

THE DEVELOPMENT BANK OF SINGAPORE LTD

(Incorporated in Singapore)

STATUTORY ACCOUNTS

DECEMBER 31, 2002

PRICEWATERHOUSECOOPERS

Certified Public Accountants

THE DEVELOPMENT BANK OF SINGAPORE LTD
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31

In S\$'million	Note	2002	2001
Interest income		2,723	3,695
Less: Interest expense		1,029	2,128
Net interest income	5	<u>1,694</u>	<u>1,567</u>
Fee and commission income	6	427	395
Dividends	7	198	341
Rental income	8	17	22
Other income	9	478	651
Income before operating expenses	38	<u>2,814</u>	<u>2,976</u>
Less: Staff costs		531	554
Other operating expenses		542	545
Operating expenses before provisions	10	<u>1,073</u>	<u>1,099</u>
Operating profit before provisions		1,741	1,877
Less: Provision for possible loan losses and diminution in value of other assets	11	585	251
Net profit before taxation		<u>1,156</u>	<u>1,626</u>
Less: Taxation	12	265	270
Net profit after taxation	38	<u>891</u>	<u>1,356</u>

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

(see notes on pages 5 to 65, which form part of these financial statements)

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THE DEVELOPMENT BANK OF SINGAPORE LTD
BALANCE SHEET AS AT DECEMBER 31

In S\$'million	Note	2002	2001		Note	2002	2001
SHARE CAPITAL				ASSETS			
Share capital	14	1,962	1,636	Cash, and balances and placements with central banks	35	2,005	3,414
RESERVES							
Share premium account	15.1	10,134	8,944	Singapore Government securities and treasury bills	22,35	8,985	8,953
Capital reserve	15.2	110	(104)	Trading securities	23,35	7,037	5,189
General reserve	15.3	1,951	1,728				
Revenue reserve	15.4	1,459	2,342				
		13,654	12,910				
SHAREHOLDERS' FUNDS		15,616	14,546	Balances, placements with, and loans and advances to banks	35	31,833	34,073
SUBORDINATED TERM DEBTS		3,648	3,885	Bills receivable from non-bank customers	24,35	1,210	1,082
LIABILITIES							
Deposits and balances of banks	35	4,490	7,145	Loans and advances to non-bank customers	24,35	35,904	40,797
Deposits and other accounts of non-bank customers	18,35	71,185	74,253	Investment securities	27	3,224	350
Other debt securities in issue	17,35	1,747	1,135	Other assets	28	8,568	4,047
Other borrowings	35	393	446	Subsidiary companies	29	12,727	8,798
Due to holding company		216	370	Associated and joint venture companies	30	874	1,201
Due to subsidiary companies	19	2,179	2,047	Fixed assets	31	739	822
Due to related company		6	6	Deferred taxation asset	21	112	83
Bills payable		376	264				
Other liabilities	20	13,015	4,495				
Current taxation		347	217				
Deferred taxation liability	21	-	-				
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		113,218	108,809	TOTAL ASSETS	38	113,218	108,809
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	32	5,551	5,366				
Commitments	33	45,961	41,719				
		51,512	47,085				
Financial derivatives	34	738,576	425,246				

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THE DEVELOPMENT BANK OF SINGAPORE LTD
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002

In S\$'million	Note	Ordinary shares	6% Non-Cumulative Preference Shares	Share Premium	Capital Reserve	General Reserve	Revenue Reserve	Total Reserves
Balance at January 1, 2002	14,15	1,636	#	8,944	(104)	1,728	2,248	12,816
Adjustments due to adoption of SAS 12	15.4						94	94
Balance at January 1, 2002 (restated)	14,15	1,636	#	8,944	(104)	1,728	2,342	12,910
Issue of ordinary and preference shares	14,15.1	326	-	1,190				1,190
Expenses relating to issue of shares				#				#
Net exchange translation adjustments during the year	15.2				214			214
Appropriation from profit and loss account	15.3,15.4					223	(223)	-
Net profit after taxation	15.4						891	891
6% dividends on preference shares	15.4						(51)	(51)
104.1% dividends paid to DBSH	15.4						(1,500)	(1,500)
Balance at December 31, 2002	14,15	<u>1,962</u>	<u>#</u>	<u>10,134</u>	<u>110</u>	<u>1,951</u>	<u>1,459</u>	<u>13,654</u>

Amount under S\$500,000

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In S\$'million	Note	Ordinary shares	6% Non-Cumulative Preference Shares	Share Premium	Capital Reserve	General Reserve	Revenue Reserve	Total Reserves
Balance at January 1, 2001	14,15	1,324	-	4,273	68	1,523	1,014	6,878
Adjustments due to adoption of SAS 12	15.4						82	82
Balance at January 1, 2001 (restated)	14,15	1,324	-	4,273	68	1,523	1,096	6,960
Issue of ordinary and preference shares	14,15.1	312	#	4,673				4,673
Expenses relating to issue of shares				(2)				(2)
Net exchange translation adjustments during the year	15.2				(191)			(191)
Appropriation from profit and loss account	15.3,15.4					67	(67)	-
Net profit after taxation	15.4						1,356	1,356
6% dividends on preference shares	15.4						(24)	(24)
Reserves arising from folding in of subsidiary companies	15.3					138		138
Goodwill transferred on disposal of subsidiary companies	15.4				19		(19)	-
Balance at December 31, 2001	14,15	<u>1,636</u>	<u>#</u>	<u>8,944</u>	<u>(104)</u>	<u>1,728</u>	<u>2,342</u>	<u>12,910</u>

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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 are expressed in Singapore dollars. The Development Bank of Singapore Ltd (“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 29.2.

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(3B) of the Singapore Companies Act, DBS Bank is not required to prepare consolidated financial statements. The results of DBS Bank’s subsidiary companies, and newly acquired and incorporated 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 its subsidiary companies (“DBS Group”) and, except where noted, are consistent with those applied in the previous financial year. The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.1 BASIS OF PRESENTATION

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. They are prepared and complied in accordance with Singapore Companies Act and Singapore Statements of Accounting Standard (“SAS”).

In 2002, DBS Bank has adopted the following SASs:

SAS 12 (Revised 2001)	Income Taxes
SAS 30 (2001)	Interim Financial Reporting

2.2 SUBSIDIARY COMPANIES

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

Investments in subsidiary companies are stated in the financial statements at cost less provision for diminution in value, except where such diminution is temporary.

2.3 ASSOCIATED AND JOINT VENTURE COMPANIES

Associated companies are companies in which DBS Bank has a long-term 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 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 provision for diminution in value, except where such diminution is temporary.

2.4 GOODWILL

Goodwill may arise on the acquisition of subsidiary companies or business undertakings. It represents the excess of the cost of an acquisition over the fair value of the share of the identifiable net assets of the acquired subsidiary companies or business undertakings at the date of acquisition. Goodwill on acquisitions of subsidiary companies or business undertakings occurring on or after January 1, 2001 is reported in the balance sheet as an intangible asset and is amortised using a straight-line method over its estimated useful life, subject to a maximum of 20 years. Goodwill on acquisitions of subsidiary companies or business undertakings that occurred prior to January 1, 2001 was charged in full to reserves in shareholders' equity; such goodwill has not been retroactively capitalised and amortised.

On the acquisition of a foreign subsidiary company, goodwill arising is determined initially in the applicable foreign currency and will be translated into Singapore dollars at the exchange rate prevailing at the date of acquisition. The goodwill in Singapore dollars determined at the date of acquisition is the carrying value, which will be subsequently amortised.

The carrying value of goodwill is reviewed periodically or when circumstances or events indicate that there may be uncertainty over the carrying amount. Goodwill will be written down for impairment when the net present value of the forecast future cash flows of the business are insufficient to support the carrying value.

The gain or loss on disposal of an entity includes the related unamortised balances of goodwill relating to the entity disposed of or, pre-January 1 2001 acquisitions, any goodwill previously charged to shareholders' equity.

2.5 FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into Singapore dollars at the exchange rates prevailing at balance sheet date. Income and expense items are translated into Singapore dollars at the average exchange rates for the year.

2.6 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.

2.7 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 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.

2.8 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 loans in full. Specific provisions are based on several factors including: 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.

2.9 DEBT SECURITIES AND EQUITIES

2.9.1 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS

Singapore Government securities and treasury bills are stated at cost (adjusted for amortisation of premium or discount) less provision. Provision is made based on the shortfall between cost and market value determined on an aggregate portfolio basis and is recognised as a charge to the profit and loss account as they arise.

2.9.2 TRADING SECURITIES

Other government securities and treasury bills, equity securities and debt securities held for trading purposes are stated at cost (adjusted for amortisation of premium or discount) less provision. Provision is made based on the shortfall between cost and market value determined on an aggregate portfolio basis and is recognised as a charge to the profit and loss account as they arise. Where the market price may not be achievable as a result of operating in illiquid markets, appropriate adjustments to the market value are made.

2.9.3 INVESTMENT SECURITIES

Investments in other government securities and treasury bills, equity securities and debt securities held for investment purposes including interests in subsidiary companies are stated at cost less provision. 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 they arise.

2.10 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS (“REPOS” AND “REVERSE REPOS”)

Repos are treated as collateralised borrowing and the amount borrowed is shown as a liability, and included in deposits and balances of banks. 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), and Trading Securities (Note 23). Reverse repos are treated as collateralised lending and the amount lent is shown as an asset, and included in balances, placements with, and loans and advances to banks. 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.

2.11 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 or losses on disposals of such properties are recognised in the profit and loss account at the date of disposal.

2.12 FIXED ASSETS

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

2.12.1 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.

2.12.2 Buildings, excluding plant and machinery 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.

2.12.3 Computer software costs are capitalised and amortised on a straight-line basis over the estimated useful lives of the software ranging from 3 to 5 years.

2.12.4 Other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows: -

Plant and machinery	5 - 15 years
Computer hardware and office equipment	1 - 10 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 disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

2.13 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.

2.13.1 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 cashflows 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 cashflows 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 cashflows 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, cease to be effective or are terminated prior to the end of the life of the assets, liabilities, other positions or cashflows being hedged, are measured at fair value. Any profit or loss arising from the fair value measurement 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 cashflows are terminated prior to the hedging transactions, or anticipated transactions are no longer likely to occur, the hedging transactions are measured on 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.

Derivative transactions which do not meet the criteria required to be classified as a hedge but which are entered into to manage the interest rate exposure of DBS Bank are also classified as non-trading transactions. Income and expenses arising on derivative transactions undertaken for this purpose are accounted for on an accrual basis within interest income and expense.

2.13.2 TRADING TRANSACTIONS

Derivative transactions which do not meet the criteria to be designated as hedges are deemed to be trading transactions except as described in Note 2.13.1. Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivatives entered into as trading transactions are measured at fair value and the resultant profits and losses are taken up in the profit and loss account under "Other income". Unrealised valuation gains or losses are included in "Other assets" or "Other liabilities" respectively.

2.13.3 VALUATION ADJUSTMENTS FOR TRADING INSTRUMENTS

All financial and derivative instruments entered into 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. In addition, where appropriate, a liquidity adjustment is made when a market price may not be achievable as a result of certain material positions held by DBS Bank; and a model reserves is set aside for positions where the models used may be a proxy or there may be numerical uncertainty within certain ranges. The reserves are recognised as a charge to the profit and loss account as they arise as part of "Other income" and included in "Other assets" in the balance sheet.

2.14 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.

2.15 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 accretion of discounts are recognised as interest expense or interest income on straight-line basis over the life of the asset or liability.

2.16 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.

2.17 DIVIDENDS

Dividends from equities are recognised when declared payable.

2.18 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 schemes/plans. These long-term incentives are the DBSH Share Ownership Scheme, the DBSH Performance Share Plan, the DBSH Employee Share Plan, the DBSH Share Option Scheme and the DBSH Share Option 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., 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 is set up for each share plan. The shares purchased are recorded as "Other assets" in the balance sheet. When the shares are awarded, remuneration expenses are computed using the average purchase price 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 Scheme and 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 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.

2.19 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.

2.20 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 subsidiary companies and associated companies, 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.

2.21 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.

2.22 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.

2.23 ACCEPTANCES

Acceptances comprise undertakings by DBS Bank to pay bills of exchange drawn on customers. DBS Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities.

2.24 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.

2.25 BORROWINGS

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

2.26 RECENT ACCOUNTING STANDARDS NOT YET ADOPTED

	Accounting Standards	Adoption date
SAS 33	Financial Instruments : Recognition and Measurement	Financial periods commencing on or after January 1, 2004

The adoption of SAS 33 is expected to have a material impact on certain financial assets and liabilities including long-term debt. An opening adjustment to Revenue Reserves will also be required, representing unrealised gains or losses on financial assets recorded as available for sale, and derivatives designated as cash flow hedges.

3 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year. Where applicable, the comparatives have been adjusted or extended to take into account the requirements of the revised or new SASs which DBS Bank has implemented in 2002.

4 SEGMENTAL PRESENTATION

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

Descriptions of 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 debt securities.

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

6 FEE AND COMMISSION INCOME

Fee and commission income comprises the following:

In S\$'million	2002	2001
Loan-related (include guarantees fees)	102	80
Trade and remittances	57	74
Deposit-related	73	75
Credit cards	45	35
Wealth management	57	44
Investment banking	65	62
Others	28	25
Total	427	395

7 DIVIDENDS

Dividends reflected in DBS Bank include gross dividend income from trading and non-trading equity investments.

In S\$'million	2002	2001
Dividends (gross) from subsidiary companies	151	282
Dividends (gross) from associated companies	28	36
Dividends (gross) from other investments	19	23
Total	198	341

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 S\$'million	2002	2001
Net gains on		
- Foreign exchange, debt securities and derivatives ^(a)	242	252
- Singapore Government securities	103	80
Net gains on disposal of investment securities		
- Disposal of DBS Securities Holdings and DBS Trading shares net of related expenses	-	174
- Others	33	32
Net gains/(losses) on trading equities ^(b)	95 ^(b)	(11)
Net gains on disposal of fixed assets ^(c)	2	21 ^(c)
Surplus arising from folding in of DBS Finance	-	100
Others	3	3
Total	478	651

(a) Net gains on foreign exchange, debt securities and derivatives income include gains and losses from foreign exchange, market making in fixed income instruments, interest rate and currency swaps, options and other derivatives as well as money market instruments, from proprietary and customer-driven activities.

(b) The net gains on trading equities in 2002 include a S\$96 million gain from the sale of an equity stake in Natsteel Ltd.

(c) The net gains on disposal of fixed assets in 2001 include a S\$31 million gain from the sale of DBS Securities Building.

10 OPERATING EXPENSES

In S\$'million	2002	2001
Staff costs ^(a)	531	554
Other operating expenses	542	545
- Technology-related expenses ^(b)	152	152
- Occupancy expenses ^(b)	138	133
- Revenue-related expenses ^(b)	79	53
- Office administration expenses ^(b)	40	36
- Other expenses (including professional & consultancy fees) ^(b)	128	171
Restructuring and integration costs ^(c)	5	-
Operating expenses before provisions	1,073	1,099

(a) Staff costs include salaries, bonuses, contributions to defined contribution plans, e.g. the Central Provident Fund, and all other staff-related expenses (Note 2.18). Contributions to defined contribution plans was S\$39 million (2001: S\$41 million). At December 31, 2002, DBS Bank employed 5,895 (2001: 6,510) staff.

(b) Technology-related expenses include depreciation, hire and maintenance of computer hardware and software, 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.

Office administration expenses include postages, printing & stationary, telecommunication and office equipment expenses.

Other expenses include professional and consultancy fees, product and corporate image advertising, notification, security guard expenses and other general expenses.

(c) The restructuring and integration costs were subject to detailed formal plans that were under implementation or had been communicated to those affected by the plans.

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10.1 Operating expenses include the following:

In S\$'million	2002	2001
(1) Directors' fees and remuneration	7	16
Remuneration of DBS Bank's directors (Note 10.2)	7	16
Fees of DBS Bank's directors (Note 10.2)	#	#
(2) Auditors' remuneration	3	3
Audit fees		
- PwC ^(a) Singapore	2	1
- Other auditors including associated firms of PwC Singapore	#	#
Fee for non-audit services ^(b)		
- PwC Singapore	#	1
- Other auditors including associated firms of PwC Singapore	#	#
(3) Depreciation of fixed assets (Note 31.1)	94	100
Premises and other properties	39	30
Computer and office equipment, furniture and fittings and other fixed assets	55	70
(4) Maintenance and hire of fixed assets including buildings	101	91
(5) Rental of premises	56	57

Amount under S\$500,000

(a) PricewaterhouseCoopers.

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

10.2 The number of directors of DBS Bank, including those appointed and resigned/retired during the year, in each of the remuneration bands is as follows:

	2002	2001
S\$500,000 and above	3	3
S\$250,000 to S\$499,999	-	-
Below S\$250,000	11	9
Total	14	12

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 S\$'million	2002	2001
Specific provision for loans (Note 25)	224	167
Specific provision for diminution in value of investments and other assets (Note 26)	355	129
Release of general provision for loans (Note 25)	(56)	(79)
Provision/(Release) of general provision for diminution in value of investments and other assets (Note 26)	23	(1)
Provision for fixed assets and others (Note 26)	39	35
- Fixed assets	2	11
- Others	37	24
Total	585	251

12 TAXATION

In S\$'million	2002	2001
Taxation charge in respect of profit for the financial year:		
Current taxation		
- current year	294	282
- prior years' under/(over) provision	-	-
Deferred taxation (Note 21)		
- origination and reversal of temporary differences	(27)	1
- reduction in tax rate	(2)	(1)
- effect of adopting SAS 12	-	(12)
- prior years' under/(over) provision	-	-
Total	265	270

The taxation charge on the profit for the year is lower than that derived by applying the statutory income tax rate of 24.5%. This is principally because profit arising from the DBS Bank Asian Currency Unit offshore transactions is subject to tax at a concessionary rate of 10%, as well as non-taxable gains on disposal and folding in of subsidiary companies included in the profits.

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

In S\$'million	2002	2001
Accelerated tax depreciation	(12)	(6)
Provision for loan losses	(36)	(12)
Other temporary differences	19	6
Deferred taxation charged to profit and loss account	(29)	(12)

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

In S\$'million	2002	2001
Operating profit	1,156	1,627
Prima facie tax calculated at a tax rate of 22% (2001: 24.5%)	254	399
Effect of different tax rates in other countries	(5)	20
Effect of change in tax rate	(2)	(1)
Income not subject to tax	(37)	(120)
Income taxed at concessionary rate	(85)	(62)
Non-tax deductible provisions	116	33
Others	24	1
Taxation charged to profit and loss account	265	270

Further information on deferred income tax is presented in Note 21.

13 SHARE OPTIONS AND SHARE PLANS

13.1 DBSH SHARE OWNERSHIP SCHEME

The DBSH Share Ownership Scheme (the “SOS”) 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/Scheme 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 (S\$’million)	
	2002	2001	2002	2001
At beginning of the year	2,807,529	2,321,029	38	45
At end of the year	3,281,329	2,807,529	36	38

13.2 DBSH SHARE OPTION SCHEME

The DBSH Share Option Scheme was terminated on October 18, 1999, and the outstanding existing unexercised options (the “DBSH Options”) will continue to remain valid until the date of expiration of the relevant DBSH Options.

The movements of the unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding existing unexercised options are as follows:

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, 2002	Exercised	Lapsed	December 31, 2002		
1997	1,163,612	1,163,596	16	-	S\$7.29	May 5, 2002
1998	1,145,144	213,156	25,200	906,788	S\$7.69	April 7, 2003
	2,308,756	1,376,752	25,216	906,788		

Ordinary shares of DBSH of par value S\$1.00 issued upon exercise of share options during the year ended December 31, 2002 yielded the following proceeds, at the following market value:

In S\$’million	2002	2001
Ordinary share capital – at par	1	1
Share premium	9	9
Proceeds	10	10
Market value, at exercise date, of shares issued	19	20

13.3 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 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, 2002	During the year			Number of unissued ordinary shares December 31, 2002	Subscription price per ordinary share	Date of expiration
		Granted	Exercised	Lapsed			
1999	4,377,358	-	-	120,897	4,256,461	S\$15.30	July 27, 2009
March 2000	1,750,800	-	-	53,800	1,697,000	S\$20.87	March 5, 2010
July 2000	1,188,800	-	-	35,000	1,153,800	S\$22.33	July 26, 2010
March 2001	13,093,000	-	-	900,000	12,193,000	S\$17.70	March 14, 2011
June 2001	21,000	-	-	-	21,000	S\$14.76	May 31, 2011
August 2001	1,682,000	-	-	182,000	1,500,000	S\$12.93	July 31, 2011
October 2001	11,655	-	-	-	11,655	S\$10.73	October 30, 2011
January 2002	-	50,500	-	-	50,500	S\$13.70	January 1, 2012
March 2002	-	12,876,240	-	548,000	12,328,240	S\$14.73	March 27, 2012
August 2002	-	1,329,000	-	39,000	1,290,000	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
	22,124,613	14,285,000	-	1,878,697	34,530,916		

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

In S\$'million	2002	2001
Ordinary share capital – at par	-	#
Share premium	-	1
Proceeds	-	1
Market value, at exercise date, of shares issued	-	1

Amount under S\$500,000

13.4 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 (Para 13.3).

During the financial year, 598,380 (2001 : 2,378,420) DBSH shares were awarded to selected employees pursuant to the PSP. Remuneration expenses are recognised in the profit and loss account over the relevant performance period when the shares are awarded.

13.5 DBSH EMPLOYEE SHARE PLAN

The DBSH Employee Share Plan (the “Employee Share Plan”) 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 financial year, 438,940 (2001 : Nil) DBSH shares were awarded to selected employees pursuant to the ESP. Remuneration expenses are recognised in the profit and loss account over the relevant performance period when the shares are awarded.

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14 SHARE CAPITAL

The share capital of DBS Bank at December 31, 2002, is as follows:

In S\$'million	2002	2001
<u>Authorised</u>		
2,000,000,000 ordinary shares of S\$1 each	2,000	2,000
600,000,000 non-redeemable convertible preference shares of S\$2 each	1,200	1,200
300,000,000 non-voting convertible preference shares of S\$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 S\$0.01 each and each with a liquidation preference of S\$10,000	- (1)	- (1)
1,100,000,000 non-cumulative non-convertible perpetual preference shares of S\$0.01 each and each with a liquidation preference of S\$100	11	11
	1,511	1,511
<u>Issued and fully paid-up</u>		
1,962,302,697 (2001: 1,636,045,569) ordinary shares of S\$1 each	1,962	1,636
11,000,000 (2001: 11,000,000) non-cumulative non-convertible perpetual preference shares S\$0.01 each	#	#
Total Issued and Paid-up Share Capital of DBS Bank	1,962	1,636

Amount under S\$500,000

(1) Amounted to S\$175.

14.1 On May 7, 2002, DBS Bank issued 210,686,648 ordinary shares of par value S\$1.00 each for S\$211 million to DBSH, for general corporate purposes, including the maintenance of required minimum total capital adequacy ratios.

14.2 On December 23, 2002, DBS Bank issued 115,570,480 ordinary shares of par value S\$1.00 each for S\$1,306 million to DBSH, for general corporate purposes, including the maintenance of required minimum total capital adequacy ratios.

15 RESERVES

15.1 SHARE PREMIUM ACCOUNT

In S\$'million	2002	2001
Balance at January 1	8,944	4,273
Issue of shares	1,190	4,673
Expenses arising from issue of shares	#	(2)
Balance at December 31	10,134	8,944

Amount under S\$500,000

15.2 CAPITAL RESERVE

The capital reserve comprises net exchange translation adjustments arising from translation differences on opening net investments in foreign subsidiary companies and branches, and the related foreign currency borrowings designated as a hedge. Prior to January 1, 2002, goodwill or reserve arising from acquisition of subsidiary companies and other business undertakings has also been included in this account.

In S\$'million	2002	2001
Balance at January 1		
- as previously reported	(12)	(138)
- effect of restating long term investments at historical costs	(92)	206
Balance at January 1 as restated	(104)	68
Net exchange translation adjustments during the year	214	(191)
Goodwill written back on disposal of subsidiary companies	-	19
Balance at December 31	110	(104)

15.3 GENERAL RESERVE

The movement in general reserve relates to the amounts transferred to the Reserve Fund to comply with the Banking Act, and the other statutory regulations. This reserve is non-distributable.

In S\$'million	2002	2001
RESERVE FUND		
Balance at January 1	1,728	1,523
Reserves arising from folding in of subsidiary companies	-	138
Appropriation from profit and loss account (Note 15.4)	223	67
Balance at December 31	1,951	1,728

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15.4 REVENUE RESERVE

In S\$'million	2002	2001
Balance at January 1		
- as previously reported	2,248	1,014
- effect of adopting SAS 12 in connection with deferred taxation	94	82
Balance at January 1 as restated	2,342	1,096
Net profit after taxation	891	1,356
Goodwill transferred from capital reserve on disposal of subsidiary companies	-	(19)
Transfer to general reserve (Note 15.3)	(223)	(67)
	(223)	(86)
Amount available for distribution	3,010	2,366
Less: Dividend on ordinary shares of 104% net of 22% income tax (2001 : nil) paid for the financial year ended December 31, 2002	1,500	-
Dividends on preference shares of 6% net of 22% income tax (2001 : 6%) paid for the financial year	51	24
Balance at December 31	1,459	2,342
Total Reserves	13,654	12,910

15.5 DIVIDEND PROPOSED

There is no dividend proposed for the financial year ended December 31, 2002.

The financial statements do not reflect the dividend payable, which will be accounted for in the Shareholders' Funds as an appropriation of revenue reserves in the year ending December 31, 2003.

16 SUBORDINATED TERM DEBTS

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

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

16.1 DATED SUBORDINATED TERM DEBTS

The following is a summary of the dated subordinated term debts (unsecured unless otherwise stated) outstanding at December 31:

In S\$'million				Note	2002	2001
<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	(a)	1,303	1,388
US\$500m	7 7/8% Subordinated Notes	Apr 15, 2000	Apr 15, 2010	(b)	869	925
US\$850m	7 1/8% Subordinated Notes	May 15, 2001	May 15, 2011	(c)	1,477	1,572
Total Dated Subordinated Term Debts					3,649	3,885

(a) 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 London Interbank Offered Rate ("LIBOR") + 1.0475% via interest rate swaps. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

(b) 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 + 0.485%, fixing in arrears via interest rate swaps. In computing DBS Bank's capital adequacy ratio, these notes qualify as Tier II capital.

(c) 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.

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17 OTHER DEBT SECURITIES IN ISSUE

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

17.1 NEGOTIABLE CERTIFICATES OF DEPOSITS

In S\$'million				2002	2001
<i>Face Value</i>	<i>Interest Rate and Repayment Terms</i>	<i>Issue Date</i>	<i>Maturity Date</i>		
HK\$100m	7.38%, payable yearly	Jul 5, 2000	Jul 5, 2002	-	24
HK\$150m	5.18%, payable quarterly	Apr 10, 2001	Apr 10, 2003	34	35
HK\$60m	5.17%, payable quarterly	Apr 23, 2001	Dec 30, 2002	-	14
HK\$5m	3.00%, payable yearly	Nov 2, 2001	Nov 3, 2003	1	1
HK\$100m	3-mth interbank offer rate for HK\$ deposits + 0.30%, payable quarterly	Mar 19, 1999	Mar 19, 2002	-	24
HK\$100m	1-mth interbank offer rate for HK\$ deposits + 0.40%, payable monthly	Mar 22, 1999	Mar 22, 2002	-	24
HK\$100m	1-mth interbank offer rate for HK\$ deposits + 0.40%, payable monthly	Mar 26, 1999	Mar 26, 2002	-	24
HK\$50m	1-mth interbank offer rate for HK\$ deposits + 0.30%, payable monthly	Mar 26, 1999	Mar 26, 2002	-	12
HK\$150m	1-mth interbank offer rate for HK\$ deposits + 0.18%, payable monthly	Jun 5, 2000	Jun 5, 2002	-	35
HK\$100m	3-mth interbank offer rate for HK\$ deposits + 0.20%, payable monthly	Jul 12, 2000	Jul 12, 2002	-	24
HK\$100m	3-mth interbank offer rate for HK\$ deposits + 0.18%, payable monthly	Jun 15, 2000	Jun 16, 2003	22	24
TWD50m	1.73% payable on maturity	Nov 19, 2002	Jan 19, 2003	2	-
TWD100m	1.465% payable on maturity	Apr 12, 2002	Apr 1, 2003	5	-
TWD100m	1.465% payable on maturity	Sep 12, 2002	Sep 1, 2003	5	-
TWD150m	1.475% payable on maturity	Dec 23, 2002	Jan 23, 2003	8	-
Total				77	241
Repayable :					
- Less than one year				77	180
- Over one year				-	61
Total Negotiable Certificates of Deposits				77	241

17.2 OTHER DEBT SECURITIES

In S\$'million	Note	2002	2001
Equity linked notes	(a)	350	225
Credit linked notes	(b)	975	655
Interest rate linked notes	(c)	203	5
Exchange linked notes	(d)	128	9
Commodity linked notes	(e)	14	-
Total		1,670	894
Repayable :			
- Less than one year		684	415
- Over one year		986	479
Total other debt securities		1,670	894
Total other debt securities in issue		1,747	1,135

(a) The outstanding notes at December 31, 2002, with an embedded equity option, were issued between December 15, 2000 and December 30, 2002 and mature between January 3, 2003 to February 8, 2007. 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.

(b) The outstanding notes at December 31, 2002, with an embedded credit default swap, were issued between February 9, 2001 and December 20, 2002 and mature between January 5, 2003 and June 30, 2010. The notes would 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.

(c) The outstanding notes at December 31, 2002, with an embedded interest rate derivative, were issued between February 11, 2002 and December 20, 2002 and mature between January 8, 2003 and February 28, 2009. The payouts at maturity are linked to the market interest rate of certain indexes.

(d) The outstanding notes at December 31, 2002, with an embedded foreign exchange rate derivative, were issued between April 15, 2002 and December 9, 2002 and mature between January 8, 2003 and November 24, 2003. The payouts at maturity are linked to the market foreign exchange rate of the underlying foreign currencies.

(e) The outstanding notes at December 31, 2002, with an embedded commodity derivative, were issued on June 19, 2002 and mature on December 19, 2003. The payouts at maturity are linked to the market rate of the underlying commodity indexes.

18 DEPOSITS AND OTHER ACCOUNTS OF NON-BANK CUSTOMERS

In S\$'million	2002	2001
Analysed by Currency		
Singapore dollar	53,601	55,057
US dollar	13,410	15,130
Hong Kong dollar	981	736
Thai Baht	14	12
Others	3,179	3,318
Total	71,185	74,253
Analysed by Product		
Savings accounts (include S\$ autosave)	38,304	39,245
Current accounts	7,464	8,171
Fixed deposits	22,480	26,063
Other deposits	2,937	774
Total	71,185	74,253

19 DUE TO SUBSIDIARY COMPANIES

In S\$'million	2002	2001
Subordinated term debts	1,358	1,440
Amounts due to subsidiary companies	821	607
Total	2,179	2,047

19.1 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 S\$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.

19.2 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).

20 OTHER LIABILITIES

In S\$'million	2002	2001
Balances arising from revaluation of financial instruments (Note 34)	6,786	2,833
Payable arising from acquisition of a subsidiary company	3,415	-
Other payables	1,004	544
Sundry creditors	605	402
Interest payable	498	535
Liabilities arising from collateral received	707	181
Total	13,015	4,495

“Other payables” include 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.

“Payable arising from acquisition of a subsidiary company” represents monies payable to minority shareholders of DBS Diamond Holdings Limited (“DDH”) when DBS Bank exercised its Call Option to acquire the minority shareholders’ interest in DDH on January 10, 2003. The financial statements of DBS Group at December 31, 2002 took into account the effect of the exercise of the Call Option, and reflect an increase in DBS Bank’s equity interest in DDH from 71.6% to 100%.

21 DEFERRED TAXATION

The movement in deferred tax is as follows:

In S\$'million	2002	2001
Balance at January 1	11	11
Effect of adopting SAS 12	(94)	(82)
Balance at January 1 (restated)	(83)	(71)
(Release)/provision during the year (Note 12)	(29)	(12)
Balance at December 31	(112)	(83)

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

In S\$'million	2002	2001
Deferred income tax liabilities/(assets)		
Accelerated tax depreciation	25	37
Provision for loan losses	(133)	(97)
Other temporary differences	(4)	(23)
Balance at December 31	(112)	(83)

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.

22 SINGAPORE GOVERNMENT SECURITIES AND TREASURY BILLS

In S\$'million	2002	2001
Cost, adjusted for unamortised premium and discount	8,985	8,964
Less : Provision for diminution in value (Note 26)	-	11
Net book value	8,985	8,953
Market value	9,152	8,965
Included in the above Singapore Government securities and treasury bills are as follows:		
Securities sold under repurchase agreements	324	63

23 TRADING SECURITIES

Trading securities include cash instruments, such as government and corporate debt and equity securities acquired and held principally for the purpose of selling them in the near term with the objective of generating gains on short-term differences in price. The cost less provision and market value of these investments at December 31, are as follows:

In S\$'million	2002	2001
Quoted		
Non-Singapore Government securities and treasury bills	2,990	838
Corporate debt securities	3,589	3,846
Equity securities	547	606
Total	7,126	5,290
Less: Provision for diminution in value (Note 26)	89	101
Net book value	7,037	5,189
Market value	7,247	5,338
Industry Breakdown		
Manufacturing	254	275
Building and Construction	275	306
General Commerce	26	62
Transportation, Storage and Communications	415	419
Financial Institutions, Investment and Holding Companies	2,271	2,425
Others	3,796	1,702
Total net book value	7,037	5,189
Included in the above Non-Singapore Government securities and treasury bills are as follows:		
Securities sold under repurchase agreements	948	160

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

In S\$'million	2002	2001
Gross	38,503	43,242
Less :		
Specific provisions (Note 25)	722	610
General provisions (Note 25)	667	753
Net total	37,114	41,879
Including :		
Bills receivable	1,210	1,082
Loans	35,904	40,797
Net total	37,114	41,879
Industry Breakdown		
Manufacturing	3,487	3,960
Building and Construction	5,241	6,515
Housing Loans	12,289	13,860
General Commerce	2,531	2,577
Transportation, Storage and Communications	2,636	3,236
Financial Institutions, Investment and Holding Companies	3,269	3,806
Professionals and Private Individuals (except Housing Loans)	5,173	5,473
Others	3,877	3,815
Gross total	38,503	43,242
Analysed by Currency and Fixed/ Variable Rates		
<u>Fixed rate</u>		
Singapore dollar	8,359	12,370
Hong Kong dollar	8	9
Others	1	2
Sub-total	8,368	12,381
<u>Variable rate</u>		
Singapore dollar	21,500	21,035
Hong Kong dollar	1,172	1,343
US dollar	6,062	7,053
Japanese Yen	487	511
Others	914	919
Sub-total	30,135	30,861
Total (Gross)	38,503	43,242

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. Variable rate loans refer to loans that are pegged to prime, short-term cost of funds or inter-bank rates, as well as fixed rate loans that have effectively been converted to variable rate loans through interest rate swaps.

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

In S\$'million	Specific	General	Total	Interest-in-suspense
<u>2002</u>				
Balance at January 1	610	753	1,363	68
Utilisation/transfers during the year	(104)	(30)	(134)	(11)
Charge/(write-back) to profit and loss account (Note 11)	224	(56)	168	-
Interest (written off)/suspended during the year	(8)	-	(8)	23
Balance at December 31	722	667	1,389	80
<u>2001</u>				
Balance at January 1	432	795	1,227	49
Utilisation/transfers during the year	16	37	53	(15)
Charge/(write-back) to profit and loss account (Note 11)	167	(79)	88	-
Interest (written off)/suspended during the year	(5)	-	(5)	34
Balance at December 31	610	753	1,363	68

26 PROVISION FOR DIMINUTION IN VALUE OF OTHER ASSETS AND BANKING RISKS

In S\$'million	Debt and equity securities		Fixed assets and others [@]		Interest-in-suspense
	Specific	General	Specific & General	Total	
<u>2002</u>					
Balance at January 1	282	1	102	385	3
Utilisation/transfers during the year	(34)	-	8	(26)	(1)
Charge/(writeback) to profit and loss account (Note 11)	355	23	39	417	-
Interest written-off during the year	-	-	-	-	(1)
Balance at December 31	603	24	149	776	1
Specific and general provisions are in respect of the following:					
Singapore Government securities and treasury bills (Note 22)	-	-	-	-	-
Trading securities (Note 23)	88	1	-	89	-
Investment securities (Note 27)	48	23	-	71	-
Subsidiary companies (Note 29)	126	-	-	126	-
Associated companies (Note 30)	341	-	-	341	-
Fixed assets (Note 31)	-	-	20	20	-
Other banking risks ^(a)	-	-	105	105	-
Other assets	-	-	24	24	-
	603	24	149	776	
<u>2001</u>					
Balance at January 1	143	2	103	248	2
Utilisation/transfers during the year	10	-	(36)	(26)	-
Charge to profit and loss account (Note 11)	129	(1)	35	163	-
Interest suspended during the year	-	-	-	-	1
Balance at December 31	282	1	102	385	3
Specific and general provisions are in respect of the following:					
Singapore Government securities and treasury bills (Note 22)	11	-	-	11	-
Trading securities (Note 23)	100	1	-	101	-
Investment securities (Note 27)	51	-	-	51	-
Subsidiary companies (Note 29)	120	-	-	120	-
Fixed assets (Note 31)	-	-	18	18	-
Other banking risks ^(a)	-	-	76	76	-
Other assets	-	-	8	8	-
	282	1	102	385	

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

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27 INVESTMENT SECURITIES

In S\$'million	2002	2001
Quoted securities		
- Equity securities	-	-
- Corporate debt securities	2,859	55
- Non-Singapore Government Securities & Treasury Bills	76	-
Unquoted equity securities	360	346
	<u>3,295</u>	<u>401</u>
Less: Provision for diminution in value (Note 26)	71	51
Total net book value	<u>3,224</u>	<u>350</u>
Market value of quoted securities	<u>2,959</u>	<u>51</u>
Industry Breakdown		
Building and Construction	187	87
Financial Institutions, Investment and Holding Companies	2,227	168
General Commerce	10	-
Manufacturing	120	21
Transportation, Storage and Communications	227	3
Others	453	71
Total net book value	<u>3,224</u>	<u>350</u>

28 OTHER ASSETS

In S\$'million	2002	2001
Accrued interest receivable ^(a)	686	782
Accrued income	51	30
Balances arising from revaluation of financial instruments (Note 34)	7,280	2,867
Less: Valuation adjustments	<u>111</u>	<u>98</u>
Deposits and prepayments	173	205
Sundry debtors and others	489	261
Total	<u>8,568</u>	<u>4,047</u>

(a) Accrued interest receivable is net of interest-in-suspense (Notes 25 and 26).

Included in deposits and prepayments at December 31, 2002, was an amount of S\$101 million (2001: S\$148 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, 2002 had been written down to its recoverable amount determined using a dividend-discounted model. The impairment charge to the profit and loss account in 2002 amounting to S\$23 million represents the shortfall in the value of shares held in the trust when compared against the purchase cost of the shares.

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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 2.13.3).

29 SUBSIDIARY COMPANIES

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

In S\$'million	2002	2001
Quoted equity shares, at cost	-	-
Unquoted equity shares, at cost	12,334	8,667
	<hr/> 12,334	<hr/> 8,667
Less : Provision for diminution in value (Note 26)	126	120
	<hr/> 12,208	<hr/> 8,547
Amount due from subsidiary companies	519	251
Total	<hr/> 12,727	<hr/> 8,798
Market value of quoted equity shares	<hr/> 232	<hr/> 278

The market values of quoted equity shares refer to shares in DBS Thai Danu Bank Public Company Ltd where the investment cost had been written down to zero in the accounts of DBS Bank.

29.2 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					
			DBS Bank		Subsidiary companies		Cost of Investment Held by DBS Bank	
			2002	2001	2002	2001	2002	2001
<i>Held by DBS Bank and subsidiary companies</i>			%	%	%	%	S\$'million	S\$'million
Quoted								
DBS Thai Danu Bank Public Company Limited ^(b) (Market value : 2002: S\$231,721,212; 2001: S\$277,669,968)	Thailand	Commercial banking and financial services	51.7	51.7	-	-	-	-
Unquoted								
DBS Asia Ltd ^(b)	Hong Kong	Financial services and investment holding	100	100	-	-	-	-
DBS Asia Capital Limited ^(b)	Hong Kong	Corporate finance and advisory services	100	100	-	-	22	24
DBS Asset Management Ltd	Singapore	Investment management services and unit trusts	100	100	-	-	4	4
DBS Asset Management (United States) Pte Ltd	Singapore	Investment management services	-	-	100	100	-	-
DBS Asset Management (Hong Kong) Ltd ^(b)	Hong Kong	Investment management services	-	-	100	100	3	3

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By				Cost of Investment Held by DBS Bank	
			DBS Bank		Subsidiary companies		2002	2001
			2002	2001	2002	2001	2002	2001
			%	%	%	%	S\$ million	S\$ million
<i>Held by DBS Bank and subsidiary companies</i>			%	%	%	%	S\$ million	S\$ million
DBS Asset Management (Cayman) Limited ^(b)	Cayman Island	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	Computer services and IT consultancy	100	100	-	-	- (a)	- (a)
DBS Diamond Holdings Ltd	Bermuda	Investment holding	100	71.6	-	-	10,713	7,157
Dao Heng Bank Group Limited ^(b)	Bermuda/Hong Kong	Investment holding	-	-	100	100	9,445	10,059
Dao Heng Bank Trustee (BVI) Limited ^(b)	British Virgin Islands	Trustee services	-	-	100	100	- (c)	- (c)
Dao Heng Capital (BVI) Limited ^(b)	British Virgin Islands	Dormant	-	-	100	100	- (c)	- (c)
Dransfield Resources Limited ^(b)	British Virgin Islands/United Kingdom	Property investment	-	-	100	100	- (c)	- (c)
Dao Heng Assurance Limited ^(b) (Note 29.3.1)	Hong Kong	Insurance	-	-	-	100	-	36
Dao Heng Bank Limited ^(b)	Hong Kong	Commercial banking and financial securities	-	-	100	100	1,289	1,373
Dao Heng Bank Trustee Limited ^(b)	Hong Kong	Trustee services	-	-	100	100	1	1
Dao Heng Bullion Limited ^(b)	Hong Kong	Bullion broking	-	-	100	100	- (c)	- (c)
Dao Heng Corporate Services Limited ^(b)	Hong Kong	Investment holding and corporate services	-	-	100	100	- (c)	- (c)
Dao Heng Finance Limited ^(b)	Hong Kong	Finance company	-	-	100	100	8	8
DHB Limited ^(b)	Hong Kong	Investment holding	-	-	100	100	18	19
EFI Nominees Limited ^(b)	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 ^(b)	Hong Kong	Property holding	-	-	100	100	1	1
Kenson Asia Ltd ^(b)	Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
Kingly Management Ltd ^(b)	Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
OTB Card Company Limited ^(b)	Hong Kong	Property investment	-	-	100	100	17	18
OTB International Factors Limited ^(b)	Hong Kong	Dormant	-	-	100	100	2	2
O.T.B. Investment Limited ^(b)	Hong Kong	Investment holding	-	-	100	100	- (c)	- (c)
OTB Property Management Limited ^(b)	Hong Kong	Property management	-	-	100	100	- (c)	- (c)
OTB Services Limited ^(b)	Hong Kong	Provision of consultancy services	-	-	100	100	1	1
Overseas Trust Bank Limited ^(b)	Hong Kong	Commercial banking and financial services	-	-	100	100	864	920
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)
Dao Heng Trustee (Jersey) Limited ^(b)	Jersey	Corporate services	-	-	100	100	- (c)	- (c)
Benchmark Farm Finance (Four) Limited ^(b) (To be liquidated in 2003)	United Kingdom	Dormant	-	-	100	100	- (a)	- (a)

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By					
			DBS Bank		Subsidiary companies		Cost of Investment Held by DBS Bank	
			2002	2001	2002	2001	2002	2001
<i>Held by DBS Bank and subsidiary companies</i>			%	%	%	%	S\$ million	S\$ million
Dao Heng London plc ^(b) (To be liquidated in 2003)	United Kingdom	Dormant	-	-	100	100	- (a)	- (a)
Dao Heng Nominees Limited ^(b) (To be liquidated in 2003)	United Kingdom	Dormant	-	-	100	100	- (a)	- (a)
JT Administration Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
Market Success Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
DHJ Management Limited ^(b)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
DBS Factors Pte Ltd	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 Forex Centre Philippines, Inc. ^(b) (Under liquidation)	The Philippines	Dormant	100	100	-	-	- (c)	- (c)
DBS Group Holdings (Hong Kong) Ltd	Bermuda	Investment holding	100	87.3	-	-	940	728
DBS Kwong On Bank Limited ^(b)	Hong Kong	Commercial banking and financial services	-	-	100	100	719	897
DBS Kwong On Bank (Nominees) Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- (c)	- (c)
DBS Kwong On Finance Limited ^(b)	Hong Kong	Deposit-taking finance company	-	-	100	100	6	6
DBS Kwong On Futures Limited ^(b)	Hong Kong	Dormant	-	-	100	100	1	1
DBS Kwong On Insurance Company Limited ^(b) (Note 29.3.1)	Hong Kong	Insurance company	-	-	-	100	-	2
DBS Kwong On Property Agency Company Limited ^(b) (Liquidated)	Hong Kong	Dormant	-	-	-	100	-	-
DBS Kwong On Securities Limited ^(b)	Hong Kong	Dormant	-	-	100	100	3	4
DBS Nominees Pte Ltd	Singapore	Nominee services	100	100	-	-	- (c)	- (c)
DBS Pte Ltd (Liquidated)	Singapore	Dormant	-	100	-	-	-	25
DBS Trustee Ltd	Singapore	Trustee services	20	20	80	80	3	- (c)
DBS Vickers Securities Holdings Pte Ltd	Singapore	Investment holding	59.5	59.5	-	-	323	418
Ballas Nominees (Private) Limited (Under liquidation)	Singapore	Dormant	-	-	100	100	- (c)	- (c)
DBS Securities Holding Pte Ltd	Singapore	Investment holding	-	-	100	100	285	285
DBS Vickers Securities Malaysia Pte Ltd (formerly known as DBS Securities Malaysia Pte Ltd)	Singapore	Investment holding	-	-	100	100	17	17
DBS Trading Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- (c)	18
DBS Vickers Research Singapore Pte Ltd	Singapore	Investment advisory services	-	-	100	100	- (c)	- (c)
DBS Vickers Securities Nominees (Singapore) Pte Ltd	Singapore	Nominee services	-	-	100	100	- (c)	- (c)
DBS Vickers Securities (Singapore) Pte Ltd	Singapore	Securities broker	-	-	100	100	25	25
First Independent Insurance Brokerage Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- (c)	- (c)
J Ballas Trading Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	- (c)	- (c)

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			DBS Bank		Subsidiary companies		Cost of Investment Held by DBS Bank	
			2002	2001	2002	2001	2002	2001
			%	%	%	%	S\$ million	S\$ million
<i>Held by DBS Bank and subsidiary companies</i>			%	%	%	%	S\$ million	S\$ million
Vickers Ballas & Co. Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	65	142
Vickers Ballas Asset Management Pte Ltd	Singapore	Fund management	-	-	100	100	1	1
Vickers Ballas Futures Pte Ltd (Under liquidation)	Singapore	Dormant	-	-	100	100	1	7
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)
Vernant Assets Limited (Under liquidation)	Singapore	Dormant	-	-	100	100	- (c)	- (c)
DBS Vickers Research (Malaysia) Sdn Bhd ^(b)	Malaysia	Investment advisory services	-	-	100	100	1	1
DBS-Capital Trust Securities India Pvt Ltd ^(b) (Note 29.3.2)	India	Securities broker	-	-	-	75	-	7
Vickers Ballas Hong Kong Holdings Ltd ^(b) (Under liquidation)	Bermuda/Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
Oriental Hearts International Limited ^(b) (Liquidated)	British Virgin Islands/Hong Kong	Investment holding	-	-	-	100	-	- (c)
Pan Shine Investments Limited ^(b) (Liquidated)	British Virgin Islands/Hong Kong	Investment holding	-	-	-	100	-	- (c)
DBS Futures Hong Kong Ltd ^(b) (Under liquidation)	Hong Kong	Dormant	-	-	100	100	2	2
DBS Securities Nominees (HK) Ltd ^(b) (Under liquidation)	Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
DBS Vickers Futures (Hong Kong) Limited ^(b)	Hong Kong	Futures broker	-	-	100	100	8	8
DBS Vickers (Hong Kong) Limited ^(b)	Hong Kong	Securities broker	-	-	100	100	72	72
DBS Vickers Securities (Hong Kong) Ltd ^(b)	Hong Kong	Securities broker	-	-	100	100	42	42
DBS Vickers Securities Nominees (Hong Kong) Limited ^(b)	Hong Kong	Nominee services	-	-	100	100	- (c)	- (c)
J. Ballas (Hong Kong) Company Limited ^(b) (Under liquidation)	Hong Kong	Dormant	-	-	100	100	1	1
Vickers Ballas (B.V.I) Holdings Limited ^(b) (Under liquidation)	British Virgin Islands/Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
Vickers Ballas Capital Limited ^(b) (Under liquidation)	Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
Vickers Ballas Consultancy Services Limited ^(b)	Hong Kong	Advisory and consultancy services	-	-	100	100	- (c)	- (c)
Vickers Ballas Hong Kong Securities Ltd ^(b) (Under liquidation)	Hong Kong	Dormant	-	-	100	100	3	3
Vickers Ballas Investment Management Limited ^(b)	Hong Kong	Direct investment and investment advisory services	-	-	100	100	- (a)	2
Vidasia Nominees Limited (Under liquidation) ^(b)	Hong Kong	Dormant	-	-	100	100	- (c)	- (c)
DBS Securities Philippines, Inc ^(b) (Under liquidation)	The Philippines	Dormant	-	-	100	100	11	11
DBS Vickers Securities (Phils.), Inc. ^(b) (Under liquidation)	The Philippines	Dormant	-	-	100	100	10	10
DBS Vickers Securities (Thailand) Co Ltd ^(b)	Thailand	Securities broker	-	-	100	100	82	82
DBS Vickers Securities (UK) Ltd ^(b)	United Kingdom	Securities broker	-	-	100	100	- (c)	- (c)

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Subsidiary Companies	Country of Incorporation/Business	Principal Activities	Interest Held By					
			DBS Bank		Subsidiary companies		Cost of Investment Held by DBS Bank	
			2002	2001	2002	2001	2002	2001
<i>Held by DBS Bank and subsidiary companies</i>			%	%	%	%	S\$ million	S\$ million
DBS Vickers Securities (USA), Inc ^(b)	United States	Securities broker	-	-	100	100	4	3
Vickers Ballas (UK) PLC (Under liquidation) ^(b)	United Kingdom	Dormant	-	-	100	100	1	1
PT DBS Securities Indonesia ^(b)	Indonesia	Dormant	-	-	75	75	9	14
PT DBS Vickers Securities (Indonesia) ^(b)	Indonesia	Securities broker	-	-	75	75	6	6
NDC Capital Holdings Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	56	56
POSB Computer Services Pte Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	9	9
PT Bank DBS Indonesia ^(b)	Indonesia	Commercial banking and financial services	99	99	-	-	60	38
Singapore Factory Development Ltd (Under liquidation)	Singapore	Dormant	100	100	-	-	5	6
Singapore Bankers Club Pte Ltd (Liquidated)	Singapore	Dormant	-	100	-	-	-	- (a)
Thai Danu-DBS Co Ltd ^(b) (Liquidated)	Thailand	Dormant	-	49	-	51	-	1

(a) Written down to zero value.

(b) Audited by associated firms of PricewaterhouseCoopers, Singapore.

(c) Amount under S\$500,000.

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

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

29.3 ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

29.3.1 On June 6, 2002, Dao Heng Bank Group Limited (“DHG”), an indirect 71.6% owned subsidiary company of DBS Bank and DBS Kwong On Bank Limited (“DKOB”), an indirect wholly owned subsidiary company of DBS Bank under a conditional sale and purchase agreement, disposed their wholly owned insurance subsidiary companies, Dao Heng Assurance Ltd and DBS Kwong On Insurance Ltd, to Commercial Union International Holdings Limited for a total cash consideration of HK\$295 million (S\$66 million) and HK\$31 million (S\$7 million) respectively. The net attributable tangible assets of Dao Heng Assurance Ltd and DBS Kwong On Insurance Ltd at the date of disposal were HK\$142 million (S\$32 million) and HK\$31 million (S\$7 million) respectively. On completion of the sale, Dao Heng Assurance Ltd and DBS Kwong On Insurance Ltd have ceased to be subsidiary companies of DBS Group.

As part of this transaction, DHG Group also entered into a Life Insurance Bancassurance Distribution Agreement and a General Insurance Bancassurance Distribution Agreement (the “Agreements”) with Aviva Ltd (formerly known as “CGNU International Insurance PLC” (“CGNU”). Under the Agreements, DHG Group entered into an exclusive arrangement to distribute CGNU life and general insurance products throughout its banking network in Hong Kong. The term of the Agreements is ten years.

The difference between the consideration received and the fair value of the assets and liabilities disposed will be recognised over the term of the Agreements as commission income to offset the costs incurred to meet DHG Group’s obligations and responsibilities over the life of the Agreements, including the provision of employees, IT and other resources.

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29.3.2 On October 8, 2002, DBS Vickers Securities Holdings Pte Ltd, an indirect 59.5% owned subsidiary company of DBSH, disposed its 75% equity stake in DBS Capital Trust Securities India Pvt Ltd (“DBS CT”) for a total cash consideration of INR107 million (S\$4 million). The net attributable tangible assets of DBS CT at the date of disposal was INR144 million (S\$5 million). On completion of the sale, DBS CT has ceased to be a subsidiary company of DBS Group.

29.3.3 During the financial year, indirect subsidiary companies liquidated include DBS Pte Ltd, Thai Danu-DBS Co Ltd, Singapore Bankers Club Pte Ltd, Oriental Hearts International Limited, Pan Shine Investments Limited, and DBS Kwong On Property Agency Company Limited.

29.4 ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARY COMPANIES

29.4.1 DBS Diamond Holdings Ltd

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DBS Diamond Holdings Ltd (“DDH”). Under the Call Option, DBS Bank had the right to require each DDH minority shareholder to sell his shares in DDH, by giving a notice within a period of seven business days following December 31, 2002, at a purchase price of HK\$21.70 per share. The financial statements of DBSH Group at December 31, 2002 took into account the effect of the exercise of the Call Option, and reflect an increase in DBS Bank’s equity interest in DDH from 71.6% to 100%.

Goodwill arising from the acquisition of the remaining 28.4% interest in DDH amounted to S\$2,684 million. This was computed based on the difference between the total consideration paid of S\$3,555 million and DBS Bank’s 28.4% interest in the fair values of identifiable assets and liabilities of DDH Group of S\$871 million at the same date. The goodwill will be amortised over a period of 19 years from January 2003.

29.4.2 DBS Group Holdings (Hong Kong) Ltd

On May 7, 2002, DBS Bank acquired the remaining 12.7% of DBS Group Holdings (Hong Kong) Ltd (“DBSG HK”) held by minority shareholders. DBSG HK owned all the issued share capital of DBS Kwong On Bank Limited (“DKOB”). The total consideration paid for the acquisition was HK\$907 million (S\$212 million). The consideration comprised 15,135,535 new DBSH ordinary shares of par value S\$1.00 each at an issue price of S\$13.92 per DBSH ordinary share, and cash consideration of HK\$4 million (S\$1 million). Upon completion of the transaction, DBSH’s effective equity interest in DBSG HK increased from 87.3% to 100%.

Goodwill arising from the acquisition of the remaining 12.7% interest in DBSG HK amounted to S\$83 million. This was computed based on the difference between the total consideration paid of S\$212 million and DBS Bank’s 12.7% interest in the fair values of identifiable assets and liabilities of DBSG HK Group of S\$129 million at the same date. The goodwill is amortised over a period of 17 years from May 2002.

29.5 AMOUNTS OWING BY SUBSIDIARY COMPANIES

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

30 ASSOCIATED AND JOINT VENTURE COMPANIES

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

In S\$'million	2002	2001
Quoted equity securities at cost	1,194	1,192
Unquoted equity securities at cost	21	9
	1,215	1,201
Less : Provision for diminution in value (Note 26)	341	-
	874	1,201
Market value of quoted equity securities	423	656

30.2 The associated companies held by DBS Bank and its subsidiary companies at December 31 are as follows:

Associated Companies	Country of Incorporation/ Business	Principal Activities	Interest Held by DBS Group	
			2002	2001
Quoted				
<i>Held by DBS Bank</i>				
Bank of the Philippine Islands	The Philippines	Commercial banking and financial services	20.8	20.8
<i>Held By Subsidiary Companies</i>				
Hwang – DBS (Malaysia) Bhd	Malaysia	Investment holding	23.1	23.3
Unquoted				
<i>Held by DBS Bank</i>				
Clearing and Payment Services Pte Ltd	Singapore	Provides service infrastructure for clearing payment and settlement of financial transactions	33.3	33.3
Fujitec Singapore Corporation Ltd	Singapore	Manufactures elevators, escalators and related components	26.3	26.0
Network for Electronic Transfers (Singapore) Pte Ltd	Singapore	Electronic funds transfer	33.3	20.0
Orix Leasing Singapore Ltd	Singapore	Lease and hire-purchase financing of equipment	30.0	30.0
Spray's Shipping Pte Ltd	Singapore	Dormant	-	26.0
Venture Investment Management (S) Pte Ltd	Singapore	Investment management services	24.5	24.5
Yamaha Music (Asia) Pte Ltd	Singapore	Distributor and retailer of all kinds of musical instruments, operator and franchise of music schools	-	20.0
Investment and Capital Corporation of the Philippines	The Philippines	Financial services	20.0	20.0
Nextmall Holdings Corporation	Cayman Islands	Supermarket (Venture capital investment)	27.3	-

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Associated Companies	Country of Incorporation/ Business	Principal Activities	Interest Held by DBS Group	
			2002	2001
<i>Held By Subsidiary Companies</i>				
Asia Converge Pte Ltd	Singapore	Securities transaction processing	39.0	39.0
Singapore Africa Investment Management Pte Ltd	Singapore	Investment management	30.0	30.0
Southern Africa Investment Pte Ltd	Singapore	Venture capital investment	25.0	25.0
Singapore Consortium Investment Management Ltd	Singapore	Investment management services	33.3	20.0
Transtech Capital Investment I Ltd	Singapore	Venture capital investment	-	41.5
Venture Investment Management II Ltd	Singapore	Investment manager for venture capital	30.0	30.0
Transtech Venture Management Pte Ltd	Singapore	Investment manager for venture capital	40.0	40.0
Hwang-DBS Unit Trust Berhad	Malaysia	Investment management services	30.0	30.0
Olympia Thailand ^(b)	Thailand	Wholesale and retail	26.9	-
Thailand Carpet Manufacturing Public Company Limited ^(b)	Thailand	Carpet manufacturer	40.5	46.0

(a) The associated company is under a court-approved scheme of arrangement. Consequently, equity accounting was not applied for this associated company.

(b) The investment in this associated company was acquired as a result of debt restructuring, and is not intended to be a long-term investment. Consequently, equity accounting was not applied for this associated company.

30.3 The joint venture companies indirectly held by DBS Bank at December 31 are as follows:

Joint Venture Companies	Country of Incorporation/ Business	Principal Activities	Interest Held By DBS Group	
			2002	2001
<i>Held By DBS Bank</i>				
Ayala DBS Holdings Inc.	The Philippines	Investment holding	40.0	40.0
Integrated Payment Venture Pte Ltd	Singapore	Dormant	50.0	-
<i>Held By Subsidiary Companies</i>				
DBS TD Waterhouse Holdings Pte Ltd	Singapore	Investment holding	50.0	50.0
The Payment Solutions Company	Singapore	To design, develop, implement and maintain internet-based payment gateway	-	50.0
Hutchison Dao Heng Card Limited	British Virgin Islands	Provision of agency services for credit card business	50.0	50.0

30.3.1 On January 11, 2002, DBS Computer Services Pte Ltd, a wholly owned subsidiary company of DBS Bank, disposed the whole of its investment of 1,250,000 ordinary shares of S\$1.00 each in the joint venture, The Payment Solutions Company Pte Ltd, for a cash consideration of S\$5.4 million.

30.3.2 On February 4, 2002, DBS Bank established a joint venture company, Integrated Payment Venture Pte Ltd, with Singapore Telecom International Pte Ltd. The joint venture company has an authorised capital of S\$100,000 divided into 100,000 ordinary shares of par value S\$1.00 each and an issued and paid up share capital of S\$2.00 fully paid.

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30.3.3 DBS Group's share of the income and expenses, assets employed and liabilities incurred by the joint venture companies at December 31 is as follows :

In S\$'million	DBS Group	
	2002	2001
Profit and Loss		
Share of income	37	23
Share of expenses	(43)	(21)
Balance sheet		
Non-current assets	4	98
Current assets	298	126
Current liabilities	75	90
Non-current liabilities	195	9
Off Balance Sheet		
Contingent liabilities	-	-
Commitments	-	-

31 FIXED ASSETS

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

In S\$'million	Leasehold properties	Freehold properties	Total properties	Equipment , furniture and other assets	Total
Cost					
Balance at January 1, 2002	690	57	747	396	1,143
Additions	16	1	17	46	63
Disposals	(30)	(19)	(49)	(30)	(79)
Exchange differences	#	#	#	#	#
Balance at December 31, 2002	676	39	715	412	1,127
Accumulated depreciation					
Balance at January 1, 2002	178	10	188	115	303
Depreciation charge (Note 10.1)	27	1	28	66	94
Disposals	(6)	(4)	(10)	(19)	(29)
Exchange differences	#	#	#	#	#
Balance at December 31, 2002	199	7	206	162	368
Less: Provision for diminution in value (Note 26)	18	2	20	-	20
Net book value at December 31, 2002	459	30	489	250	739
Market value at December 31, 2002	854	45	899	-	899

Amount under S\$500,000

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In S\$'million	Leasehold properties	Freehold properties	Total properties	Equipment , furniture and other assets	Total
Cost					
Balance at January 1, 2001	822	79	901	427	1,328
Additions	#	#	#	152	152
Disposals	(133)	(22)	(155)	(183)	(338)
Exchange differences	1	#	1	#	1
Balance at December 31, 2001	690	57	747	396	1,143
Accumulated depreciation					
Balance at January 1, 2001	211	14	225	247	472
Depreciation charge (Note 10.1)	28	2	30	70	100
Disposals	(61)	(6)	(67)	(202)	(269)
Exchange differences	#	#	#	#	#
Balance at December 31, 2001	178	10	188	115	303
Less: Provision for diminution in value (Note 26)	16	2	18	-	18
Net book value at December 31, 2001	496	45	541	281	822
Market value at December 31, 2001	1,011	57	1,068	-	1,068

Amount under S\$500,000

31.2 The net book value of DBS Building Tower Two, being investment property held for the purpose of generating rental income, at December 31, 2002 is S\$207 million (2001: S\$219 million). The market value is independently appraised at S\$400 million (2001: S\$460 million).

32 CONTINGENT LIABILITIES

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

Nature of instruments

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. DBS Bank expects most acceptances to be presented, but reimbursement by the customer is usually immediate. Endorsements are residual liabilities of DBS Bank in respect of bills of exchange which have been paid and subsequently rediscounted.

Guarantees, performance bonds and assets pledged as collateral security 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.

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32.1 The amounts outstanding at December 31 comprise the following:

In S\$'million	2002	2001
Acceptances on account of customers	24	26
Guarantees on account of customers	4,008	4,229
Endorsements and other obligations on account of customers		
Letters of credit	1,136	839
Others	292	181
Other contingent items	91	91
Total	5,551	5,366
Industry Breakdown		
Manufacturing	1,109	1,778
Building and Construction	332	563
General Commerce	963	1,038
Transportation, Storage and Communications	380	576
Financial Institutions, Investment and Holding Companies	966	364
Professionals and Private Individuals (except Housing Loans)	779	265
Others	1,022	782
Total	5,551	5,366

32.2 On November 12, 2002, DBS Bank entered into a ten-year outsourcing agreement with IBM with respect to the provision of information technology and related support to DBS Bank's operations in Singapore. 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, 2002, is an amount of S\$91 million (2001: S\$91 million), representing the termination fee payable by DBS Bank should it terminate its Life Insurance Bancassurance Distribution Agreement ("Agreement") with Aviva Ltd (formerly known as "CGNU International Insurance PLC"). The amount of termination fee payable is determined in accordance with the schedule of termination fee included in the Agreement, and ranges from S\$35 million to S\$91 million, depending on when the Agreement is terminated.

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32.4 Included in "Guarantees on account of customers" at December 31, 2002, was a guarantee of S\$631 million (2001: S\$648 million) which was given by DBS Bank to holders of "DBS UP Guaranteed Fund 2.5/1, DBS UP Guaranteed Fund 3.5/1, 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 June 25, 2003, June 23, 2004, 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 S\$'million	2002	2001
Loans and other facilities		
Undrawn credit facilities	41,345	38,147
Undrawn note issuance and revolving underwriting facilities	-	11
Undisbursed commitments in debt securities and equities	170	209
Spot foreign exchange contracts	4,242	3,077
Sub-total	45,757	41,444
Capital Commitments		
	15	27
Total	45,772	41,471
Industry Breakdown		
Manufacturing	7,895	3,974
Building and Construction	3,132	7,404
Housing Loans	958	1,002
General Commerce	6,038	3,215
Transportation, Storage and Communications	4,552	10,136
Financial Institutions, Investment and Holding Companies	11,793	9,862
Professionals and Private Individuals (except Housing Loans)	5,744	2,778
Others	5,660	3,100
Total	45,772	41,471

Amount under S\$500,000

33.2 Operating Lease Commitments

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

In S\$'million	2002	2001
Not later than 1 year	79	78
Later than 1 year and not later than 5 years	97	157
Later than 5 years	13	13
Total	189	248

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

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.

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.

Swaptions give the buyer the right, but not the obligation, to enter into an interest rate swap as either the payer or receiver of the fixed side of the swap.

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 option provides the buyer with 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. For most derivative transactions, the notional or contractual amounts do not change hands and are merely used as a reference for calculating payments. They indicate the volume of transactions outstanding at the balance sheet date but do not represent amounts at risk. The corresponding gross positive and negative balance sheet fair values of the derivative financial instruments by counterparties are also included in the tables to reflect the underlying credit risk of these counterparties.

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In the financial statements, trading and non-trading (excluding those non-trading derivative financial instruments which are held for hedging and are accounted for on an accrual basis) derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in “Other assets” or “Other liabilities”.

In S\$'million	2002					
	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	13,553	#	33	-	-	-
Forward rate agreements sold	22,186	64	#	-	-	-
Interest rate swaps	362,039	4,826	4,328	10,684	1,049 ⁽¹⁾	144
Financial futures purchased	54,345	56	3	-	-	-
Financial futures sold	10,465	2	33	-	-	-
Swaptions purchased	2,729	77	-	-	-	-
Swaptions sold	2,085	-	38	-	-	-
Interest rate futures options purchased	11,750	9	-	-	-	-
Interest rate futures options written	23,322	-	6	-	-	-
Interest rate caps / floor written	5,344	-	117	-	-	-
Interest rate caps / floor purchased	4,335	94	-	-	-	-
Sub-total	512,153	5,128	4,558	10,684	1,049	144
Foreign Exchange Derivatives						
FX Forwards	21,045	306	325	76	2	#
FX Swaps	116,139	892	812	11,315	182	556
Currency swaps	20,906	656	744	988	-	31
Currency options purchased	18,668	243	-	-	-	-
Currency options written	17,543	-	280	-	-	-
Sub-total	194,301	2,097	2,161	12,379	184	587
Equity Derivatives						
Equity options purchased	1,463	27	-	-	-	-
Equity options sold	1,525	-	45	357	-	-
Sub-total	2,988	27	45	357	-	-
Credit Derivatives						
Credit default swaps	3,049	28	22	2,651	77	-
Sub-total	3,049	28	22	2,651	77	-
Commodity Derivatives						
Gold options purchased	7	#	-	-	-	-
Gold options sold	7	-	#	-	-	-
Sub-total	14	#	#	-	-	-
Total	712,505	7,280	6,786	26,071	1,310	731
Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 20/28)						
		7,280*	6,786			-

* These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value to liquidate certain material positions held by the Bank (Note 2.13.3).

Amount under S\$500,000

(1) Include fair value of interest rate swaps used to hedge the subordinated debts issued by DBS Bank (Note 36).

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The following table shows an analysis of DBS Bank's derivatives financial instruments at December 31, 2001:

In S\$'million	2001					
	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	4,865	1	9	-	-	-
Forward rate agreements sold	5,871	10	1	-	-	-
Interest rate swaps	156,523	1,509	1,310	9,295	340 ⁽¹⁾	130
Financial futures purchased	95	1	#	93	1	-
Financial futures sold	563	5	#	-	-	-
Swaptions purchased	943	10	-	-	-	-
Swaptions sold	1,674	-	20	-	-	-
Interest rate futures options purchased	25,458	7	-	-	-	-
Interest rate futures options written	19,388	-	6	-	-	-
Interest rate caps / floor written	2,291	-	44	-	-	-
Interest rate caps / floor purchased	913	38	-	-	-	-
Sub-total	218,584	1,581	1,390	9,388	342	130
Foreign Exchange Derivatives						
FX Forwards	18,707	146	233	196	1	1
FX Swaps	122,657	876	855	5,083	59	115
Currency swaps	15,077	95	157	100	#	#
Currency options purchased	11,454	149	-	-	-	-
Currency options written	12,057	-	175	-	-	-
Sub-total	179,952	1,266	1,420	5,379	60	116
Equity Derivatives						
Equity options purchased	459	20	-	3,637	-	-
Equity options sold	530	-	23	3,959	-	2
Sub-total	989	20	23	7,596	-	2
Credit Derivatives						
Credit default swaps	-	-	-	3,358	3	24
Sub-total	-	-	-	3,358	3	24
Total	399,525	2,867	2,833	25,721	405	272
Balances arising from off-balance sheet financial instruments (see Other liabilities / Other assets Notes 20/28)	-	2,867*	2,833	-	-	2

* These gross position fair value are subject to certain valuation adjustments to reflect possible price adjustments to the market value to liquidate certain material positions held by the Bank (Note 2.13.3).

Amount under S\$500,000

(1) Include fair value of interest rate swaps used to hedge the subordinated debts issued by DBS Bank (Note 36).

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties amounted to S\$560,377 million (2001: S\$301,412 million) and S\$178,199 million (2001: S\$123,834 million) respectively.

DBS Bank accounts for options on shares held by the minority as derivative contracts, and the options will be accounted for as such until any settlement date when the physical shares would be acquired.

In the case of DBS Vickers Securities Holdings Pte Ltd, under the Shareholders' Agreement in relation to the sale and purchase of Vickers Ballas Holdings Limited, DBS Bank is subject to a Put Option provision. The minority interest may exercise a Put Option exercisable on September 12, 2003 at an Option Price of S\$0.71[^] per Option Share and 3.1 per cent per annum compounded annually.

The notional value of the Put Option at December 31, 2002 was S\$255 million (2001 : S\$322 million). This amount would be payable in full should the minority shareholder exercises its Put Option at maturity.

[^] Based on the original Option price of S\$0.90 per Option share, adjusted for pre-acquisition profits distributed subsequent to the acquisition.

35 FINANCIAL INSTRUMENTS – USAGE AND RISK MANAGEMENT

35.1 USE OF FINANCIAL INSTRUMENTS

DBS Bank's activities are principally related to the use of financial instruments including the use of derivatives. 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 whilst maintaining interest rate risk within targets as well as sufficient liquidity to meet all claims that might possibly fall due.

DBS Bank takes positions in exchange traded and over the counter financial instruments including derivatives to take advantage of short-term market movements in the 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 delegated by the Board 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.

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 DBSH Group 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, with detailed limit frameworks governing the different activities approved by the Board Risk Management Committee. Limits are monitored by independent units. 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 the mark-to-market valuation to reflect the current market value of the trading portfolio and their profit and loss. The Group Asset and Liability Management Committee oversees market risk arising from mismatches in the Bank's customer loans and deposits.

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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 way of entering into on and 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.

In S\$'million	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
December 31, 2002							
Cash, and balances and placements with central banks and banks	6,972	9,574	7,905	6,405	916	83	1,982
Securities (a)	2,805	998	1,983	2,417	2,631	7,565	847
Loans to, and bills receivable from, non-bank customers	7,296	12,728	6,332	8,104	854	1,770	30
Other assets (b)	-	-	-	-	-	-	23,021
Total assets	17,073	23,300	16,220	16,926	4,401	9,418	25,880
Subordinated term debts	-	-	-	-	-	3,648	-
Deposits and balances of banks	1,679	1,510	907	363	31	-	-
Deposits and other accounts of non-bank customers	49,591	10,914	4,624	3,691	626	1,739	-
Other liabilities (c)	385	149	99	936	480	2,171	14,059
Total liabilities	51,655	12,573	5,630	4,990	1,137	7,558	14,059
Equity	-	-	-	-	-	-	15,616
Total liabilities and equity	51,655	12,573	5,630	4,990	1,137	7,558	29,675
On balance sheet interest rate gap	(34,582)	10,727	10,590	11,936	3,264	1,860	(3,795)
Off-balance sheet interest rate gap							
- Financial derivatives	7,560	(6,174)	(10,099)	8,735	(5,393)	5,371	-

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

In S\$'million	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
December 31, 2001							
Cash, and balances and placements with central banks and banks	6,030	9,068	8,662	10,131	204	28	3,364
Securities (a)	84	681	1,454	3,791	2,336	5,246	900
Loans to, and bills receivable from, non-bank customers	19,237	6,670	6,279	4,665	2,734	2,294	-
Other assets (b)	1,072	-	-	-	-	-	13,879
Total assets	26,423	16,419	16,395	18,587	5,274	7,568	18,143
Subordinated term debts	-	-	-	-	-	3,885	-
Deposits and balances of banks	1,792	2,123	2,045	1,185	-	-	-
Deposits and other accounts of non-bank customers	51,263	13,860	4,139	4,573	217	201	-
Other liabilities (c)	1,891	55	374	491	274	2,034	3,861
Total liabilities	54,946	16,038	6,558	6,249	491	6,120	3,861
Equity	-	-	-	-	-	-	14,546
Total liabilities and equity	54,946	16,038	6,558	6,249	491	6,120	18,407
On balance sheet interest rate gap	(28,523)	381	9,837	12,338	4,783	1,448	(264)
Off-balance sheet interest rate gap							
- Financial derivatives	4,360	(752)	(3,914)	(12,721)	4,408	8,619	-

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

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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, 2002		
Assets		
Cash, and balances and placements with central banks	0	0
Securities (a)	0.90 – 3.74	3.38 – 4.19
Balances, placements with, and loans to banks	0.92 – 0.98	1.29 – 2.01
Loans to, and bills receivable from, non-bank customers	3.39 – 4.34	2.68 – 2.74
Liabilities		
Subordinated term debts	0	7.13 – 7.88
Deposits and balances of banks	0.38 – 1.03	1.24 – 1.56
Deposits and other accounts of non-bank customers	0 – 0.89	0.19 – 1.50
December 31, 2001		
Assets		
Cash, and balances and placements with central banks	0	0 – 4.37
Securities (a)	1.48 – 4.21	3.82 – 5.60
Balances, placements with, and loans to banks	0.89 – 1.25	1.90 – 2.86
Loans to, and bills receivable from, non-bank customers	4.06 – 4.42	3.54 – 3.65
Liabilities		
Subordinated term debts	0	7.13 – 7.88
Deposits and balances of banks	0.46 – 1.84	1.84 – 2.18
Deposits and other accounts of non-bank customers	0 – 1.24	0.79 – 2.95

(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 the Bank's exposure to foreign currency exchange rate risk at December 31.

Concentrations of assets, liabilities and off balance sheet items

In S\$'million	Singapore Dollar	US Dollar	Hong Kong Dollar	Thai Baht	Others	Total
December 31, 2002						
Cash, and balances and placements with central banks and banks	6,828	21,736	326	#	4,948	33,838
Securities (a)	10,809	4,757	346	13	3,321	19,246
Loans to, and bills receivable from, non-bank customers	28,831	5,776	1,164	-	1,343	37,114
Other assets (b)	6,498	2,415	12,451	2	1,654	23,020
Total assets	52,966	34,684	14,287	15	11,266	113,218
Subordinated term debts	-	3,648	-	-	-	3,648
Deposits and balances of banks	713	2,166	22	-	1,589	4,490
Deposits and other accounts of non-bank customers	53,601	13,410	981	14	3,179	71,185
Other liabilities (c)	7,632	5,133	4,765	5	744	18,279
Total liabilities	61,946	24,357	5,768	19	5,512	97,602
Equity	15,616	-	-	-	-	15,616
Total liabilities and equity	77,562	24,357	5,768	19	5,512	113,218
Net on-balance sheet position	(24,596)	10,327	8,519	(4)	5,754	-
Net off-balance sheet position	15,276	(8,503)	(2,472)	(100)	(4,201)	-

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

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

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

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In S\$'million	Singapore Dollar	US Dollar	Hong Kong Dollar	Thai Baht	Others	Total
December 31, 2001						
Cash, and balances and placements with central banks and banks	10,940	19,961	352	-	6,234	37,487
Securities (a)	10,998	2,205	271	21	997	14,492
Loans to, and bills receivable from, non-bank customers	32,735	6,904	1,324	-	916	41,879
Other assets (b)	3,061	2,084	8,086	40	1,680	14,951
Total assets	57,734	31,154	10,033	61	9,827	108,809
Subordinated term debts	-	3,885	-	-	-	3,885
Deposits and balances of banks	960	4,329	142	2	1,712	7,145
Deposits and other accounts of non-bank customers	55,057	15,130	736	12	3,318	74,253
Other liabilities (c)	5,680	1,577	621	37	1,065	8,980
Total liabilities	61,697	24,921	1,499	51	6,095	94,263
Equity	14,546	-	-	-	-	14,546
Total liabilities and equity	76,243	24,921	1,499	51	6,095	108,809
Net on-balance sheet position	(18,509)	6,233	8,534	10	3,732	-
Net off-balance sheet position	7,918	(815)	(5,001)	(232)	(1,870)	-

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

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

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

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

In S\$' million	Net investments in overseas operations^(a)	Borrowings which hedge the net investments	Remaining structural currency exposures
Functional currency of the operation involved			
December 31, 2002			
US Dollar	148	139	9
Hong Kong Dollar	4,038	4,013	25
Thai Baht	(59)	(59)	#
Others	645	292	353
Total	4,772	4,385	387
Functional currency of the operation involved			
December 31, 2001			
US Dollar	127	131	(4)
Hong Kong Dollar	3,404	3,323	81
Thai Baht	(72)	(5)	(67)
Others	670	614	56
Total	4,129	4,063	66

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

35.2.4 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Senior management manages credit risk at the enterprise level by setting the overall direction and policy. 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 which all extensions of credit must adhere to. 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 and the rightsizing of credit limits where appropriate. Exposure to credit risk is also managed in part through credit risk mitigation techniques such as appropriate structuring of credit, and requiring collateral and / or third party support.

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 is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit exposures on these instruments, 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 with which it undertakes a significant volume of transactions. 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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from a direct borrowing.

Commitments to extend credit includes unused portions of loan commitments, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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. The Bank monitors the term to maturity of credit commitments as longer-term commitments generally have a greater degree of credit risk sensitivity than shorter-term commitments.

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.

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

In S\$'million	Regional Countries	Singapore	Other Countries	Total
2002				
Non- Performing Loans (NPLs)				
(a)	635	1,545	403	2,583
- Substandard	445	1,052	278	1,775
- Doubtful	96	23	68	187
- Loss	94	470	57	621
2001				
Non- Performing Loans (NPLs)				
(a)	559	1,525	367	2,451
- Substandard	361	1,175	277	1,813
- Doubtful	94	27	20	141
- Loss	104	323	70	497

(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, exposure is monitored against these limits, and action is taken if exposure limits are breached.

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35.2.6 Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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 tapping available sources of liquidity, preserving necessary funding capacity and continuous contingency planning.

The table below analyses assets and liabilities of DBS Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

In S\$'million	Repayable on demand	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	No specific maturity	Total
December 31, 2002										
Cash, and balances and placements with central banks and banks	2,135	6,819	9,574	7,900	6,388	934	61	27	-	33,838
Securities (a)	7,037	251	505	1,351	2,251	2,334	2,616	2,588	312	19,245
Loans to, and bills receivable from, non-bank customers	2,183	512	7,772	2,049	2,627	5,647	5,207	11,117	-	37,114
Other assets (b)	-	-	-	-	-	-	-	-	23,021	23,021
Total assets	11,355	7,582	17,851	11,300	11,266	8,915	7,884	13,732	23,333	113,218
Subordinated term debts	-	-	-	-	-	-	-	3,648	-	3,648
Deposits and balances of banks	248	1,431	1,510	907	363	31	-	-	-	4,490
Deposits and other accounts of non-bank customers	45,768	3,822	10,914	4,624	3,691	626	1,739	-	-	71,184
Other liabilities (c)	376	9	3,564	99	936	480	617	1,555	10,644	18,280
Total liabilities	46,392	5,262	15,988	5,630	4,990	1,137	2,356	5,203	10,644	97,602
Equity	-	-	-	-	-	-	-	-	15,616	15,616
Total liabilities and equity	46,392	5,262	15,988	5,630	4,990	1,137	2,356	5,203	26,260	113,218
Net liquidity gap	(35,037)	2,320	1,863	5,670	6,276	7,778	5,528	8,529	(2,927)	-

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

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

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

In S\$'million	Repayable on demand	Less than 7 days	1 week to 1 month	1-3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	No specific maturity	Total
December 31, 2001										
Cash, and balances and placements with central banks and banks	3,676	5,718	9,068	8,635	10,112	250	22	6	-	37,487
Securities (a)	5,188	36	333	1,163	2,927	1,693	2,802	56	294	14,492
Loans to, and bills receivable from, non-bank customers	3,019	644	7,063	2,102	4,104	5,984	5,595	13,368	-	41,879
Other assets (b)	-	-	-	-	-	-	-	-	14,951	14,951
Total assets	11,883	6,398	16,464	11,900	17,143	7,927	8,419	13,430	15,245	108,809
Subordinated term debts	-	-	-	-	-	-	-	3,885	-	3,885
Deposits and balances of banks	192	1,600	2,123	2,045	1,185	-	-	-	-	7,145
Deposits and other accounts of non-bank customers	47,416	3,847	13,860	4,139	4,573	217	201	-	-	74,253
Other liabilities (c)	264	9	55	374	491	274	391	1,643	5,479	8,980
Total liabilities	47,872	5,456	16,038	6,558	6,249	491	592	5,528	5,479	94,263
Equity	-	-	-	-	-	-	-	-	14,546	14,546
Total liabilities and equity	47,872	5,456	16,038	6,558	6,249	491	592	5,528	20,025	108,809
Net liquidity gap	(35,989)	942	426	5,342	10,894	7,436	7,827	7,902	(4,780)	-

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

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

(c) Other liabilities include debt securities issued, other borrowings, bills payable, current and deferred 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 SAS 32 which requires the fair value information to be disclosed. These include fixed assets, long-term relationships with customers and intangibles.

Except for loans to and bills receivable from customers, the following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. The Bank have 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 S\$'million	<u>2002</u>		<u>2001</u>	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, and balances and placements with central banks and banks	33,838	33,863	37,487	37,528
Securities	19,246	19,654	14,492	14,638
Financial liabilities				
Subordinated term debts (a)	5,006	5,883	5,325	5,488
Deposits and balances of banks	4,490	4,493	7,145	7,147
Deposits and other accounts of non-bank customers	71,185	71,184	74,253	74,243
Other borrowings, debt securities issued and bills payable	2,516	2,516	1,846	1,846

(a) Include subordinated term debts issued to DBS Capital Funding Corporation, subsidiary of DBS Bank. Please refer to Note 19.

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 price may not be achievable as a result of operating in illiquid markets, appropriate adjustment to the market value is made. 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.

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. 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 the interest rate swaps (Note 34.2).

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.

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 are as follows:

In S\$'million	2002	2001
Securities sold under repurchase agreements	1,272	223

38 SEGMENTAL ANALYSIS

38.1 GEOGRAPHICAL SEGMENT ANALYSIS

DBS Bank operates in four main geographical areas:

- “**Singapore**”, the home country of DBS Bank, which includes all the areas of operations in the primary business segments.
- “**Hong Kong**”, which includes branch operations in Hong Kong.
- “**Regional Countries**”, which includes branch 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.

With the exception of Singapore and Hong Kong, no other individual country contributed more than 10% of the consolidated income before operating expenses and of total assets.

Income before operating expenses and net profit attributable to members are based on the country in which the transactions are booked except for special general provisions for regional exposures and additional specific provisions for DBS Thai Danu Bank Public Company Limited’s loans which are booked in Singapore. 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 S\$’million	Total assets	Income before operating expenses	Net profit attributable to members
<u>2002</u>			
Singapore ^(a)	104,261	2,606	775
Hong Kong	3,097	99	61
Regional Countries ^(a)	979	29	20
Rest of the World	4,881	81	35
Total	113,218	2,815	891
<u>2001</u>			
Singapore ^(a)	97,826	2,795	1,325
Hong Kong	3,202	78	43
Regional Countries ^(a)	1,087	16	(40)
Rest of the World	6,694	88	28
Total	108,809	2,977	1,356

(a) Special general provisions for regional exposures, additional provisions for DTDB’s loans and amortisation of goodwill on acquisition of DDH and DBSG HK are booked in Singapore.

39 NET CURRENT ASSETS AND LIABILITIES

Set out below is the net current assets and liabilities of DBS Bank. This disclosure has been included to comply with Ninth Schedule of the Companies Act.

In S\$'million	2002	2001
<u>Current Assets</u>		
Cash, and balances and placements with central banks	1,982	3,368
Singapore Government securities and treasury bills	4,099	4,458
Trading securities	7,037	5,189
Balances, placements with, and loans and advances to banks	30,834	33,841
Bills receivable from non-bank customers	1,210	1,082
Loans and advances to non-bank customers	13,933	15,850
Investment securities	259	-
Total current assets	59,354	63,788
<u>Current Liabilities</u>		
Deposits and balances of banks	4,459	7,145
Deposits and other accounts of non-bank customers	68,819	73,835
Other debt securities in issue (Note 17)	761	595
Other borrowings	85	117
Bills payable	376	264
Other liabilities	3,415	-
Current taxation	347	217
Total current liabilities	78,262	82,173
Net current liabilities	(18,908)	(18,385)

40 RELATED PARTY TRANSACTIONS

40.1 TRANSACTIONS WITH DBSH, A HOLDING COMPANY

In its ordinary course of business, DBSH has fixed deposit balances with DBS Bank at normal commercial terms. DBSH received interest income from DBS Bank during the financial year amounting to S\$1 million (2001: S\$19 million).

40.2 TRANSACTIONS WITH OTHER RELATED PARTIES OF DBS GROUP

In addition to the related party information shown elsewhere in these financial statements, all other related party transactions entered into by DBS Bank are in the ordinary course of its banking business and are at arms length commercial terms.

41 SUBSEQUENT EVENTS

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DBS Diamond Holdings Ltd (“DDH”). Please refer to Note 29.4.1 for further details.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on February 20, 2003.

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DIRECTORS' REPORT

The Directors are pleased to submit their report to the Members together with the audited financial statements of The Development Bank of Singapore (“DBS Bank”) for the financial year ended December 31, 2002, which have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Statements of Accounting Standard.

BOARD OF DIRECTORS

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

S Dhanabalan	-	Chairman
Jackson Tai	-	Chief Executive Officer & Vice Chairman (Appointed on June 22, 2002)
Frank Wong Kwong Shing	-	Vice Chairman (Appointed on December 17, 2002)
Bernard Chen Tien Lap		
Fock Siew Wah		
Gail D. Fosler (Ms)		
Tommy Koh Thong-Bee		
Moses Lee Kim Poo		
Leung Chun Ying	-	(Appointed on July 22, 2002)
John Alan Ross	-	(Appointed on February 6, 2003)
Thean Lip Ping	-	(Appointed on September 9, 2002)
Yeo Ning Hong		

In accordance with Article 95 of DBS Bank's Articles of Association, Mr Bernard Chen Tien Lap and Dr Yeo Ning Hong, will retire and being eligible, will offer themselves for re-election pursuant to Article 96.

In accordance with Article 74(b) of DBS Bank's Articles of Association, Messrs Jackson Tai, Frank Wong Kwong Shing, Leung Chun Ying and John Alan Ross 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. A Resolution will be proposed for his re-appointment under section 153(6) of the said Act to hold office until the next annual general meeting of DBSH.

PRINCIPAL ACTIVITIES

The principal activities of DBS Bank consist of the business of investment holding, banking and financing, the provision of mortgage financing, lease and hire purchase financing, corporate advisory services, nominee and trustee services, funds management services, stockbroking, primary dealership in Singapore Government securities, merchant banking, factoring, credit card and venture capital operations, and other financial services. There have been no significant changes in the nature of these activities during the financial year.

ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

(a) Acquisition of additional interest in subsidiary companies

(i) DBS Diamond Holdings Ltd (“DDH”)

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DBS Diamond Holdings Ltd (“DDH”). Under a Call Option, DBS Bank had the right to require each DDH minority shareholder to sell his shares in DDH, by giving a notice within a period of seven business days following December 31, 2002, at a purchase price of HK\$21.70 per share. The financial statements of DBSH Group at December 31, 2002 took into account the effect of the exercise of the Call Option, and reflect an increase in DBS Bank’s equity interest in DDH from 71.6% to 100%.

Goodwill arising from the acquisition of the remaining 28.4% interest in DDH amounted to S\$2,684 million. This was computed based on the difference between the total consideration paid for the additional interest of S\$3,555 million and DBS Bank’s interest in the fair values of identifiable assets and liabilities of DDH Group of S\$871 million at the same date. The goodwill will be amortised over a period of 19 years from January 2003.

(ii) DBS Group Holdings (Hong Kong) Ltd (“DBSG HK”)

On May 7, 2002, DBS Bank acquired the remaining 12.7% of DBS Group Holdings (Hong Kong) Ltd (“DBSG HK”) held by minority shareholders. DBSG HK owned all the issued share capital of DBS Kwong on Bank Limited (“DKOB”). The total consideration paid for the acquisition was HK\$907 million (S\$212 million). The consideration was funded by the issuance of 15,135,535 new DBSH ordinary shares of par value S\$1.00 each at an issue price of S\$13.92 per DBSH ordinary share, and cash consideration of HK\$4 million (S\$1 million). Upon completion of the transaction, DBSH’s effective equity interest in DBSG HK increased from 87.3% to 100%.

Goodwill arising from the acquisition of the remaining 12.7% interest in DBSG HK amounted to S\$83 million. This was computed based on the difference between the total consideration paid for the additional interest of S\$212 million and DBS Bank’s interest in the fair values of identifiable assets and liabilities of DBSG HK Group of S\$129 million at the same date. The goodwill is amortised over a period of 17 years from May 2002.

(b) Disposal of subsidiary companies

**(i) Dao Heng Assurance Ltd (“DHA”) and
DBS Kwong On Insurance Ltd (“DKOI”)**

On June 6, 2002, Dao Heng Bank Group Limited (“DHG”) and DBS Kwong On Bank Limited (“DKOB”), under a conditional sale and purchase agreement, disposed their wholly owned insurance subsidiary companies, DHA and DKOI to Commercial Union International Holdings Limited, for a total cash consideration of HK\$295 million (S\$66 million) and HK\$31 million (S\$7 million) respectively. The net attributable tangible assets DHA and DKOI at the date of disposal were HK\$142 million (S\$32 million) and HK\$31 million (S\$7 million) respectively. On completion of the sale, DHA and DKOI have ceased to be subsidiary companies of DBSH Group.

(ii) DBS Capital Trust Securities India Pvt Ltd (“DBS CT”)

On October 8, 2002, DBS Vickers Securities Holdings Pte Ltd, an indirect 59.5% owned subsidiary company of DBSH, disposed its 75% equity stake DBS CT for a total cash consideration of INR107 million (S\$4 million). The net attributable tangible assets of DBS CT at the date of disposal was INR144 million (S\$5 million). On completion of the sale, DBS CT has ceased to be a subsidiary company of DBSH Group.

(iii) During the financial year, indirect subsidiary companies liquidated include DBS Pte Ltd, Thai Danu-DBS Co Ltd, Singapore Bankers Club Pte Ltd, Oriental Hearts International Limited, Pan Shine Investments Limited, and DBS Kwong On Property Agency Company Limited.

Save as aforesaid, there have been no other acquisition or disposal of subsidiary companies during the financial year.

RESULTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2002

<u>S\$'million</u>	<u>DBS Bank</u>
Net profit before taxation	1,156
Less: Taxation	<u>265</u>
Net profit after taxation	<u>891</u>

TRANSFERS TO/(FROM) RESERVES

Material movements to or from reserves during the financial year are set out in the notes to the financial statements.

SHARE AND DEBENTURE ISSUES

During the financial year:

- (i) On May 7, 2002, DBS Bank issued 210,686,649 ordinary shares of par value S\$1.00 each for S\$211 million to DBSH, for general corporate purposes.
- (ii) On December 23, 2002, DBS Bank issued 115,570,480 ordinary shares of par value S\$1.00 each for S\$1,306 million to DBSH, for general corporate purposes.

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

According to the register of Directors' shareholdings kept pursuant to Section 164 of the Singapore Companies Act, the undermentioned persons were Directors of DBS Bank at the end of the financial year and their interests in shares in DBSH/DBS Bank were as follows:

	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 2002</u>	<u>Dec 31 2001</u> (or date of appointment if later)	<u>Dec 31 2002</u>	<u>Dec 31 2001</u> (or date of appointment if later)
Ordinary Shares of par value S\$1.00 each				
S Dhanabalan	35,000	25,000	31,534	31,534
Jackson Tai (as at 22/6/02)	44,050	11,250	-	-
Frank Wong Kwong Shing (as at 17/12/02)	161,100	161,100	-	-
Bernard Chen Tien Lap	19,000	19,000	-	-
Fock Siew Wah	50,000	50,000	-	-
Gail D. Fosler	3,400	3,400	-	-
Tommy Koh Thong-Bee	4,200	4,200	-	-
Moses Lee Kim Poo	-	-	-	-
Leung Chun Ying (as at 22/7/02)	-	-	-	-
John Alan Ross (as at 6/2/03)	-	-	-	-
Thean Lip Ping (as at 9/9/02)	6,448	6,448	15,004	15,004
Yeo Ning Hong	10,000	10,000	-	-
Unissued Ordinary Shares of par value S\$1.00 each under the DBSH Share Option Scheme				
-	-	-	-	-
Unissued Ordinary Shares of par value S\$1.00 each under the DBSH Share Option Plan				
Jackson Tai (as at 22/6/02)	287,375	187,375	-	-
Frank Wong Kwong Shing (as at 17/12/02)	315,650	315,650	-	-
Number of DBS Bank 6% Non-Cumulative Non- Convertible Perpetual Preference Shares of par value S\$0.01 each	As at	As at	As at	As at
	<u>Dec 31 2002</u>	<u>Dec 31 2001</u> (or date of appointment if later)	<u>Dec 31 2002</u>	<u>Dec 31 2001</u> (or date of appointment if later)
S Dhanabalan	500	500	-	-
Jackson Tai (as at 22/6/02)	250	250	-	-
Thean Lip Ping (as at 9/9/02)	-	-	500	500

DIVIDENDS

Dividends paid since the end of DBS Bank's financial year ended December 31, 2000 were as follows:

	<u>S\$'million</u>
(a) paid during the financial year ended December 31, 2001:	
(i) dividends on preference shares of 6% net of 22% income tax	24
(b) paid during the financial year ended December 31, 2002	
(i) dividend on ordinary shares of 104% net of 22% income tax	1,500
(ii) dividend on preference shares of 6% net of 22% income tax	51

There are no dividends proposed since the end of DBS Bank's last financial year ended December 31, 2001.

BAD AND DOUBTFUL DEBTS

Before the financial statements of DBS Bank were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of and provision for bad and doubtful debts. They have satisfied themselves that all known bad debts have been written off and that, where necessary, adequate provision has been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amounts written off or provided for bad and doubtful debts in the financial statements of DBS Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of DBS Bank were made out, the Directors took reasonable steps to ensure that any current assets of DBS Bank which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values or that adequate provision has been made for the diminution in values of such current assets.

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements of DBS Bank misleading.

CHARGES AND CONTINGENT LIABILITIES

At the date of this report:

- (a) no charge on the assets of DBS Bank has arisen since the end of the financial year which secures the liabilities of any other person, and
- (b) no contingent liability of DBS Bank has arisen since the end of the financial year other than those normally undertaken in the course of the activities of DBS Bank.

ABILITY TO MEET OBLIGATIONS

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of DBS Bank to meet their obligations as and when they fall due.

OTHER CIRCUMSTANCES AFFECTING THE FINANCIAL STATEMENTS

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of DBS Bank which would render any amounts stated in the financial statements of DBS Bank misleading.

UNUSUAL ITEMS

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has:

- (a) substantially affected the results of the operations of DBS Bank during the financial year, and
- (b) arisen in the interval between the end of the financial year and the date of this report which would affect substantially the results of the operations of DBS Bank for the financial year in which this report is made, other than post balance sheet events as described under “SUBSEQUENT EVENTS”.

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.

SHARE OPTIONS

(a) DBSH SHARE OPTION SCHEME

The DBSH Share Option Scheme (the “Option Scheme”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on September 18, 1999, to replace the DBS Bank Share Option Scheme (the “DBS Bank Option Scheme”) previously implemented by DBS Bank, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH.

The Option Scheme was terminated on October 18, 1999, and the outstanding existing unexercised options (the “DBSH Options”) will continue to remain valid until the date of expiration of the relevant DBSH Options. Particulars of the share options granted under the Option Scheme in 1998 (herewith called “1998 DBSH Options”) have been set out in the Directors’ Report for the year ended December 31, 1998 except for the modification in Rules 1, 4 and 8 of the Option Scheme.

Save as disclosed in this report under the heading “**SHARE AND DEBENTURE ISSUES**”, no shares of DBSH were issued during the financial year to which this report relates by virtue of the exercise of the DBSH Options to take up unissued ordinary shares of DBSH pursuant to the Option Scheme, whether granted before or during the financial year.

At the end of the financial year, unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding DBSH Options granted under the Option Scheme are as follows:

	<u>Number of unissued ordinary shares</u>	<u>Subscription price per ordinary share</u>	<u>Date of expiration</u>
1998 DBSH Options	906,788	S\$7.69	April 7, 2003
	<u>906,788</u>		

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.

(b) 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 and 2001 (herewith called “1999 DBSH Options”, “March/July 2000 DBSH Options” and “March/June/August 2001 DBSH Options” respectively) have been set out in the Directors’ Reports for the years ended December 31, 1999, 2000 and 2001 respectively.

During the financial year, in consideration of the payment of S\$1.00 for each option granted, options in respect of 14,285,000 (January 2002: 50,500; March 2002: 12,876,240; August 2002: 1,329,000; October 2002: 9,260; December 2002: 20,000) unissued ordinary shares of par value S\$1.00 each in DBSH (“January 2002 DBSH Options”, “March 2002 DBSH Options”, “August 2002 DBSH Options”, “October 2002 DBSH Options” and “December 2002 DBSH Options”) were granted pursuant to the Option Plan to executives of DBSH Group of the rank of Vice President (or equivalent) and above; as well as to selected employees of DBSH Group of a rank below the rank of Vice President (or equivalent). Options in respect of a total of 300,000 unissued ordinary shares were granted to executive directors Mr Philippe Paillart (resigned on June 22, 2002) and Mr Jackson Tai during the financial year.

Statutory and other information regarding the Option Plan and the “January 2002 DBSH Options”, “March 2002 DBSH Options”, “August 2002 DBSH Options”, “October 2002 DBSH Options” and “December 2002 DBSH Options” granted under the Option Plan are as follows:

- (i) Subject to prevailing legislation, the following categories of individuals are currently eligible to participate in the Option Plan:
- DBSH Group executives who hold the rank of Vice President (or equivalent or analogous rank) and above and selected employees of the DBSH Group of a rank below the rank of Vice President (or equivalent or analogous rank);
 - Executives of associated companies of the DBSH Group over which DBSH has control who hold the rank of Vice President (or equivalent or analogous rank) and above; and
 - Non-executive directors of DBSH.

The persons to whom the “January 2002 DBSH Options”, “March 2002 DBSH Options”, “August 2002 DBSH Options”, “October 2002 DBSH Options” and “December 2002 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 “January 2002 DBSH Options”, “March 2002 DBSH Options”, “August 2002 DBSH Options”, “October 2002 DBSH Options” and “December 2002 DBSH Options” are January 1, 2012, March 27, 2012, August 15, 2012, October 9, 2012 and December 17, 2012 respectively unless any such Option lapses prior to such date by reason of Rules 7 and 8 of the Option Plan relating to the 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 takeover, winding-up or reconstruction of DBSH, after the grant of the DBSH Option.
- (iii) The subscription price for each share in respect of which a DBSH Option (other than “January 2002 DBSH Options”, “March 2002 DBSH Options”, “August 2002 DBSH Options”, “October 2002 DBSH Options” and “December 2002 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.

Save as disclosed in this report under the heading “**SHARE AND DEBENTURE ISSUES**”, no shares of DBSH were issued during the financial year to which this report related by virtue of the exercise of any DBSH Options, whether granted before or during the financial year.

At the end of the financial year, 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:

	Number of unissued ordinary shares	Subscription price per ordinary share	Date of expiration
1999 DBSH Options	4,256,461	S\$15.30	July 27, 2009
March 2000 DBSH Options	1,697,000	S\$20.87	March 5, 2010
July 2000 DBSH Options	1,153,800	S\$22.33	July 26, 2010
March 2001 DBSH Options	12,193,000	S\$17.70	March 14, 2011
June 2001 DBSH Options	21,000	S\$14.76	May 31, 2011
August 2001 DBSH Options	1,500,000	S\$12.93	July 31, 2011
October 2001 DBSH Options	11,655	S\$10.73	October 30, 2011
January 2002 DBSH Options	50,500	S\$13.70	January 1, 2012
March 2002 DBSH Options	12,328,240	S\$14.73	March 27, 2012
August 2002 DBSH Options	1,290,000	S\$12.27	August 15, 2012
October 2002 DBSH Options	9,260	S\$11.73	October 9, 2012
December 2002 DBSH Options	20,000	S\$11.47	December 17, 2012
	<u>34,530,916</u>		

Other than the DBSH Options granted under the Option Scheme and 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 598,380 ordinary shares of par value S\$1.00 each were granted, pursuant to the DBSH Performance Share Plan, to selected employees of DBSH Group.

Statutory and other information regarding the Performance Share Plan are as follows:

- (i) Subject to prevailing legislation, the following categories of individuals are currently eligible to participate in the Performance Share Plan:
 - DBSH Group executives who hold the rank of Vice President (or equivalent or analogous rank) and above and selected employees of the DBSH Group of a rank below the rank of Vice President (or equivalent or analogous rank);
 - Executives of associated companies of the DBSH Group over which DBSH has control who hold the rank of Vice President (or equivalent or analogous rank) and above; 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 four years 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 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 takeover, 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.

DBSH EMPLOYEE SHARE PLAN

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

Participants will receive ordinary shares of DBSH (“DBSH shares”) free of charge, the equivalent in cash, or combinations thereof, provided that certain prescribed performance targets are met. Participants will be allocated DBSH shares acquired from the market in accordance with guidelines established by DBSH. In respect of each financial year, DBSH will determine the performance targets applicable and the number of DBSH shares to be allocated to each participant or category of participants upon the attainment of such targets. Upon the attainment of the prescribed performance targets, the DBSH shares will be vested with the participants on terms and conditions to be determined by DBSH.

The Employee Share Plan may be altered from time to time at the absolute discretion of DBSH.

During the financial year, an aggregate of 438,940 ordinary shares of par value S\$1.00 each were granted to eligible employees of DBSH Group pursuant to the Employee Share Plan.

SUBSEQUENT EVENTS

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DBS Diamond Holdings Ltd (“DDH”). Please refer to heading “**ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES**”, item (a)(i) for further details.

AUDITORS

In response to the requirement on rotation of auditors, Ernst & Young has been nominated to be the auditors for the ensuing year. The appointment is subject to shareholders’ approval at the Annual General Meeting on March 31, 2003.

On behalf of the Directors

S DHANABALAN

JACKSON TAI

Directors
February 20, 2003
Singapore

STATEMENT BY THE DIRECTORS

We, S Dhanabalan and Jackson Tai, two of the Directors of The Development Bank of Singapore (“DBS Bank”) state that, in the opinion of the Directors, the profit and loss account, balance sheet and the statement of changes in shareholders’ equity, together with the notes thereon as set out on pages 1 to 65, are drawn up so as to give a true and fair view of the state of affairs of DBS Bank at December 31, 2002, the results of the business of, and the changes in equity 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 20, 2003
Singapore

Report of the Auditors
To the Members of The Development Bank of Singapore Ltd (Incorporated in Singapore)

We have audited the financial statements of The Development Bank of Singapore Ltd (“DBS Bank”) for the financial year ended December 31, 2002 set out on pages 1 to 65. 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 accompanying financial statements of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act (the “Act”) and Singapore Statements of Accounting Standard, and so as to give a true and fair view of:
 - (i) the state of affairs of the Company as at December 31, 2002, the profit and changes in equity of the Company, for the financial year ended on that date; and
 - (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records, and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers
Certified Public Accountants

February 20, 2003
Singapore