

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

In \$ millions	Note	2004	2003
Interest income		2,712	2,228
Less: Interest expense		1,051	775
Net interest income	5	<u>1,661</u>	<u>1,453</u>
Fee and commission income	6	523	457
Dividend income	7	121	109
Rental income	8	21	20
Other income	9	1,179	651
Income before operating expenses		<u>3,505</u>	<u>2,690</u>
Less: Staff costs		606	500
Other operating expenses		629	550
Operating expenses	10	<u>1,235</u>	<u>1,050</u>
Operating profit before provisions		2,270	1,640
Less: Provision for possible loan losses and diminution in value of other assets	11	1	643
Net profit before taxation		<u>2,269</u>	<u>997</u>
Less: Taxation	12	332	255
Net profit after taxation		<u>1,937</u>	<u>742</u>

(see notes on pages 5 to 56, which form part of these financial statements)

DBS BANK LTD
BALANCE SHEET AS AT DECEMBER 31

In \$ millions	Note	2004	2003		Note	2004	2003
SHARE CAPITAL				ASSETS			
Share capital	14	1,962	1,962	Cash, and balances and placements with central banks		10,218	4,861
RESERVES							
Share premium account	15.1	10,134	10,134				
Non-distributable reserve	15.2	2,454	2,313	Singapore Government securities and treasury bills	22	11,194	11,438
Revenue reserve	15.3	3,205	1,841				
		15,793	14,288	Trading securities	23	10,533	5,548
SHAREHOLDERS' FUNDS		17,755	16,250	Balances, placements with, and loans and advances to banks		19,658	21,768
LIABILITIES							
Deposits and balances of banks		10,120	7,199	Bills receivable from non-bank customers	24	2,073	1,051
Deposits and other accounts of non-bank customers	16	84,891	77,293				
Bills payable		265	275	Loans and advances to non-bank customers	24	44,948	39,382
Current taxation		552	433				
Other liabilities	18	15,439	12,015	Investment securities	26	15,241	14,469
Other borrowings		362	376				
Other debt securities in issue	19	3,295	2,382	Subsidiary companies	28	12,147	12,276
Due to holding company		65	30				
Due to subsidiary companies	20	2,420	2,227	Associated and joint venture companies	29	595	613
Due to related companies		5	5				
Subordinated term debts	21	4,654	3,571	Fixed assets	30	614	645
				Deferred taxation assets	17	94	115
				Other assets	31	12,508	9,890
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		139,823	122,056	TOTAL ASSETS	35, 38	139,823	122,056
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	32	7,095	5,494				
Commitments	33	58,203	47,661				
Financial derivatives	34	1,512,169	1,225,945				

(see notes on pages 5 to 56, which form part of these financial statements)

DBS BANK LTD
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004

In \$ millions	Note	Ordinary shares	6% Non-Cumulative Preference Shares	Share Premium	Non-distributable Reserve	Revenue Reserve	Total Reserves
Balance at January 1, 2004		1,962	#	10,134	2,313	1,841	14,288
Net exchange translation adjustments during the year					44		44
Appropriation from profit and loss account					97	(97)	-
Net profit after taxation						1,937	1,937
6% dividends on preference shares						(53)	(53)
21.58% dividends paid to DBSH						(423)	(423)
Balance at December 31, 2004		<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>2,454</u>	<u>3,205</u>	<u>15,793</u>
Balance at January 1, 2003		1,962	#	10,134	2,061	1,506	13,701
Net exchange translation adjustments during the year					67		67
Appropriation from profit and loss account					185	(185)	-
Net profit after taxation						742	742
6% dividends on preference shares						(52)	(52)
8.66% dividends paid to DBSH						(170)	(170)
Goodwill arising from acquisition of a subsidiary							-
Interim dividends paid on ordinary shares							-
less income tax							-
Balance at December 31, 2003		<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>2,313</u>	<u>1,841</u>	<u>14,288</u>

Amount under S\$500,000

(see notes on pages 5 to 56, which form part of these financial statements)

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

In \$ millions	2004	2003
Cash flow from operating activities		
Net profit before taxation	2,269	997
Adjustments for non-cash items:-		
Provision for possible loan losses and diminution in value of other assets	1	643
Depreciation of fixed assets	87	98
Net gain on disposal of fixed assets	1	-
Net gain on disposal of investment securities	(705)	(208)
Operating profit before changes in operating assets & liabilities	1,653	1,530
Increase/(Decrease) in:		
Deposits and other accounts of non- bank customers	7,598	6,108
Deposits and balances of banks	2,921	2,709
Other liabilities including bills payable	3,300	2,340
Due to holding, related and subsidiary companies	228	(139)
(Increase)/Decrease in:		
Singapore Government securities and treasury bills	244	(2,443)
Trading securities	(4,974)	(2,872)
Accounts receivable and other assets	(2,541)	(1,392)
Balances, placements with, and loans and advances, to other banks	2,152	10,047
Loans and advances to non-bank customers including bills receivable	(6,496)	(3,526)
Due from subsidiary companies	17	(346)
Tax paid	(192)	(184)
Net cash generated from operating activities (1)	3,910	11,832
Cash flows from investing activities		
Acquisition of additional interests in subsidiary companies	-	(3,654)
Capital reduction in subsidiary companies	-	1,019
Purchase of fixed assets	(74)	(42)
Net increase in investment securities	(50)	(6,713)
Proceeds from sale of fixed assets	21	37
Net cash used in investing activities (2)	(103)	(9,353)
Cash flows from financing activities		
Net increase in debt securities and borrowings	1,982	532
Dividends paid to shareholder	(476)	(222)
Net cash generated from financing activities (3)	1,506	310
Exchange translation adjustments (4)	44	67
Net change in cash, and balances and placements with central banks (1)+(2)+(3)+(4)	5,357	2,856
Cash, and balances and placements with central banks as at January 1	4,861	2,005
Cash, and balances and placements with central banks as at December 31	10,218	4,861

(see notes on pages 5 to 56, which form part of these financial statements)

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NOTES TO THE FINANCIAL STATEMENTS

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

1 GENERAL

The financial statements of DBS Bank Ltd (“DBS Bank”) for the year ended December 31, 2004 were approved and authorised for issue by the Board of Directors on February 18, 2005.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PRESENTATION

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

The financial statements comply with Singapore Financial Reporting Standards (“FRS”) including related Interpretations promulgated by the Council on Corporate Disclosure and Governance (“CCDG”).

2.1.2 In July 2004, CCDG adopted the revised FRS 39, “Financial Instruments: Recognition and Measurement” but the Standard will be effective from January 1, 2005. The implementation of FRS 39 is expected to have a significant impact on certain financial assets and liabilities. An opening adjustment will be required, representing unrealised gains or losses on certain financial assets and financial liabilities including derivatives to be measured at fair value on January 1, 2005. The differences between carrying amount and fair value will be adjusted to retained earnings.

2.1.3 FRS 102, "Share-based Payment" has been adopted by the CCDG during the financial year but the Standard will be effective from January 1, 2005. The Standard requires an expense to be recognised where DBS Bank buys goods or services in exchange for shares or other equity instruments (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or other equity instruments (cash-settled transactions). The main impact of FRS 102 on DBS Bank will be the expensing of such share-based incentives awarded to employees and directors.

2.1.4 FRS 103, "Business Combinations" has been adopted by the CCDG during the financial year and it applies to business combinations for annual periods beginning on or after July 1, 2004. The effect of the adoption of FRS 103 is that upon acquisition of subsidiaries or business undertakings, DBSH Group will include items like intangible assets and contingent liabilities as part of the identifiable assets and liabilities acquired, at their fair values as at the acquisition date.

2.2 SUBSIDIARY COMPANIES

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

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

2.3 ASSOCIATED AND JOINT VENTURE COMPANIES

Associated companies are companies in which DBS Bank has an equity interest of between 20% and 50% and over whose financial decisions and operating policies DBS Bank exercises significant influence. A joint venture is a contractual arrangement whereby DBS Bank and its joint venture partners undertake an economic activity, which is subject to joint control, and none of the parties involved unilaterally have control over the economic activity.

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

2.4 FOREIGN CURRENCIES

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

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

2.5 CASH AND CASH EQUIVALENTS

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

2.6 LOANS AND ADVANCES

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

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

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

2.7 PROVISION FOR LOAN LOSSES

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

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

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

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

2.8 DEBT SECURITIES AND EQUITIES

2.8.1 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS

Singapore Government securities and treasury bills classified for trading purposes are recorded at fair value on the balance sheet, with changes in fair value recorded in "Other income" in the profit and loss account, while those classified for investment purposes are stated at cost less provision. Provision is made for the investment portfolio when there is deemed to be a permanent diminution in value and this is recognised as a charge to the profit and loss account as it arises. Interest income for Singapore Government securities and treasury bills, for both trading and investment purposes, are included in interest income.

2.8.2 TRADING SECURITIES

Trading securities are recorded at fair value on the balance sheet, with changes in fair value recorded in "Other income" in the profit and loss account. Where the market price may not be achievable as a result of operating in illiquid markets, appropriate adjustments to the market value are made. Interest earned and dividend received are included in interest and dividend income respectively.

2.8.3 INVESTMENT SECURITIES

Investments in other government securities and treasury bills, equity securities and debt securities not classified as held for trading are classified as investment securities, and are stated at cost less provision. Specific provision is made for an individual investment when there has been a diminution in value, except where such diminution is temporary and is recognised as a charge to the profit and loss account as it arises. General provision is made for corporate debt securities for possible losses that may arise, but which are not yet identifiable.

2.9 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS ("REPOS" AND "REVERSE REPOS")

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

2.10 FORECLOSED PROPERTIES

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

2.11 FIXED ASSETS, INCLUDING INVESTMENT PROPERTIES

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

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

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

2.11.3 Other fixed assets are depreciated on a straight-line basis over their estimated useful lives, including:

Computer hardware and software	3 - 5 years
Office equipment	5 - 8 years
Furniture and fittings	1 - 10 years

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

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

2.12 TREASURY RELATED OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

2.12.1 NON-TRADING TRANSACTIONS

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

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

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

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

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

When the underlying assets, liabilities, other positions or cash flows are terminated prior to the hedging transactions, or anticipated transactions are no longer likely to occur, the hedging transactions are measured at fair value prior to being transferred to the trading portfolio. The profit or loss arising from the fair value measurement prior to the transfer to the trading portfolio is included in the category of income and expense in the profit and loss account relating to the previously hedged transactions.

2.12.2 TRADING TRANSACTIONS

Transactions undertaken for trading purposes are stated at fair value. Quoted market prices, when available, are used to determine the fair values of derivatives held for trading. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices. Liquidity reserve is taken when a market price may not be achievable as a result of certain material positions held DBS Bank. Methodology deficiency reserves address approximation uncertainties from modeling methods and numerical methods. When parameters are unobservable or stem from illiquid markets, uncertainty in their true (market implied) value arises and a parameter deficiency reserve is taken for the potential impact on mark to market valuations.

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

2.13 OFFSETTING FINANCIAL INSTRUMENTS

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

2.14 INTEREST INCOME

Interest income is recognised on an accrual basis.

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

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

2.15 FEE AND COMMISSION INCOME

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

2.16 DIVIDEND INCOME

Dividends from equities are recognised when declared payable.

2.17 STAFF COSTS, EQUITY COMPENSATION AND SHARE OPTION PLANS

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

Remuneration expenses on base pay, cash bonuses, contributions to defined contribution plans, e.g., the Central Provident Fund, other staff-related allowances and contributions to the DBSH Share Ownership Scheme are recognised in the profit and loss account once incurred. For defined contribution plans, contributions are made to publicly or privately administered funds on a mandatory, contractual or voluntary basis. Once the contributions have been paid, DBS Bank has no further payment obligations.

For the DBSH Performance Share Plan and the DBSH Employee Share Plan, a trust has been set up for each share plan. The shares purchased are recorded as "Other assets" in the balance sheet at cost less provision for diminution in value. When the shares are awarded, remuneration

expenses are computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

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

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

2.18 OPERATING LEASES

Operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

2.19 TAXATION

The current taxation charged to the profit and loss account represents tax at the current rate based on taxable profits earned during the financial year. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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

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

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

2.20 PROVISIONS AND OTHER LIABILITIES

Provisions are recognised when DBS Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.21 SHARE CAPITAL

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

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

2.22 DIVIDEND

Dividends are recorded during the financial year in which they are declared payable.

2.23 FIDUCIARY ACTIVITIES

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

2.24 BORROWINGS

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

2.25 DEPOSITS AND OTHER ACCOUNTS OF CUSTOMERS

Deposits and other accounts are recognised initially at cost.

2.26 PLACEMENTS WITH AND DEPOSITS OF BANKS

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

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

These balances are stated at cost.

3 COMPARATIVES

Where necessary, certain comparative figures were adjusted in order to provide proper comparison with current year's presentation.

4 SEGMENTAL PRESENTATION

The business segment results are prepared based on information and data generated from DBS Bank's internal financial reporting systems and adjusted to reflect the organisation's management reporting structure. The activities of DBS Bank are highly integrated and accordingly, internal allocation has to be made in preparing the segment information. As a result, amounts for each business segment are shown after the allocation of certain centralised costs, funding income and the application of transfer pricing, where appropriate. Definitions of business segments have been refined and comparative figures were adjusted to provide proper comparison with current year's definitions. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

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

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

5 NET INTEREST INCOME

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

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

6 FEE AND COMMISSION INCOME

Fee and commission income comprises the following:

In \$ millions	2004	2003
Loan related (include guarantees fees)	131	120
Wealth management (unit trust distribution and bancassurance)	95	69
Investment banking	80	60
Deposit related	70	70
Trade and remittances	67	56
Credit card	46	45
Others (includes stockbroking)	34	37
Total	523	457

7 DIVIDEND INCOME

Dividend income includes gross dividend income from trading and investment equity holdings.

In \$ millions	2004	2003
Dividends (gross) from subsidiary companies	26	34
Dividends (gross) from associated companies	32	33
Dividends (gross) from other investments	63	42
Total	121	109

8 RENTAL INCOME

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

9 OTHER INCOME

Other income comprises the following:

In \$ millions	2004	2003
Net gain on treasury related activities, including structured investment products ^(a)	474	438
Net gain on investment securities ^(b)	705	208
Net gain on fixed assets	(1)	-
Others	1	5
Total	1,179	651

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

(b) Net gain on investment securities includes net gains and losses on debt securities, including Singapore Government securities, and equities in the investment portfolio. Included in 2004 were one-time gains of \$341 million from sale a 59% stake in DBS Thai Danu Public Company Limited (“DTDB”) and \$187 million from sale of a 10% stake in Wing Lung Bank. There is also a \$44 million gain from disposal of NDC Capital Holdings Pte Ltd, which is eliminated in the consolidated financials of DBSH.

10 OPERATING EXPENSES

Operating expenses comprises the following:

In \$ millions	2004	2003
Staff costs	606	500
Other operating expenses	629	550
- Technology-related expenses	224	197
- Occupancy expenses	111	129
- Revenue-related expenses	112	85
- Other expenses	182	139
Total	1,235	1,050

10.1 Staff costs include salaries, bonuses, contributions to defined contribution plans, e.g., the Central Provident Fund, and all other staff-related expenses (Note 2.17). Contributions to defined contribution plans was \$34 million (2003: \$38 million). At December 31, 2004, DBS Bank employed 6,705 (2003: 6,050) staff.

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

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

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

Other expenses include postages, printing & stationary, telecommunication, office equipment expenses, advertising, professional and consultancy fees, security guard expenses and other general expenses.

10.3 Operating expenses include the following:

In \$ millions	2004	2003
(1) Auditors' remuneration	4	4
Audit fees		
- E&Y Singapore ^(a)	3	2
- Other auditors, including associated firms of E&Y Singapore ^(a)	1	#
Fees for non-audit services ^(b)		
- E&Y Singapore ^(a)	#	1
- Other auditors, including associated firms of E&Y Singapore ^(a)	#	#
(2) Hire and maintenance of fixed assets, including building-related expenses	76	83
(3) Rental of premises	43	50
(4) Depreciation of fixed assets	87	98

Amount under \$500,000

(a) E&Y = Ernst & Young

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

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

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

In \$ millions	2004	2003
Loans (Note 25)	(92)	207
- Specific Provision	23	184
- General Provision	(115)	23
Investment Securities (Note 27)	33	422
- Specific Provision	25	391
- General Provision	8	31
Fixed assets and others (Note 27)	60	14
- Specific Provision	(14)	(8)
- General Provision	74	22
Total	1	643

12 TAXATION

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

In \$ millions	2004	2003
Current taxation		
- current year	311	258
Deferred taxation		
- origination and reversal of temporary differences	(12)	(3)
- reduction in tax rate	9	-
- prior years' overprovision	24	-
Total	332	255

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

In \$ millions	2004	2003
Accelerated tax depreciation	#	3
Provision for loan losses	21	6
Other temporary differences	#	(12)
Deferred taxation charged/(credited) to profit and loss account	21	(3)

Amount under \$500,000

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

In \$ millions	2004	2003
Operating profit	2,269	997
Prima facie tax calculated at a tax rate of 20% (2003 : 22%)	453	219
Effect of different tax rates in other countries	(10)	(8)
Effect of change in tax rate	9	-
Income not subject to tax	(115)	(2)
Income taxed at concessionary rate	(28)	(72)
Non-tax deductible provisions	(2)	78
Others	25	40
Taxation charged to profit and loss account	332	255

Further information on deferred taxation is presented in Note 17.

13 SHARE OPTIONS AND SHARE PLANS

13.1 DBSH SHARE OWNERSHIP SCHEME

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

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

	Number of DBSH ordinary shares		Market value of DBSH ordinary shares (\$ millions)	
	2004	2003	2004	2003
At beginning of the year	3,580,829	3,281,329	53	36
At end of the year	3,477,829	3,580,829	56	53

13.2 DBSH SHARE OPTION PLAN

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

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

DBS Bank Ltd
Year Ended December 31, 2004

DBSH Options	Number of unissued ordinary shares	During the year			Number of unissued ordinary shares	Subscription price per ordinary share	Date of expiration
	January 1, 2004	Granted	Exercised	Lapsed	December 31, 2004		
1999	3,801,036	-	319,902	124,351	3,356,783	\$15.30	July 27, 2009
March 2000	1,586,200	-	-	89,200	1,497,000	\$20.87	March 5, 2010
July 2000	1,114,600	-	-	52,600	1,062,000	\$22.33	July 26, 2010
March 2001	11,625,000	-	-	952,000	10,673,000	\$17.70	March 14, 2011
June 2001	21,000	-	-	-	21,000	\$14.76	May 31, 2011
August 2001	1,414,000	-	422,000	56,000	936,000	\$12.93	July 31, 2011
January 2002	50,500	-	-	-	50,500	\$13.70	January 1, 2012
March 2002	11,776,240 ^(a)	-	788,030	736,000	10,252,210	\$14.73	March 27, 2012
August 2002	1,215,000	-	178,200	140,100	896,700	\$12.27	August 15, 2012
October 2002	9,260	-	-	-	9,260	\$11.73	October 9, 2012
December 2002	20,000	-	-	-	20,000	\$11.47	December 17, 2012
February 2003	13,526,200 ^(a)	-	1,581,540	947,230	10,997,430	\$10.40	February 23, 2013
March 2003	15,000	-	-	-	15,000	\$9.18	March 9, 2013
March 2004	-	7,494,000	-	531,500	6,962,500	\$14.73	March 1, 2014
	46,174,036 ^(a)	7,494,000	3,289,672	3,628,981	46,749,383		

(a) Restated since last reported at December 31, 2003 due to withdrawal of staff resignation in 2004.

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

In \$ millions	2004	2003
Ordinary share capital – at par	3	#
Share premium	37	2
Proceeds	40	2
Market value, at exercise date, of shares issued	50	3

Amount under \$500,000

13.3 DBSH PERFORMANCE SHARE PLAN

The DBSH Performance Share Plan (the “PSP”) is a stock-based plan where DBSH ordinary shares are given free to eligible employees. Eligible employees currently are similar to the DBSH Share Option Plan (Note 13.2).

During the financial year, awards in respect of an aggregate of 727,400 (2003: 768,360) DBSH ordinary shares were granted to selected employees pursuant to the PSP. When the shares are awarded, remuneration expenses are computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

13.4 DBSH EMPLOYEE SHARE PLAN

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

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

14 SHARE CAPITAL

The share capital of DBS Bank at December 31, 2004, is as follows:

In \$ millions	2004	2003
<u>Authorised</u>		
2,000,000,000 ordinary shares of \$1 each	2,000	2,000
600,000,000 non-redeemable convertible preference shares of \$2 each	1,200	1,200
300,000,000 non-voting convertible preference shares of \$1 each	300	300
800,000 non-cumulative redeemable non-convertible perpetual preference shares of US\$0.01 each and each with a liquidation preference of US\$1,000	#	#
17,500 non-cumulative redeemable non-convertible perpetual preference shares of \$0.01 each and each with a liquidation preference of \$10,000	#	#
1,100,000,000 non-cumulative non-convertible perpetual preference shares of \$0.01 each and each with a liquidation preference of \$100	11	11
	1,511	1,511
<u>Issued and fully paid-up</u>		
1,962,302,697 (2003: 1,962,302,697) ordinary shares of \$1 each	1,962	1,962
11,000,000 (2003: 11,000,000) non-cumulative non-convertible perpetual preference shares \$0.01each	#	#
Total	1,962	1,962

Amount under \$500,000

15 RESERVES

15.1 SHARE PREMIUM ACCOUNT

In \$ millions	2004	2003
Balance at January 1	10,134	10,134
Issue of ordinary shares for acquisition	-	-
Balance at December 31	10,134	10,134

15.2 NON-DISTRIBUTABLE RESERVES

Non-distributable reserves comprise the following:

In \$ millions	2004		Total
	General reserve ^(a)	Capital reserve ^(b)	
Balance at January 1, 2004	2,136	177	2,313
Appropriation from profit and loss account (Note 15.3)	97	-	97
Net exchange translation adjustments during the year	-	44	44
Balance at December 31, 2004	2,233	221	2,454

In \$ millions	2003		Total
	General reserve ^(a)	Capital reserve ^(b)	
Balance at January 1, 2003	1,951	110	2,061
Appropriation from profit and loss account (Note 15.3)	185	-	185
Net exchange translation adjustments during the year	-	67	67
Balance at December 31, 2003	2,136	177	2,313

(a) The appropriation from profit and loss account relates to amounts transferred to the Reserve Fund to comply with the Banking Act.

(b) The Capital reserve included net exchange translation adjustments arising from translation differences on opening net investments in foreign subsidiaries, associated companies and branches, and the related foreign currency borrowings designated as a hedge.

15.3 REVENUE RESERVE

In \$ millions	2004	2003
Balance at January 1	1,841	1,506
Net profit after taxation	1,937	742
Transfer to general reserve (Note 15.2)	(97)	(185)
Amount available for distribution	3,681	2,063
Less: 21.58% (2003 : 8.66%) tax exempt ordinary dividends	423	170
6% on preference dividends of net of 20% (2003: 22%) tax paid	53	52
Balance at December 31	3,205	1,841

15.4 DIVIDEND PROPOSED

The financial statements for the year ended December 31, 2004 do not reflect the proposed final dividends to DBS Group Holdings Ltd, amounting to an estimated \$269 million, which will be accounted for in shareholders' funds as an appropriation of revenue reserves in the year ending December 31, 2005.

16 DEPOSITS AND OTHER ACCOUNTS OF NON-BANK CUSTOMERS

In \$ millions	2004	2003
Analysed by Currency		
Singapore dollar	61,905	56,562
US dollar	15,457	15,770
Hong Kong dollar	1,270	674
Others	6,259	4,287
Total	84,891	77,293
Analysed by Product		
Savings accounts (include Autosave)	41,585	39,429
Current accounts	9,533	8,498
Fixed deposits	28,322	25,556
Other deposits	5,451	3,810
Total	84,891	77,293

17 DEFERRED TAXATION

The movement in deferred tax is as follows:

In \$ millions	2004	2003
Balance at January 1	(115)	(112)
Provision/(Release) during the year	21	(3)
Balance at December 31	(94)	(115)

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

In \$ millions	2004	2003
Deferred income tax liabilities/(assets)		
Accelerated tax depreciation	28	28
Provision for loan losses	(106)	(127)
Other temporary differences	(16)	(16)
Balance at December 31	(94)	(115)

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

18 OTHER LIABILITIES

In \$ millions	2004	2003
Balances arising from revaluation of financial instruments (Note 34)	10,130	8,114
Payable in respect of short sale of debt securities	2,805	1,286
Sundry creditors	638	866
Interest payable	498	390
Other payables (Note 18.1)	1,368	1,359
Total	15,439	12,015

18.1 Other payables includes \$399 million (2003: \$721 million) of collateral received from external counterparties to cover a temporary shortfall in the valuation of a specific portfolio of derivative instruments over a pre-determined threshold. This is governed by a collateral support agreement.

19 OTHER DEBT SECURITIES IN ISSUE

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

19.1 NEGOTIABLE CERTIFICATES OF DEPOSITS

In \$ millions				2004	2003
<i>Face Value</i>	<i>Interest Rate and Repayment Terms</i>	<i>Issue Date</i>	<i>Maturity Date</i>		
TWD20m	1.150%, payable on maturity	Dec 10, 2004	Jan 10, 2005	1	-
TWD120m	0.985%, payable on maturity	Dec 2, 2003	Jan 2, 2004	-	6
TWD200m	1.030%, payable on maturity	Dec 31, 2003	Jan 31, 2004	-	10
TWD300m	0.985%, payable on maturity	Dec 8, 2003	Jan 8, 2004	-	15
TWD300m	1.030%, payable on maturity	Dec 25, 2003	Mar 25, 2004	-	15
TWD300m	1.030%, payable on maturity	Sep 7, 2004	Jan 7, 2005	15	-
TWD500m	1.025%, payable on maturity	Dec 31, 2003	Mar 31, 2004	-	25
TWD500m	1.160%, payable on maturity	Dec 21, 2004	Mar 21, 2005	26	-
TWD500m	1.165%, payable on maturity	Dec 28, 2004	Mar 28, 2005	26	-
TWD500m	1.163%, payable on maturity	Dec 30, 2004	Mar 30, 2005	26	-
TWD500m	1.140%, payable on maturity	Oct 7, 2004	Apr 7, 2005	26	-
TWD600m	1.150%, payable on maturity	Dec 28, 2004	Jan 28, 2005	30	-
Total				150	71
Repayable :					
- Less than one year				150	71
- Over one year				-	-
Total Negotiable Certificates of Deposits				150	71

19.2 OTHER DEBT SECURITIES

In \$ millions	Note	2004	2003
Equity linked notes	19.2.1	938	640
Credit linked notes	19.2.2	1,748	1,356
Interest rate linked notes	19.2.3	453	314
Exchange linked notes	19.2.4	6	1
Total		3,145	2,311
Repayable :			
- Less than one year		820	514
- Over one year		2,325	1,797
Total other debt securities		3,145	2,311
Total other debt securities in issue		3,295	2,382

19.2.1 The outstanding notes at December 31, 2004, with an embedded equity option, were issued between December 13, 2000 and December 31, 2004 and mature between January 3, 2005 and June 4, 2014. The payouts at maturity are linked to the closing value of certain underlying equities listed on various stock exchanges or the closing value of certain underlying stock exchange indices or the net asset value of certain underlying equity funds.

19.2.2 The outstanding notes at December 31, 2004, with an embedded credit default swap, were issued between February 9, 2001 and December 29, 2004 and mature between January 17, 2005 and December 18, 2013. The notes will be redeemed at face value on maturity date provided there is no occurrence of a credit event. If there is an occurrence of a credit event, the underlying asset or the market value of the underlying asset in cash term, depending on the terms of the contract, would be delivered to the holders of the notes.

19.2.3 The outstanding notes at December 31, 2004, with an embedded interest rate derivative, were issued between January 23, 2002 and December 28, 2004 and mature between January 27, 2005 and December 3, 2019. The payouts at maturity are linked to the market interest rate of certain indices.

19.2.4 The outstanding notes at December 31, 2004, with an embedded foreign exchange rate derivative, were issued between September 17, 2004 and November 5, 2004 and mature between March 21, 2005 and May 9, 2005. The payouts at maturity are linked to the market foreign exchange rate of the underlying foreign currencies.

20 DUE TO SUBSIDIARY COMPANIES

In \$ millions	2004	2003
Subordinated term debts	1,283	1,331
Amounts due to subsidiary companies	1,137	896
Total	2,420	2,227

The subordinated term debts, issued on March 21, 2001 comprised the Series A Subordinated Note of US\$725 million and the Series B Subordinated Note of \$100 million, and mature on March 15, 2051. The notes were issued by DBS Bank to DBS Capital Funding Corporation, both wholly owned subsidiary companies of DBSH. Interest is payable in arrears on March 15 and September 15 each year at a fixed rate of 7.657% per annum (Series A) and 5.35% per annum (Series B), up to March 15, 2011. Thereafter, interest is payable quarterly in arrears on March 15, June 15, September 15 and December 15 each year at a floating rate of three-month London Interbank Offer Rate ("LIBOR") + 3.20% per annum (Series A) and three-month Singapore Swap Offer Rate + 2.52% per annum (Series B).

21 SUBORDINATED TERM DEBTS

Subordinated term debts issued by DBS Bank are classified as liabilities in accordance with FRS 32. Certain of these instruments qualify as Tier I or Tier II capital for capital adequacy purposes.

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

21.1 DATED SUBORDINATED TERM DEBTS

The following is a summary of the dated unsecured subordinated term debts outstanding at December 31:

In \$ millions			Note	2004	2003	
<i>Face Value</i>	<i>Issue Date</i>	<i>Maturity Date</i>				
US\$750m	7 7/8% Subordinated Notes	Aug 10, 1999	Aug 10, 2009	21.1.1	1,225	1,275
US\$500m	7 7/8% Subordinated Notes	Apr 15, 2000	Apr 15, 2010	21.1.2	816	850
US\$850m	7 1/8% Subordinated Notes	May 15, 2001	May 15, 2011	21.1.3	1,388	1,446
US\$750m	5.00% Subordinated Notes callable with step-up in 2014	Oct 1, 2004	Nov 15, 2019	21.1.4	1,225	-
Total Subordinated Term Debts					4,654	3,571

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

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

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

21.1.4 Interest is payable semi-annually on May 15 and November 15 commencing May 15, 2005. Part of the fixed rate funding has been converted to floating rate at three-month LIBOR + 0.611% via interest rate swaps. If the notes are not called at the tenth year, the interest rate steps up and will be reset at six-month LIBOR + 1.61% on the call date. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

22 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS

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

In \$ millions	2004	2003
Trading book	4,219	2,432
Investment book	6,975	9,006
Total	11,194	11,438
Investment book		
Cost, adjusted for unamortised premium and discount	6,975	9,017
Less: Provision for diminution in value (Note 27)	-	11
Net book value of investment book	6,975	9,006
Market value of investment book	7,026	9,006

23 TRADING SECURITIES

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

In \$ millions	2004	2003
Quoted		
Other Government securities and treasury bills	2,600	709
Corporate debt securities	7,018	4,432
Equity securities	915	407
Total	10,533	5,548
Industry Breakdown		
Manufacturing	921	528
Building and Construction	103	122
General Commerce	163	16
Transportation, Storage and Communications	779	475
Financial Institutions, Investment and Holding Companies	4,898	2,349
Others (includes other Government securities and treasury bills)	3,669	2,058
Total net book value	10,533	5,548

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

In \$ millions	2004	2003
Gross	47,986	41,738
Less:		
Specific provisions (Note 25)	390	615
General provisions (Note 25)	575	690
Net total	47,021	40,433
Including:		
Bills receivable	2,073	1,051
Loans	44,948	39,382
Net total	47,021	40,433
Industry Breakdown		
Manufacturing	4,885	3,766
Building and Construction	4,560	5,447
Housing Loans	15,393	13,539
General Commerce	3,269	2,554
Transportation, Storage and Communications	3,108	2,917
Financial Institutions, Investment and Holding Companies	7,272	4,715
Professionals and Private Individuals (except Housing Loans)	4,513	4,390
Others	4,986	4,410
Gross total	47,986	41,738
Analysed by Currency and Fixed/ Variable Rates		
<u>Fixed rate ^(a)</u>		
Singapore dollar	10,040	8,867
Others	276	73
Sub-total	10,316	8,940
<u>Variable rate ^(b)</u>		
Singapore dollar	23,751	20,827
Hong Kong dollar	1,707	1,244
US dollar	8,746	7,221
Others	3,466	3,506
Sub-total	37,670	32,798
Total (Gross)	47,986	41,738

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

(b) Variable rate loans refer to loans that are pegged to prime, short-term cost of funds or inter-bank rates.

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

In \$ millions	Specific	General	Total	Interest-in-suspense
2004				
Balance at January 1	615	690	1,305	56
Amounts written off during the year	(253)	-	(253)	(37)
Charge/(write-back) to profit and loss account	23	(115)	(92)	-
Interest (written off)/suspended during the year	(2)	-	(2)	22
Exchange and other movements	7	-	7	(6)
Balance at December 31	390	575	965	35
2003				
Balance at January 1	722	667	1,389	80
Amounts written off during the year	(285)	-	(285)	(42)
Charge to profit and loss account	184	23	207	-
Interest suspended during the year	3	-	3	12
Exchange and other movements	(9)	-	(9)	6
Balance at December 31	615	690	1,305	56

26 INVESTMENT SECURITIES

In \$ millions	2004	2003
Quoted		
Other Government securities & treasury bills	3,798	3,466
Corporate debt securities	10,671	10,340
Equity securities	648	530
Unquoted equity securities	333	339
	15,450	14,675
Less: Provision for diminution in value (Note 27)	209	206
Total net book value	15,241	14,469
Market value of quoted securities	15,412	14,671
Industry Breakdown		
Manufacturing	1,116	818
Building and Construction	584	739
General Commerce	14	64
Transportation, Storage and Communications	772	814
Financial Institutions, Investment and Holding Companies	6,487	5,759
Others (includes other Government securities and treasury bills)	6,268	6,275
Total net book value	15,241	14,469

27 PROVISION FOR DIMINUTION IN VALUE OF INVESTMENT SECURITIES AND OTHER ASSETS

In \$ millions	Debt and equity securities		Fixed assets and Others		Total
	Specific	General	Specific	General	
2004					
Balance at January 1	946	65	94	69	1,174
Amounts written off during the year	(44)	-	(4)	-	(48)
Charge/(credit) to profit and loss account	25	8	(14)	74	93
Balance at December 31	927	73	76	143	1,219
Specific and general provisions are in respect of the following:					
Investment securities (Note 26)	136	73	-	-	209
Subsidiary companies (Note 28)	141	-	-	-	141
Associated companies (Note 29)	650	-	-	-	650
Fixed assets (Note 30)	-	-	18	-	18
Other banking risks ^(a)	-	-	23	139	162
Other assets	-	-	35	4	39
	927	73	76	143	1,219
2003					
Balance at January 1	603	34	102	47	786
Amounts written off during the year	(48)	-	(3)	-	(51)
Charge/(credit) to profit and loss account	391	31	(8)	22	436
Exchange and other movements	-	-	3	-	3
Balance at December 31	946	65	94	69	1,174
Specific and general provisions are in respect of the following:					
Singapore Government securities and treasury bills (Note 22)	-	11	-	-	11
Investment securities (Note 26)	152	54	-	-	206
Subsidiary companies (Note 28)	144	-	-	-	144
Associated companies (Note 29)	650	-	-	-	650
Fixed assets (Note 30)	-	-	22	-	22
Other banking risks ^(a)	-	-	27	65	92
Other assets	-	-	45	4	49
	946	65	94	69	1,174

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

28 SUBSIDIARY COMPANIES

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

In \$ millions	2004	2003
Quoted equity shares	-	-
Unquoted equity shares	11,439	11,554
	11,439	11,554
Less : Provision for diminution in value (Note 27)	141	144
	11,298	11,410
Amount due from subsidiary companies (Note 28.4)	849	866
Total	12,147	12,276
Market value of quoted equity shares	-	243

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

Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank/Subsidiary Companies	
			DBS Bank		Subsidiary Companies		2004	2003
			2004	2003	2004	2003	\$ millions	\$ millions
			%	%	%	%		
Quoted								
DBS Thai Danu Bank Public Company Limited ^(b)	Thailand	Commercial banking and financial services	^(g) 51.7	-	-	-	-	- ^(a)
(Market value : 2003: \$243 million)								
Unquoted								
DBS Asia Ltd ^(b)	Hong Kong	Financial services and investment holding	100	100	-	-	- ^(c)	- ^(c)
DBS Asia Capital Limited ^(b)	Hong Kong	Corporate finance and advisory services	100	100	-	-	21	22
DBSAM Funds	Luxembourg	Collective investment scheme	77	-	-	100	16	-
DBS Asset Management Ltd	Singapore	Investment management services and unit trusts	100	100	-	-	4	4
DBS Asset Management (Hong Kong) Ltd ^(b)	Hong Kong	Investment management services	-	-	100	100	3	3
DBS Asset Management (United States) Pte Ltd	Singapore	Investment management services	-	-	100	100	- ^(c)	- ^(c)
DBS Card Centre Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	8	8
DBS Capital Funding Corporation	Cayman Island	Special purpose vehicle for capital raising	100	100	-	-	- ^(c)	- ^(c)
DBS Capital Investments Ltd	Singapore	Venture capital investments	100	100	-	-	18 ^(d)	18 ^(d)
DBS China Square Ltd	Singapore	Property investment holding	70	70	-	-	160 ^(e)	160 ^(e)
DBS Computer Services Pte Ltd	Singapore	Dormant	100	100	-	-	- ^(a)	- ^(a)
DBS Diamond Holdings Ltd	Bermuda	Investment holding	100	100	-	-	9,919	9,919
Benchmark Farm Finance (Four) Limited (Under liquidation)	United Kingdom	Dormant	-	-	100	100	- ^(a)	- ^(a)

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank/Subsidiary Companies	
			DBS Bank		Subsidiary Companies		2004	2003
			2004	2003	2004	2003	\$ millions	\$ millions
			%	%	%	%		
DBS Group (Hong Kong) Limited (formerly "Dao Heng Bank Group Limited") ^(b)	Bermuda/Hong Kong	Investment holding	-	-	100	100	9,043	9,430
Dao Heng Bank Trustee (BVI) Limited (Liquidated)	British Virgin Islands	Dormant	-	-	-	100	-	- ^(c)
Dao Heng Bullion Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- ^(c)
Dao Heng Bank Trustee Limited ^(b)	Hong Kong	Trustee services	-	-	100	100	1	1
Dao Heng Finance Limited ^(b)	Hong Kong	Finance company	-	-	100	100	7	7
Dao Heng London plc (Under liquidation)	United Kingdom	Dormant	-	-	100	100	- ^(a)	- ^(a)
Dao Heng Nominees Limited (Under liquidation)	United Kingdom	Dormant	-	-	100	100	- ^(a)	- ^(a)
DBS Bank (Hong Kong) Limited ^(b)	Hong Kong	Commercial banking and financial securities	-	-	100	100	1,215	1,267
DBS Corporate Services (Hong Kong) Limited ^(b)	Hong Kong	Investment holding and corporate services	-	-	100	100	- ^(c)	- ^(c)
DBS H.K. Capital (BVI) Limited ^(b)	British Virgin Islands	Dormant	-	-	100	100	- ^(c)	- ^(c)
DBS Kwong On Finance Limited ^(b)	Hong Kong	Deposit-taking finance company	-	-	100	100	5	5
DBS Kwong On Futures Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	1	1
DBS Kwong On (Nominees) Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- ^(c)	- ^(c)
DBS Kwong On Securities Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	3
DBS Overseas Limited ^(b)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
DBS Trustee H.K. (Jersey) Limited ^(b)	Jersey/Hong Kong	Corporate services	-	-	100	100	- ^(c)	- ^(c)
DHB Limited ^(b)	Hong Kong	Investment holding	-	-	100	100	17	18
DHJ Management Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Dransfield Resources Limited (Liquidated)	British Virgin Islands/United Kingdom	Dormant	-	-	-	100	-	- ^(c)
EFI Nominees Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Hang Lung Bank (Nominee) Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- ^(c)	- ^(c)
Hang Lung Godown Company Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	1	1
JT Administration Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Kenson Asia Ltd ^(b)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Kingly Management Ltd ^(b)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Market Success Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Omega One Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- ^(c)
Omega Two Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- ^(c)
OTB Card Company Limited ^(b)	Hong Kong	Property investment	-	-	100	100	16	17
OTB International Factors Limited ^(b)	Hong Kong	Dormant	-	-	100	100	2	2
O.T.B. Investment Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- ^(c)
OTB Property Management Limited (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	- ^(c)

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank/Subsidiary Companies	
			DBS Bank		Subsidiary Companies		2004	2003
			2004	2003	2004	2003	\$ millions	\$ millions
			%	%	%	%		
OTB Services Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	1	1
Overseas Trust Bank Nominees Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- ^(c)	- ^(c)
Ting Hong Nominees Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- ^(c)	- ^(c)
Worldson Services Ltd ^(b)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
DBS Factors Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	5	5
DBSF Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	7	7
DBSF Investments Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	17	17
DBS Finance Nominees Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	- ^(c)	- ^(c)
DBS Group Holdings (Hong Kong) Ltd	Bermuda	Investment holding	100	100	-	-	683	683
DBS Kwong On Limited ^(b)	Hong Kong	Dormant	-	-	100	100	-	-
DBS Nominees Pte Ltd	Singapore	Nominee services	100	100	-	-	- ^(c)	- ^(c)
Kendrick Services Limited	British Virgin Islands	Corporate directorship services	-	-	100	100	- ^(c)	- ^(c)
Lushington Investment Limited	British Virgin Islands	Corporate shareholding services	-	-	100	100	- ^(c)	- ^(c)
DBS Trustee Ltd ^(f)	Singapore	Trustee services	20	20	80	80	3	3
DBS Vickers Securities Holdings Pte Ltd	Singapore	Investment holding	100	100	-	-	538	538
Ballas Nominees (Private) Limited (Under liquidation)	Singapore	Dormant	-	-	100	100	- ^(c)	- ^(c)
DBS Securities Holding Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	277	277
DBS Vickers Securities Online Holdings Pte Ltd (formerly "DBS TD Waterhouse Holdings Pte Ltd")	Singapore	Investment holding	-	-	73	73	24	24
DBS Vickers Securities Online (HK) Limited (formerly "DBS TD Waterhouse (Hong Kong) Ltd") ^(b)	Hong Kong	Securities broker and margin financing	-	-	100	100	19	17
DBS Vickers Securities Online Trading (HK) Limited (formerly "DBS TD Waterhouse Securities (Hong Kong) Ltd") (Under liquidation)	Hong Kong	Dormant	-	-	100	100	6	6
DBS Vickers Securities Online (Singapore) Pte Ltd (formerly "DBS TD Waterhouse (Singapore) Pte Ltd")	Singapore	Securities broker	-	-	100	100	10	10
DBS Trading Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- ^(c)	- ^(c)
DBS Vickers Futures (Hong Kong) Limited (Under liquidation)	Hong Kong	Dormant	-	-	100	100	8	8
DBS Vickers (Hong Kong) Limited ^(b)	Hong Kong	Securities broker	-	-	100	100	36	51
DBS Vickers Research Singapore Pte Ltd	Singapore	Investment advisory services	-	-	100	100	1	1
DBS Vickers Securities (Hong Kong) Ltd ^(b)	Hong Kong	Securities broker	-	-	100	100	2	2
DBS Vickers Securities Malaysia Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	17	17
DBS Vickers Securities Nominees (Hong Kong) Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- ^(c)	- ^(c)
DBS Vickers Securities Nominees (Singapore) Pte Ltd	Singapore	Nominee services	-	-	100	100	- ^(c)	- ^(c)

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank/Subsidiary Companies	
			DBS Bank		Subsidiary Companies		2004	2003
			2004	2003	2004	2003	\$ millions	\$ millions
			%	%	%	%		
DBS Vickers Securities (Phils.), Inc. (Under liquidation)	The Philippines	Dormant	-	-	100	100	10	10
DBS Vickers Securities (Singapore) Pte Ltd	Singapore	Securities and futures broker	-	-	100	100	25	25
DBS Vickers Securities (Thailand) Co. Ltd ^(b)	Thailand	Securities broker	-	-	100	100	39	50
DBS Vickers Securities (UK) Ltd ^(b)	United Kingdom	Securities broker	-	-	100	100	- ^(c)	- ^(c)
DBS Vickers Securities (USA), Inc ^(b)	United States	Securities broker	-	-	100	100	4	4
First Independent Insurance Brokerage Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- ^(c)	- ^(c)
PT DBS Securities Indonesia (Under liquidation)	Indonesia	Dormant	-	-	75	75	9	5
PT DBS Vickers Securities (Indonesia) ^(b)	Indonesia	Securities broker	-	-	75	75	9	8
Vickers Ballas & Co. Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	65	65
Vickers Ballas Asset Management Pte Ltd	Singapore	Fund management	-	-	100	100	1	1
Vickers Ballas Consultancy Services Limited ^(b)	Hong Kong	Dormant	-	-	100	100	- ^(c)	- ^(c)
Vickers Ballas Futures Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	1	1
Vickers Ballas Investment Management Limited ^(b)	Hong Kong	Direct investment and investment advisory services	-	-	100	100	- ^(c)	- ^(c)
Vickers Ballas Investment Research Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- ^(c)	- ^(c)
Vickers Ballas Nominees Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- ^(c)	- ^(c)
Vickers Ballas (UK) PLC (Under liquidation)	United Kingdom	Dormant	-	-	100	100	1	1
NDC Capital Holdings Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	- ^(a)	56
POSB Computer Services Pte Ltd (Liquidated)	Singapore	Dormant	-	100	-	-	-	9
PT Bank DBS Indonesia ^(b)	Indonesia	Commercial banking and financial services	99	99	-	-	54	62
Singapore Factory Development Ltd (Liquidated)	Singapore	Dormant	-	100	-	-	-	5

(a) Written down to zero value.

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

(c) Amount under \$500,000.

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

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

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

(g) Ceased to be a subsidiary company during the financial year (Note 28.3).

28.3 ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

28.3.1 On April 16, 2004, DBS Bank converted its 13,943 preferred shares and 13,943 convertible subordinated debentures in DTDB into a total of 348,588,943 ordinary shares in DTDB. DBS Bank's shareholding in DTDB increased from 52% to 59% after the conversion. On June 25, 2004, DBS Bank disposed its 59% equity stake in DTDB in consideration of 16% interest in the Thai Military Bank Public Company Limited ("TMB"). The 16% interest represents 2,460,078,607 ordinary shares of THB10 (S\$ 0.42) each. Profit on disposal of DTDB amounted to \$341 million after adjusting for net attributable assets disposed and transaction costs.

28.3.2 During the financial year, the following subsidiaries were liquidated: Dao Heng Bank Trustee (BVI) Limited, Dao Heng Bullion Limited, DBS Kwong On Securities Limited, Dransfield Resources Limited, Omega One Limited, Omega Two Limited, O.T.B. Investment Limited, OTB Property Management Limited, POSB Computer Services Pte Ltd and Singapore Factory Development Ltd.

28.4 AMOUNTS DUE FROM SUBSIDIARY COMPANY

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

29 ASSOCIATED AND JOINT VENTURE COMPANIES

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

In \$ millions	2004	2003
Quoted equity securities at cost	1,194	1,220
Unquoted equity securities at cost	51	43
	1,245	1,263
Less: Provision for diminution in value (Note 27)	650	650
Total net book value	595	613
Market value of quoted equity securities	692	620

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

Associated and joint venture companies	Country of incorporation/ business	Principal activities	Interest held by DBS Bank (%)	
			2004	2003
Quoted				
Bank of the Philippine Islands	The Philippines	Commercial banking and financial services	20.4	20.4
Vanda Systems & Communications Holding Limited ^(a)	Hong Kong	System integration and related services	-	25.7
Unquoted				
Clearing and Payment Services Pte Ltd	Singapore	Provides service infrastructure for clearing payment and settlement of financial transactions	33.3	33.3
Network for Electronic Transfers (Singapore) Pte Ltd	Singapore	Electronic funds transfer	33.3	33.3
Orix Leasing Singapore Ltd	Singapore	Lease and hire-purchase financing of equipment	30.0	30.0
Investment and Capital Corporation of the Philippines	The Philippines	Financial services	20.0	20.0
Nextmall Holdings Corporation ^(a)	Cayman Islands	Supermarket	33.7	27.3
Merlion CDO 1 Limited ^(b)	Cayman Islands	Special purpose entity for note issuance	29.3	29.3
Capital OK Company Limited	Thailand	Consumer finance	40.0	40.0
Unquoted joint venture companies				
Ayala DBS Holdings Inc	The Philippines	Investment holding	40.0	40.0
Integrated Payment Venture Pte Ltd	Singapore	Dormant	50.0	50.0

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

(b) The interest held refers to DBS Bank's proportionate holding of the subordinate debts issued by the company, and is included as an investment in associated companies in accordance with INT FRS 12 although it is not legally owned by DBS Bank.

29.3 The investment in the Bank of Philippine Islands ("BPI") was purchased by DBS Bank in December 1999. In accordance to FRS 36, the Board and Management have made appropriate assessment of the investment value in BPI, using the higher of net selling price and value in use. In 2004, no impairment loss was recorded in the profit and loss account (2003: \$309 million).

30 FIXED ASSETS

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

In \$ millions	Leasehold properties	Freehold properties	Total properties	Other assets ^(a)	Total
Cost					
Balance at January 1, 2004	635	36	671	413	1,084
Additions	6	#	6	68	74
Disposals	(47)	(4)	(51)	(96)	(147)
Exchange differences	#	#	#	#	#
Balance at December 31, 2004	594	32	626	385	1,011
Less: Accumulated depreciation					
Balance at January 1, 2004	200	8	208	209	417
Depreciation charge	22	1	23	64	87
Disposals	(45)	(1)	(46)	(79)	(125)
Exchange differences	#	#	#	#	#
Balance at December 31, 2004	177	8	185	194	379
Less: Provision for diminution in value (Note 27)	17	1	18	-	18
Net book value at December 31, 2004	400	23	423	191	614
Market value at December 31, 2004	750	27	777	-	777
Cost					
Balance at January 1, 2003	676	39	715	412	1,127
Additions	10	#	10	33	43
Disposals	(51)	(3)	(54)	(32)	(86)
Exchange differences	#	#	#	#	#
Balance at December 31, 2003	635	36	671	413	1,084
Less: Accumulated depreciation					
Balance at January 1, 2003	199	7	206	162	368
Depreciation charge	27	1	28	70	98
Disposals	(26)	#	(26)	(23)	(49)
Exchange differences	#	#	#	#	#
Balance at December 31, 2003	200	8	208	209	417
Less: Provision for diminution in value (Note 27)	20	2	22	-	22
Net book value at December 31, 2003	415	26	441	204	645
Market value at December 31, 2003	772	31	803	-	803

Amount under \$500,000

(a) Refers to computer hardware, software, office equipment, furniture and fittings and other fixed assets.

30.2 The net book value of DBS Building Tower Two, being investment property held for the purpose of generating rental income, at December 31, 2004 is \$186 million (2003: \$197 million). The market value is independently appraised at \$364 million (2003: \$374 million).

31 OTHER ASSETS

In \$ millions	2004		2003	
Accrued interest receivable ^(a)	868			647
Accrued income	65			55
Balances arising from revaluation of financial instruments (Note 34)	10,574		8,684	
Less: Valuation adjustments (Note 31.1)	231	10,343	250	8,434
Deposits and prepayments (Note 31.2)		188		172
Sundry debtors and others		1,044		582
Total		12,508		9,890

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

31.1 Valuation adjustments includes bid-offer spread adjustments made to mark all long positions to bid prices and short positions to offer prices; liquidity reserves to reflect possible price adjustments to the market values to liquidate certain material positions held by the Bank; and model risk reserves for positions where the models used may be a proxy or there may be numerical uncertainty within certain ranges. (Note 2.12.2).

31.2 Included in “Deposits and prepayments” at December 31, 2004, was an amount of \$84 million (2003: \$78 million) relating to an advance placed in a trust. The trust is for the purchase of shares in connection with the DBSH Performance Share Plan and the DBSH Employee Share Plan (Note 13). The advance at December 31, 2004 had been written down to its recoverable amount at reporting date. The cumulative provision at December 31, 2004 amounting to \$35 million (2003: \$44 million) represents the shortfall in the value of shares held in the trust when compared against the purchase cost of the shares.

32 CONTINGENT LIABILITIES

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

Nature of instruments

Guarantees and performance bonds are generally written by a bank to support the performance of a customer to third parties. As DBS Bank will only be required to meet these obligations in the event of the customer’s default, the cash requirements of these instruments are expected to be considerably below their nominal amount.

Endorsements are residual liabilities of DBS Bank in respect of bills of exchange, which have been paid and subsequently rediscounted.

32.1 The amounts outstanding at December 31 comprise the following:

In \$ millions	2004	2003
Guarantees on account of customers	4,131	3,394
Endorsements and other obligations on account of customers		
Letters of credit	2,604	1,632
Others	273	379
Other contingent items	87	89
Total	7,095	5,494
Industry Breakdown		
Manufacturing	1,634	974
Building and Construction	333	270
General Commerce	1,945	1,438
Transportation, Storage and Communications	570	336
Financial Institutions, Investment and Holding Companies	952	669
Professionals and Private Individuals (except Housing Loans)	740	747
Others	921	1,060
Total	7,095	5,494

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

32.3 Included in "Other contingent items" at December 31, 2004, is an amount of \$87 million (2003: \$89 million), representing the termination fee payable by DBS Bank should it terminate its Life Insurance Bancassurance Distribution Agreement with Aviva Ltd prematurely before the expiry date.

32.4 Included in "Guarantees on account of customers" at December 31, 2004, was a guarantee of \$507million (2003: \$590 million) which was given by DBS Bank to holders of "DBS UP Guaranteed Fund 5.0/1, DBS UP Guaranteed Fund 5.0/2, DBS UP Guaranteed Fund 5.0/3, DBS UP Guaranteed Fund 7.0/2, and DBS UP Guaranteed Fund 7.0/3". The guaranteed value is payable on December 23, 2005, April 30, 2006, June 30, 2006, April 30, 2008 and June 30, 2008 respectively.

33 COMMITMENTS

33.1 Undrawn Commitments

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

In \$ millions	2004	2003
Loans and other facilities		
Undrawn credit facilities	54,136	44,399
Undisbursed commitments in debt securities and equities	108	120
Underwriting commitments in debt securities and equities	-	50
Spot foreign exchange contracts	3,790	2,887
Sub-total	58,034	47,456
Capital Commitments		
	51	44
Total	58,085	47,500
Industry Breakdown		
Manufacturing	6,780	8,554
Building and Construction	3,178	3,872
Housing Loans	1,761	1,442
General Commerce	4,058	5,627
Transportation, Storage and Communications	4,440	5,124
Financial Institutions, Investment and Holding Companies	27,441	9,486
Professionals and Private Individuals (except Housing Loans)	4,752	5,625
Others	5,675	7,770
Total	58,085	47,500

33.2 Operating Lease Commitments

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

In \$ millions	2004	2003
Not later than 1 year	44	64
Later than 1 year but not later than 5 years	63	85
Later than 5 years	11	12
Total	118	161
Total commitments (Note 33.1 and Note 33.2)	58,203	47,661

34 FINANCIAL DERIVATIVES

34.1 Financial derivatives are financial instruments whose characteristics are derived from the underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The following outlines the nature and terms of the most common types of derivatives used by DBS Bank:

34.1.1 Interest rate contracts

Forward rate agreements give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contracted rate and the market rate prevailing on the settlement date.

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

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

Interest rate options give the buyer on payment of premium the right, but not the obligation, to fix the rate of interest on a future deposit or loan, for a specified period and commencing on a specified future date.

Interest rate caps and floors give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds; instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of an interest rate cap and floor is known as an interest rate collar.

34.1.2 Exchange rate contracts

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Cross currency swaps are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

Currency options give the buyer on payment of a premium the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

34.1.3 Equity related contracts

Equity options provide the buyer on payment of a premium the right, but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

34.1.4 Credit related contracts

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

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

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

In \$ millions	2004					
	Trading			Non-Trading		
	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value
Interest Rate Derivatives						
Forward rate agreements bought	34,210	20	17	-	-	-
Forward rate agreements sold	32,857	18	19	-	-	-
Interest rate swaps	926,091	6,599	6,325	15,506	642 ^(b)	207
Financial futures bought	21,211	4	5	31	#	-
Financial futures sold	26,111	10	8	230	#	#
Interest rate options bought	11,773	145	-	-	-	-
Interest rate options sold	12,238	-	111	419	-	#
Interest rate futures options bought	17,143	6	-	-	-	-
Interest rate futures options sold	7,568	-	#	-	-	-
Interest rate caps / floor bought	21,206	112	6	-	-	-
Interest rate caps / floor sold	18,509	18	119	-	-	-
Sub-total	1,128,917	6,932	6,610	16,186	642	207
Foreign Exchange Derivatives						
FX forwards	47,123	891	783	25	1	#
FX swaps	186,739	1,278	1,082	11,788	74	277
Currency swaps	39,572	840	833	840	-	65
Currency options bought	26,042	415	-	-	-	-
Currency options sold	24,865	-	355	-	-	-
Sub-total	324,341	3,424	3,053	12,653	75	342
Equity Derivatives						
Equity options bought	3,010	124	#	-	-	-
Equity options sold	7,808	#	346	-	-	-
Sub-total	10,818	124	346	-	-	-
Credit Derivatives						
Credit default swaps	16,616	94	121	2,638	21	-
Sub-total	16,616	94	121	2,638	21	-
Total	1,480,692	10,574	10,130	31,477	738	549
Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 18/31)		10,574^(a)	10,130			
# Amount under \$500,000						

(a) These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value (Note 2.12.2).

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

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The following table shows an analysis of DBS Bank 's derivatives financial instruments at December 31, 2003:

In \$ millions	2003					
	Trading			Non-Trading		
	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value	Underlying Notional	Year-end Positive Fair Value	Year-end Negative Fair Value
Interest Rate Derivatives						
Forward rate agreements bought	72,950	23	99	-	-	-
Forward rate agreements sold	82,946	107	32	-	-	-
Interest rate swaps	716,853	6,208	5,666	13,644	831 ^(b)	192
Financial futures bought	32,319	30	#	-	-	-
Financial futures sold	16,598	1	20	9,398	#	17
Interest rate options bought	7,714	109	-	-	-	-
Interest rate options sold	6,339	-	63	625	-	2
Interest rate futures options bought	11,714	6	-	-	-	-
Interest rate futures options sold	18,695	-	4	-	-	-
Interest rate caps / floor bought	8,236	53	163	-	-	-
Interest rate caps / floor sold	9,638	79	11	-	-	-
Sub-total	984,002	6,616	6,058	23,667	831	211
Foreign Exchange Derivatives						
FX forwards	40,019	427	442	67	#	2
FX swaps	97,592	856	633	4,522	33	86
Currency swaps	23,845	381	351	875	-	44
Currency options bought	15,713	284	-	-	-	-
Currency options sold	15,368	-	330	-	-	-
Sub-total	192,537	1,948	1,756	5,464	33	132
Equity Derivatives						
Equity options bought	2,132	39	-	-	-	-
Equity options sold	6,153	-	201	-	-	-
Sub-total	8,285	39	201	-	-	-
Credit Derivatives						
Credit default swaps	9,343	81	99	2,647	78	-
Sub-total	9,343	81	99	2,647	78	-
Total	1,194,167	8,684	8,114	31,778	942	343
Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 18/31)		8,684 ^(a)	8,114			

Amount under \$500,000

- (a) These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value (Note 2.12.2).
(b) Include fair value of interest rate swaps used to hedge the subordinated debts issued by DBS Bank and DBS Capital Funding Corporation (Note 36).

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties amounted to \$1,272 billion (2003: \$1,014 billion) and \$240 billion (2003: \$212 billion) respectively.

35 FINANCIAL INSTRUMENTS – USAGE AND RISK MANAGEMENT

35.1 USE OF FINANCIAL INSTRUMENTS

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

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

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

35.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

35.2.1 Market Risk

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

35.2.2 Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument or the interest income of a portfolio will fluctuate due to changes in market interest rates. It results primarily from the timing mismatch in re-pricing of interest-bearing assets and liabilities. DBS Bank manages its interest rate risk by changing duration of on-balance-sheet items and by way of entering into off-balance sheet interest rate hedging instruments to hedge the interest rate exposure based on market and economic conditions.

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

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Year Ended December 31, 2004

In \$ millions	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
December 31, 2004								
Cash, and balances and placements with central banks and banks	1,899	7,189	11,133	7,022	67	136	2,430	29,876
Securities (a)	574	1,413	4,393	3,205	7,751	17,805	1,827	36,968
Loans to, and bills receivable from, non-bank customers	6,710	17,797	8,454	10,735	1,718	1,560	47	47,021
Other assets (b)	-	-	-	-	-	-	25,958	25,958
Total assets	9,183	26,399	23,980	20,962	9,536	19,501	30,262	139,823
Subordinated term debts	-	-	-	-	-	4,654	-	4,654
Deposits and balances of banks	3,936	2,341	2,275	1,454	85	7	22	10,120
Deposits and other accounts of non-bank customers	58,819	12,560	3,619	3,708	1,540	4,645	-	84,891
Other liabilities (c)	369	374	812	775	614	954	18,505	22,403
Total liabilities	63,124	15,275	6,706	5,937	2,239	10,260	18,527	122,068
Equity	-	-	-	-	-	-	17,755	17,755
Total liabilities and equity	63,124	15,275	6,706	5,937	2,239	10,260	36,282	139,823
On-balance sheet interest rate gap	(53,941)	11,124	17,274	15,025	7,297	9,241	(6,020)	-
Off-balance sheet interest rate gap								
- Financial derivatives	5,848	6,893	12,868	(10,826)	(13,202)	(1,581)	-	-

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

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

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

DBS Bank Ltd
Year Ended December 31, 2004

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

	Singapore Dollar %	US Dollar %
December 31, 2004		
Assets		
Cash, and balances and placements with central banks	0	0
Securities ^(a)	1.24 – 3.94	2.62 – 4.04
Balances, placements with, and loans to banks	1.26 – 1.34	2.06 – 2.22
Loans to, and bills receivable from, non-bank customers	2.77 – 4.07	2.70 – 4.39
Liabilities		
Subordinated term debts	Not applicable	5.00 – 7.88
Deposits and balances of banks	1.02 – 1.06	2.15 – 2.18
Deposits and other accounts of non-bank customers	0 – 0.33	1.31 – 1.60
December 31, 2003		
Assets		
Cash, and balances and placements with central banks	0	0
Securities ^(a)	0.56 – 3.72	2.65 – 3.52
Balances, placements with, and loans to banks	0.59 – 0.76	1.00 – 1.20
Loans to, and bills receivable from, non-bank customers	2.98 – 3.34	2.46 – 3.59
Liabilities		
Subordinated term debts	Not applicable	7.13 – 7.88
Deposits and balances of banks	0.21 – 0.53	1.08 – 1.21
Deposits and other accounts of non-bank customers	0 – 0.49	0.16 – 0.79

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

35.2.3 Currency Risk

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

In \$ millions	Singapore Dollar	US Dollar	Hong Kong Dollar	Thai Baht	Others	Total
December 31, 2004						
Cash, and balances and placements with central banks and banks	13,538	12,442	138	2	3,756	29,876
Securities ^(a)	12,992	13,889	865	18	9,204	36,968
Loans to, and bills receivable from, non-bank customers	31,666	10,085	1,656	6	3,608	47,021
Other assets ^(b)	5,615	5,961	11,811	370	2,201	25,958
Total assets	63,811	42,377	14,470	396	18,769	139,823
Subordinated term debts	-	4,654	-	-	-	4,654
Deposits and balances of banks	727	7,670	167	1	1,555	10,120
Deposits and other accounts of non-bank customers	61,905	15,457	1,270	18	6,241	84,891
Other liabilities ^(c)	5,096	8,422	3,629	32	5,224	22,403
Total liabilities	67,728	36,203	5,066	51	13,020	122,068
Equity	17,755	-	-	-	-	17,755
Total liabilities and equity	85,483	36,203	5,066	51	13,020	139,823
Net on-balance sheet position	(21,672)	6,174	9,404	345	5,749	-
Net off-balance sheet position	14,807	(9,254)	(2,236)	(486)	(2,831)	-

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

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

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

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Year Ended December 31, 2004

In \$ millions	Singapore Dollar	US Dollar	Hong Kong Dollar	Thai Baht	Others	Total
December 31, 2003						
Cash, and balances and placements with central banks and banks	7,390	15,666	127	-	3,446	26,629
Securities ^(a)	13,259	11,502	725	20	5,949	31,455
Loans to, and bills receivable from, non-bank customers	28,034	7,226	1,223	-	3,950	40,433
Other assets ^(b)	5,302	4,920	11,517	47	1,753	23,539
Total assets	53,985	39,314	13,592	67	15,098	122,056
Subordinated term debts	-	3,571	-	-	-	3,571
Deposits and balances of banks	334	4,785	21	-	2,059	7,199
Deposits and other accounts of non-bank customers	56,562	15,770	674	7	4,280	77,293
Other liabilities ^(c)	2,356	8,889	2,107	67	4,324	17,743
Total liabilities	59,252	33,015	2,802	74	10,663	105,806
Equity	16,250	-	-	-	-	16,250
Total liabilities and equity	75,502	33,015	2,802	74	10,663	122,056
Net on-balance sheet position	(21,517)	6,299	10,790	(7)	4,435	-
Net off-balance sheet position	15,515	(5,916)	(5,583)	8	(4,024)	-

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

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

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

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

In \$ millions	Net investments in overseas operations ^(a)	Borrowings which hedge the net investments ^(b)	Remaining structural currency exposures
Functional currency of the operation involved			
December 31, 2004			
US Dollar	290	285	5
Hong Kong Dollar	4,069	4,017	52
Thai Baht	17	17	-
Others	891	508	383
Total	5,267	4,827	440
Functional currency of the operation involved			
December 31, 2003			
US Dollar	199	195	4
Hong Kong Dollar	3,595	3,531	64
Thai Baht	(48)	(48)	-
Others	651	313	338
Total	4,397	3,991	406

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

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

35.2.4 Credit Risk

Credit risk represents the loss which DBS Bank would suffer if a client or counterparty failed to meet its contractual obligations. Senior management sets the overall direction and policy for managing credit risk at the enterprise level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. DBS Bank is guided by a set of credit principles and policies embodied in its Core Credit Risk Policy, to which all extensions of credit must adhere. These principles and policies have been developed with the objective of promoting best practices and consistent credit risk management standards throughout the organisation.

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

35.2.4.1 Derivatives

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

35.2.4.2 Master Netting Arrangements

DBS Bank further manages its credit exposure by entering into master netting arrangements with counterparties where appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

35.2.4.3 Credit Related Commitments

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

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

35.2.4.4 Non-performing Loans and Provisions

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

At December 31, 2004, DBS Bank's total non-performing loans amounted to \$1,434 million (2003: \$2,121 million). Out of the total NPLs, \$746 million (52%) [2003: \$994 million (47%)] were secured by collateral.

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

In \$ millions	Regional Countries	Singapore	Other Countries	Total
2004				
Non- Performing Loans (NPLs) ^(a)	143	957	334	1,434
- Substandard	90	674	279	1,043
- Doubtful	-	80	36	116
- Loss	53	203	19	275
2003				
Non- Performing Loans (NPLs) ^(a)	448	1,253	420	2,121
- Substandard	335	842	334	1,511
- Doubtful	48	42	27	117
- Loss	65	369	59	493

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

35.2.5 Concentration Risk

DBS Bank's risk management processes also ensure that an acceptable level of risk diversification is maintained across the bank on an ongoing basis. Limits are established and regularly monitored in respect of country exposures and major industry groups, as well as for single counterparty exposures. Control structures are in place to ensure that appropriate limits are in place, exposures are monitored against these limits, and action is taken if limits are breached.

35.2.6 Liquidity Risk

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

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

In \$ millions	Less than 7 days	1 week to 1 month	1–3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	Total
December 31, 2004								
Cash, and balances and placements with central banks and banks	3,797	7,181	10,860	6,770	435	284	549	29,876
Securities ^(a)	13,822	433	1,216	2,398	7,757	9,515	1,827	36,968
Loans to, and bills receivable from, non-bank customers	5,662	4,451	5,180	5,136	7,869	18,723	-	47,021
Other assets ^(b)	44	11	-	7	-	9	25,887	25,958
Total assets	23,325	12,076	17,256	14,311	16,061	28,531	28,263	139,823
Subordinated term debts	-	-	-	-	-	4,654	-	4,654
Deposits and balances of banks	3,983	1,926	2,012	1,404	486	309	-	10,120
Deposits and other accounts of non-bank customers	58,819	12,560	3,619	3,708	1,540	4,645	-	84,891
Other liabilities ^(c)	754	240	694	618	1,672	5,034	13,391	22,403
Total liabilities	63,556	14,726	6,325	5,730	3,698	14,642	13,391	122,068
Equity	-	-	-	-	-	-	17,755	17,755
Total liabilities and equity	63,556	14,726	6,325	5,730	3,698	14,642	31,146	139,823
Net liquidity gap	(40,231)	(2,650)	10,931	8,581	12,363	13,889	(2,883)	-

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

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

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

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

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

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

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

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

In \$ millions	<u>2004</u>		<u>2003</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, and balances and placements with central banks and banks	29,876	29,880	26,629	26,650
Securities	36,968	37,486	31,455	31,762
Financial liabilities				
Deposits and balances of banks	10,120	10,128	7,199	7,202
Deposits and other accounts of non-bank customers	84,891	84,857	77,293	77,297
Other borrowings, debt securities issued and bills payable	3,922	3,922	3,033	3,033
Subordinated term debts	5,937	6,475	4,902	5,593

Cash, and balances and placements with central banks and banks

The estimated fair value of placements is based on the discounted cash flows using the prevailing money market interest rates for placements with similar credit risk and remaining maturity.

Securities

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

Deposits, and balances of banks and non-bank customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

Other borrowings, debt securities and bills payable

The fair value approximates their carrying amounts.

Subordinated term debts

The estimated fair value of subordinated term debts is based on a discounted cash flow model using a current yield curve appropriate for the remaining term to maturity. A substantial portion of the fixed rate USD subordinated term debts issued by DBS Bank have been converted to floating rate via interest rate swaps. The difference between fair value and carrying amount will be largely offset by the corresponding fair value of hedging interest rate swaps. (Note 34.2).

37 ASSETS PLEDGED

The aggregate carrying amounts of assets that have been mortgaged or pledged in the normal course of business to secure the liabilities of DBS Bank at December 31, 2004 was \$2,519 million (2003: \$1,440 million). These relate to securities sold under repurchase agreements.

38 SEGMENTAL ANALYSIS

38.1 BUSINESS SEGMENT ANALYSIS

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

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

The various customer segments are described below:

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

acquisitions advisory services, debt restructuring advisory services, private equity, nominee and trustee services and cash management services.

- **Treasury and Markets**

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

The other segments are:

- **Funding Portfolio**

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

- **Central Operations**

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

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

In \$ millions	Consumer Banking	Enterprise Banking	Investment Banking	Treasury and Markets ^(a)	Funding Portfolio ^(a)	Central Operations	Total
2004							
Income before operating expenses	996	246	646	311	309	997	3,505
Operating profit before provisions and taxation	436	142	424	238	176	854	2,270
Net profit before taxation	378	102	481	238	195	875	2,269
Taxation	(72)	(19)	(80)	(38)	(31)	(92)	(332)
Net profit after taxation	306	83	401	200	164	783	1,937
<u>Other Information</u>							
Total assets	18,542	4,647	30,070	28,030	29,215	29,319	139,823
Total liabilities	48,717	6,439	13,720	17,491	16,308	19,393	122,068
Capital expenditure	8	1	3	2	2	58	74
Depreciation	19	1	2	2	2	61	87
2003							
Income before operating expenses	861	233	628	369	255	344	2,690
Operating profit before provisions and taxation	380	146	438	274	173	229	1,640
Net profit before taxation	323	99	357	274	186	(242)	997
Taxation	(70)	(21)	(48)	(43)	(36)	(37)	(255)
Net profit after taxation	253	78	309	231	150	(279)	742
<u>Other Information</u>							
Total assets	16,311	3,594	25,837	18,396	27,509	30,409	122,056
Total liabilities	46,221	5,734	12,627	12,508	11,279	17,437	105,806
Capital expenditure	6	1	4	1	#	31	43
Depreciation	23	1	2	2	2	68	98

Amount under \$500,000.

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

38.2 GEOGRAPHICAL SEGMENT ANALYSIS

DBS Bank operates in four main geographical areas:

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

Income before operating expenses and net profit attributable to members are based on the country in which the transactions are booked. Total assets are shown by geographical area in which the assets are booked. It would not be materially different if total assets shown are based on the country in which the counterparty or assets are located. The total assets, income before operating expenses and net profit attributable to members are stated after elimination of inter-group assets and revenues.

The following tables analyse total assets, income before operating expenses and net profit attributable to members by geographical segments:

In \$ millions	Total assets	Income before operating expenses	Net profit attributable to members
2004			
Singapore	126,109	3,279	1,833
Hong Kong	2,879	72	40
Regional countries	3,361	43	36
Rest of the world	7,474	111	28
Total	139,823	3,505	1,937
2003			
Singapore	108,188	2,456	639
Hong Kong	3,566	98	40
Regional countries	2,197	49	24
Rest of the world	8,105	87	39
Total	122,056	2,690	742

39 RELATED PARTY TRANSACTIONS

39.1 During the financial year, DBS Bank has banking transactions with related parties, consisting of associated companies, joint ventures, directors and key management personnel of the DBS Bank. These include deposit taking, loans and credit card facilities. These transactions are made in the ordinary course of business and carried out at arms length commercial terms, and are not material.

In addition, directors and key management personnel received remuneration in respect of their services rendered during the financial year. Non-cash benefits which include share options and performance shares were also granted.

39.2 DIRECTORS AND KEY MANAGEMENT PERSONNEL REMUNERATION AND FEES

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

In \$ millions	2004	2003
Remuneration of DBS Bank directors	11	10
Fees of DBS Bank directors	#	#
Total directors' remuneration and fees	11	10
Remuneration of key management personnel ^(a)	11	8
Total remuneration and fees	22	18

Amount under \$500,000

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

39.3 SHARE OPTIONS GRANTED TO DBS BANK DIRECTORS AND KEY MANAGEMENT PERSONNEL

The aggregate number of share options granted to DBS Bank Directors and key management personnel during the financial year were 76,000 and 190,000 (2003: 102,200 and 340,500) respectively. The share options were granted on the same terms and conditions as those offered to other employees of DBS Bank. The outstanding number of share options granted to DBS Bank Directors and key management personnel at the end of the financial year were 781,225 and 1,454,150 (2003: 705,225 and 1,269,150) respectively.

39.4 PERFORMANCE SHARES GRANTED TO DBS BANK DIRECTORS AND KEY MANAGEMENT PERSONNEL

During the financial year, 33,940 and 66,190 (2003: 57,700 and 35,250) awards in respect of DBS Bank ordinary shares were granted to DBS Bank Directors and key management personnel respectively. The award numbers represent a 100% payout. The payout at the end of the performance period could range from a minimum of 50% of the shares awarded to 200%, dependent on the DBS Bank's performance vis-a-vis target performance levels measured by return on equity.

DBS BANK LTD

DIRECTORS' REPORT

The Directors are pleased to submit their report to the Member together with the audited financial statements of DBS Bank Ltd (formerly known as The Development Bank of Singapore Ltd) (“DBS Bank”) for the financial year ended December 31, 2004, which have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards.

BOARD OF DIRECTORS

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

S Dhanabalan	-	Chairman
Jackson Tai	-	Chief Executive Officer & Vice Chairman
Frank Wong Kwong Shing	-	Chief Operating Officer & Vice Chairman
Bernard Chen Tien Lap		
Fock Siew Wah		
Gail D. Fosler (Ms)		
Goh Geok Ling	-	(Appointed on May 3, 2004)
Kwa Chong Seng		
N R Narayana Murthy		
Leung Chun Ying		
Peter Ong Boon Kwee		
John Alan Ross		
Thean Lip Ping		
Wong Ngit Liong	-	(Appointed on May 3, 2004)

Messrs Jackson Tai, Frank Wong Kwong Shing, Bernard Chen Tien Lap, Fock Siew Wah, Gail D. Fosler, Leung Chun Ying and John Alan Ross will retire at the forthcoming annual general meeting. Messrs Jackson Tai, Frank Wong Kwong Shing, Leung Chun Ying and John Alan Ross will offer themselves for re-election. Messrs Bernard Chen Tien Lap, Fock Siew Wah and Gail D. Fosler will not offer themselves for re-election.

In accordance with Article 74(b) of DBS Bank’s Articles of Association, Messrs Goh Geok Ling and Wong Ngit Liong will retire and, being eligible, will offer themselves for re-election pursuant to Article 74(b).

Mr Thean Lip Ping will retire pursuant to Section 153(2) of the Singapore Companies Act, Chapter 50. He will not be offering himself for re-election.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

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

	Holdings in which Directors have a direct interest		Holdings in which Directors are deemed to have an interest	
	As at	As at	As at	As at
	<u>Dec 31 2004</u>	<u>Dec 31 2003</u> (or date of appointment if later)	<u>Dec 31 2004</u>	<u>Dec 31 2003</u> (or date of appointment if later)
Ordinary Shares of par value S\$1.00 each				
S Dhanabalan	38,000	38,000	31,534	31,534
Jackson Tai	90,800	80,800	-	-
Frank Wong Kwong Shing	187,850	177,850	-	-
Bernard Chen Tien Lap	19,000	19,000	-	-
Fock Siew Wah	50,000	50,000	-	-
Gail D. Fosler	3,400	3,400	-	-
Goh Geok Ling	2,100	-	-	-
Kwa Chong Seng	42,129	42,129	-	-
John Alan Ross	5,000	5,000	-	-
Thean Lip Ping	6,448	6,448	15,004	15,004
Unissued Ordinary Shares of par value S\$1.00 each under the DBSH Share Option Plan				
Jackson Tai	386,675	348,675	-	-
Frank Wong Kwong Shing	394,550	356,550	-	-
Number of DBS Bank 6% Non- Cumulative Non-Convertible Perpetual Preference Shares of par value S\$0.01 each				
S Dhanabalan	500	500	-	-
Jackson Tai	250	250	-	-
Thean Lip Ping	-	-	500	500
Wong Ngit Liong	6,000	6,000	-	-

There was no change in any of the above-mentioned interests between the end of the financial year and January 21, 2005.

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director has received or has become entitled to receive a benefit under a contract which is required to be disclosed by Section 201(8) of the Singapore Companies Act save as disclosed in this report or in the financial statements of DBS Bank.

DBSH SHARE OPTION PLAN

The DBS Bank Share Option Plan (the “DBS Bank Option Plan”) was adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on June 19, 1999 to replace the DBS Bank Option Scheme. At an Extraordinary General Meeting held on September 18, 1999, the shareholders of DBSH adopted the DBSH Share Option Plan (the “Option Plan”) to replace the DBS Bank Option Plan, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH. Particulars of the share options granted under the Option Plan in 1999, 2000, 2001, 2002 and 2003 (herewith called “1999 DBSH Options”, “March/July 2000 DBSH Options”, “March/June/August 2001 DBSH Options” and “January/March/August/October/December 2002 DBSH Options”, “February/March 2003 DBSH Options) have been set out in the Directors’ Reports for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 respectively.

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

DBSH Options	Number of unissued ordinary shares January 1, 2004	During the year			Number of unissued ordinary shares December 31, 2004	Subscription price per ordinary share	Date of expiration
		Granted	Exercised	Lapsed			
1999	3,801,036	-	319,902	124,351	3,356,783	S\$15.30	July 27, 2009
March 2000	1,586,200	-	-	89,200	1,497,000	S\$20.87	March 5, 2010
July 2000	1,114,600	-	-	52,600	1,062,000	S\$22.33	July 26, 2010
March 2001	11,625,000	-	-	952,000	10,673,000	S\$17.70	March 14, 2011
June 2001	21,000	-	-	-	21,000	S\$14.76	May 31, 2011
August 2001	1,414,000	-	422,000	56,000	936,000	S\$12.93	July 31, 2011
January 2002	50,500	-	-	-	50,500	S\$13.70	January 1, 2012
March 2002	11,776,240 ^(a)	-	788,030	736,000	10,252,210	S\$14.73	March 27, 2012
August 2002	1,215,000	-	178,200	140,100	896,700	S\$12.27	August 15, 2012
October 2002	9,260	-	-	-	9,260	S\$11.73	October 9, 2012
December 2002	20,000	-	-	-	20,000	S\$11.47	December 17, 2012
February 2003	13,526,200 ^(a)	-	1,581,540	947,230	10,997,430	S\$10.40	February 23, 2013
March 2003	15,000	-	-	-	15,000	S\$9.18	March 9, 2013
March 2004	-	7,494,000	-	531,500	6,962,500	S\$14.73	March 1, 2014
	46,174,036 ^(a)	7,494,000	3,289,672	3,628,981	46,749,383		

(a) Restated since last reported at December 31, 2003 due to withdrawal of staff resignation in 2004.

Total options of 76,000 were granted to executive directors Mr Jackson Tai and Mr Frank Wong Kwong Shing during the financial year.

Information on the Option Plan, “March 2004 DBSH Options” granted under the Option Plan are as follows:

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

include executives of associated companies of DBSH Group who hold the rank of Vice President (or equivalent rank); and non-executive directors of DBSH.

The persons to whom the “March 2004 DBSH Options” have been granted may be eligible to participate in the DBSH Performance Share Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

- (ii) The dates of expiration of the “March 2004 DBSH Options” is March 1, 2014 unless they have been cancelled or have lapsed prior to that date.
- (iii) The subscription price for each share in respect of which a DBSH Option (other than “March 2004 DBSH Options”) is exercisable is the average of the last dealt prices (“Market Price”) for the DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd (“SGX-ST”), for the three consecutive trading days immediately preceding the date of the grant.
- (iv) DBSH Options with subscription prices that are equal to the Market Price may be exercised, in whole or in part, one year after the date of the grant up to the date of expiration of the options, and in accordance with a vesting schedule to be determined by the Compensation Committee.
- (v) Adjustments may be made to the number of DBSH shares which may be acquired by a participant, or the subscription price or both, in the event of any variation in the issued ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

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

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

DBSH PERFORMANCE SHARE PLAN

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

During the financial year, awards in respect of an aggregate of 727,400 ordinary shares of par value S\$1.00 each were granted, pursuant to the DBSH Performance Share Plan, to selected employees of DBSH Group. This included 33,940 awards granted to executive directors Mr Jackson Tai and Mr Frank Wong Kwong Shing. The award numbers represent a 100% payout. The payout at the end of the performance period could range from a minimum of 50% of the shares awarded to 200%, dependent on the DBSH Group’s performance vis-à-vis target performance levels measured by return on equity.

Information on the Performance Share Plan are as follows:

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

The participants of the Performance Share Plan may be eligible to participate in the DBSH Share Option Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

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

AUDITORS

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

On behalf of the Directors

S DHANABALAN

JACKSON TAI

February 17, 2005
Singapore

STATEMENT BY THE DIRECTORS

We, S Dhanabalan and Jackson Tai, being two of the Directors of DBS Bank Ltd (“DBS Bank”) state that, in the opinion of the Directors, the profit and loss account, balance sheet, statement of changes in shareholders’ equity and cash flow statement, together with the notes thereon as set out on pages 1 to 59 are drawn up so as to give a true and fair view of the state of affairs of DBS Bank at December 31, 2004, the results of the business, the changes in equity and the cash flows of DBS Bank for the financial year ended on that date and there are reasonable grounds to believe that DBS Bank will be able to pay their debts as and when they fall due.

On behalf of the Directors

S DHANABALAN

JACKSON TAI

February 17, 2005
Singapore

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

We have audited the accompanying financial statements of DBS Bank Ltd (“the Company”) for the financial year ended December 31, 2004 set out on pages 1 to 56. These financial statements are the responsibility of the Company’s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

- (a) the financial statements of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (“the Act”) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company at December 31, 2004, the results, changes in equity and cash flows of the Company for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young
Certified Public Accountants

February 17, 2005
Singapore