609 | 1,328 | 26 | 185 |
| Total income | 2,008 | 3,172 | 1,249 | 174 |
| Less: Expenses | 1,245 | 964 | 324 | 71 |
| Profit before allowances | 763 | 2,208 | 925 | 103 |
| Less: Allowances | 82 | 1,118 | 7 | 322 |
| Share of profits of associates | 0 | 28 | 0 | 38 |
| Profit before tax | 681 | 1,118 | 918 | (181) |
| Net profit | 572 | 974 | 723 | (205) |

A description of DBS' reported business units can be found in Note 48.1 of the financial accounts on page 150.

**Consumer/Private Banking (CBG)**
Compared to the previous year, CBG's net interest income was flat as strong loan growth was offset by lower net interest margins. Mortgage loans grew 17% led by Singapore where the Group gained market share with its fixed-rate offering. Housing loans also grew in China and Taiwan. Fee income was higher as sales of wealth management products, cards and unsecured products rose.

Expenses were higher due to compensation to customers who had bought Constellation Notes in Hong Kong. Investments were also made to improve the Group's sales and customer servicing capacity across the region. They included a higher headcount, an expanded ATM network and the launch of a new mobile banking platform. These costs were partly offset by lower allowances.

**Institutional Banking (IBG)**
Net interest income was higher underpinned by stronger business loan growth across the region. In Singapore, IBG loans grew 21%, supported by stronger economic conditions, and as DBS gained market share. In Hong Kong and China, business loans grew 25% and 19% respectively in local currency terms, as the Group grew its customer base in the two locations.

Non-interest income also rose from higher investment banking fees as the Group maintained domestic leadership in REITs, equity offerings and Singapore-dollar bonds; and from increased treasury product sales. These were partly offset by a decline in trade-related income as lower margins more than offset higher volumes helped by the launch of the Group's RMB trade settlement programme in Hong Kong and Singapore.

Expenses rose as staff costs increased with a higher headcount. Allowance charges were lower as a decline in specific allowances was partly offset by higher general allowances in line with stronger loan growth.

# Management Discussion and Analysis

### Treasury

Treasury's revenues, derived principally from managing the excess liquidity in the balance sheet, market-making and managing residual positions arising from customer flows were little changed from a year ago at $1,233 million.

At the same time, the value-at-risk of the trading book declined, with average VAR falling 18% to $27m from the previous year. Expenses rose partly due to a larger headcount while allowances remained low.

## PERFORMANCE BY GEOGRAPHY

| ($m) | S'pore | Hong Kong | Rest of Greater China | South, S-East Asia | Rest of world |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Net interest income | **2,683** | **783** | **327** | **283** | **242** |
| Non-interest income | **1,743** | **682** | **99** | **174** | **50** |
| Total income | **4,426** | **1,465** | **426** | **457** | **292** |
| Less: Expenses | **1,611** | **720** | **325** | **207** | **62** |
| Profit before allowances | **2,815** | **745** | **101** | **250** | **230** |
| Less: Allowances | **652** | **73** | **52** | **79** | **55** |
| Share of profits of associates | **10** | **0** | **20** | **72** | **0** |
| Profit before tax | **2,173** | **672** | **69** | **243** | **175** |
| Net profit | **1,688** | **579** | **47** | **203** | **133** |
| **2009** | | | | | |
| Net interest income | 2,738 | 888 | 302 | 326 | 201 |
| Non-interest income | 1,253 | 478 | 107 | 175 | 135 |
| Total income | 3,991 | 1,366 | 409 | 501 | 336 |
| Less: Expenses | 1,512 | 600 | 270 | 172 | 50 |
| Profit before allowances | 2,479 | 766 | 139 | 329 | 286 |
| Less: Allowances | 1,034 | 210 | 74 | 69 | 142 |
| Share of profits of associates | 16 | 0 | 17 | 33 | 0 |
| Profit before tax | 1,461 | 556 | 82 | 293 | 144 |
| Net profit | 1,186 | 464 | 68 | 226 | 120 |

A description of DBS' reported geographic segments can be found in Note 48.2 of the financial accounts on page 152.

### Singapore

Net profit rose to $1,688 million from $1,186 million a year ago as higher trading income and lower allowance charges more than offset interest margin pressures as interest rates remained soft.

Net interest income fell 2% due to lower loan yields even as loans grew 21%. Customer loans grew $16,011 million, with approximately two-thirds in Singapore dollar loans, as DBS gained market share. With deposits growing 8%, the Group improved its Singapore-dollar loan-to-deposit ratio from 55% a year ago to 60%. Non-interest income rose 39% from better trading gains and increased cross-selling of treasury products to customers.

Operating expenses rose 7% to $1,611 million to support business expansion. Allowances fell 37% to $652 million as asset quality improved. Tax expense benefited from a write-back of previous accruals, but was higher than a year ago when a larger write-back was recorded.

### Hong Kong

The results for Hong Kong incorporate the effects of a 7% appreciation of the Singapore dollar against the Hong Kong dollar in the profit and loss account, and a 9% appreciation in the balance sheet.

Hong Kong's earnings rose 25% in Singapore-dollar terms to $579 million from higher revenues and lower allowances.

Revenues rose 7% from broad-based non-interest income growth with higher fees from trade finance, wealth management and loan syndication; higher sales of treasury products and trading gains; and higher gains from the sale of investments and fixed assets. The increase in non-interest income was partly offset by a 12% decline in net interest income as margins fell, while customer loan volumes rose 8%.

Expenses for 2010 included compensation to customers who had bought Constellation Notes. Wage and non-staff costs rose in line with revenues.

Specific allowances were substantially lower as the NPL rate improved from 1.7% a year ago to 1.0%.

**Other regions**
The largest earnings contributors are Indonesia through a 99%-owned subsidiary, China through a 100%-owned subsidiary, India where the Group has 12 branches, and Taiwan where the Group has 40 branches.

Earnings from these regions were generally lower than a year ago as cost increases outpaced revenue growth. Expenses rose as the Group invested in its staff, technology, and distribution network to tap into the longer-term growth prospects of these markets.

During the year, DBS also sold its 37.5% stake in Cholamandalam DBS Finance, a mass-market consumer finance company in India, to focus on serving corporate clients as well as the high net worth and emerging affluent segments through its branch operations. The sale did not have a material impact on earnings.

## CUSTOMER LOANS [1]

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| **By business unit** | | | |
| Consumer/Private Banking | **50,256** | 44,162 | 14 |
| Institutional Banking | **103,219** | 88,503 | 17 |
| Others | **1,247** | 755 | 65 |
| **By geography [2]** | | | |
| Singapore | **91,128** | 75,117 | 21 |
| Hong Kong | **36,224** | 33,431 | 8 |
| Rest of Greater China | **12,208** | 10,252 | 19 |
| South and South-east Asia | **9,121** | 8,058 | 13 |
| Rest of world | **6,041** | 6,562 | (8) |
| **By currency** | | | |
| Singapore dollar | **67,439** | 56,712 | 19 |
| Hong Kong dollar | **30,478** | 30,274 | 1 |
| US dollar | **38,094** | 29,449 | 29 |
| Others | **18,711** | 16,985 | 10 |
| Gross total | **154,722** | 133,420 | 16 |

*1 Includes financial assets at fair value through profit or loss*
*2 Based on the location where the loans are booked*

Gross customer loans increased 16% to $154,722 million.

Loans booked in Singapore, comprising both Singapore-dollar and foreign-currency loans, rose 21% to $91,128 million. The growth in Singapore-booked loans was broad-based across consumers, SMEs and corporates. DBS differentiated its products by offering longer-term fixed-rate tenors. This helped the Group increase its market share in Singapore-dollar to 21% as they grew 19% to $67,439 million.

In Hong Kong, loans grew 19% in local-currency terms and 8% in Singapore-dollar terms to $36,224 million. Loan growth in Hong Kong was supported by strong economic conditions and higher credit demand from mainland China corporates. DBS' overall share of loans in Hong Kong fell slightly to 5.2%.

Loans booked in Greater China increased 19%, led by housing and corporate loans. Loans booked in South and South-east Asia grew 13%, supported by strong corporate and SME borrowing in India and Indonesia.

# Management Discussion and Analysis

## NON-PERFORMING ASSETS AND LOSS ALLOWANCE COVERAGE

| | 2010 NPA ($m) | 2010 NPL (% of loans) | 2010 (GP+SP)/ NPA (%) | 2009 NPA ($m) | 2009 NPL (% of loans) | 2009 (GP+SP)/ NPA (%) |
|---|---|---|---|---|---|---|
| **By geography** | | | | | | |
| Singapore | **594** | **0.8** | **136** | 731 | 1.2 | 104 |
| Hong Kong | **359** | **1.0** | **162** | 567 | 1.7 | 116 |
| Rest of Greater China | **250** | **1.9** | **124** | 352 | 3.1 | 95 |
| South and South-east Asia | **164** | **1.2** | **180** | 157 | 1.3 | 163 |
| Rest of world | **1,511** | **9.5** | **46** | 2,069 | 13.1 | 45 |
| Total non-performing loans | **2,878** | **1.9** | **93** | 3,876 | 2.9 | 76 |
| **By business unit** | | | | | | |
| Consumer/Private Banking | **317** | **0.6** | **192** | 513 | 1.2 | 124 |
| Institutional Banking | **2,561** | **2.5** | **81** | 3,363 | 3.8 | 68 |
| Total non-performing loans | **2,878** | **1.9** | **93** | 3,876 | 2.9 | 76 |
| Debt securities | **28** | **–** | **464** | 160 | – | 124 |
| Contingent liabilities | **307** | **–** | **123** | 183 | – | 192 |
| Total non-performing assets | **3,213** | **–** | **100** | 4,219 | – | 83 |

Non-performing loans (NPLs) fell from $3,876 million to $2,878 million, while the NPL rate declined from 2.9% to 1.9%. NPL rates for all geographical and business segments improved.

Including debt securities and contingent liabilities, the amount of non-performing assets fell from $4,219 million to $3,213 million, 40% of which were still current and were classified for prudential reasons.

Overall loss allowance coverage increased from 83% to 100% of total non-performing assets. If collateral was considered, allowance coverage rose from 108% to 127%.

| ($m) | 2010 | 2009 |
|---|---|---|
| Unsecured non-performing assets | **2,523** | 3,233 |
| **Secured non-performing assets by collateral type** | | |
| Properties | **250** | 540 |
| Shares and debentures | **85** | 124 |
| Fixed deposits | **38** | 22 |
| Others | **317** | 300 |
| **Total non-performing assets** | **3,213** | 4,219 |

## FUNDING SOURCES

| ($m) | 2010 | 2009 | % chg |
|---|---|---|---|
| **Customer deposits by currency and product** | | | |
| Singapore dollar | **112,228** | 103,842 | 8 |
| Fixed deposits | **20,081** | 20,617 | (3) |
| Savings accounts | **76,417** | 69,160 | 10 |
| Current accounts | **14,916** | 12,697 | 17 |
| Others | **814** | 1,368 | (40) |
| Hong Kong dollar | **23,220** | 23,625 | (2) |
| Fixed deposits | **12,946** | 12,285 | 5 |
| Savings accounts | **7,082** | 7,932 | (11) |
| Current accounts | **3,081** | 3,254 | (5) |
| Others | **111** | 154 | (28) |
| US dollar | **30,022** | 29,018 | 3 |
| Fixed deposits | **16,064** | 14,912 | 8 |
| Savings accounts | **3,255** | 3,468 | (6) |
| Current accounts | **9,777** | 8,846 | 11 |
| Others | **926** | 1,792 | (48) |
| Others | **28,222** | 26,947 | 5 |
| Fixed deposits | **22,289** | 20,441 | 9 |
| Savings accounts | **2,035** | 2,191 | (7) |
| Current accounts | **2,341** | 2,908 | (19) |
| Others | **1,557** | 1,407 | 11 |
| Total customer deposits | **193,692** | 183,432 | 6 |
| Interbank liabilities | **18,854** | 9,320 | >100 |
| Other borrowings and liabilities | **44,565** | 40,519 | 10 |
| Shareholders' funds | **26,599** | 25,373 | 5 |
| Total | **283,710** | 258,644 | 10 |

Deposits grew 6% to $193,692 million, with Singapore-dollar savings accounts accounting for more than two-thirds of the increase. Hong Kong and US dollar deposits grew 8% and 13% respectively if currency translation effects were excluded.

The Group maintained its leadership position in Singapore-dollar deposits. Market share was little changed at 26% as they rose 8% to $112,228 million.

Hong Kong-dollar deposits grew 8% in local currency terms as increases in current accounts and fixed deposits were partly offset by a reduction in savings deposits. DBS' overall market share of Hong Kong-dollar deposits was unchanged at 4%. US dollar deposits rose 13% excluding currency effects. Overall US dollar funding was supplemented with a maiden issue from the Group's US$10 billion Debt Issuance Program of US$1,000 million, booked under Other borrowings and liabilities.

Other currency deposits grew 5% led by increases in RMB-denominated accounts. This was partly boosted by the gathering of offshore RMB deposits.

# Management Discussion and Analysis

## CAPITAL ADEQUACY RATIOS

| ($m) | 2010 | 2009 |
|---|---|---|
| Tier 1 | | |
| Share capital | **8,780** | 8,435 |
| Disclosed reserves and others | **23,927** | 20,928 |
| Less: Tier 1 deductions | **(5,064)** | (6,098) |
| Total | **27,643** | 23,265 |
| | | |
| Tier 2 | | |
| Loan allowances admitted as Tier 2 | **696** | 434 |
| Subordinated debts | **5,281** | 5,970 |
| Revaluation surplus from equity securities | **149** | 87 |
| Less: Tier 2 deductions | **(142)** | (128) |
| Total | **5,984** | 6,363 |
| | | |
| Total capital | **33,627** | 29,628 |
| Risk-weighted assets | **182,694** | 177,222 |

The Group's core Tier 1, Tier 1 and total capital adequacy ratios were 11.8%, 15.1% and 18.4% respectively, compared to 11.0%, 13.1% and 16.7% at end-2009.

Tier 1 capital increased during the year, as a result of retained earnings and two preference share issues which raised $2.5 billion. These issues are intended to replace approximately $2.1 billion of Tier 1 instruments which are, subject to regulatory approval, callable in 2011. Tier 2 capital registered a net decline due partly to the amortisation of existing Tier 2 subordinated debt. The growth in risk-weighted assets reflects the increase in customer loans over this period.

Additional disclosures made pursuant to Basel II Pillar 3 can be found on pages 61 to 67.

## VALUATION SURPLUS

| ($m) | 2010 | 2009 |
|---|---|---|
| Properties | **507** | 511 |
| Financial investments | **26** | 119 |
| Total | **533** | 630 |

The amount of unrealised valuation surpluses fell from $630 million to $533 million due to a decline in the valuation surplus of financial investments.