MD&A

Management Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

As of December 31, 2001, DBS Bank through DBS Diamond Holdings Ltd ("DDH") had an effective holding of 71.6% in Dao Heng Bank Group Limited ("DHG"). DHG's contribution was included in DBSH Group's Profit & Loss Statement from July 1, 2001. DBS Bank holds 59.5% of DBS Vickers Securities Holdings Pte Ltd ("DBSV") and the financial statements were consolidated from September 12, 2001. In preparing the consolidated financial statements, DBSH Group determines parent and minority interests based on present ownership interests.

DBSH Group's operating profit for 2001 decreased by 0.8% to S$1,672.2 million compared with the prior year. Net profit attributable to members ("NPAM") decreased 28.1% to S$999.1 million primarily due to the S$325.3 million increase in provision charges that were taken as a prudent response to the general slowdown in the economy and lower asset values. The Group also recognised S$131.4 million in goodwill amortisation for acquisitions.

When measured on a cash basis, operating profit increased 7.0% to S$1,803.6 million while NPAM decreased by 18.6% to S$1,130.5 million compared with the prior year.

Net interest income grew by 10.7%, to S$2,256.8 million for 2001, driven by an expanded loan book with the acquisition of DHG. The increase was also supported by DHG's strong presence in trade finance and credit card business. The 44.5% growth in non-interest income was mainly driven by stronger performances in treasury and wealth management. Profits from the sale of stakes in The Insurance Corporation of Singapore Ltd ("ICS") (S$120.1 million) and Keppel Capital Holdings (S$60.6 million) were also included in 2001. Operating expenses for 2001, excluding the costs of acquisitions and restructuring, grew 16.0% to S$1,445.1 million, accounted for mainly by higher staff costs and technology-related expenses.

As of December 31, 2001, the consolidation of DHG contributed to the increase in DBSH Group assets. Total assets were up 36.0% to S$151,294.3 million. 59.6% of the total assets are derived from the Singapore operations and 32.5% from the Hong Kong operations.

Selected Financial Information

The following tables present selected consolidated financial information for DBSH Group for each of the years in the three-year period ended December 31, 2001, which have been extracted from the consolidated financial statements of DBSH Group for each of the years ended December 31, 2001, 2000 and 1999.

	As of and for Year Ended December 31		
In S$'million	**2001**	2000	1999
Selected Statement of Profit and Loss Data			
Interest income	**5,271.0**	4,896.9	4,607.9
Interest expense	**(3,014.2)**	(2,857.5)	(2,573.2)
Net interest income	**2,256.8**	2,039.4	2,034.7
Non-interest income [(1)]	**1,288.2**	891.6	994.2
Income before operating expenses	**3,545.0**	2,931.0	3,028.9
Operating expenses (excluding Goodwill amortisation)	**(1,741.4)**	(1,245.7)	(1,064.7)
Goodwill amortisation	**(131.4)**	–	–
Operating profit	**1,672.2**	1,685.3	1,964.2
Provisions [(2)]	**(378.9)**	(53.6)	(1,063.2)
Share of profits less losses of associated and joint venture companies	**70.1**	43.1	140.4
Net profit before taxation	**1,363.4**	1,674.8	1,041.4
Taxation	**(256.7)**	(308.7)	(345.2)
Share of taxation of associated and joint venture companies	**(16.1)**	(6.4)	(34.3)
Net profit after taxation	**1,090.6**	1,359.7	661.9
Minority interests			
– Equity	**(61.3)**	29.1	409.9
– Non-equity	**(30.2)**	–	–
Net profit attributable to members	**999.1**	1,388.8	1,071.8
Cash basis profit attributable to members	**1,130.5**	1,388.8	1,071.8

In S$'million	2001	2000	1999
	As of and for Year Ended December 31		
Selected Balance Sheet Data			
Assets			
Total assets [3]	**151,294.3**	111,208.1	106,464.9
Total loans	**109,330.6**	86,592.5	80,863.2
Customer loans and advances [4]	**68,208.0**	52,023.8	54,369.5
Interbank items [5]	**41,122.6**	34,568.7	26,493.7
Investment in quoted and unquoted securities and shares	**24,921.6**	14,403.0	14,592.5
Liabilities			
Total liabilities [3]	**137,765.1**	100,733.3	95,589.1
Total deposits	**115,217.0**	92,774.1	89,758.9
Customer deposits	**106,771.3**	80,720.5	82,268.3
Interbank liabilities [6]	**8,445.7**	12,053.6	7,490.6
Borrowings and debt securities	**10,489.9**	3,811.9	2,817.9
Capital and Reserves			
Total shareholders' funds	**13,529.1**	10,494.8	10,875.8
Financial Ratios			
Return on average assets [7]	**0.76%**	1.28%	1.04%
Return on average assets – cash basis [7]	**0.86%**	1.28%	1.04%
Return on average equity [8]	**8.90%**	12.89%	10.35%
Return on average equity - cash basis [8]	**10.07%**	12.89%	10.35%
Customer non-performing loans [9] as a % of Gross customer loans and advances	**5.7%**	7.6%	13.0%
Total non-performing loans [9] as a % of:			
Gross total loans	**4.0%**	4.8%	9.3%
Total assets	**3.0%**	4.0%	7.7%
Total cumulative loan loss provisions as a % of:			
Gross total loans	**2.4%**	2.5%	4.9%
Total assets	**1.8%**	2.1%	4.0%
Total non-performing loans [9]	**60.0%**	52.0%	52.6%
Net interest margin [10]	**1.87%**	2.02%	2.02%
Net interest spread [11]	**1.74%**	1.81%	1.84%

(1) 2001 included profits from sale of stakes in The Insurance Corporation of Singapore (S$120 million) and Keppel Capital Holdings (S$61 million). 2000 included gross dividend income from NatSteel Limited (S$49 million or S$38 million net of tax). 1999 included profits from sales of Singapore Petroleum Company shares (S$117 million) and DBS Tampines Centre (S$58 million).

(2) Provisions for possible loan losses and diminution in value of other assets.

(3) Total assets and Total liabilities exclude "Life fund assets attributable to policyholders" and "Life fund liabilities to policyholders" respectively.

(4) Loans and advances to, and bills receivable from, non-bank customers (including government and quasi-government entities), net of cumulative provisions.

(5) Balances, placements with, and loans and advances to banks, net of cumulative provisions.

(6) Deposits and balances of banks.

(7) Net profit attributable to members divided by two-point average assets.

(8) Net profit attributable to members divided by weighted average shareholders' funds, based on yearly and daily averages.

(9) Non-performing loans are loans whereby loan repayments have been overdue for more than 90 days, borrowers have weak financial status, or borrowers have requested for debt restructuring or rescheduling of loan repayments.

(10) Net interest income divided by monthly average interest bearing assets.

(11) The difference between the rate earned on average interest bearing assets and the rate paid on average interest bearing liabilities based on monthly averages.

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income increased by 10.7% to S$2,256.8 million for 2001 largely due to the acquisition of DHG. Excluding acquisitions of DHG and DBSV, net interest income was S$1,930.7 million, a decrease of 5.3% from 2000. Loan demand was weak and intense competition in the residential mortgage market reduced interest earned on mortgages.

Net interest income in 2000 increased marginally by 0.2% to S$2,039.4 million. Funding costs incurred for investment in Bank of the Philippine Islands ("BPI") also reduced the increase in net interest income.

Net interest margin. For 2001, net interest margin decreased to 1.87% as compared with 2.02% for 2000. A very liquid balance sheet, mortgage repricing and the carrying cost of funding acquisitions all led to lower net interest margin.

Compared with 1999, net interest margin for 2000 was maintained at 2.02%.

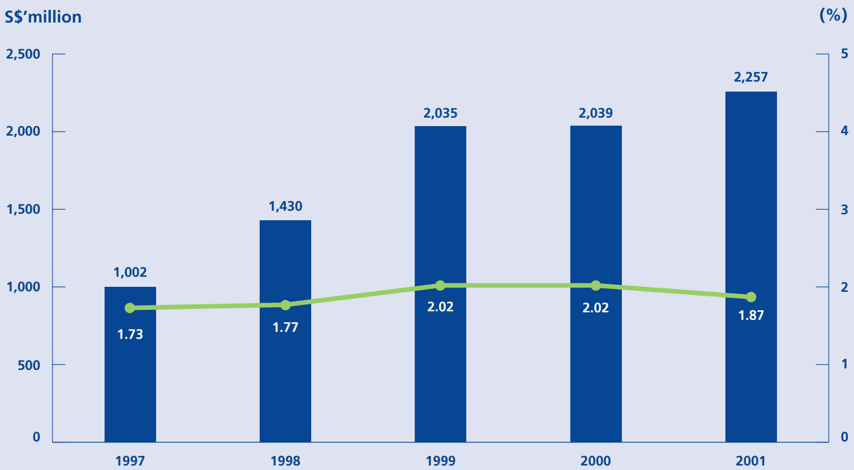
Interest income. In 2001, DBSH Group's total interest income increased 7.6% to S$5,271.0 million. Interest income from customer loans and advances increased 5.4% due to higher loan volume, partially offset by lower average yields on customer loans. The increase in lending volume was driven by the newly acquired DHG. Interest income from securities increased 74.6% due to higher average volume and yields. These increases were partially offset by a 6.1% decline in interest income from interbank items, due to lower average interbank yields, offset partially by higher average volume. In 2001, the average yield on interest earning assets was 4.37% compared with 4.85% in 2000.

In 2000, DBSH Group's total interest income increased 6.3% to S$4,896.9 million. Interest income from customer loans and advances decreased 0.9% due to lower loan volumes and lower average yields on housing loans resulting from increased competition, particularly in the fourth quarter. The decline in interest income from loans and advances was offset by higher loan yields on DBSH Group's overall portfolio and a 28.0% increase in interest income from lower yielding interbank items due to increased rates and volume. In 2000, the average yield on interest earning assets was 4.85% compared with 4.57% in 1999.

Interest expense. Total interest expense in 2001 increased 5.5% to S$3,014.2 million. The increase was primarily due to higher volume of customer deposits and other borrowings, partially offset by decreases in average costs of customer deposits and interbank liabilities. The increase in average balances of customer deposits was largely due to the acquisition of DHG. Average balances for other borrowings increased due to issuance of subordinated debts and preference shares in 2001 as part of the capital raising efforts to support acquisitions. In March 2001, DBS Bank through DBS Capital Funding Corporation (100% owned), issued US$725 million and S$100 million subordinated term debts. This was followed by the issuance of US$850 million subordinated term debt by DBS Bank. The increase in average volume also reflected a full year's inclusion of DBS Bank's US$500 million subordinated term debt issued in April 2000. Lower average costs of customer deposits was the result of repricing of customer deposits in the last quarter of 2001. In 2001, the average interest cost on interest bearing liabilities was 2.63% compared with 3.04% in 2000.

Total interest expense in 2000 increased 11.1% to S$2,857.5 million. The increase was primarily due to higher interest costs on customer deposits and other borrowings, partially offset by a decrease in interbank liabilities as DBSH Group's funding requirements declined during the year. The increase in average balances of other borrowings reflected a full year's inclusion of DBS Bank's US$750 million subordinated term debt issued in August 1999 and its issue in April 2000 of US$500 million subordinated term debt. In 2000, the average interest cost on interest bearing liabilities was 3.04% compared with 2.73% in 1999.

Group Net Interest Income and Net Interest Margin



Average Balance Sheets and Interest Rates
The following tables show monthly average balances, net interest income and average interest rates for the periods indicated.

In S$'million	2001 Average balance	2001 Interest	2001 Average rate (%)	2000 Average balance	2000 Interest	2000 Average rate (%)	1999 Average balance	1999 Interest	1999 Average rate (%)
Interest bearing assets									
Customer loans and advances	**60,190**	**3,266**	**5.43**	52,370	3,100	5.92	55,949	3,127	5.59
Interbank items	**44,284**	**1,317**	**2.97**	37,379	1,403	3.75	35,116	1,096	3.12
Securities [1]	**16,182**	**688**	**4.25**	11,271	394	3.49	9,762	385	3.94
Total interest bearing assets	**120,656**	**5,271**	**4.37**	101,020	4,897	4.85	100,827	4,608	4.57
Non-interest bearing assets									
Equity investments	**4,287**	**–**	**–**	2,303	–	–	2,127	–	–
Fixed assets	**2,161**	**–**	**–**	1,809	–	–	1,790	–	–
Other assets [2]	**5,375**	**–**	**–**	2,620	–	–	1,875	–	–
Total non-interest bearing assets	**11,823**	**–**	**–**	6,732	–	–	5,792	–	–
Total assets	**132,479**	**–**	**–**	107,752	–	–	106,619	–	–
Interest bearing liabilities									
Customer deposits	**96,113**	**2,197**	**2.29**	79,999	2,190	2.74	79,358	1,922	2.42
Interbank liabilities	**10,526**	**312**	**2.96**	10,067	433	4.30	12,340	549	4.45
Other borrowings [3]	**7,883**	**505**	**6.40**	3,972	235	5.91	2,505	102	4.10
Total interest bearing liabilities	**114,522**	**3,014**	**2.63**	94,038	2,858	3.04	94,203	2,573	2.73
Non-interest bearing liabilities									
Other liabilities [4]	**6,447**	**–**	**–**	2,842	–	–	2,315	–	–
Total non-interest bearing liabilities	**6,447**	**–**	**–**	2,842	–	–	2,315	–	–
Total liabilities	**120,969**			96,880			96,518	–	–
Net interest income		**2,257**			2,039			2,035	
Net interest income as a % of average interest-bearing assets			**1.87**			2.02			2.02

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

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

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

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

Volume and Rate Analysis

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rate for 2001 compared with 2000, and 2000 compared with 1999. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on monthly average interest bearing assets and liabilities. Variances caused by changes in both volume and rate have been allocated to both volume and rate based on the proportional change in either volume or rate.

In S$'million	**Increase/(Decrease) for 2001/2000** Volume	Rate	Net Change	Increase/(Decrease) for 2000/1999 Volume	Rate	Net Change
Interest income						
Customer loans and advances	**463**	**(297)**	**166**	(200)	173	(27)
Interbank items	**259**	**(345)**	**(86)**	71	236	307
Securities	**172**	**122**	**294**	60	(51)	9
Total interest income	**894**	**(520)**	**374**	(69)	358	289
Interest expense						
Customer deposits	**441**	**(434)**	**7**	16	252	268
Interbank liabilities	**20**	**(141)**	**(121)**	(101)	(15)	(116)
Other borrowings	**231**	**39**	**270**	60	73	133
Total interest expense	**692**	**(536)**	**156**	(25)	310	285

Non-Interest Income

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

In S$'million	Year Ended December 31 **2001**	2000	1999
Non-interest income:			
Fee and commission income	**639.2**	508.5	423.1
Trade finance fees	**109.6**	75.1	63.0
Deposit-related	**93.5**	60.3	32.5
Credit card	**82.3**	33.3	25.0
Loan-related	**80.8**	50.8	38.2
Investment banking	**78.3**	97.9	84.7
Stockbroking	**72.7**	77.3	102.5
Fund management	**71.8**	61.8	20.0
Guarantees	**29.1**	25.9	27.9
Others	**21.1**	26.1	29.3
Dividends	**26.9**	82.9	31.3
Rental income	**36.2**	32.1	30.7
Other income	**585.9**	268.1	509.2
Net gains on			
– foreign exchange	**229.8**	119.0	90.1
– securities and derivatives	**94.1**	23.0	5.5
– Singapore government securities	**79.9**	32.9	54.4
Net (losses)/gains on trading equities	**(1.2)**	(0.6)	125.6
Net gains on disposal of investment securities:			
– Sale of ICS shares	**120.1**	–	–
– Sale of SPC [(1)] shares	**–**	–	117.1
– Others	**10.4**	40.8	26.4
Net gains arising from divestment of DBS Tampines Centre	**–**	–	57.5
Net gains on disposal of fixed assets	**21.6**	9.2	1.1
Others	**31.3**	43.7	31.5
Total non-interest income	**1,288.2**	891.6	994.2

(1) SPC: Singapore Petroleum Company

In 2001, non-interest income increased 44.5% to S$1,288.2 million. Fee and commission income increased 25.7% to S$639.2 million, largely the result of the acquisitions of DHG and DBSV. DHG accounted for S$107.7 million of the S$130.7 million increase, mainly from trade finance and credit card fees. Excluding contribution from DBSV, stockbroking income would have shown a decline to 54.1%. The lower investment banking and stockbroking fees reflect the weak stock market and capital market condition prevailing for most of 2001. Fee and commission income contributed to 18.0% of operating income, up from 17.3% in 2000. Dividend income decreased 67.5% to S$27.0 million. In 2000, a special dividend of S$49.6 million was received from NatSteel Limited. Other income increased substantially by 118.5% to S$585.9 million, due to higher net gains on foreign exchange (S$110.8 million), securities and derivatives activities (S$71.1 million) and profits from sales of shares in ICS (S$120.1 million) and Keppel Capital Holdings (S$60.6 million). These increases were partially offset by losses from other trading equity investments (S$59.4 million).

In 2000, non-interest income was S$891.6 million. Fee and commission income increased 20.2%. Dividend income increased 164.8% to S$82.9 million, contributed by receipt of special dividends of S$49.6 million from NatSteel Limited in 2000. Other income declined 47.3% to S$268.1 million, due to the inclusion of profits received from sale of Singapore Petroleum Company shares and DBS Tampines Centre in 1999. Contribution from equity securities trading was modest compared to profits (S$125.6 million) in 1999.

Non-interest income was 36.3%, 30.4%, and 32.8% of operating income in 2001, 2000, and 1999 respectively.

Operating Expenses

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

	Year Ended December 31		
In S$'million	**2001**	2000	1999
DBSH Group (Excluding DHG and DBSV):			
Staff costs	**734.0**	613.2	529.3
Occupancy expenses	**171.5**	147.4	138.6
Technology-related expenses	**180.0**	132.4	108.6
Office administration expenses	**64.3**	53.4	53.3
Revenue-related expenses	**57.8**	68.0	66.7
Professional and consultancy fees	**48.5**	72.5	62.8
Others	**189.0**	158.8	79.2
Total (excluding DHG and DBSV)	**1,445.1**	1,245.7	1,038.5
DHG	**218.4**	–	–
DBSV	**37.6**	–	–
Restructuring & integration costs	**40.4**	–	26.2[(1)]
Goodwill amortisation	**131.4**	–	–
Total operating expenses	**1,872.9**	1,245.7	1,064.7
Cost/income ratio (excluding goodwill amortisation) [(2)]	**49.1%**	42.5%	35.2%

(1) The restructuring costs for 1999 were related to the integration of the DBS Thai Danu Bank.

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

In 2001, operating expenses, excluding goodwill amortisation, increased 39.8% to S$1,741.5 million. The increase was mainly due to higher staff costs of S$120.8 million and the consolidation of DHG (S$218.4 million) and DBSV (S$37.6 million). Technology-related expenses increased by S$47.6 million accounted for by the various business initiatives undertaken by the Group. Restructuring & integration costs of S$40.4 million were incurred for integrating the operations and processes of DHG (S$18.7 million), DBS Kwong On Bank (S$4.9 million) and DBSV (S$16.8 million).

Excluding DHG's and DBSV's operating expenses, restructuring & integration costs and goodwill amortisation, operating expenses showed a smaller increase of 16.0%.

The Group's cost-to-income ratio (excluding goodwill amortisation) was 49.1%, higher than 42.5% in 2000, partially accounted for by the cost structures of new acquisitions.

In 2000, operating expenses increased 17.0%. The increase was mainly due to higher staff costs, expenses incurred for various Group initiatives and the effect of inclusion of DBS Kwong On Bank's operating expenses for a full year in 2000.

Provisions Charged

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

In S$'million	2001	2000	1999
Loans	**331.6**	26.8	1,077.8
Equities	**22.3**	26.4	5.2
Properties	**88.6**	57.9	28.6
Other Provisions	**3.1**	–	–
Specific Provisions	**445.5**	111.1	1,111.6
General Provisions	**(66.6)**	(57.4)	(48.4)
Total	**378.9**	53.6	1,063.2

In 2001, provisions increased to S$378.9 million. The increase was mainly due to higher specific provision for loans (S$331.6 million) and properties held by the Group (S$88.6 million), driven largely by uncertain economic conditions. In addition, general provision was released against exposure in Indonesia, Philippines and Thailand resulting from continuing progress in loan workouts.

In 2000, DBSH Group provisions declined substantially by 95.0% to S$53.6 million, due mainly to lower total provisions for DTDB (including the Minority Interests' share, the decrease in provisions was S$739.3 million). For loans to Singapore borrowers, there was a write-back of S$49.8 million in 2000.

Provisioning policy
It is DBSH Group's policy to establish, through charges against profit, a provision in respect of the estimated loss inherent in the lending book. The provision consists of an element which is specific to individual counterparties and also a general element which, whilst determined as reflecting losses already within the lending book, cannot be specifically applied. In addition to general and specific provisions, DBSH Group also holds a country risk provision. The overall provision should represent the aggregate amount by which management considers it necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated ultimate net realisable value.

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

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

Country Risk Provisions: In assessing country risk, DBSH Group considers whether the political stability of a country or the management of its economy is such that the conditions of companies in the private sector might deteriorate, despite their apparent strength. In addition, circumstances may exist where certain governments might prevent companies in their country from honoring their obligations. In consultation with the MAS, DBSH Group currently holds country provisions against Indonesia, Malaysia, Thailand, Korea and The Philippines.

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

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

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

MAS' guidelines require banks to categorize their loan portfolios into five categories – two categories for performing loans (Pass and Special Mention) and three categories for classified, or non-performing, loans (Substandard, Doubtful and Loss).

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

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

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

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

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

Taxation

DBSH Group's taxation expense was S$272.8 million in 2001 compared with S$315.1 million in 2000 and S$379.5 million in 1999. This resulted in effective tax rates of 20.0%,18.8% and 36.4% for 2001, 2000 and 1999 respectively. Taxation for DBSH Group is determined on an entity by entity basis. The statutory corporate income tax rate in Singapore was 24.5% in 2001, 25.5% in 2000 and 26% in 1999. The effective tax rates for 2001 and 2002 were lower than that derived by applying the statutory income tax rate in Singapore to the profit before taxation due to profits arising from DBS Bank's Asian Currency Unit offshore transactions which are subject to tax at a concessionary rate of 10%. The higher effective tax rate in 1999 over the statutory corporate income tax rate in Singapore was mainly due to additional provisions for DBS Thai Danu Bank Limited ("DTDB").

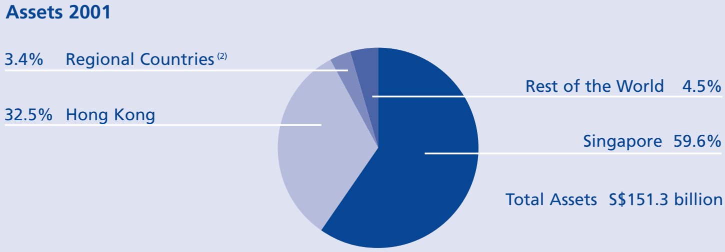
Minority Interests

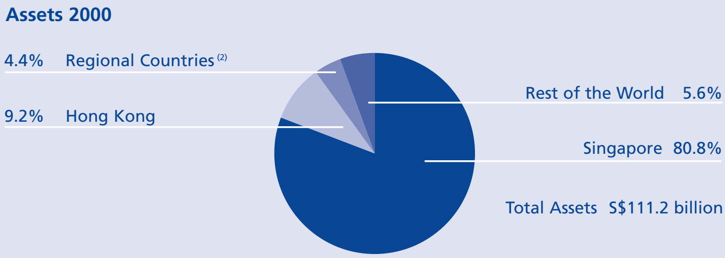
Equity minority interest represents the earnings attributable to third parties' interest in the equity shares of the Group's subsidiaries. Profit attributable to non-equity minority interest included dividend paid/payable to investors of the non-cumulative, redeemable preference shares of S$1,100 million issued by DBS Bank in May 2001. The positive minority interest effect of S$409.9 million in 1999 reflected the share attributable to minority shareholders of losses incurred by DTDB (including the additional provisions taken up at DBSH Group level).

Financial Condition

Total Assets [1]

As of December 31, 2001, the consolidation of DHG contributed to the increase in DBSH Group's total assets. Total assets were up 36.0% to S$151,294.3 million, with Singapore and Hong Kong accounting for 59.6% and 32.5% respectively of the total assets. As of December 31, 2000, DBSH Group had total assets of S$111,208.1 million, with 80.8% concentrated in Singapore. The increase in total assets in 2000 reflected increases in balances, placements with, and loans and advances with banks.





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

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

Customer loans and advances

As of December 31, 2001, DBSH Group's customer loans and advances, net of cumulative provisions, were S$68,208.0 million, a 31.1% increase over customer loans and advances as of December 31, 2000, which was a 4.3% decrease over customer loans and advances as of December 31, 1999. The expansion in loan book in 2001 was due to the newly acquired DHG. In 2000, the decline in customer loans were mainly attributable to weak loan demand, the adoption of more stringent credit underwriting standards that link risk versus return, and the Group's strategy of shedding lower yielding assets from its balance sheet.

As of December 31, 2001, loans booked in Singapore accounted for 54.7% of DBSH Group's customer loans and advances, while loans booked in Hong Kong accounted for 35.5%, and the remaining 9.8% in other overseas branches and subsidiaries.

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

As of December 31

In S$' million	2001		2000		1999	
	S$	%	S$	%	S$	%
Singapore	**38,635**	**54.7**	40,895	75.5	43,676	74.7
Hong Kong	**25,112**	**35.5**	6,184	11.4	5,474	9.4
Regional Countries	**4,139**	**5.9**	3,834	7.1	5,691	9.7
Rest of the World	**2,763**	**3.9**	3,253	6.0	3,597	6.2
Total gross customer loans	**70,649**	**100.0**	54,166	100.0	58,438	100.0

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

DBSH Group monitors its portfolio for risk concentrations, and limits are established where appropriate. Excluding housing loans, loans to the Building and Construction industry represent the single largest credit concentration to corporate customers. Building and Construction exposure represents loans to enterprises engaged in the development and/or investment holding of commercial, industrial, or residential real estate. Exposure to this sector is governed by forward-looking strategic limits set and reviewed by senior management on a regular basis.

The following table sets forth DBSH Group's gross customer loan portfolio by industrial classification as of the periods indicated:

As of December 31

In S$' million	**2001**		2000		1999	
	S$	**%**	S$	%	S$	%
Manufacturing	**6,383**	**9.0**	5,797	10.7	5,881	10.1
Building and Construction	**10,227**	**14.5**	8,726	16.1	9,607	16.4
Housing Loans	**24,407**	**34.5**	16,304	30.1	16,589	28.4
General Commerce	**5,253**	**7.4**	3,701	6.8	4,123	7.1
Transportation, Storage and Communication	**6,103**	**8.6**	3,487	6.4	3,471	5.9
Financial Institutions, Investment and Holding Companies	**4,096**	**5.8**	4,143	7.7	5,042	8.6
Professionals and Private Individuals (except Housing Loans)	**8,373**	**11.9**	6,317	11.7	5,749	9.8
Others	**5,807**	**8.3**	5,691	10.5	7,976	13.7
Total gross customer loans	**70,649**	**100.0**	54,166	100.0	58,438	100.0

Credit facilities to Related Parties

The Group has granted credit facilities to the following related parties in the ordinary course of business on normal terms and conditions. The outstanding amounts of these credit facilities and the estimated values of collateral as of December 31, 2001 are as follows:

In S$' million	Credit facilities granted to	Contingent credit facilities granted to	Estimated values of collaterals	Deposits received by DBSH Group
Granted to/received from:				
DBSH Directors and their related entities (1)	2	–	14	–
Companies which have DBSH Directors represented on their boards (1)	1,132	43	400	–
Holding company	–	–	–	380
Subsidiary (2), fellow and joint venture companies	447	11	1,768	392
Associated companies	48	11	6	53

(1) Granted by DBS Bank.

(2) Excludes transactions between subsidiaries and their own subsidiaries.

Related Party Transactions

The DBSH Group's policy on transactions with related parties is driven by compliance with statutory and regulatory requirements, namely:

(a) (in the case of DBS Bank) Section 29 of the Banking Act, Chapter 19;

(b) (in the case of DBS Group Holdings Ltd) MAS Directive to Holdings Companies No. 8 and Chapter 9A of the SGX Listing Manual.

Section 29(1)(d) and (e) of the Banking Act/MAS Directive to Holding Companies No. 8

Under Section 29(1)(d) of the Banking Act, a bank cannot grant unsecured credit facilities, directly or indirectly, which in the aggregate and outstanding at any one time exceed the sum of S$5,000 to:

- the bank's directors;
- any firm in which the Bank or any of its directors has an interest as a partner, manager or agent, or to any individual or firm of whom or of which any of its directors is a guarantor

- a company in which any of its directors, whether legally or beneficially, owns more than 50% of the issued capital or in which any of its directors controls the composition of the board of directors, but excluding public companies the securities of which are listed on SGX or other stock exchange approved by MAS and the subsidiaries of such public companies
- any corporation, other than a bank, that is deemed to be related to the bank as described in Section 6 of the Companies Act

In addition, under Section 29(1)(e) of the Banking Act, a bank shall not grant to any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the bank (other than any persons receiving remuneration from a bank in respect of their professional services) unsecured credit facilities which in the aggregate and outstanding at any one time exceed one year's emoluments of that officer or employee or person.

To ensure compliance with Section 29(1)(d) and (e), DBS Bank has taken the following steps:

- Compliance with Section 29(1)(d) and (e) is an integral part of the credit approval process.
- Before directors are appointed, they are notified of the requirements of Section 29(1)(d) and their existing facilities, if any, are adjusted to comply
- The Bank sends all directors an annual reminder to update their particulars and the entities in which directors have an interest as defined in Section 29(1)(d)

Directive 8(2)(1) restricts lending and guarantees by a financial holding company such as DBSH. Under Directive 8(2)(1), a financial holding company may not, inter alia, grant any credit facility to any person other than a subsidiary or any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the financial holding company (other than in respect of professional services rendered). In particular, under Directive 8(2)(2), a financial holding company shall not grant, directly or indirectly, unsecured advances or loans under Directive 8(2)(a) to:

- any subsidiary which in the aggregate and outstanding at any one time exceed the sum of S$5,000 except to any subsidiary which is a bank licensed under the Banking Act, a finance company licensed under the Banking Act, a finance company licensed under the Finance Companies Act or, with MAS' prior approval, a foreign banking subsidiary
- any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the financial holding company (other than in respect of professional services rendered) which in the aggregate and outstanding at any one time exceed one year's emoluments of that person.

Compliance with MAS Directive No. 8 is an integral part of the credit approval process for all financial accommodation made by DBSH.

Chapter 9A of the SGX Listing Manual
Being listed on the Singapore Exchange (SGX), DBS Group Holdings Ltd (DBSH) is required to comply with Chapter 9A of the SGX Listing Manual.

Under Chapter 9A, all transactions between a "party at risk" and an "interested person" are prima facie interested person transactions, which may either require announcement to SGX and/or approval from shareholders, depending on certain materiality thresholds and subject to certain exemptions.

An "interested person" is defined as:

- A director, chief executive officer or substantial shareholder of the listed issuer
- The immediate family of a director, CEO or substantial shareholder
- The trustee of any trust of which a director, the CEO or a substantial shareholder is a beneficiary
- Any company in which the director, CEO or substantial shareholder in which such person and his immediate family together (directly or indirectly) have an interest of 25% or more
- In relation to a corporate substantial shareholder, means any other company which is its subsidiary or holding company or is a fellow subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 25% or more

Party "at risk" is defined as:

- DBSH
- DBSH's subsidiaries not listed on a foreign stock exchange (this includes DBS Bank)
- DBSH's associated company where DBSH Group, or DBSH Group and its interested person, is the largest shareholder and which is not listed on a foreign stock exchange

To ensure compliance with Chapter 9A, DBSH Group has taken the following steps:

- Compliance with Chapter 9A is an integral part of the credit approval process
- Business units have been notified of the provisions of Chapter 9A and are aware of their obligations. A list of interested persons is available in the Intranet for access by designated staff. Business units will also be reminded of their Chapter 9A obligations annually.
- New subsidiaries on incorporation or acquisition are informed of their obligations under Chapter 9A
- DBSH writes to its directors once a year for an update on their personal particulars for Chapter 9A monitoring

Regional exposure

DBSH Group has exposure to certain countries in the Asia Pacific region. Exposures as of December 31, 2001, 2000 and 1999 to Malaysia, Indonesia, Thailand, Korea and The Philippines (the "Regional Countries") and Hong Kong and China have been included.

The exposures are determined based on the location of the credit risk of the customers and counterparties regardless of where the transactions are booked.

As of December 31, 2001, DBSH Group had assets in the Regional Countries, amounting to S$7,790.0 million or 5.1% of DBSH Group's total assets (2000: S$7,126.0 million or 6.4% of DBSH Group's total assets; 1999: S$9,114.0 million or 8.6% of DBSH Group's total assets). DBSH Group's exposures to Hong Kong and China were S$32,721.0 million or 21.6% of DBSH Group's total assets (2000: S$8,003.0 million or 7.2% of DBSH Group's total assets; 1999: S$7,453 million or 7.0% of DBSH Group's total assets).

The following tables set forth information with respect to DBSH Group's regional exposure as of the periods indicated:

Regional Countries as of December 31, 2001

In S$'million	Loans and debt securities						Net Exposure	
Assets in	**Bank**	**Central Banks & Govt. Securities**	**Non-Bank** [1]	**Investments**	**Total**	**Less: Loans to/ Investments in Financial Subsidiaries/ Overseas Branches**	**Amount**	**As a % of Total Assets**
	(a)	(b)	(c)	(d)	(e)= (a+b+c+d)	(f)	(g)=(e-f)	(h)
Malaysia	730	-	727	95	1,552	698	854	0.6%
Indonesia	161	31	291	38	521	76	445	0.3%
Thailand (excluding DTDB)	64	9	271	78	422	120	302	0.2%
Korea	1,002	194	464	7	1,667	116	1,551	1.1%
The Philippines	74	99	124	720	1,017	6	1,011	0.7%
SUB-TOTAL	2,031	333	1,877	938	5,179	1,016	4,163	2.8%
DTDB	61	286	3,186	95	3,628	1	3,627	2.4%
Total Regional Countries	**2,092**	**619**	**5,063**	**1,033**	**8,807**	**1,017**	**7,790**	**5.1%**
Hong Kong [2]	1,737	4,374	25,491	10,808	42,410	10,808	31,602	20.9%
China	746	28	930	2	1,706	587	1,119	0.7%
Total	**4,575**	**5,021**	**31,484**	**11,843**	**52,923**	**12,412**	**40,511**	**26.8%**

(1) Non-bank loans include loans to government and quasi-government entities.

(2) Includes DHG, DBS Group Holdings (Hong Kong) Ltd and Hong Kong Branch operations.

Regional Countries as of December 31, 2000

In S$'million Assets in	Loans and debt securities Bank	 Central Banks & Govt. Securities	 Non-Bank [1]	Investments	Total	Less: Loans to/ Investments in Financial Subsidiaries/ Overseas Branches	Net Exposure Amount	 As a % of Total Assets
	(a)	(b)	(c)	(d)	(e)=(a+b+c+d)	(f)	(g)=(e-f)	(h)
Malaysia	664	34	645	48	1,391	576	815	0.8%
Indonesia	205	47	301	37	590	103	487	0.5%
Thailand (excluding DTDB)	53	9	302	17	381	25	356	0.3%
Korea	609	224	385	13	1,231	187	1,044	1.0%
The Philippines	271	137	511	694	1,613	258	1,354	1.3%
SUB-TOTAL	1,802	451	2,144	809	5,206	1,149	4,056	3.8%
DTDB	58	231	2,748	42	3,079	9	3,070	2.8%
Total Regional Countries	**1,860**	**682**	**4,892**	**851**	**8,284**	**1,158**	**7,126**	**6.4%**
Hong Kong [2]	783	202	6,226	1,015	8,226	1,320	6,906	6.2%
China	743	27	960	9	1,738	641	1,097	1.0%
Total	**3,386**	**911**	**12,078**	**1,874**	**18,249**	**3,120**	**15,129**	**13.6%**

(1) Non-bank loans include loans to government and quasi-government entities.

(2) Includes DBS Group Holdings (Hong Kong) Ltd and Hong Kong Branch operations.

Regional Countries as of December 31, 1999

In S$'million Assets in	Loans and debt securities Bank	 Central Banks & Govt. Securities	 Non-Bank [1]	Investments	Total	Less: Loans to/ Investments in Financial Subsidiaries/ Overseas Branches	Net Exposure Amount	 As a % of Total Assets
	(a)	(b)	(c)	(d)	(e)=(a+b+c+d)	(f)	(g)=(e-f)	(h)
Malaysia	654	50	662	43	1,410	630	780	0.8%
Indonesia	347	122	578	12	1,059	167	892	0.9%
Thailand (excluding DTDB)	245	8	475	25	754	162	592	0.6%
Korea	410	126	438	9	983	230	753	0.7%
The Philippines	582	69	383	710	1,743	541	1,203	1.2%
SUB-TOTAL	2,238	375	2,536	799	5,948	1,729	4,219	4.1%
DTDB	82	301	4,463	59	4,906	12	4,895	4.6%
Total Regional Countries	**2,320**	**676**	**7,000**	**859**	**10,855**	**1,741**	**9,114**	**8.6%**
Hong Kong [2]	1,227	292	5,485	913	7,916	1,572	6,345	6.0%
China	713	8	1,008	2	1,732	624	1,108	1.0%
Total	**4,260**	**976**	**13,493**	**1,773**	**20,503**	**3,936**	**16,566**	**15.6%**

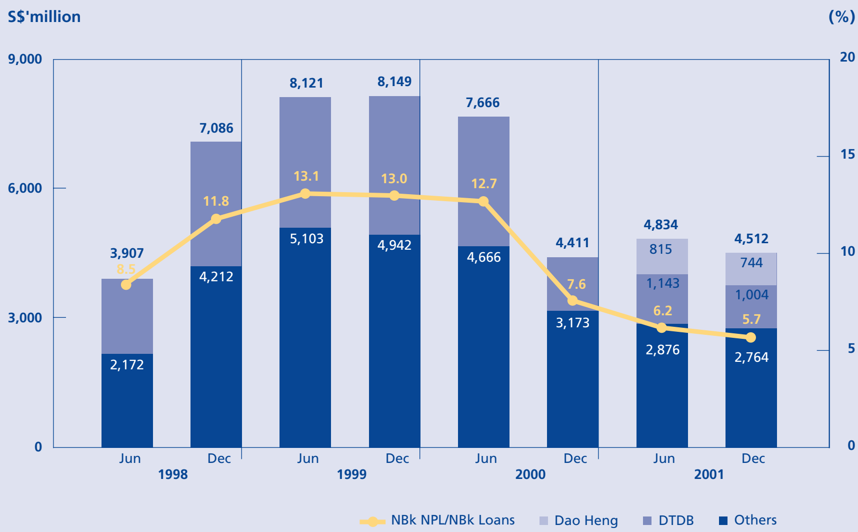
(1) Non-bank loans include loans to government and quasi-government entities.

(2) Includes DBS Group Holdings (Hong Kong) Ltd and Hong Kong Branch operations.

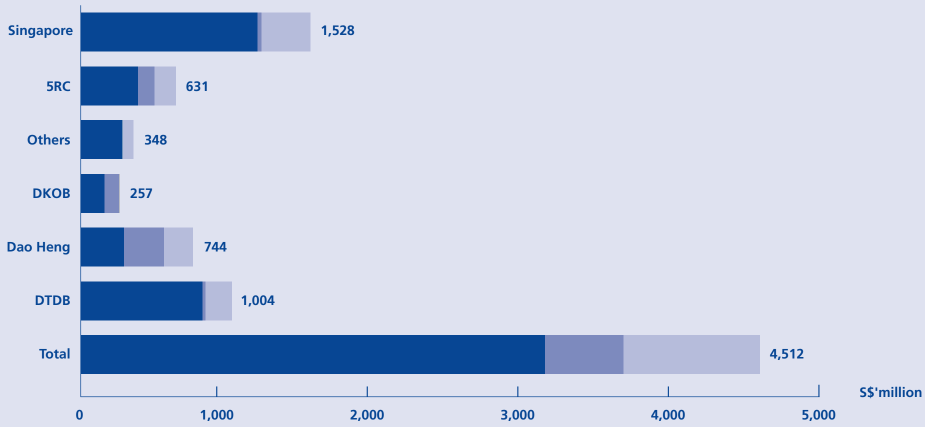
Asset quality
DBSH Group's total non-performing loans (NPLs) increased 2.3% to S$4,512.2 million as of December 31, 2001. DHG contributed S$744.0 million to the increase. DBSH Group's NPLs were S$4,410.5 million and S$8,149.0 million as of December 31, 2000 and 1999 respectively. The decline in NPLs in 2000 was mainly contributed by decrease in DTDB's NPLs (S$1,968.3 million – largely due to sale of S$1,223.1 million non-performing loans). In addition, NPLs for Singapore, Indonesia and Hong Kong also registered decreases. As of December 31, 2001, non-bank NPLs as a percentage of total non-bank loans stood at 5.7%, compared with 7.6% and 13.0% as of December 31, 2000 and December 31, 1999 respectively. This improvement reflects DBSH's continuous effort in managing its NPLs through combination of NPL resolution, recoveries, sales and write-offs.

Although the Group NPLs to total non-bank loans fell by 1.9%, the percentage of NPLs classified in the loss category increased to 21% compared with 12% as of December 31, 2000. This was mainly due to a weaker property market which affected the value of customer loan collateral value, as well as the deterioration in the credit quality of some loans given the general slowdown in the Singapore economy. Of the total S$4,512.2 million in NPLs as of December 31, 2001, 68% were in the substandard category, 11% in the doubtful and 21% in the loss category. Approximately 9% of the NPLs that had been classified as substandard were "performing" NPLs. These loans were classified due to weak financials although debt servicing was still current. NPLs to the Regional Countries (including those at DTDB) were S$1,635.0 million as of December 31, 2001, S$1,905.0 million as of December 31, 2000 and S$4,571.2 million as of December 31, 1999. Based on U.S. Securities and Exchange Commission (SEC) requirements, DBSH Group's NPLs as of December 31, 2001, 2000, and 1999 would have been S$3,724.0 million, S$3,723.6 million and S$6,801.4 million respectively.

Group Non-Performing Loans



Group Non-Performing Loans – by Loan Grading



Regional non-performing loan data

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

Regional Non-performing Loan and the Specific Provisions associated data

As of December 31

	2001		2000		1999	
In S$'million	**NPLs**	**Specific Provisions**	NPLs	Specific Provisions	NPLs	Specific Provisions
Malaysia	**409**	**138**	304	71	412	94
Indonesia	**105**	**34**	176	40	566	279
Thailand (excluding DTDB)	**59**	**48**	49	24	234	125
Korea	**28**	**7**	51	17	76	39
The Philippines	**30**	**17**	87	39	77	42
	631	**244**	667	191	1,365	579
DTDB	**1,004**	**545**	1,238	545	3,207	1,785
Total Regional Countries	**1,635**	**789**	1,905	736	4,571	2,364
Hong Kong	**1,085**	**304**	541	110	852	197
China	**118**	**49**	153	50	124	48
Total	**2,838**	**1,142**	2,599	896	5,547	2,609

Provisions associated with non-performing loan data

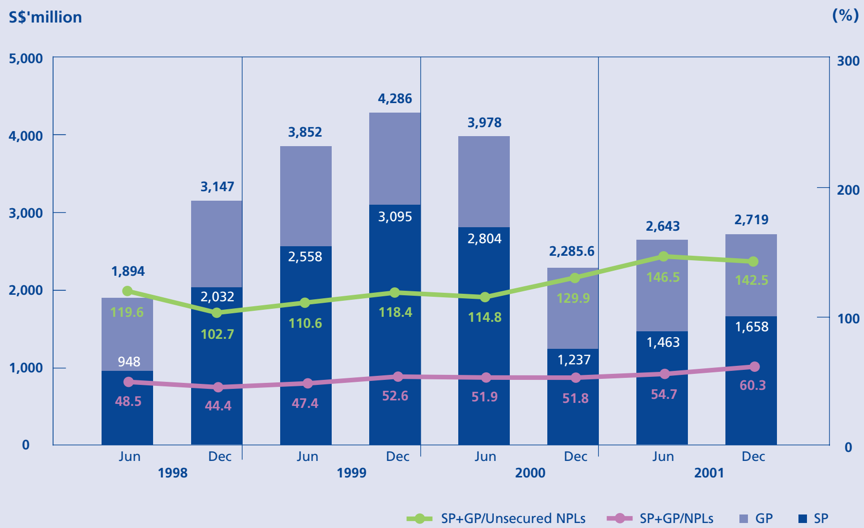
The following table sets forth information with respect to the breakdown of DBSH Group's non-performing loans and the associated specific provisions as of the periods indicated:

	As of December 31					
	2001		2000		1999	
In S$'million	**Amounts**	**Specific Provisions**	Amounts	Specific Provisions	Amounts	Specific Provisions
Non-performing Loans						
Sub-standard	**3,085**	**806**	3,508	530	4,952	404
Doubtful	**521**	**214**	357	222	621	316
Loss	**906**	**639**	546	485	2,576	2,375
Total	**4,512**	**1,659**	4,411	1,237	8,149	3,095

Total cumulative specific and general provisions as of December 31, 2001 amounted to 143% of unsecured NPLs, and 60% of total NPLS (or 64% of total NPLs of S$4,241 million under the US SEC guidelines). Compared to December 31, 2000, total provisions had increased by 19%. The provision coverage as of December 31, 2000 was 130% of unsecured NPLs and 52% of total NPLs.

Based on MAS guidelines, Group loan loss reserve coverage for DBS Thai Danu (DTDB)'s NPLs was 72%. Included in the loan loss reserve is an amount of S$145 million set aside for possible valuation losses from foreclosure of properties taken in satisfaction of certain loan arrangement of DTDB. As of December, 2001, the foreclosed properties of DTDB amounted to S$324 million.

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



Restructured non-performing loan data

The following table sets forth information with respect to the breakdown of DBSH Group's restructured non-performing loans as of the periods indicated:

	As of December 31		
In S$'million	**2001**	2000	1999
Non-Restructured	**2,842**	2,699	7,810
Restructured	**1,670**	1,712	969
Sub-standard	**1,527**	1,474	920
Doubtful	**80**	55	4
Loss	**63**	183	45
Total	**4,512**	4,411	8,149

Secured non-performing loan data and associated collaterals

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

	As of December 31		
In S$'million	**2001**	2000	1999
Unsecured NPLs	**1,908**	1,760	3,619
Collateral type of secured NPLs	**2,604**	2,651	4,530
Properties	**2,139**	2,075	3,669
Shares and debentures	**150**	203	264
Vessels and aircraft	**30**	101	117
Fixed deposits	**39**	49	66
Others	**246**	223	414
Total	**4,512**	4,411	8,419

Funding Sources

Historically, DBSH Group has raised a substantial portion of its funding requirements from deposit-taking activities. In 2001, approximately 70.6% of its funding requirements were met by deposits.

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

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

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

Funding Sources

	As of December 31		
In S$'million	**2001**	2000 (1)	1999
Shareholders' funds	**13,529**	10,495	10,876
Customer deposits	**106,771**	80,720	82,268
Interbank liabilities	**8,446**	12,054	7,491
Other borrowings and other liabilities	**22,548**	7,959	5,830
Total	**151,294**	111,228	106,465

(1) Total funding excludes "Life fund liabilities to policyholders".

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

			As of December 31
In S$'million	**2001**	2000	1999
Tier I Capital			
Paid ordinary/preference shares	**1,538**	1,307	1,325
Disclosed reserves/others	**8,936**	8,892	9,138
	10,474	10,199	10,463
Tier II Capital			
Asset revaluation reserves (1)	**172**	395	390
Cumulative general provisions	**728**	678	754
Subordinated debt	**3,843**	2,138	1,235
Deductions against capital (2)	**248**	–	–
	4,497	3,211	2,379
Total Capital	**14,971**	13,411	12,842
Risk weighted assets including market risks	**85,892**	70,963	66,790
Capital Adequacy Ratio (%)			
Tier I ratio	**12.2**	14.4	15.7
Tier II ratio	**5.2**	4.5	3.5
Total (Tier I & II) ratio	**17.4**	18.9	19.2

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

(2) Includes capital deductions for certain investments.

Total CAR of DBSH Group, measured according to the Bank of International Settlements (BIS) guidelines was 17.4%, which is more than twice the minimum BIS requirement of 8.0%. The Tier I CAR ratio was 12.2% after deducting goodwill of S$5.2 billion in connection with the acquisitions of DHG and DBSV. However, the minority interest in DHG and DBSV were excluded from the capital adequacy computations.

Subordinated term debts and preference shares were issued in 2001 as part of the capital raising efforts to support the acquisitions strategy of the Group. In March 2001, DBS Bank through DBS Capital Funding Corporation (100% owned), issued US$725 million and S$100 million subordinated term debts, which qualified for Tier I capital treatment. This was followed by the issuance of Tier II US$850 million subordinated term debt and Tier I S$1,100 million preference shares in May 2001 by DBS Bank. To further strengthen the CAR, DBS Bank had synthetically securitized S$2.8 billion notional amount of corporate loans. The synthetic collateralized loan obligation allows DBS Bank to reduce the credit risk on the reference portfolio of corporate loans thereby reducing its risk weighted assets. In November 2001, DBS of raised Tier I capital via the issuance of new ordinary shares, totalling S$2.2 billion.

For DHG, there are Put and Call arrangements in place in respect of the shares currently held by the minority. These options are European options, which are exercisable by giving a notice within a period of seven business days following December 31, 2002. Should these options be exercised, on a proforma basis at December 31, 2001, without taking into account earnings in the intervening period, the Tier I and total CAR would be 8.5% and 14.1% respectively.

Total Liabilities
DBSH Group's total liabilities as of December 31, 2001 were S$137,765.1 million, an increase of 36.8% over its total liabilities as of December 31, 2000. The increase was mainly due to an increase in customer deposits largely contributed by acquisition of DHG. As of December 31, 2000, DBSH Group had total liabilities of S$100,713.3 million, a 5.4% increase over total liabilities as of December 31, 1999. The increase was mainly due to increases in interbank liabilities and subordinated term debt securities issued by both DBS Bank and DBS Thai Danu Bank in 2000, partially offset by a decline in customer deposits.

Customer deposits
As of December 31, 2001, DBSH Group's customer deposits were S$106,771.3 million as compared with S$80,720.5 million as of December 31, 2000, contributed by the acquisition of DHG.

As of December 31, 2000, DBSH Group's customer deposits were S$80,720.5 million as compared with S$82,268.3 million as of December 31, 1999, a decline of 1.9%. This was mainly attributable to declines in Singapore dollar deposits, reflecting the shift of funds from traditional deposit products (for example, fixed deposits) to other forms of investments such as investments in unit trusts and single premium plans.

The loan-to-deposit ratio was 63.9% for 2001 compared with 64.5% for 2000 and 66.1% for 1999.

Deposits Maturity Profile

The following table sets forth a breakdown of DBSH Group's customer deposits by the remaining maturity as of the periods indicated:

In S$'million	Repayable on demand	Less than 7 days	1 week to 1 month	1-3 months	3-12 months	Over 1 year	Total
December 31, 2001	**53,682**	**9,064**	**25,276**	**10,951**	**6,951**	**847**	**106,771**
December 31, 2000	46,178	5,191	16,997	6,910	4,940	504	80,720
December 31, 1999	46,885	–	22,500	7,944	4,709	230	82,268

Although DBSH Group's funding consists primarily of short-term deposits, its experience has been that its customers often roll over their deposits at maturity, historically providing DBSH Group with a stable source of long-term funds.

Balance Sheet Management

Liquidity

DBSH Group's objective in liquidity management is to ensure that there is sufficient liquidity to meet obligations under normal as well as adverse circumstances and take advantage of lending and investment opportunities as they arise. As part of its liquidity risk management, DBSH Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funding capacity and continuous contingency planning.

The table below analyses assets and liabilities of DBSH Group into relevant maturity groupings as of December 31, 2001 based on the remaining period at balance sheet date to the contractual maturity date.

In S$'million	Repayable on demand	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	No specific maturity	Total
Cash, and balances and placements with central banks and banks	4,151	7,786	10,805	9,665	11,726	543	27	11	–	44,714
Securities (1)	10,778	83	429	1,489	3,714	3,268	3,347	187	1,069	24,364
Loans to, and bills receivable from, non-bank customers	5,192	1,054	8,377	3,817	6,253	10,233	8,646	24,636	–	68,208
Other assets (2)	2,117	–	–	–	–	–	–	–	11,891	14,008
Total assets	22,238	8,923	19,611	14,971	21,693	14,044	12,020	24,834	12,960	151,294
Subordinated term debts	–	–	–	7	17	49	209	5,865	–	6,147
Deposits and balances of banks	318	2,246	2,459	2,098	1,325	–	–	–	–	8,446
Deposits and other accounts of non-bank customers	53,682	9,064	25,276	10,951	6,951	645	202	–	–	106,771
Other liabilities (3)	6,798	224	456	902	845	706	573	907	2,912	14,323
Total liabilities	60,798	11,534	28,191	13,958	9,138	1,400	984	6,772	2,912	135,687
Minority interests	–	–	–	–	–	–	–	–	2,078	2,078
Equity	–	–	–	–	–	–	–	–	13,529	13,529
Total liabilities and equity	60,798	11,534	28,191	13,958	9,138	1,400	984	6,772	18,519	151,294
Net liquidity gap	(38,560)	(2,611)	(8,580)	1,013	12,555	12,644	11,036	18,062	(5,559)	–

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

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

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

Structural Interest Rate and Foreign Exchange Risks
DBSH Group uses financial instruments for asset and liability management purposes. Various instruments are used to manage DBSH Group's on-and off-balance sheet positions. These include interest rate swaps, options, futures and currency swaps. They are used to manage structural interest rate risk and foreign exchange exposure, including capital and those arising from foreign currency investment.

Structural interest rate risk arises from mismatches in the interest rate risk profile of customer loans and deposits. It relates to basis risk arising from different interest rate benchmarks, interest rate repricing risk, yield curve movements and embedded optionality.

For foreign exchange management, the Group's objective is where possible to limit the effect of exchange rate movements on the Group's earnings. For foreign currency investments, the Group's general policy is to borrow fundable currencies. Non-fundable or illiquid currencies may be hedged using other instruments. Where appropriate; for currencies with high hedging costs or illiquidity of the market, alternative hedging strategies may be used.

Interest Rate Risk
The tables below summarise DBSH Group's exposure to interest rate risk as of December 31, 2001. Included in the table are the DBSH Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In S$'million	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
Cash, and balances and placements with central banks and banks	8,397	10,805	9,693	11,744	497	38	3,540	44,714
Securities (1)	371	1,990	3,862	6,441	4,249	6,218	1,233	24,364
Loans to, and bills receivable from, non-bank customers	35,858	9,628	10,653	5,579	3,199	2,750	541	68,208
Other assets (2)	2,117	–	–	–	–	–	11,891	14,008
Total assets	46,743	22,423	24,208	23,764	7,945	9,006	17,205	151,294
Subordinated term debts	–	–	7	18	48	5,865	209	6,147
Deposits and balances of banks	2,564	2,459	2,098	1,325	–	–	–	8,446
Deposits and other accounts of non-bank customers	62,746	25,276	10,951	6,951	645	202	–	106,771
Other liabilities (3)	7,022	456	902	845	706	1,480	2,912	14,323
Total liabilities	72,332	28,191	13,958	9,139	1,399	7,547	3,121	135,687
Minority interests	–	–	–	–	–	–	2,078	2,078
Equity	–	–	–	–	–	–	13,529	13,529
Total liabilities and equity	72,332	28,191	13,958	9,139	1,399	7,547	18,728	151,294
On balance sheet interest sensitivity gap	**(25,589)**	**(5,768)**	**10,250**	**14,625**	**6,546**	**1,459**	**(1,523)**	**–**
Off-balance sheet interest sensitivity gap								
- Contingent liabilities	–	–	–	–	–	–	10,283	10,283
- Commitments	4,652	790	34,883	7,345	1,382	268	55	49,375
- Financial derivatives	7,292	38,337	83,054	64,108	2,457	563	216,343	412,154
	11,944	**39,127**	**117,937**	**71,453**	**3,839**	**831**	**226,681**	**471,812**

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

(2) Other assets include associated and joint venture companies, goodwill on consolidation, fixed assets and other assets.

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