Risk Management

This report forms part of DBS' audited financial statements, except for sections marked with an asterisk.

RISK MANAGEMENT APPROACH

The Group sees strong risk management capabilities as vital to the success of a well-managed bank. The Risk Management Group function is the central resource for driving such capabilities in DBS, and complements the risk and control activities of other functions including Group Audit and Group Legal & Compliance.

The key components of DBS' risk management approach are: strong risk governance; robust and comprehensive processes to identify, measure, monitor, control and report risks; sound assessments of capital adequacy relative to risks; and a rigorous system of internal control reviews involving internal and external auditors.

Risk Governance

Under the Group's risk management framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of robust enterprise-wide risk management policies and processes, and sets risk limits to guide risk-taking within the Group.

The Chief Risk Officer (CRO) has been appointed to oversee the risk management function. The CRO has a direct reporting line to the Board which is also responsible for the appointment, remuneration, resignation or dismissal of the CRO. Working closely with the established risk and business committees, the CRO is responsible for the following:

- Management of the risk management systems including processes to identify, measure, monitor, control and report risks;
- Engagement of senior management on material matters relating to the various types of risks and development of risk controls and mitigation processes

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite established by the Board. To provide risk oversight, senior management committees are mandated to focus on specific risk areas. These oversight committees are the Risk Executive Committee, the Group Credit Risk Committee, the Group Market Risk Committee, and the Group Operational Risk Committee.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units, reporting to the CRO, also recommend risk appetite and control limits for approval in line with the risk management framework. There are detailed policies and procedures to identify, measure, analyse, and control risk across all locations where the Group has operations.

CREDIT RISK

Credit risk is the risk of loss resulting from the failure of borrowers or counterparties to meet their debt or contractual obligations. Exposure to credit risks arises from lending, sales and trading as well as derivative activities. Lending exposures are typically represented by the notional value or principal amount of on-balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Group 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 Group 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 lending. Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

Risk Governance and Organisation

The oversight committee for credit risk is the Group Credit Risk Committee. This committee serves as an executive forum for discussion on credit trends and all aspects of credit risk management, including the identification, measurement, monitoring, mitigation and control processes. It also provides oversight of credit risk committees that are established in the key markets in which the Group operates. This structure ensures that key credit management decisions are effectively cascaded to the appropriate country, business and functional units.

Credit Policies

An enterprise-wide Core Credit Risk Policy sets forth the principles by which the Group conducts its credit risk management activities. The policy ensures consistency in credit risk underwriting across the Group, and provides guidance in the formulation of business-specific and/or location-specific credit policies. The Core Credit Risk Policy is considered and approved by the Risk Executive Committee. The business-specific and/or location-specific credit policies are established to provide greater details on the implementation of the credit principles within the Core Credit Risk Policy and are adapted to reflect different credit environments and portfolio risk profiles.

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.

Consumer Credit
Retail exposures comprise mainly residential mortgages, credit cards, auto loans and other unsecured loans. Retail exposures are typically managed on a portfolio basis and assessed based on credit scoring models supplemented by risk acceptance criteria.

Wholesale Credit
Wholesale exposures comprise sovereign, bank, corporate, corporate small business, specialised lending and securitisation exposures. Wholesale exposures are assessed using approved credit models, and reviewed and analysed by experienced credit approvers taking into consideration the relevant credit risk factors. Credit extensions are proposed by the business unit and are approved by the credit risk function based on the business strategies determined by senior management.

Traded Products and Securities
Credit risk from traded products and securities are managed within the overall credit risk appetite for corporates and financial institutions. Counterparty risk that may arise from traded products and securities is viewed similarly to loan exposures and included under the Group's overall lending limits to counterparties.

The Group actively monitors and manages its exposure to counterparties in over-the-counter derivative trades to protect its balance sheet in event of counterparty default. Counterparty risk exposures which may be materially and adversely affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees. In addition, the Group takes into account any strong relationship between the creditworthiness of a counterparty and the expected future replacement value of a relevant transaction (so called wrong-way risk) during the risk onboarding process. The current exposure method is used for calculating the Group's net credit exposure and regulatory capital for counterparty exposures, using the mark-to-market exposures with an appropriate add-on factor for potential future exposures.

DBS further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. 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.

The Group may also enter into Credit Support Annexes with counterparties for credit risk reduction and increased competitiveness. These are governed by internal guidelines with respect to the eligibility of various collaterals and the frequency of collateral calls.

Internal Credit Risk Models*
The Group adopts rating systems for the different asset classes under Internal Ratings Based Approach (IRBA). There is a robust governance process for the development, independent validation and approval of a credit risk model. Credit risk models developed are validated by an independent risk unit in the Group to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by the Group Credit Risk Committee and have to be approved by the Board Risk Management Committee before use.

To ensure the adequacy and robustness of these rating systems on an ongoing basis, Risk Management Group – Credit Portfolio Analytics conducts monthly performance monitoring on these rating systems and reports the results to the Group Credit Risk Committee. This process will highlight any material deterioration in the credit systems for management attention. In addition, an independent risk unit, Risk Management Group – Model Validation, conducts formal validation annually for each of the rating systems. The validation processes are also subject to an independent review by Group Audit.

The internal credit risk ratings produced by credit rating models are used to calculate the IRBA capital requirements. In addition, the ratings from the credit models are used as the basis to support the underwriting of credit, monitor the performance of the portfolios and determine business strategies.

The Group applies the supervisory Loss Given Default (LGD) estimate provided by the Monetary Authority of Singapore (MAS) for its Foundation IRBA portfolios. These supervisory LGD estimates are used in the computation of risk weights and regulatory capital calculations. For its Advanced IRBA portfolios, the LGD is estimated using internal models, and used in capital calculations and risk return assessments.

Exposure or Exposure at Default (EAD) is the sum of the on-balance sheet amount and/or credit equivalent of the off-balance sheet amount (multiplied by a credit conversion factor) determined in accordance with MAS Notice 637.

Risk Management

Retail Exposures
Retail portfolios are categorised into asset classes under the Advanced IRBA, namely residential mortgages, qualifying revolving retail exposures and other retail exposures, including vehicle loans extended to individuals.

Within each asset class, exposures are managed on a portfolio basis. Each account is assigned to a risk pool, taking into consideration factors such as borrower characteristics and collateral type. Loss estimates are based on historical default and realised losses within a defined period. The definition of default is applied at the level of a particular facility, rather than at the level of the obligor.

Business-specific credit risk policies and procedures including underwriting criteria, scoring models, approving authorities, frequency of asset quality and business strategy reviews, as well as systems, processes and techniques to monitor portfolio performance against benchmarks are in place. Credit risk models for secured loans are used to update the risk level of each loan on a monthly basis, reflecting the broad usage of risk models in portfolio quality reviews in accordance with Basel II principles.

Wholesale Exposures
Wholesale exposures are assessed under the Foundation IRBA. The risk ratings for the wholesale exposures (other than securitisation exposures) have been mapped to likely corresponding external rating equivalents. A description of the rating grades is provided in the table to give a qualitative explanation of the risk benchmarks.

Sovereign exposures are risk rated using internal risk rating models and guidelines in line with IRBA portfolios. Country-specific macroeconomic risk factors, political risk factors, social risk factors and liquidity risk factors are reviewed objectively in the sovereign rating models to assess the sovereign credit risk in a disciplined and systematic approach.

Bank exposures are assessed using a bank rating model covering various credit risk factors such as capital levels and liquidity, asset quality, earnings, management and market sensitivity. The risk ratings derived are benchmarked against external credit risk ratings to ensure that the internal rating systems are well aligned and appropriately calibrated.

Large corporate credits are assessed using approved models as well as reviews by designated credit approvers. Credit factors considered in the risk assessment process include the obligor's financial standing and outlook, industry and economic conditions, market position, access to capital and management strength. The counterparty risk rating assigned to smaller business borrowers is primarily based on the borrower's financial position and strength, which are assessed via the use of a validated quantitative tool. This is supplemented by expert judgment of qualitative factors, such as management strength, by credit officers.

Credit ratings under the IRBA portfolios are, at a minimum, reviewed on an annual basis unless credit conditions require more frequent assessment. The counterparty risk rating process is reinforced by the facility risk rating system, which considers other exposure risk mitigants, such as collateral, third party guarantees and transfer risk.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- Subjective default: Obligor is unlikely to pay its credit obligations in full, without recourse by the Group to actions such as realising security (if held).

- Technical default: Obligor is past due more than 90 days on any credit obligation to the Group.

This is consistent with the guidance provided under MAS Notice 637.

A description of the internal ratings used for the various portfolios is as follows:

RISK GRADES DESCRIPTION

DBS Probability of Default (PD) Grade (ACRR)	Description of Rating Grade	Internal Classification	Likely Corresponding MAS Classification	Likely Corresponding S&P Rating Equivalent
PD Grade 1	Taking into account the impact of relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is exceptional	Exceptional	Passed	AAA
PD Grade 2	Taking into account the impact of the relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is excellent	Excellent	Passed	AA+, AA, AA-
PD Grade 3	More susceptible to adverse economic, social, geopolitical conditions and other circumstances. Capacity to meet its financial commitment is strong	Strong	Passed	A+, A, A-
PD Grade 4A/4B	Adequate protection against adverse economic, social or geopolitical conditions or changing circumstances. More likely to lead to a weakened capacity of the obligor to meet its financial commitment.	Good	Passed	BBB+/BBB
PD Grade 5	Relatively worse off than an obligor rated "4B" but exhibits adequate protection parameters	Satisfactory	Passed	BBB-
PD Grade 6A/6B	Satisfactory capacity to meet its financial commitment but capacity may become inadequate due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Acceptable	Passed	BB+/BB
PD Grade 7A/7B	Marginal capacity to meet its financial commitment but capacity may become inadequate or uncertain due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Marginal	Passed	BB-
PD Grade 8A	Sub-marginal capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Sub-Marginal	Passed	B+
PD Grade 8B/8C	Low capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Special Caution	Special Mention	B/B-
PD Grade 9	Vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment. Likely to have little capacity to meet its financial commitment under adverse conditions	Sub-Performing	Sub-Standard (Non-Defaulting)	CCC-C
PD Grade 10 and Above	An obligor rated '10' and above is in default (as defined under Basel II)	Default	Sub-Standard and Below (Defaulting)	D

Risk Management

Specialised Lending Exposures
Specialised lending IRBA portfolios, consisting of income-producing real estate, project finance, object finance, hotel finance and commodities finance, adopt the supervisory slotting criteria specified under Annex 7V of MAS Notice 637. The supervisory slotting criteria guidelines under the supervisory rating categories are used to determine the risk weights to calculate the credit risk-weighted exposures.

Securitisation Exposures
As at 31 December 2010, the Group does not have significant investments in securitised assets. Additionally, the Group is not active in securitisation activities that are motivated by credit risk transfer or other strategic considerations.

The Group's investments in securitised assets are accounted for using the principles of Financial Reporting Standards 39. Refer to Note 2.7 to the Financial Statements for the Group's accounting policies on financial assets.

Where securitised assets are rated by external rating agencies, the Ratings-Based Method is used to calculate the risk weights of the exposures. The Group only accepts ratings from Standard & Poor's, Moody's and Fitch for such exposures.

Credit Exposures Falling Outside of Internal Credit Risk Models
The Group applies the Standardised Approach (SA) for portfolios which are individually immaterial in terms of both size and risk profile and for transitioning portfolios. These portfolios include:

- IRBA-transitioning retail and wholesale exposures
- IRBA-exempt retail exposures
- IRBA-exempt wholesale exposures

The transitioning retail exposures are expected to transit to the Advanced IRBA over the next few years, subject to certification by MAS. In the meantime, the SA has been applied.

The portfolios under the SA are subject to the Group's overall governance framework and credit risk management practices. Under this framework, the Group continues to monitor the size and risk profile of these portfolios and will look to enhance risk measurement processes should these risk exposures become material.

The Group uses external ratings for credit exposures under the SA, where relevant, and the Group only accepts ratings from Standard & Poor's, Moody's and Fitch in such cases. The Group follows the process prescribed in MAS Notice 637 to map the ratings to the relevant risk weights.

Credit Monitoring and Control
Day-to-day monitoring of credit exposures, portfolio performance and the external environment that may have an impact on our credit risk profiles is key to our philosophy of effective credit risk management. Risk reporting on credit trends, which may include industry analysis, early warning alerts and key weak credits, is provided to the various credit committees, and key strategies and action plans are formulated and tracked.

Credit control functions ensure that credit risks are being taken and maintained in compliance with Group-wide credit policies and guidelines. These functions ensure proper activation of approved limits, ensure appropriate endorsement of excesses and policy exceptions, and monitor compliance with credit standards and credit covenants established by management and regulators.

An independent credit risk review team conducts regular reviews of credit exposures and judgmental credit risk management processes. It also conducts independent validation of internal credit risk rating processes on an annual basis. These reviews provide senior management with objective and timely assessments of the effectiveness of credit risk management practices and ensure Group-wide policies, internal rating models and guidelines are being adopted consistently across different business units including relevant subsidiaries.

Credit Risk Mitigants

Collateral
Where possible, the Group takes collateral as a secondary recourse to the borrower. Collateral includes cash, marketable securities, properties, trade receivables, inventory and equipment and other physical and financial collateral. The Group may also take fixed and floating charges on assets of borrowers. It has put in place policies to determine the eligibility of collateral for credit risk mitigation, which include requiring specific collaterals to meet minimum operational requirements in order to be considered as effective risk mitigants. Collateral taken for financial market operations is marked-to-market on a mutually-agreed period with the respective counterparties. Collateral taken for commercial banking is revalued periodically ranging from daily to annually, depending on the type of collateral. While real estate properties constitute the largest percentage of collateral assets, the Group generally considers the collateral assets to be diversified.

Other Risk Mitigating Factors

The Group also uses guarantees, credit derivatives, master netting agreements, credit support annexes and credit insurance as credit risk mitigants. While the Group may accept guarantees from any counterparty, it sets internal thresholds for considering guarantors to be eligible for credit risk mitigation. Credit derivatives are used as credit risk mitigating factors mainly in structured transactions and for financial market operations. Master netting agreements and credit support annexes are used to mitigate counterparty credit risks. Credit insurance is used for risk sharing in various products such as factoring.

Credit Concentration

The Group's risk management processes aim to ensure that an acceptable level of risk diversification is maintained across the Group 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 appropriate actions are taken if limits are breached.

Stress Testing*

Comprehensive stress tests are conducted for assessing the potential impact to the Group for changes in various specific key risk factors, as well as the potential impact of stress scenarios that are adverse but plausible. Stress tests are also employed in assessing the sensitivity of the portfolio to various risk parameters associated with the IRB Approach.

The stress tests are either directed by senior management (in the assessment of specific key risk factors) or articulated by the credit risk stress testing working group (in the design and performance of specific scenario stress tests). The working group is also responsible for developing and maintaining a robust stress testing model as well as to execute the stress testing process and analysis effectively. Stress test results are also reviewed by the Group Credit Risk Committee and the Group Board Risk Management Committee.

Stress tests form an integral part of the Group's credit risk management process. The results are analysed to assess the capital adequacy of the Group and are used as inputs for capital planning. For each stress test, remedial actions are formulated as risk mitigation plans to be taken in the event of stress.

Non-Performing Loans and Impairments

The Group classifies its credit facilities in accordance with MAS Notice to Banks No. 612, "Credit Files, Grading and Provisioning" issued by the MAS. These guidelines require the Group to categorise its credit portfolios according to its assessment of a borrower's ability to repay a credit facility from his normal sources of income. There are five categories of assets as follows:

Performing Assets

- Pass grade indicates that the timely repayment of the outstanding credit facilities is not in doubt.
- Special mention grade indicates that the credit facilities exhibit potential weaknesses that, if not corrected in a timely manner, may adversely affect future repayments and warrant close attention by the Group.

Classified or Non-Performing Assets

- Substandard grade indicates that the credit facilities exhibit definable weaknesses either in respect of business, cash flow or financial position of the borrower that may jeopardise repayment on existing terms.
- Doubtful grade indicates that the credit facilities exhibit severe weaknesses such that the prospect of full recovery of the outstanding credit facilities is questionable and the prospect of a loss is high, but the exact amount remains undeterminable.
- Loss grade indicates the amount of recovery is assessed to be insignificant.

The Group may also apply a split classification to any credit facility where appropriate. For instance, when a non-performing loan is partially secured, the portion covered by the amount realisable from a collateral may be classified as substandard while the unsecured portion of the loan is classified as doubtful or loss, as appropriate.

Restructured Non-Performing Assets

Credit facilities are classified as restructured assets when the Group grants concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A restructured credit facility is classified into the appropriate non-performing grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the restructured terms. Such credit facilities are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the restructured terms.

Risk Management

Repossessed Collateral
When required, the Group will take possession of collateral it holds as securities and will dispose of them as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed collateral is classified in the balance sheet as other assets. The amounts of such other assets for 2010 and 2009 were not material.

Transfer Risk*
The principles and approach in the management of cross-border risk are set out in the Group's Country Risk Management Framework. The framework includes an internal country (and sovereign) risk rating system where the assessments are made independent of business decisions. Country benchmark limits are set to alert the Group when exposures rise to levels that may imply concentration risk. Day-to-day operational country limits, called working limits, are also imposed to manage the shape and growth of cross-border exposures as they build up. A rigorous scanning process has been established with the objective of adjusting country exposures according to risks perceived at the global, regional and country level. There are close consultations with the businesses and credit management in right-sizing cross-border exposures to take into account not only risks and opportunities, but also the strategic intent of the Group.

MARKET RISK

Market risk affects the economic values of financial instruments held by the Group, and arises from changes in interest rate yields, foreign exchange rates, equity prices, commodity prices, credit spreads and changes in the correlations and volatilities of these risk factors.

The Group manages market risk in the course of market-making, structuring and packaging products for investors and other clients, as well as to benefit from market opportunities. The Group also manages banking book interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges), including basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. Behavioural assumptions are applied in managing the interest rate risk of banking book deposits with indeterminate maturities. To optimise its income and balance sheet management, the Group deploys funds in debt securities, equities and funds or in the interbank market. All types of foreign exchange risk (including unhedged structural foreign exchange risk arising from the Group's investment in strategic foreign currency investments) are risk managed as part of the trading book.

The Group's market risk framework identifies the types of the market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing market risk management within the Group including limit setting and independent model validation, monitoring and valuation.

The Board establishes the Group's risk appetite for market risk. The CEO delegates responsibility to the Risk Executive Committee to allocate risk appetite limits to risk-taking units. The Group Market Risk Committee, which reports into the Risk Executive Committee, oversees the Group's market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

The independent market risk management function comprising risk control, risk analytics, and risk architecture reports to the CRO and is responsible for day-to-day risk market risk monitoring and analysis.

The principal market risk appetite measures for market risk are Value-at-Risk (VaR) and stress loss. The VaR is supplemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as loss triggers for management action.

The Group's general market risk VaR methodology uses a historical simulation approach to forecast the Group's potential loss from market risk. The methodology is also used to compute stressed VaR and average tail loss metrics. VaR risk factor scenarios are aligned to parameters and market data that are used for valuation. The scenarios are maintained in the risk system and are used to compute VaR for each business unit and location, and at Group level. Trading book VaR is back-tested against the corresponding profit and loss to monitor its predictive power.

Although VaR provides valuable insights, no single measure can capture all aspects of market risk. Therefore, regular stress testing is carried out to monitor the Group's vulnerability to shocks.

LIQUIDITY RISK

Funding liquidity risk (or liquidity risk) is the current and prospective risk arising from the inability of the Group to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, and extensions of credit and working capital needs. The Group seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The primary tool of monitoring liquidity risk is the maturity mismatch analysis, which presents the profile of future expected cashflows under pre-defined scenarios. This is monitored against available funding and liquid assets across successive time bands and across major currencies under normal and adverse scenarios. In addition, other monitoring metrics (for example, liquidity ratios, deposit concentration ratio, and balance sheet analysis) are used as complementary tools to the maturity mismatch analysis.

On a strategic level, the Board Risk Management Committee is responsible for approving the principles and baseline standards under the Group's liquidity risk management framework, as well as defining the Group's tolerance towards liquidity risk. The Risk Executive Committee, which reports to the Board Risk Management Committee, provides liquidity risk control across the Group and its management. On a business and tactical level, the Group Asset and Liability Committee (GALCO) and country ALCOs are the primary committees responsible for ensuring the Group's liquidity management profile is in accordance with the Group's liquidity risk management framework and policies.

To manage liquidity risk within the tolerance defined by the Board, limits and triggers are set on maturity mismatches under normal and adverse scenarios and other monitoring metrics. Such limits seek to ensure that adequate funding and liquid assets are available to meet liquidity needs under both normal and stress scenarios.

As part of its management of liquidity risk inherent in its financial liabilities, the Group employs a number of strategies. These include maintaining sufficient liquid assets, maintaining diversified sources of liquidity, and having robust internal control processes and contingency plans.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including legal risk, but does not include strategic or reputational risk. An operational risk management framework, approved by the Board Risk Management Committee, has been developed with the objective of ensuring that operational risks within the Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

To manage and control operational risk, the framework encompasses various tools including control self-assessment, risk event management and key risk indicator monitoring. Risk events, including any significant incidents that may impact the Group's reputation, are required to be reported based on certain established thresholds. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner. The Group has implemented a system that supports multiple operational risk management processes and tools including operational risk or loss event reporting, control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting.

A key component of the framework is a set of core operational risk standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product, service or outsourcing initiative is subject to a risk review and sign-off process in which relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products, services and outsourcing initiatives are also subject to a similar process. Major operational risk mitigation programmes include business continuity management and a global insurance programme. On an annual basis, the CEO provides an attestation to the Board on the state of business continuity management of the Group, including any residual risks.

The Group Operational Risk Committee oversees the Group's operational risk management infrastructure, including the framework, policies, processes, information, methodologies and systems. The committee also performs regular reviews of the operational risk profiles of the Group, and endorses and recommends corporate operational risk policies to be approved by senior management.

Capital Management and Planning

The Group's capital management objective is to maintain a strong capital position consistent with the expectations of various stakeholders, i.e., customers, investors, rating agencies and regulators, while delivering returns to shareholders and ensuring adequate capital resources are available for business growth, investment opportunities as well as adverse situations. The Group manages the structure of its capital resources in order to optimise the cost of these resources relative to the flexibility offered by the different types of resources and regulatory norms. In order to achieve this, the Group continually assesses the need and the opportunity to raise capital from the financial markets. In 2010, the Group successfully raised a total of SGD2.5 billion in non-cumulative, non-convertible, non-voting preference shares qualifying as Tier 1 capital. This was intended to allow the Group to exercise calls on certain Tier 1 instruments in 2011, subject to regulatory approval, and to augment its capital resources. The Group continues to monitor developments arising from Basel III and will manage its capital resources accordingly to achieve its capital management objective.

The Group's capital management objective is articulated concretely as capital targets that are consistent with the need to support organic and inorganic business growth in line with its strategic plans and risk appetite. A key tool for capital management is the annual Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP, the Group assesses its forecast capital supply and demand relative to its capital targets, under various scenarios, including stress scenarios of differing scope and severity, over a three-year horizon. The capital management process is centrally supervised by the Capital and Balance Sheet Committee, which is chaired by the Chief Financial Officer.

The Group seeks to pay sustainable and increasing dividends over time, in line with its long-term growth prospects. For the year ended 31 December 2010, the Board has recommended a final dividend of SGD0.28 per ordinary share, to which the Scrip Dividend Scheme is being applied, bringing the total ordinary dividend for the year to SGD0.56.

The Group seeks to optimise the distribution of capital resources across its various entities, subject to compliance with applicable regulations in the jurisdictions in which it operates. Certain subsidiaries are subject to minimum capital requirements imposed by their respective regulatory agencies. During the course of the year, these subsidiaries did not experience any impediments in the distribution of dividends.

Basel II Pillar 3 Disclosures

Year ended 31 December 2010

DBS Group Holdings Ltd and its subsidiaries (the Group) have adopted Basel II as set out in the revised Monetary Authority of Singapore Notice to Banks No. 637 (Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore or MAS Notice 637) with effect from 1 January 2008.

The Group views Basel II as part of continuing efforts to strengthen its risk management culture and ensure that the Group pursues business growth across segments and markets with the right risk management discipline, practices and processes in place.

The qualitative disclosures as required by MAS Notice 637 are presented in the Risk Management report on page 52 to page 59, the Capital Management and Planning report on page 60 and the Notes to the Financial Statements as referred to below. The following information does not form part of the audited accounts.

SCOPE OF APPLICATION

The Group applies the Basel II Internal Ratings-Based Approach (IRBA) for computing part of its regulatory capital requirements for credit risk. Approved wholesale portfolios are on the Foundation IRBA, while the approved retail portfolios are on the Advanced IRBA. Most of the remaining credit exposures are on the Standardised Approach (SA) for credit risk. The Group also adopts the SA for operational and market risks.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, as discussed in Note 2.2 to the Financial Statements, except where deductions from eligible capital are required under MAS Notice 637 or where entities meet separation requirements set by the MAS. Refer to Note 49 to the Financial Statements for the list of consolidated entities.

CAPITAL ADEQUACY

The following table sets forth details on the capital resources and capital adequacy ratios for the Group as at 31 December 2010. The Group's Tier 1 and total capital adequacy ratios as at 31 December 2010 were 15.1% and 18.4% respectively, which are above the MAS minimum requirements of 6.0% and 10.0%, while Core Tier 1 ratio was 11.8%.

The constituents of total eligible capital are set out in MAS Notice 637 Part VI. These include shareholders' funds after regulatory-related adjustments, minority interests, and eligible capital instruments issued by the Group. Refer to Notes 35 and 34 to the Financial Statements for the terms of these capital instruments, and Note 47 on the capital management policies and processes for the group.

In $ millions	2010
Tier 1 capital	
Share capital	8,780
Disclosed reserves	17,424
Paid-up non-cumulative preference shares	3,600
Minority interests	370
Innovative Tier 1 instruments	2,533
Less: Deductions from Tier 1 capital	
Goodwill and deferred tax assets	4,922
Other deductions (50%)	142
Eligible Tier 1 capital	27,643
Tier 2 capital	
Loan allowances admitted as Tier 2	696
Subordinated debts	5,281
Revaluation surplus from equity securities	149
Less: Deductions from Tier 2 capital	
Other deductions (50%)	142
Total eligible capital	33,627
Risk-Weighted Assets (RWA)	
Credit	142,037
Market	26,220
Operational	14,437
Total RWA	182,694
Core Tier 1 Ratio (%)	11.8
Tier 1 Capital Adequacy Ratio (%)	15.1
Total Capital Adequacy Ratio (%)	18.4

Basel II Pillar 3 Disclosures

Year ended 31 December 2010

Summary of RWA

In $ millions	2010 RWA
Credit risk:	
IRBA	
Retail exposures	
Residential mortgage exposures	2,497
Qualifying revolving retail exposures	1,590
Other retail exposures	805
Wholesale exposures	
Sovereign exposures	2,964
Bank exposures	10,331
Corporate exposures	60,983
Corporate small business exposures (SME)	2,484
Specialised lending exposures (SL)	22,850
Equity exposures	4,039
Securitisation exposures	7
Total IRBA RWA	108,550
Adjusted IRBA RWA post scaling factor of 1.06	115,063
SA	
Residential mortgage exposures	1,096
Regulatory retail exposures	882
Corporate exposures	13,243
Other exposures	
Real estate, premises, equipment and other fixed assets	1,383
Exposures to individuals	7,137
Others	3,233
Total SA RWA	26,974
Total RWA for credit risk	142,037
Market risk:	
Standardised approach (SA)	
Interest rate risk	18,840
Equity position risk	327
Foreign exchange risk	7,053
Commodity risk	#
Total RWA for market risk	26,220
Operational risk (SA)	14,437
Total RWA	182,694

Amount below $0.5m

CREDIT RISK

SUMMARY OF CREDIT EXPOSURES [(a)]

In $ millions	2010 Exposures
Advanced IRBA	
Retail exposures	
Residential mortgage exposures	40,195
Qualifying revolving retail exposures	4,107
Other retail exposures	3,111
Foundation IRBA	
Wholesale exposures	
Sovereign exposures	51,133
Bank exposures	43,317
Corporate exposures	96,729
Corporate small business exposures	2,698
Specialised lending exposures	20,254
IRBA for equity exposures	2,296
IRBA for securitisation exposures	107
Total IRBA	263,947
SA	
Residential mortgage exposures	3,131
Regulatory retail exposures	1,167
Corporate exposures	13,694
Other exposures	
Real estate, premises, equipment and other fixed assets	1,383
Exposures to individuals	7,131
Others	5,747
Total SA	32,253
Total	296,200

(a) *Amounts represent exposures after credit risk mitigation and where applicable include on-balance sheet amounts and credit equivalent amounts of off-balance sheet items determined in accordance with MAS Notice 637*

Refer to Notes 44.1 and 46 to the Financial Statements for analysis of maximum exposures to credit risk by geographic location, industry and residual contractual maturity distribution.

CREDIT RISK ASSESSED USING INTERNAL RATINGS – BASED APPROACH

RETAIL EXPOSURES

Residential mortgage exposures

Expected Loss (EL) % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 0.10%	38,590	5
> 0.10% to 0.50%	1,298	23
> 0.50%	307	59
Total	40,195	6

(a) Includes undrawn commitments
(b) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Qualifying revolving retail exposures

EL % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 5%	3,869	26
> 5%	238	257
Total	4,107	39

(a) Includes undrawn commitments
(b) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Other retail exposures

EL % range	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
Up to 0.30%	2,250	17
> 0.30%	861	49
Total	3,111	26

(a) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Undrawn commitments for retail exposures

In $ millions	Notional amount	Credit equivalent amount [a]
Residential mortgage exposures	5,157	5,157
Qualifying revolving retail exposures	8,643	3,097
Total	13,800	8,254

(a) Credit equivalent amount represents notional amounts multiplied by the applicable credit conversion factors

WHOLESALE EXPOSURES

Sovereign exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.00 – 0.10	49,677	5
PD grade 4A/4B	0.10 – 0.33	27	27
PD grade 5	0.33 – 0.47	929	47
PD grade 6A/6B	0.47 – 1.11	500	55
PD grade 7A-9	1.11 – 99.99	#	92
Total		51,133	6

(a) Percentages disclosed are before the application of IRBA scaling factor
 # Amount below $0.5m

Bank exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.03[b] – 0.10	26,904	11
PD grade 4A/4B	0.10 – 0.33	8,642	33
PD grade 5	0.33 – 0.47	2,804	41
PD grade 6A/6B	0.47 – 1.11	3,693	61
PD grade 7A-9	1.11 – 99.99	1,257	92
PD grade 10	Default	17	–
Total		43,317	24 [c]

(a) Percentages disclosed are before the application of IRBA scaling factor
(b) For bank exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637
(c) Excludes defaulted exposures

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Corporate exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.03 [b] – 0.10	19,503	18
PD grade 4A/4B	0.10 – 0.33	13,044	48
PD grade 5	0.33 – 0.47	15,994	54
PD grade 6A/6B	0.47 – 1.11	21,231	73
PD grade 7A-9	1.11 – 99.99	24,921	109
PD grade 10	Default	2,036	–
Total		96,729	64 [c]

(a) Percentages disclosed are before the application of IRBA scaling factor

(b) For corporate exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

(c) Excludes defaulted exposures

Corporate small business [a] exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [b] (%)
PD grade 1-3	0.03 [c] – 0.10	–	–
PD grade 4A/4B	0.10 – 0.33	10	28
PD grade 5	0.33 – 0.47	75	51
PD grade 6A/6B	0.47 – 1.11	670	67
PD grade 7A-9	1.11 – 99.99	1,889	106
PD grade 10	Default	54	–
Total		2,698	94 [d]

(a) SME refers to corporations with reported annual sales of less than S$100 million as defined under MAS Notice 637

(b) Percentages disclosed are before the application of IRBA scaling factor

(c) For SME exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

(d) Excludes defaulted exposures

Specialised lending exposures

2010	RWA (In $ millions)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
Strong	3,061	5,361	57
Good	5,543	7,011	79
Satisfactory	4,212	3,663	115
Weak	10,034	4,014	250
Default	–	205	–
Total	22,850	20,254	114 [b]

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes defaulted exposures

SECURITISATION EXPOSURES

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by risk weights:

2010 In $ millions	Exposures subject to Rating-Based Method (RBM)	Exposures not subject to RBM	RWA	Deductions from Tier 1 capital and Tier 2 capital
Risk weights				
0% – 18%	12	–	1	–
20% – 50%	26	–	6	–
Deducted	66	3	–	69
Total	104	3	7	69

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by exposure type:

2010 In $ millions	Total exposures	Exposures risk-weighted	Deductions from Tier 1 capital and Tier 2 capital
Exposure type			
ABS collateralised debt/loan obligations (CDO)	66	–	66
Mortgage-Backed Securities (MBS) and others	41	38	3
Total	107	38	69

PROVISIONING POLICIES FOR PAST DUE AND IMPAIRED EXPOSURES

Refer to the Notes to the Financial Statements listed in the following table for the Group's provisioning policies in relation to past due and impaired exposures.

Notes to the Financial Statements	Financial disclosures
2.8	The Group's accounting policies on the assessment of specific and general allowances on financial assets
44.2	Classified loans and past due loans by geographic and industry distribution
13, 20, 21 and 32	Movements in specific and general allowances during the year for the Group

COMPARISON OF EXPECTED LOSS AGAINST ACTUAL LOSSES

The following table sets out actual loss incurred in 2010 compared with EL reported for certain IRBA asset classes at December 2009. Actual loss refers to specific impairment loss allowance and charge-offs to the Group's income statement during the financial year ended 31 December 2010.

Basel Asset Class	2009 Expected Loss In $ millions	2010 Actual Loss In $ millions
Wholesale Exposures		
Sovereign exposures	9	–
Bank exposures	44	–
Corporate exposures (including SME & SL)	869	274
Retail Exposures		
Residential mortgage exposures	21	1
Qualifying revolving retail exposures	75	12
Other retail exposures	20	3

EL is a Basel II measure of expected future losses based on Internal Ratings-Based models where PD grades are more through-the-cycle and LGD estimates are on a downturn basis, floored by regulatory minimums for retail exposures and based on supervisory estimates for wholesale exposures. Actual Loss is an accounting construct which includes net impairment allowances for non-defaulting accounts at the onset of the financial year as well as write-offs during the year. The two measures of losses are therefore not directly comparable and it is not appropriate to use Actual Loss data to assess the performance of internal rating processes or to undertake comparative trend analysis.

CREDIT RISK ASSESSED USING STANDARDISED APPROACH

The following table shows the exposures under SA, analysed by risk weights:

In $ millions	2010 Exposures
Risk weights	
0%	2,331
20%	225
35%	3,130
50%	960
75%	1,156
100%	24,381
150%	70
Total	32,253

CREDIT RISK MITIGATION

The following table summarises the extent to which credit exposures are covered by eligible financial collateral, other eligible collateral and eligible credit protection after the application of haircuts:

2010 In $ millions	Eligible financial collateral	Other eligible collateral	Amount by which credit exposure have been reduced by eligible credit protection
Foundation IRBA			
Wholesale exposures			
Sovereign exposures	369	–	–
Bank exposures	1,022	–	39
Corporate exposures	3,489	4,036	2,605
Corporate SME	208	1,136	168
Sub-total	5,088	5,172	2,812
SA			
Residential mortgage exposures	198	–	–
Regulatory retail exposures	143	1	1
Corporate/ other exposures	3,055	50	844
Sub-total	3,396	51	845
Total	8,484	5,223	3,657

The above table excludes exposures where collateral has been taken into account directly in the risk weights, such as the specialised lending and residential mortgage exposures. It also excludes exposures where the collateral, while generally considered as eligible under Basel II, does not meet the

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required legal/ operational standards e.g. in the case of legal enforcement uncertainty in specific jurisdictions. Certain exposures where the collateral is eligible under Foundation IRBA and not under SA have also been excluded for portfolios where the SA is applied e.g. exposures collateralised by commercial properties.

COUNTERPARTY CREDIT RISK-RELATED EXPOSURES

NOTIONAL PRINCIPAL AMOUNTS OF CREDIT DERIVATIVES

	Notional of Credit Derivatives	
In $ millions	**Protection Bought**	**Protection Sold**
Own Credit Portfolio	30,403	28,573
Client Intermediation Activities	8,096	8,067
Total	38,499	36,640
Credit default swaps	38,422	36,640
Total return swaps	77	–
Total	38,499	36,640

Notional values of credit derivatives do not accurately reflect their economic risks. They comprise both beneficiary and guarantor (buy and sell protection) positions.

The Group generally has a mismatch between the total notional amounts of protection bought and sold as these credit derivatives are used to hedge risks from other instruments, including those from customer flows. The protection sold in credit derivatives are largely matched with the protection bought after notional amounts are adjusted, either to a duration-based equivalent basis, or to reflect the level of subordination in tranched structures.

The Group actively monitors its counterparty credit risk in credit derivative contracts. More than 95% of the notional value of the Group's credit derivative positions as at 31 December 2010 is to 15 large, established names with which the Group maintains collateral agreements.

CREDIT EQUIVALENT AMOUNTS FOR COUNTERPARTY EXPOSURES

In $ millions	2010
Replacement cost	16,691
Potential future exposure	14,053
Gross credit equivalent amount	30,744
Comprising:	
Interest rate contract	9,774
Credit derivative contracts	4,413
Equity contracts	221
Foreign exchange contracts and gold	16,328
Commodities contracts	8
Gross credit equivalent amount	30,744
Less: Effect of netting arrangement	13,889
Credit equivalent amount after netting	16,855
Less: Collateral amount	
Eligible financial collateral	504
Other eligible collateral	1
Net credit equivalent amount	16,350

Counterparty credit exposure is mitigated by exposure netting through ISDA agreements and recognition of eligible collateral, effects of which have been included in regulatory capital calculations where appropriate.

EQUITY EXPOSURES IN BANKING BOOK

SCOPE OF APPLICATION

The Group's banking book equity investments consist of:

- Investments held for yield and/or long-term capital gains;
- Strategic stakes in entities held as part of growth initiatives and/or in support of business operations.

The Group's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as either AFS investments or Investments in Associates; refer to Notes 2.2 and 2.7 to the Financial Statements for the Group's accounting policies. Entities in which the Group holds significant interests are disclosed in Note 49 to the Financial Statements.

CAPITAL TREATMENT

The Group has adopted the IRBA simple risk weight method to calculate regulatory capital for equity exposures in its banking book.

The following table summarises the Group's equity exposures in the banking book, including investments in Tier 1 capital instruments of financial institutions:

2010 In $ millions	Exposures subject to risk-weighting	Risk weight (%)	Deductions from Tier 1 or Tier 2 Capital
Equities listed on MAS-recognised exchanges	623	150	28
Equities not listed on MAS-recognised exchanges	1,553	200	92
Total	2,176	186	120

Equity exposures subject to simple risk weight method are further analysed as follows:

2010	Exposures subject to risk-weighting (in $ millions)	Exposure-weighted average risk weight (a) (%)
Major stake companies approved under section 32 of the Banking Act	703	195
Capital investments in financial institutions incorporated in Singapore, approved, licensed, registered or otherwise regulated by the Authority <= 2% of Eligible Total Capital	32	150
Other equity exposures	1,441	182
Total	2,176	186

(a) Percentages disclosed are before the application of IRBA scaling factor

Details of the Group's investments in AFS securities and Associates are set out in Notes 21 and 25 to the Financial Statements respectively, while realised gains arising from sale and liquidation of equity exposures are set out in Note 9 to the Financial Statements.

Total unrealised gains for equity that have not been reflected in the Group's income statement, but have been included in Tier 2 Capital, amounted to $149 million.

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) 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			2009		
	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA (%)	NPA ($m)	NPL (% of loans)	(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.