

**DBS Bank Ltd**  
**Notes to the financial statements**  
**Year Ended December 31, 2005**

These Notes form an integral part of the financial statements.

The financial statements of DBS Bank Ltd (referred to as the Bank) for the year ended December 31, 2005 were approved and authorised for issue by the Board of Directors on February 16, 2006.

**1 Domicile and Activities**

The 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 subsidiaries of the Bank are disclosed in Note 44.

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

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

**2 Summary of Significant Accounting Policies**

**2.1 Basis of preparation**

The financial statements of the Bank are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance ("CCDG"). In accordance with Section 201(19) of the Companies Act, the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning are modified by the requirements of Notice to Banks No. 612 'Credit Files, Grading and Provisioning' (dated March 11, 2005) issued by the Monetary Authority of Singapore.

The financial statements are presented in Singapore dollars and rounded to the nearest million, unless otherwise stated. They are prepared on the historical cost convention, except for derivative financial instruments, available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss which have been measured at fair value.

The preparation of financial statements in conformity with FRS requires management to exercise judgment, make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial

statements, and areas involving a higher degree of judgment and complexity are disclosed in Note 4.

On January 1, 2005, the Bank adopted the new or revised FRS and amended Interpretations to FRS (INT FRS) that are applicable in the current financial year. The 2005 financial statements have been prepared in accordance with the relevant transitional provisions in the respective FRS and INT FRS. The following are the FRS and INT FRS that are relevant to the Bank:

FRS 1 (revised)	Presentation of Financial Statements
FRS 7 (revised)	Cash Flow Statements
FRS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised)	Events after the Balance Sheet Date
FRS 12 (revised)	Income Taxes
FRS 14 (revised)	Segment Reporting
FRS 16 (revised)	Property, Plant and Equipment
FRS 17 (revised)	Leases
FRS 18 (revised)	Revenue
FRS 19 (revised)	Employee Benefits
FRS 21 (revised)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised)	Related Party Disclosures
FRS 25 (revised)	Accounting for Investments
FRS 28 (revised)	Investments in Associates
FRS 31 (revised)	Interests in Joint Ventures
FRS 32 (revised)	Financial Instruments: Disclosure and Presentation
FRS 36 (revised)	Impairment of Assets
FRS 37 (revised)	Provisions, Contingent Liabilities, and Contingent Assets
FRS 38 (revised)	Intangible Assets
FRS 39	Financial Instruments: Recognition and Measurement
FRS 102	Share-based Payment

The adoption of the above FRS and INT FRS did not result in substantial changes to the Bank's accounting policies, which are consistent with those used in the previous financial year, except for the changes disclosed in Note 3.

**2.2 Subsidiaries, Joint Ventures and Associates**

**Subsidiaries**

Subsidiaries are entities that the Bank has power to govern the financial and operating policies of in order to obtain benefits from their activities. It is generally accompanied by a shareholding of more than 50% of voting rights. Potential voting rights that are exercisable or convertible are considered when determining whether an entity is considered a subsidiary.

Investments in subsidiaries are stated in the Bank's balance sheet at cost, less impairment losses, if any.

**Joint ventures**

Joint ventures are entities that are jointly controlled by the Bank together with one or more parties through contractual arrangements. Investments in joint ventures are stated in the Bank's balance sheet at cost, less impairment losses, if any.

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**Associates**

Associates are entities in which the Bank has significant influence, but not control, and generally holds a shareholding of between and including 20% and 50% of the voting rights.

The Bank's investments in associates are carried at cost, less impairment losses, if any.

**2.3 Foreign currency translation**

**Functional and presentation currency**

Items in the financial statements of the Bank are translated using their functional currency, being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Singapore dollars, which is the functional currency and presentation currency of the Bank.

**Foreign currency transactions**

Transactions in foreign currencies are measured at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Singapore dollars at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising from this translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into Singapore dollars at the exchange rate ruling at the date the fair value was determined.

**Foreign operations**

The results and financial position of the Bank's operations whose functional currency is not Singapore dollars are translated into Singapore dollars as follows:

- Assets and liabilities are translated at the exchange rate ruling at the balance sheet date;
- Income and expenses in the income statement are translated at an average exchange rate approximating the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the capital reserves.

**Consolidation adjustments**

Foreign exchange differences arising from the translation of net investments in foreign operations, as well as any borrowings and instruments designated as foreign currency hedges of such investments are taken to the capital reserves. When the foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

**2.4 Segment reporting**

The Bank's financial businesses are organised into the Consumer Banking and Wholesale Banking Business Groups and Central Operations. Wholesale Banking Business Group is segregated into Enterprise Banking, Corporate and Investment Banking, Global Financial Markets and Central Treasury Unit. In total, the Bank reports six business segments.

A **business segment** provides products or services whose risks and returns are different from those of other business segments. A **geographical segment** provides products or services within a particular economic environment whose risks and returns are different from those of other economic environments. Business segments are the primary reporting segments.

**2.5 Revenue recognition**

**Interest income and expenses**

Interest income and expenses are recognised on a time-proportionate basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts. No interest expense is accrued on the Bank's structured investment deposits which are carried at fair value through profit or loss.

When a receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at the original effective interest rate of the instrument. Interest earned on the recoverable amount is recognised as interest income in the income statement.

**Fee and commission income**

The Bank earns fee and commission income from a diverse range of products and services provided to its customers. Fee and commission income is recognised on the completion of a transaction. For a service that is provided over an extended period of time, fee and commission income is recognised over the course of the period.

**Dividend income**

Dividend income is recognised when the right to receive payment is established.

**Rental income**

Rental income from operating leases on properties is recognised on a straight-line basis over the lease term.

**2.6 Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, trading government securities and treasury bills which are readily convertible into cash.

**2.7 Financial assets**

Financial assets are classified according to the purpose for which the assets were acquired. Management determines the classification at initial recognition and re-evaluates the designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

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The classification of financial assets is as follows:

**(a) Financial assets at fair value through profit or loss** are either acquired for the purpose of short term selling (held for trading) or designated by management on initial recognition (designated under the fair value option).

Derivatives are fair valued through profit or loss unless they are designated as cash flow hedges or hedges of net investments in foreign operations. The specific accounting policy on derivatives is detailed in Note 2.14.

**(b) Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

**(c) Held-to-maturity investments** are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank intends and is able to hold to maturity.

**(d) Available-for-sale financial assets** are non-derivatives that are either designated in this category or not classified in any other categories.

**Recognition and derecognition**

Purchases and sales of investments are recognised on the date that the Bank commits to purchase or sell the asset. Investments are de-recognised when the Bank has transferred substantively all risks and rewards of ownership.

**Initial measurement**

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, for which transaction costs are expensed off immediately.

**Subsequent measurement**

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Unquoted equity classified as available-for-sale for which fair value cannot be reliably determined is carried at cost, less impairment.

Realised or unrealised gains or losses of financial assets at fair value through profit or loss are taken to "Net trading income" in the income statement. Unrealised gains or losses arising from changes in fair value of investments classified as available-for-sale are recognised in the available-for-sale revaluation reserves. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the available-for-sale revaluation reserves are taken to the income statement.

**Determination of fair value**

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other

instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

**2.8 Loans and advances to customers**

Loans and advances to customers are carried at amortised cost using the effective interest method, less specific and general provisions.

The Bank carries out regular and systematic reviews of all credit facilities extended to customers.

**Specific provision for credit losses**

A specific provision for credit losses is established if there is objective evidence that the Bank will be unable to collect all amounts due to a claim according to the original contractual terms or the equivalent value. A "claim" means a loan or a commitment such as a guarantee and letter of credit.

A specific provision for credit losses is reported as a reduction in the carrying value of a claim on the balance sheet. For an off-balance sheet item such as a commitment, a specific provision for credit loss is reported as an increase in other liabilities.

Specific provision for credit losses are evaluated either as being counterparty-specific or collective according to the following principles:

Counterparty-specific: Individual credit exposures are evaluated using the discounted cash flow method and a provision is made when existing facts, conditions or valuations indicate that the Bank is not likely to collect part or all of the principal and interest due contractually on the claim. A provision is reversed only when there is reasonable assurance of timely collection.

Collective: Homogenous consumer loans such as housing loans and credit card receivables, are pooled according to their risk characteristics, and assessed and provided for collectively as a group, taking into account the historical loss experience of such loans.

**General provision for credit losses**

Apart from specific provisions, the Bank also carries general provision for credit losses. The Bank maintains a level of provisions that is deemed sufficient to absorb all credit losses inherent in its loan portfolio (including off balance sheet credit exposures). In determining the level of general provisions, the Bank considers country and portfolio risks, as well as industry practices. The Bank maintains general provisions of at least 1% of credit exposures on and off the balance sheet net of collaterals and after deducting specific provisions that have been made.

**2.9 Repurchase agreements**

**Repurchase agreements** ("Repos") are treated as collateralised borrowing. The amount borrowed is reflected as a liability either as "Due to non-bank customers" or "Due to banks". The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification.

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**Reverse repurchase agreements** (“Reverse repos”) are treated as collateralised lending. The amount lent is reflected as an asset either as “Loans and advances to customers” or “Due from banks”.

Amounts paid and received on the repos and reverse repos are amortised as interest expense and interest income respectively on an effective interest basis.

## **2.10 Properties and other fixed assets**

Properties and other fixed assets are stated at cost less accumulated depreciation and impairment losses. The basis of depreciation is as follows:

### **Properties**

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 leasehold land where the unexpired lease period is more than 100 years.

Buildings are depreciated on a straight-line basis over their useful lives estimated at 50 years or over the remaining lease period, whichever is shorter.

### **Other fixed assets**

Depreciation is calculated using the straight line method to write down the cost of other fixed assets to their residual values over their estimated useful life as follows:

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

## **2.11 Impairment**

The carrying values of assets are reviewed for impairment at each balance sheet date to determine if events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists, the carrying values of the assets are written down to their recoverable amount. The impairment loss is charged to the income statement unless it reverses a previous revaluation credited to equity in which case it is charged to equity.

When there is objective evidence that a decline in the fair value of an available-for-sale financial asset is due to an impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the income statement – is removed from equity and recognised in the income statement. A subsequent recovery in the value of an available-for-sale equity instrument that has been impaired is reversed through equity. A subsequent recovery in the value of an available-for-sale debt instrument whose value is impaired is reversed through the income statement if there has been an identifiable event that led to the recovery.

## **2.12 Financial liabilities**

The Bank classifies its financial liabilities in the following categories: (a) financial liabilities at fair value

through profit or loss; and (b) non-trading liabilities. Financial liabilities classified at fair value through profit or loss are carried at fair value, with gains and losses from change in fair value recognised through the income statement. Non-trading liabilities are carried at amortised cost using the effective interest method.

A financial liability is removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

## **2.13 Provisions and other liabilities**

Provisions are recognised when the 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.

## **2.14 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are classified in assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives other than those designated as cash flow hedges or hedges of net investments in foreign operations are included in net trading income.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in net trading income.

For financial instruments designated as hedging instruments, the Bank documents at the inception the relationship between hedging instruments and hedged items, as well as its risk management objective for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### **(a) Fair value hedge**

For an effective hedge of an exposure to changes in the fair value, the changes in the fair value of the derivatives are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity of the hedged item.

### **(b) Cash flow hedge**

The changes in the fair value of derivatives designated and qualified as hedges of future cash flows are

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recognised directly in equity, and taken to the income statement in the periods when the hedged item affects profit or loss. The ineffective portion of the gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity remains until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised immediately in the income statement.

**(c) Hedge of net investment in a foreign operation**

Financial instruments designated as foreign currency hedges of net investments in the Bank's foreign operations are accounted for similarly to cash flow hedges. The foreign exchange gains or losses from the hedging instruments are recognised directly in equity, until disposal of the foreign operation, whereby it is recognised in the income statement.

**2.15 Employee benefits**

Personnel expenses on base pay, cash bonuses, contributions to defined contribution plans, e.g., the Central Provident Fund and other staff-related allowances are recognised in the income statement 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, the Bank has no further payment obligations.

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.

**2.16 Share-based compensation**

Personnel expenses also include share-based compensation, namely, the DBSH Share Ownership Scheme, the DBSH Share Option Plan, the DBSH Performance Share Plan and the DBSH Employee Share Plan. The details of the Scheme and Plans are described in Note 37.

Equity instruments granted and ultimately vested under the Plans are recognised in the income statement based on the fair value of the equity instrument at the date of grant. Payments made to DBSH for share options granted to the Bank's employees are expensed off over the vesting period of each award. Expenses relating to shares awarded under the DBSH Performance Share Plan and DBSH Employee Share Plan are amortised over the vesting period of each award, with a corresponding adjustment to the Share plan reserves. Monthly contributions to the Scheme are expensed off when incurred.

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

**2.17 Deferred tax**

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. Temporary differences are not recognised for goodwill not deductible for tax purposes and for the initial recognition of assets or liabilities that neither affects accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

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

**2.18 Dividend**

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholder.

**2.19 Offsetting financial instruments**

Certain financial assets and liabilities offset each other and the net amount is 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.

**2.20 Operating leases**

Operating leases are charged to the income statement 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.

**2.21 Fiduciary activities**

Assets and income belonging to a customer for whom the Bank acts in a fiduciary capacity as nominee, trustee or agent, are excluded from the financial statements.

**2.22 Comparatives**

The financial statements for 2004 have been re-stated to comply with changes in accounting policies as described in Note 3 and to make them consistent with the current year's presentation.

### **3 Effects on Financial Statements on Adoption of New or Revised FRS**

The adoption of new and revised FRS and amended Interpretations has resulted in changes to the Bank's accounting policies in the following areas and has affected the amounts reported for the current or previous financial years. The changes in accounting policies have been made in accordance with the transitional provisions in the respective FRS.

#### **3.1 New FRS adopted**

##### **FRS 39: Financial Instruments: Recognition and Measurement**

The implementation of FRS 39 resulted in changes to accounting policies relating to the recognition and measurement of financial instruments. In accordance with the transitional provisions of FRS 39, the Standard has been applied prospectively and an opening adjustment to equity was made, representing unrealised gains or losses on certain financial instruments including derivatives to be measured at fair value on January 1, 2005. The differences between carrying amounts and fair values were adjusted to either revaluation or revenue reserves. The transitional adjustment resulted in an increase in revaluation reserves of \$297 million and a decrease in revenue reserves of \$122 million.

##### **FRS 102: Share-based Payment**

The Bank adopted FRS 102: Share-based Payment on January 1, 2005, which resulted in a change in accounting policy for the Bank's share-based staff compensation plans. The Standard has been applied retrospectively for all equity instruments granted after November 22, 2002 and unvested as at January 1, 2005.

###### **(a) DBSH Share Option Plan ("Option Plan")**

The adoption of FRS 102 requires the Bank to account for share options which ultimately vests under the Option Plan, at their fair value at grant date. The share-based payment expense is amortised and recognised in the income statement over the relevant vesting periods.

###### **(b) DBSH Performance Share Plan and the DBSH Employee Share Plan ("Share Plans")**

The adoption of FRS 102 requires the Bank to account for the Share Plans at their fair value at grant date, for shares eventually awarded to staff on vesting date. The share-based payment expense is amortised and recognised in the income statement over the relevant vesting periods, with a corresponding adjustment to Share plan reserves.

The adoption of FRS 102 resulted in an increase in staff costs of \$30 million for the Bank for the financial year ended December 31, 2005 (2004: \$14 million). Non-distributable reserves increased by \$8 million as at January 1, 2005 (2004: \$2 million).

#### **3.2 FRS issued in 2005 but not effective yet**

FRS 40: Investment Property, was issued during the financial year but the Standard will be effective from January 1, 2007. There is no expected material impact on the Bank's financial statements arising from the revised Standard. The Bank's current policy is to carry its properties at historical cost less accumulated depreciation and impairment losses.

### **4 Critical Accounting Estimates**

The Bank's accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require exercise of management's judgement in determining the appropriate methodology for valuation of assets and liabilities. In addition, procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Bank believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Bank's critical accounting estimates involving management valuation judgement.

#### **4.1 Impairment allowances on claims**

It is the Bank's policy to establish, through charges against profit, specific and general provisions in respect of estimated and inherent credit losses in its portfolio.

In determining specific provisions, management considers objective evidence of impairment. When a loan is impaired, a specific provision is assessed by using the discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of specific provision also takes into account the collateral value, which may be discounted to reflect the impact of a forced sale or timely liquidation.

In determining general provisions, the Bank has applied the transitional arrangements under Notice to Banks No. 612, "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore. These arrangements will be in place until the Bank believes that the incurred loss concept under FRS 39 can be robustly determined.

#### **4.2 Fair value of financial instruments**

Fair value is defined as the value at which positions can be closed or sold in a transaction with a willing and knowledgeable counterparty over time period that is consistent with the Bank's trading or investment strategy. The majority of the Bank's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

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Management exercise judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors used in the valuation process. Also, judgement may be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting fair value estimates.

**5 Net Interest Income**

In \$ millions	2005	2004
Cash and balances with central banks and Due from banks	477	314
Loans and advances to customers	1,940	1,334
Debt securities	1,357	1,064
<b>Total interest income</b>	<b>3,774</b>	<b>2,712</b>
Due to banks	394	190
Due to non-bank customers	890	494
Others	586	367
<b>Total interest expense</b>	<b>1,870</b>	<b>1,051</b>
<b>Net Interest Income</b>	<b>1,904</b>	<b>1,661</b>

In \$ millions	2005	2004
Interest income for financial assets at fair value through profit or loss	687	461
Interest income for financial assets not at fair value through profit or loss	3,087	2,251
Interest expense for financial liabilities at fair value through profit or loss	(169)	(108)
Interest expense for financial liabilities not at fair value through profit or loss	(1,701)	(943)
<b>Total</b>	<b>1,904</b>	<b>1,661</b>

Note: The breakdown of interest income and expense for financial assets and liabilities at fair value through profit or loss is presented for 2005 under FRS 39 and is adopted prospectively.

**6 Net Fee and Commission Income**

In \$ millions	2005	2004
Fee and commission income	656	585
Fee and commission expense	68	60
<b>Net fee and commission income</b>	<b>588</b>	<b>525</b>
Comprising:		
Stock broking	3	2
Loan-related	122	108
Guarantees	26	22
Wealth management	97	87
Trade and remittances	91	84
Investment banking	96	74
Deposit-related	68	70
Credit card	48	46
Others	37	32
<b>Net fee and commission income</b>	<b>588</b>	<b>525</b>

**7 Net Trading Income**

In \$ millions	2005	2004
Trading businesses		
- Foreign exchange	15	178
- Interest rate, credit & equities	99	247
Other businesses	19	49
<b>Total</b>	<b>133</b>	<b>474</b>

**8 Net Gain from Non-trading Investments**

In \$ millions	2005	2004
Debt securities	11	52
Equity securities *	69	653
<b>Total</b>	<b>80</b>	<b>705</b>

\* Included in 2004 were one-time gains of \$341 million from a merger transaction involving a 59% stake in DBS Thai Danu Public Company Limited and \$187 million from the sale of a 10% investment holding in Wing Lung Bank. There was also a \$44 million gain from the liquidation of NDC Capital Holdings Private Limited.

**9 Other Income**

In \$ millions	2005	2004
Dividend income *	166	121
Rental income	19	21
Net gain on properties and other fixed assets **	309	(1)
Others	3	1
<b>Total</b>	<b>497</b>	<b>142</b>

\* Dividend income received from subsidiaries and associates as follows:

	2005	2004
Dividends from subsidiaries	33	26
Dividends from associates	38	32
<b>Total</b>	<b>71</b>	<b>58</b>

\*\* Included in 2005 was a one-time gain of \$303 million from the sale of office buildings in Singapore, DBS Tower One and Tower Two. See Note 23.1 for further information.

**10 Personnel Expenses**

In \$ millions	2005	2004
Salary and bonus	561	545
Contributions to defined contribution plans	38	34
Share-based expenses	32	24
Others	20	16
<b>Total</b>	<b>651</b>	<b>619</b>
Headcount (period end)	7,500	6,705

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**11 General and Administrative Expenses**

In \$ millions	2005	2004
Technology-related expenses	185	191
Occupancy expenses	97	88
Revenue-related expenses	90	96
Other expenses	190	169
<b>Total</b>	<b>562</b>	<b>544</b>

Included in general and administrative expenses are:

In \$ millions	2005	2004
Hire and maintenance of fixed assets, including building-related expenses	61	76
Audit fees payable to Ernst & Young Singapore	2	3
Audit fees payable to Ernst & Young firms outside Singapore	#	1
Non audit fees payable to Ernst & Young Singapore	#	#
Non audit fees payable to Ernst & Young firms outside Singapore	#	#

# Amount under \$500,000.

**12 Provisions for Credit and Other Losses**

In \$ millions	2005	2004
Loans and advances to customers (Note 17)	161	(92)
Non-trading investments (Note 19)	5	44
Properties and other fixed assets (Note 23)	-	(4)
Off balance sheet credit exposures (Note 27)	(31)	114
Investment in subsidiaries (Note 21)	732	-
Others (bank loans and sundry debtors)	72	(61)
<b>Total</b>	<b>939</b>	<b>1</b>

**13 Income Tax Expense**

Income tax expense in respect of profit for the financial year is analysed as follows:

In \$ millions	2005	2004
Current tax expense		
- Current year	252	308
Deferred tax expense		
- Origination and reversal of temporary differences	(6)	(12)
- Reduction in tax rate	-	9
- Prior years' provision	-	24
<b>Total</b>	<b>246</b>	<b>329</b>

The deferred (credit)/charge in the income statement comprises the following temporary differences:

In \$ millions	2005	2004
Accelerated tax depreciation	1	-
Provision for loan losses	(4)	21
Other temporary differences	(3)	-
Deferred tax expense (credited)/charged to income statement	(6)	21

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

In \$ millions	2005	2004
Operating profit	961	2,256
Prima facie tax calculated at a tax rate of 20% (2004 : 20%)	192	451
Effect of different tax rates in other countries	(2)	(10)
Effect of change in tax rate	-	9
Income not subject to tax	(36)	(115)
Income taxed at concessionary rate	(89)	(28)
Non-tax deductible provisions	155	(2)
Others	26	24
Income tax expense charged to income statement	246	329

See Note 24 for further information on deferred tax assets/liabilities.

**14 Cash and Balances with Central Banks**

In \$ millions	2005	2004
Cash on hand	721	783
Balances with central banks		
- Restricted balances	2,382	1,481
- Non-restricted balances	1,688	7,954
<b>Total</b>	<b>4,791</b>	<b>10,218</b>

**15 Singapore Government Securities and Treasury Bills**

In \$ millions	2005	2004
Fair value through profit or loss	4,255	4,199
Available-for-sale	5,588	-
Investment held at amortised cost	-	6,925
<b>Total</b>	<b>9,843</b>	<b>11,124</b>
Market value	9,843	11,174

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**16 Other Financial Securities at Fair Value through Profit or Loss**

In \$ millions	2005	2004
<b>Quoted</b>		
Other government securities and treasury bills	2,416	1,626
Corporate debt securities	11,038	7,018
Equity securities	719	915
<b>Total</b>	<b>14,173</b>	<b>9,559</b>
<b>Analysed by industry</b>		
Manufacturing	766	921
Building and construction	178	103
General commerce	223	163
Transportation, storage and communications	982	779
Financial institutions, investment and holding companies	7,295	4,898
Governments	2,416	1,626
Others	2,313	1,069
<b>Total</b>	<b>14,173</b>	<b>9,559</b>

**17 Loans and Advances to Customers**

In \$ millions	2005	2004
Gross	55,563	47,986
Less: Specific provisions	467	390
General provisions	607	575
<b>Net total</b>	<b>54,489</b>	<b>47,021</b>
Comprising:		
Bills receivable	2,362	2,073
Loans	52,127	44,948
<b>Net total</b>	<b>54,489</b>	<b>47,021</b>
<b>Analysed by industry</b>		
Manufacturing	5,827	4,885
Building and construction	6,094	4,560
Housing loans	16,179	15,393
General commerce	3,906	3,269
Transportation, storage and communications	4,761	3,108
Financial institutions, investment and holding companies	9,337	7,272
Professionals and private individuals (except housing loans)	4,800	4,513
Others	4,659	4,986
<b>Gross total</b>	<b>55,563</b>	<b>47,986</b>
<b>Analysed by products</b>		
Long term loans	19,406	15,392
Short term facilities	15,548	13,070
Overdrafts	1,987	2,002
Housing loans	16,179	15,393
Trade financing	2,443	2,129
<b>Gross total</b>	<b>55,563</b>	<b>47,986</b>

**Analysed by currency and fixed/ variable rates**

Fixed rate <sup>(a)</sup>		
Singapore dollar	7,164	10,040
Hong Kong dollar	2	10
US dollar	194	73
Others	106	193
<b>Sub-total</b>	<b>7,466</b>	<b>10,316</b>
Variable rate <sup>(b)</sup>		
Singapore dollar	26,387	23,751
Hong Kong dollar	3,115	1,707
US dollar	13,694	8,746
Others	4,901	3,466
<b>Sub-total</b>	<b>48,097</b>	<b>37,670</b>
<b>Gross total</b>	<b>55,563</b>	<b>47,986</b>

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

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

Movements in specific and general provisions during the year were as follows:

In \$ millions	2005	2004
<b>Specific provisions</b>		
Balance at January 1	390	615
Charge to income statement	129	23
Write-off during the year	(38)	(253)
Exchange and other movements	(14)	5
<b>Balance at December 31</b>	<b>467</b>	<b>390</b>
<b>General provisions</b>		
Balance at January 1	575	690
Charge/(write-back) to income statement	32	(115)
<b>Balance at December 31</b>	<b>607</b>	<b>575</b>

**18 Non-Performing Assets**

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

**Performing**

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

**Classified, or non-performing**

- Substandard grades indicate that the credit facilities exhibit definable weaknesses either in respect of business, cash flow or financial position of the borrower that may jeopardise repayment on existing terms.
- Doubtful grades indicate that the credit facilities exhibit severe weaknesses such that the prospect of

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full recovery of the outstanding credit facilities is questionable and the prospect of a loss is high, but the exact amount remains undeterminable.

- Loss grades indicate the amount of loan recovery is assessed to be insignificant.

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

**Non-performing assets ("NPAs") by loan grading**

In \$ millions	NPAs	Specific Provisions
<b>2005</b>		
Substandard	905	121
Doubtful	205	177
Loss	282	282
<b>Total</b>	<b>1,392</b>	<b>580</b>
<b>2004</b>		
Substandard	1,043	122
Doubtful	116	88
Loss	275	275
<b>Total</b>	<b>1,434</b>	<b>485</b>

**Non-performing assets by industry**

In \$ millions	NPAs	Specific Provisions
<b>2005</b>		
<b>Customer loans</b>		
Manufacturing	338	176
Building and construction	68	29
Housing loans	168	57
General commerce	259	111
Transportation, storage and communications	25	11
Financial institutions, investments and holding companies	163	46
Professional and private individuals (except housing loans)	131	41
Others	75	36
Sub-total*	1,227	507
<b>Debt securities</b>	130	58
<b>Contingent items</b>	35	15
<b>Total</b>	<b>1,392</b>	<b>580</b>
<b>2004</b>		
<b>Customer loans</b>		
Manufacturing	297	131
Building and construction	168	44
Housing loans	149	48
General commerce	100	38
Transportation, storage and communications	23	9
Financial institutions, investments and holding companies	191	54
Professional and private individuals (except housing loans)	146	46
Others	209	56
Sub-total	1,283	426
<b>Debt securities</b>	137	52
<b>Contingent items</b>	14	7
<b>Total</b>	<b>1,434</b>	<b>485</b>

\* NPAs and specific provisions for customer loans each included \$40 million in interest receivables.

**Non-performing assets by region**

In \$ millions	NPAs	Total Provisions
<b>2005</b>		
Singapore	997	956
Hong Kong	2	65
Rest of Greater China	63	46
South and Southeast Asia	145	132
Rest of the World	185	157
<b>Total</b>	<b>1,392</b>	<b>1,356</b>
<b>2004</b>		
Singapore	957	844
Hong Kong	57	92
Rest of Greater China	55	52
South and Southeast Asia	166	110
Rest of the World	199	162
<b>Total</b>	<b>1,434</b>	<b>1,260</b>

**Non-performing assets by overdue period**

In \$ millions	2005	2004
Not overdue	607	659
< 90 days overdue	236	212
91-180 days overdue	73	99
> 180 days overdue	476	464
<b>Total</b>	<b>1,392</b>	<b>1,434</b>

**Restructured non-performing assets**

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

In \$ millions	NPAs	Specific Provisions
<b>2005</b>		
Substandard	425	84
Doubtful	23	24
Loss	30	30
<b>Total</b>	<b>478</b>	<b>138</b>
<b>2004</b>		
Substandard	344	33
Doubtful	6	6
Loss	47	46
<b>Total</b>	<b>397</b>	<b>85</b>

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**19 Non-Trading Investments**

In \$ millions	2005	2004
<b>Available-for-sale</b>		
Quoted other government securities and treasury bills	3,928	-
Quoted corporate debt securities	8,750	-
Quoted equity securities	1,239	-
Unquoted equity securities	330	-
Less: Impairment allowance *	115	-
Available-for-sale non-trading investments	14,132	-
<b>Loans and receivables</b>		
Unquoted corporate debt securities	1,928	-
Less: Impairment allowance	64	-
Loans and receivables non-trading investments	1,864	-
<b>Investments at amortised cost</b>		
Quoted other government securities and treasury bills	-	2,332
Quoted corporate debt securities	-	10,671
Quoted equity securities	-	648
Unquoted equity securities	-	333
Less: Impairment allowance	-	209
Total investment securities	-	13,775
<b>Total</b>	<b>15,996</b>	<b>13,775</b>
Market value of quoted securities	15,806	13,934

<b>Analysed by industry</b>		
Manufacturing	921	1,116
Building and construction	1,014	584
General commerce	19	14
Transport, storage and communications	1,117	772
Financial institutions, investment and holding companies	6,321	6,487
Governments	3,928	2,332
Others	2,676	2,470
<b>Total carrying value</b>	<b>15,996</b>	<b>13,775</b>

\* Comprised impairment allowances on unquoted equities and general provisions for credit related exposures.

Movements in impairment allowances during the year were as follows:

In \$ millions	2005	2004
<b>Provisions</b>		
Balance at January 1	209	206
On adoption of FRS 39 at January 1, 2005	(25)	-
Charge to income statement	5	44
Write-off during the year	(10)	(41)
Exchange and other movements	-	-
<b>Balance at December 31</b>	<b>179</b>	<b>209</b>

**20 Securities Pledged**

In \$ millions	2005	2004
<b>Securities pledged</b>		
Singapore government securities and treasury bills	20	70
Other financial assets at fair value through profit or loss	413	974
Non-trading investments	-	1,466
<b>Total</b>	<b>433</b>	<b>2,510</b>
<b>Related liabilities</b>	<b>433</b>	<b>2,519</b>

**21 Subsidiaries**

In \$ millions	2005	2004
Unquoted equity shares, at cost	11,344	11,439
Impairment allowance	(873)	(141)
	10,471	11,298
Due from subsidiaries	595	849
<b>Total</b>	<b>11,066</b>	<b>12,147</b>

See Note 44 for details of significant operating subsidiaries.

For the year ended December 31, 2005, an impairment charge of \$732 million has been recorded in "Provision for credit and other losses" in the income statement. This is attributed to the investment in DBS Bank (Hong Kong) Ltd, where the carrying value has been written down to its recoverable amount. The recoverable amount is determined based on value-in-use calculation.

During the financial year, there were no major acquisitions or disposals of subsidiaries.

**22 Investments in Joint Ventures and Associates**

In \$ millions	2005	2004
Quoted investments in associates and joint ventures at cost	1,236	1,194
Unquoted investments in associates and joint ventures at cost	73	51
Impairment allowance	(678)	(650)
<b>Net book value</b>	<b>631</b>	<b>595</b>
<b>Market value – quoted associates</b>	<b>813</b>	<b>692</b>

See Note 44 for details of significant joint ventures and associates.

On December 23, 2005, the Bank acquired 20% of Cholamandalam Investments and Finance Company Limited ("CIFCL") through an open offer to public shareholders for a consideration of \$42 million. On January 4, 2006, the Bank purchased 17.5% shareholdings from Tube Investments of India Ltd ("TI") for a consideration of \$37 million, bringing DBS' total

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shareholdings to 37.5%, with the Bank and TI being equal shareholders sharing joint control of CIFCL.

**23 Properties and Other Fixed Assets**

In \$ millions	Total prop- erties	Other assets (a)	Total
<b>2005</b>			
<u>Cost</u>			
Balance at January 1	626	385	1,011
Additions	20	135	155
Disposals	(395)	(11)	(406)
<b>Balance at December 31</b>	<b>251</b>	<b>509</b>	<b>760</b>
<u>Less: Accumulated depreciation</u>			
Balance at January 1	185	194	379
Depreciation charge	20	69	89
Disposals	(153)	(8)	(161)
<b>Balance at December 31</b>	<b>52</b>	<b>255</b>	<b>307</b>
Less: Provision for diminution in value	18	-	18
<b>Net book value, December 31</b>	<b>181</b>	<b>254</b>	<b>435</b>
<b>Market value, December 31</b>	<b>203</b>	<b>-</b>	<b>203</b>
<b>2004</b>			
<u>Cost</u>			
Balance at January 1	671	413	1,084
Additions	6	68	74
Disposals	(51)	(96)	(147)
<b>Balance at December 31</b>	<b>626</b>	<b>385</b>	<b>1,011</b>
<u>Less: Accumulated depreciation</u>			
Balance at January 1	208	209	417
Depreciation charge	23	64	87
Disposals	(46)	(79)	(125)
<b>Balance at December 31, 2004</b>	<b>185</b>	<b>194</b>	<b>379</b>
Less: Provision for diminution in value	18	-	18
<b>Net book value, December 31</b>	<b>423</b>	<b>191</b>	<b>614</b>
<b>Market value, December 31</b>	<b>777</b>	<b>-</b>	<b>777</b>

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

Movements in provision for diminution in value of properties during the year were as follows:

In \$ millions	2005	2004
Balance at January 1	18	22
Write-back to income statement	-	(4)
<b>Balance at December 31</b>	<b>18</b>	<b>18</b>

**23.1** On December 9, 2005, the Bank sold its Shenton Way offices, DBS Tower One and Tower Two for a cash consideration of \$690 million, and the buildings were derecognised on the balance sheet as at that date. Under the sale and purchase agreement, the Bank will lease back the areas it currently occupies for an initial period of eight years, with a further option to renew the lease for two three-year periods at market rates. The excess of the sales proceeds over the buildings' fair values based on latest appraised values by independent valuers, amounting to \$144 million will be amortised over the expected period of the lease. A net gain of \$303 million, being the excess of the building's fair values over the net book value and after deducting sale expenses has been recognised in the income statement.

**24 Deferred Tax Assets/Liabilities**

Deferred tax assets and liabilities are offset when there is a 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. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

In \$ millions	2005	2004
Deferred tax assets	(27)	(94)
Deferred tax liabilities	#	-
<b>Total</b>	<b>(27)</b>	<b>(94)</b>

# Amounts under \$500,000

The movements in deferred tax were as follows:

In \$ millions	2005	2004
Balance at January 1	(94)	(115)
On adoption of FRS 39 at January 1, 2005	50	-
(Credit)/charge to income statement	(6)	21
Charge to equity	23	-
<b>Balance at December 31</b>	<b>(27)</b>	<b>(94)</b>

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

In \$ millions	2005	2004
<b>Deferred income tax liabilities</b>		
Accelerated tax depreciation	29	28
Available-for-sale investments/Cash flow hedge	73	-
	102	28
<b>Deferred income tax assets</b>		
Provision for loan losses	(110)	(106)
Other temporary differences	(19)	(16)
	(129)	(122)
<b>Total</b>	<b>(27)</b>	<b>(94)</b>

**25 Other Assets**

In \$ millions	2005	2004
Accrued interest receivable	708	868
Deposits and prepayments	346	201
Sundry debtors and others	2,503	1,108
<b>Total</b>	<b>3,557</b>	<b>2,177</b>

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**26 Due to Non-Bank Customers**

<b>In \$ millions</b>	2005	2004
<b>Analysed by currency</b>		
Singapore dollar	63,994	61,905
US dollar	14,294	15,457
Hong Kong dollar	866	1,270
Others	6,201	6,259
<b>Total</b>	<b>85,355</b>	<b>84,891</b>
<b>Analysed by product</b>		
Savings accounts	39,591	41,585
Current accounts	12,039	9,533
Fixed deposits	31,459	28,322
Other deposits	2,266	5,451
<b>Total</b>	<b>85,355</b>	<b>84,891</b>

**27 Other Liabilities**

<b>In \$ millions</b>	2005	2004
Payable in respect of short sale of debt securities	5,008	2,805
Sundry creditors	2,305	1,001
Cash collaterals received in respect of valuation shortfalls on derivative portfolios	460	399
Interest payable	310	498
Valuation reserves	180	231
Provision for off-balance sheet credit exposures	95	126
Other payables	811	843
<b>Total</b>	<b>9,169</b>	<b>5,903</b>

Movements in provisions for off-balance sheet credit exposures during the year were as follows:

<b>In \$ millions</b>	2005	2004
Balance at January 1	126	12
(Write-back)/charge to income statement	(31)	114
<b>Balance at December 31</b>	<b>95</b>	<b>126</b>

**28 Other Debt Securities in Issue**

<b>In \$ millions</b>	2005	2004
Negotiable certificate of deposits	187	150
Other debt securities	4,452	3,145
<b>Total</b>	<b>4,639</b>	<b>3,295</b>
Due within 1 year	1,036	970
Due after 1 year	3,603	2,325
<b>Total</b>	<b>4,639</b>	<b>3,295</b>

Details of negotiable certificate of deposits issued and outstanding at December 31, 2005 are as follows:

<b>In \$ millions</b>		Issue Date	Maturity Date	2005	2004
Face Value	Interest Rate and Repayment Terms				
TWD3,700m	1.03% to 1.455%, payable on maturity	Oct 3, 2005 to Dec 12, 2005	Jan 3, 2006 to Mar 28, 2006	187	150
<b>Total</b>				<b>187</b>	<b>150</b>

Details of other debt securities issued and outstanding at December 31, 2005 are as follows:

<b>In \$ millions</b>		Issue Date	Maturity Date	2005	2004
Type					
Equity linked notes		Apr 30, 2001 to Dec 30, 2005	Jan 6, 2006 to Mar 2, 2017	806	938
Credit linked notes		Feb 12, 2001 to Nov 14, 2005	Jan 10, 2006 to Dec 18, 2013	2,041	1,748
Interest rate linked notes		Jan 23, 2002 to Dec 9, 2005	Feb 27, 2006 to Dec 3, 2019	585	453
Exchange linked notes		Apr 28, 2005 to Dec 7, 2005	Jan 27, 2006 to Nov 23, 2007	86	6
Stapled notes with non-voting redeemable preference shares and fixed rate notes		Dec 20, 2005 to Dec 21, 2005	Nov 15, 2007	934	-
<b>Total</b>				<b>4,452</b>	<b>3,145</b>

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**29 Due to Subsidiaries**

In \$ millions	2005	2004
Subordinated term debts	1,352	1,283
Amounts due to subsidiaries	1,582	1,137
Total	2,934	2,420

The subordinated term debts were issued by DBS Bank to DBS Capital Funding Corporation, both wholly-owned subsidiaries of DBSH, on March 21, 2001 and mature on March 15, 2051. The notes comprised Series A Subordinated Note of US\$725 million and Series B Subordinated Note of S\$100 million. 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") + 3.2% per annum (Series A) and three-month Singapore Swap Offer Rate + 2.52% per annum (Series B).

**30 Subordinated Term Debts**

Subordinated term debts issued by the Bank are classified as liabilities in accordance with FRS 32. These instruments qualify as Tier 2 capital for capital adequacy purposes. These subordinated term debts are junior long-term debts that have a lower priority claim on the Bank's assets in the case of a default or liquidation.

In \$ millions		Issue Date	Maturity Date	Note	2005	2004
Face Value						
US\$750m	7 7/8% Subordinated Notes	Aug 10, 1999	Aug 10, 2009	30.1	1,333	1,225
US\$500m	7 7/8% Subordinated Notes	Apr 15, 2000	Apr 15, 2010	30.2	898	816
US\$850m	7 1/8% Subordinated Notes	May 15, 2001	May 15, 2011	30.3	1,480	1,388
US\$750m	5.00% Subordinated Notes callable with step-up in 2014	Oct 1, 2004	Nov 15, 2019	30.4	1,219	1,225
Total (repayable over 1 year)					4,930	4,654

**30.1** Interest is payable semi-annually on February 10 and August 10 commencing February 10, 2000. Part of the fixed rate funding has been converted to floating rate at three-month LIBOR + 1.0475% via interest rate swaps. In computing the Bank's capital adequacy ratio, these notes qualify as Tier 2 capital.

**30.2** Interest is payable semi-annually on April 15 and October 15 commencing October 15, 2000. The fixed rate funding has been converted to floating rate at six-month LIBOR + 0.9569% via interest rate swaps. In computing the Bank's capital adequacy ratio, these notes qualify as Tier 2 capital.

**30.3** Interest is payable semi-annually on May 15 and November 15 commencing November 15, 2001. The fixed rate funding has been converted to floating rate at three-month LIBOR + 1.252% via interest rate swaps. In computing the Bank's capital adequacy ratio, these notes qualify as Tier 2 capital.

**30.4** Interest is payable semi-annually on May 15 and November 15 commencing May 15, 2005. Part of the fixed rate funding has been converted to floating rate at three-month LIBOR + 0.611% via interest rate swaps. If the notes are not called at the tenth year, the interest rate steps up and will be reset at six-month LIBOR + 1.61% on the call date. In computing the Bank's capital adequacy ratio, these notes qualify as Tier 2 capital.

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**31 Share Capital**

<b>Share Capital</b> <b>In \$ millions</b>	2005	2004
<b>Authorised</b>		
2,000,000,000 ordinary shares	2,000	2,000
600,000,000 non-redeemable convertible preference shares	1,200	1,200
300,000,000 non-voting convertible preference shares	300	300
800,000 non-cumulative redeemable non-convertible perpetual preference shares and each with a liquidation preference	#	#
17,500 non-cumulative redeemable non-convertible perpetual preference shares and each with a liquidation preference	#	#
1,100,000,000 non-cumulative non-convertible perpetual preference shares and each with a liquidation preference	11	11
100 non-cumulative redeemable preference shares and each with a liquidation preference	#	#
100 non-cumulative Class A redeemable preference shares and each with a liquidation preference	#	#
	1,511	1,511
<b>Issued and fully paid-up</b>		
1,962,302,697 (2004: 1,962,302,697) ordinary shares	1,962	1,962
11,000,000 (2004: 11,000,000) non-cumulative non-convertible perpetual preference shares	#	#
<b>Total Issued and Paid-up Share Capital</b>	<b>1,962</b>	<b>1,962</b>

# Amounts under \$500,000.

There was no movement in share capital during the current financial year.

**32 Reserves**

**32.1 Non-distributable reserves**

<b>In \$ millions</b>	2005	2004
Revaluation and cash flow hedge reserves	235	-
Other non-distributable reserves	2,430	2,462
<b>Total</b>	<b>2,665</b>	<b>2,462</b>

Movements in revaluation and cash flow hedge reserves during the year were as follows:

<b>In \$ millions</b>	Available-for-sale investments revaluation reserves	Cash flow hedge reserves	Total
On adoption of FRS 39 at January 1, 2005	297	-	297
Net valuation taken to equity	(3)	28	25
Transferred to income statement on sale	(71)	-	(71)
Tax on items taken directly to or transferred from equity	(11)	(5)	(16)
<b>Balance at December 31, 2005</b>	<b>212</b>	<b>23</b>	<b>235</b>

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Movements in other reserves during the year were as follows:

In \$ millions	General reserves <sup>(a)</sup>	Capital reserves <sup>(b)</sup>	Share plan reserves	Total
Balance at January 1, 2005				
- as previously reported	2,233	221	-	2,454
- effect of adoption of new or revised FRS	-	-	8	8
Balance at January 1 as restated	2,233	221	8	2,462
Appropriation from income statement	36	-	-	36
Net exchange translation adjustments	-	(85)	-	(85)
Cost of share-based payments	-	-	23	23
Draw-down of reserves upon vesting of performance shares	-	-	(6)	(6)
Balance at December 31, 2005	2,269	136	25	2,430
Balance at January 1, 2004				
- as previously reported	2,136	177	-	2,313
- effect of adoption of new or revised FRS	-	-	2	2
Balance at January 1 as restated	2,136	177	2	2,315
Appropriation from income statement	97	-	-	97
Net exchange translation adjustments	-	44	-	44
Cost of share-based payments	-	-	6	6
Balance at December 31, 2004	2,233	221	8	2,462

(a) The movements in General reserves relate to the amounts transferred to the Reserve Fund to comply with the Banking Act, and the other statutory regulations.

(b) The Capital reserves include net exchange translation adjustments arising from translation differences on net investments in foreign subsidiaries, associates and branches, and the related foreign currency borrowings designated as a hedge.

### 32.2 Revenue reserves

In \$ millions	2005	2004
Balance at January 1		
- as previously reported	3,205	1,841
- effect of adoption of new or revised FRS	(18)	(8)
Balance at January 1 as restated	3,187	1,833
On adoption of FRS 39 at January 1, 2005	(122)	-
Net profit for the year	715	1,927
Transfer to general reserves	(36)	(97)
Amount available for distribution	3,744	3,663
Less: \$0.33 (2004: \$0.22) tax exempt ordinary dividends	651	423
6% on preference dividends of net of 20% (2004: 20%) tax paid	53	53
Balance at December 31	3,040	3,187

### 32.3 Proposed dividend

The financial statements for the year ended December 31, 2005 do not reflect the proposed final dividends to DBS Group Holdings Ltd, amounting to an estimated \$204 million, which will be accounted for in shareholders' funds as an appropriation of revenue reserves in the year ending December 31, 2005.

## 33 Contingent Liabilities

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

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

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

In \$ millions	2005	2004
Guarantees on account of customers	3,888	4,189
Endorsements and other obligations on account of customers		
- Letters of credit	3,235	2,603
- Others	178	216
Other contingent items	88	87
Total	7,389	7,095
<b>Industry Breakdown</b>		
Manufacturing	1,504	1,634
Building and construction	773	333
General commerce	2,468	1,945
Transportation, storage and communications	628	570
Financial institutions, investment and holding companies	915	912
Professionals and private individuals (except housing loans)	288	740
Others	813	961
Total	7,389	7,095

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**33.1** The Bank has existing outsourcing agreements for the provision of information technology and related support to the Bank's operations in Singapore, Hong Kong and China. There are various termination clauses in the agreement that could require the Bank to pay a penalty on early termination of the contract in certain circumstances. The exact amount of any penalty cannot be reliably determined, as it is dependent on business volumes generated over the period of the contract and on the time of termination.

**33.2** Included in "Other contingent items" at December 31, 2005, is an amount of \$85 million (2004: \$87 million), representing the termination fee payable by the Bank should a distribution agreement be terminated prematurely now, prior to the expiry date, December 2011.

### 34 Commitments

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

In \$ millions	2005	2004
<b>Loans and other facilities</b>		
- Undrawn credit facilities	61,103	54,136
- Undisbursed commitments in debt securities and equities	103	108
<b>Sub-total</b>	<b>61,206</b>	<b>54,244</b>
Capital commitments	60	51
Operating lease commitments	388	118
<b>Total</b>	<b>61,654</b>	<b>54,413</b>

#### Undrawn commitments on loans and other facilities analysed by industry

Manufacturing	8,559	6,775
Building and construction	2,897	3,178
Housing loans	1,835	1,761
General commerce	4,910	4,058
Transportation, storage and communications	5,441	4,440
Financial institutions, investment and holding companies	23,117	23,720
Professionals and private individuals (except housing loans)	5,588	4,747
Others	8,859	5,565
<b>Total</b>	<b>61,206</b>	<b>54,244</b>

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

In \$ millions	2005	2004
Not later than 1 year	76	44
Later than 1 year but not later than 5 years	186	63
Later than 5 years	126	11
<b>Total</b>	<b>388</b>	<b>118</b>

The operating lease commitments include those for DBS Tower One and Tower Two. See Note 23.1 for further information.

### 35 Financial Derivatives

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

#### Interest rate contracts

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

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

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

*Interest rate options* give the buyer on payment of a 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.

#### 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.

### **Equity-related contracts**

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

### **Credit-related contracts**

*Credit derivatives* are off-balance sheet instruments that allow for the isolation and transfer of credit risk from one party to another 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.

### **35.1 Trading derivatives**

Most of the Bank's derivatives relate to sales and trading activities. Sale activities include the structuring and marketing of derivatives to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities are entered into principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading includes market making, positioning and arbitrage activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between the same product in different markets or the same economic factor in different products.

### **35.2 Hedging derivatives**

The accounting treatment of the hedge derivative transactions varies according to the nature of the hedge and whether the hedge meets the specified criteria to qualify for hedge accounting. Derivatives transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes.

The Bank's fair value hedges consist principally of interest rate swaps used for managing interest rate gaps. Derivatives are also used by the Bank to hedge its exposures to variability in cash flows or forecasted transactions, and its net investment in foreign operations.

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

In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Positive replacement values" or "Negative replacement values" respectively.

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties amounted to \$1,180 billion (2004: \$1,275 billion) and \$201 billion (2004: \$241 billion) respectively.

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

In \$ millions	Underlying notional	2005	Year-end	Year-end	Underlying notional	2004	Year-end	Year-end
		Year-end positive replacement values	negative replacement values	Year-end positive replacement values		negative replacement values		
<b>Derivatives Held for Trading</b>								
<b>Interest Rate Derivatives</b>								
Forward rate agreements bought	9,511	28	1		34,210	20		17
Forward rate agreements sold	10,515	1	26		32,857	18		19
Interest rate swaps	886,932	5,801	5,657		926,091	6,599		6,325
Financial futures bought	18,826	2	6		21,211	4		5
Financial futures sold	10,932	2	10		26,111	10		8
Interest rate options bought	7,504	75	-		11,773	145		-
Interest rate options sold	9,983	-	67		12,238	-		111
Interest rate futures options bought	2,930	1	-		17,143	6		-
Interest rate futures options sold	5,379	-	8		7,568	-		-
Interest rate caps/floors bought	19,659	230	1		21,206	112		6
Interest rate caps/floors sold	19,532	1	258		18,509	18		119
<b>Sub-total</b>	<b>1,001,703</b>	<b>6,141</b>	<b>6,034</b>		<b>1,128,917</b>	<b>6,932</b>		<b>6,610</b>
<b>Foreign Exchange Derivatives</b>								
FX contracts	228,420	1,224	831		237,652	2,169		1,865
Currency swaps	36,925	720	521		39,572	840		833
Currency options bought	33,158	331	-		26,042	415		-
Currency options sold	28,793	-	395		24,865	-		355
<b>Sub-total</b>	<b>327,296</b>	<b>2,275</b>	<b>1,747</b>		<b>328,131</b>	<b>3,424</b>		<b>3,053</b>
<b>Equity Derivatives</b>								
Equity options bought	4,070	190	2		3,010	124		-
Equity options sold	5,507	1	341		7,808	-		346
<b>Sub-total</b>	<b>9,577</b>	<b>191</b>	<b>343</b>		<b>10,818</b>	<b>124</b>		<b>346</b>
<b>Credit Derivatives</b>								
Credit default swaps	34,250	302	372		16,616	94		121
<b>Sub-total</b>	<b>34,250</b>	<b>302</b>	<b>372</b>		<b>16,616</b>	<b>94</b>		<b>121</b>
<b>Total Derivatives Held for Trading</b>	<b>1,372,826</b>	<b>8,909</b>	<b>8,496</b>		<b>1,484,482</b>	<b>10,574</b>		<b>10,130</b>
<b>Derivatives Held for Hedging</b>								
Interest rate swaps held for fair value hedge	7,665	269	150		-	-		-
Equity options held for cash flow hedge	274 <sup>(a)</sup>	28	-		-	-		-
Derivatives held for hedging – pre FRS 39	-	-	-		31,477	738 <sup>(b)</sup>		549 <sup>(b)</sup>
<b>Total Derivatives Held for Hedging</b>	<b>7,939</b>	<b>297</b>	<b>150</b>		<b>31,477</b>	<b>738</b>		<b>549</b>
<b>Total Derivatives</b>	<b>1,380,765</b>	<b>9,206</b>	<b>8,646</b>		<b>1,515,959</b>	<b>11,312</b>		<b>10,679</b>
<b>Positive/ negative replacement values</b>		9,206	8,646			10,574		10,130

(a) The forecasted transaction will occur in 2006.

(b) The replacement values were not recognised on the balance sheet prior to the adoption of FRS 39.

### 36 Cash and Cash Equivalents

In \$ millions	2005	2004
Cash on hand	721	783
Non-restricted balances with central banks (Note 14)	1,688	7,954
Trading Singapore Government securities and treasury bills (Note 15)	4,255	4,199
Trading other government securities and treasury bills (Note 16)	2,416	1,626
<b>Total</b>	<b>9,080</b>	<b>14,562</b>

### 37 Share-based Compensation Plans

#### 37.1 DBSH Share Ownership Scheme

The DBSH Share Ownership Scheme is a fund set up to hold units of the DBSH's ordinary shares. All employees with at least one year of service and who are not participating in the DBSH Share Option Plan or DBSH Performance Share Plan are eligible. Under the Scheme, participants and the Bank contribute up to 10% and 5% of monthly base salary respectively to buy units of DBSH's ordinary shares. Amounts contributed by the Bank under the Scheme are recognised as personnel expenses when paid.

	Ordinary shares			
	Number		Market value (\$ millions)	
	2005	2004	2005	2004
Balance, January 1	3,477,829	3,580,829	56	53
Balance, December 31	3,507,829	3,477,829	58	56

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**37.2 DBSH Share Option Plan**

Under the DBSH Share Option Plan (the "Option Plan"), options to subscribe for DBSH's ordinary shares may be granted to Bank executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

The exercise price of the granted options is equal to the average of the last dealt prices for the DBSH's shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd, for the three consecutive trading days immediately preceding the date of the grant.

The share options vest over a period of three years in accordance with a vesting schedule determined by the

Compensation Committee, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options. The share options have a validity period of ten years from the date of grant, unless they have been forfeited or have lapsed prior to that date. The Bank has no legal or constructive obligation to repurchase or settle the options in cash.

On March 1, 2005, options ("2005 Options") on 2,815,600 shares with an exercise price of \$15.07 per ordinary share were granted pursuant to the Option Plan. The 2005 Options are exercisable from March 1, 2006 and expire on February 28, 2015.

The following table sets out the movement of the unissued ordinary shares of DBSH under outstanding options, the weighted average exercise prices and expiration dates.

	2005	Weighted	2004	Weighted
	Unissued number of ordinary shares under outstanding options	average exercise price (\$)	Unissued number of ordinary shares under outstanding options	average exercise price (\$)
Balance at January 1	46,749,383	14.71	46,174,036	14.53
Movements during the year:				
- Granted	2,815,600	15.07	7,494,000	14.73
- Exercised	(5,126,909)	12.52	(3,289,672)	12.34
- Forfeited	(4,963,793)	15.90	(3,628,981)	14.54
Balance at December 31	39,474,281	14.87	46,749,383	14.71
Additional information:				
Outstanding options exercisable at December 31	27,624,463	15.67	26,040,488	16.22
Weighted average remaining contractual life of options outstanding at December 31	6.4 years		6.2 years	
Range of exercise price of options outstanding at December 31	\$9.18 to \$22.33		\$9.18 to \$22.33	

In 2005, 5,126,909 options (2004: 3,289,672) were exercised at their contractual exercise prices. During this period, the average market price of DBSH's shares was \$15.68 (2004: \$15.50). The fair value of options granted during the year determined using the Binomial option valuation model was \$3.74 (2004: \$4.11). The fair value determined using the model was based on a share price of \$14.70 (2004: \$14.40) at the date of grant, and an expected life of 7.53 years. The risk-free interest rates are based on the yield curve of Singapore Government Securities as at grant date. The expected volatility is 34.2% (2004: 40.3%) based on a statistical analysis of weekly share prices over the past five years.

**37.3 DBSH Performance Share Plan**

Under the DBSH Performance Share Plan (the "PSP"), DBSH's ordinary shares ("PSP shares") could be granted to Bank executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent).

Participants are awarded ordinary shares of DBSH, their equivalent cash value or a combination of both, when prescribed performance targets of DBSH and its subsidiaries (referred to as the Group) are met over a three-year period. Since the inception of the PSP, there have been no cash-settled awards under the Plan.

The PSP shares will vest two years from the date of grant. The fair value of PSP shares awarded is computed based on the market price of the ordinary shares at the time of the award and is amortised

through the income statement over the two-year vesting period. At each balance sheet date, the Bank revises its estimates of the number of PSP shares expected to vest based on non-market vesting conditions and corresponding adjustments are made to the income statement and Share plan reserves.

The following table sets out the movement of the PSP shares granted pursuant to the Plan for the financial year ended December 31, 2005 and their fair values at grant date.

(Number of shares)	March 2005 grant	March 2004 grant
Balance, January 1	Not applicable	685,080
Granted during the year	2,913,630	Not applicable
Forfeited during the year	(284,780)	(58,300)
Balance, December 31	2,628,850	626,780
Fair value per share at grant date	\$14.70	\$14.40

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**37.4 DBSH Employee Share Plan**

The DBSH Employee Share Plan (the "ESP") caters to all employees of the Bank who are not eligible to participate in the DBSH Share Option Plan, the DBSH Performance Share Plan or other equivalent plans.

Under the ESP, eligible employees are awarded DBSH ordinary shares, their equivalent cash value or combinations of both when prescribed Group performance targets are met. The ESP awards are granted at the absolute discretion of the Compensation Committee.

During the current and previous financial years, there were no awards granted to eligible employees under the ESP.

**38 Related Party Transactions**

**38.1** During the financial year, the Bank had banking transactions with related parties, consisting of joint ventures, associates, directors and key management personnel of the Bank. These included the taking of deposits and extension of credit card and other loan facilities. These transactions were made in the ordinary course of business and carried out at arms-length commercial terms, and are not material.

In addition, directors and key management personnel received remuneration for services rendered during the financial year. Non-cash benefits including share options and performance shares were also granted.

**38.2** Total compensation and fees paid to directors and key management personnel <sup>(a)</sup> were as follows:

In \$ millions	2005	2004
Short-term benefits	25	23
Share-based payments	4	2
<b>Total</b>	<b>29</b>	<b>25</b>
<i>Comprise amounts paid to:</i>		
-Directors	14	13
-Key management personnel	15	12
<b>Total</b>	<b>29</b>	<b>25</b>
Fees of directors	#	#
<b>Total compensation and fees</b>	<b>29</b>	<b>25</b>

# Amount under \$500,000

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

**38.3 Share options granted to directors and key management personnel**

The aggregate number of share options granted to directors and key management personnel during the financial year were 107,000 and 191,400 (2004: 76,000 and 190,000) respectively. The share options were granted on the same terms and conditions as those offered to other employees of the Bank. The outstanding number of share options granted to directors and key management personnel at the end of

the financial year were 888,225 and 1,645,550 (2004: 781,225 and 1,454,150) respectively.

**38.4 Performance shares granted to directors and key management personnel**

During the financial year, 204,080 and 209,620 (2004: 33,940 and 66,190) awards in respect of DBSH ordinary shares were granted to directors and key management personnel respectively. The awards represented a 100% payout. The payout at the end of the performance period could have ranged from a minimum of 50% of the shares awarded to 200%, depending on the Group's performance as measured by return on equity.

**38.5 Income received and expenses paid to related parties**

In \$ millions	2005	2004
<b>Income received from:</b>		
-Subsidiaries <sup>(a)</sup>	89	56
-Associates	5	2
<b>Total</b>	<b>94</b>	<b>58</b>
<b>Expenses paid to:</b>		
-Subsidiaries <sup>(a)</sup>	158	142
-Subsidiaries of DBSH	#	#
-Associates	8	9
<b>Total</b>	<b>166</b>	<b>151</b>

# Amounts under \$500,000.

(a) Includes special purpose entities.

**38.6 Amounts due to and from related parties**

In \$ millions	2005	2004
<b>Amounts due from:</b>		
-Subsidiaries <sup>(a)</sup>	595	849
-Associates	#	#
<b>Total</b>	<b>595</b>	<b>849</b>
<b>Amounts due to:</b>		
-DBSH	59	90
-Subsidiaries <sup>(a)</sup>	2,934	2,420
-Subsidiaries of DBSH	5	5
-Associates	#	#
<b>Total</b>	<b>2,998</b>	<b>2,515</b>

# Amounts under \$500,000.

(a) Includes special purpose entities.

**38.7 Loans and guarantees to related parties**

Loans granted to subsidiaries amounted to \$257 million (2004: \$196 million) and will be settled in cash. Loans granted from subsidiaries to the Bank amounted to \$51 million (2004: \$0 million) and will be settled in cash. No expense has been recognised in the period for bad or doubtful debts in respect of amounts owed by subsidiaries.

Guarantees granted to and from subsidiaries amounted to \$1 million (2004: \$2 million) and \$41 million (2004: \$0 million) respectively.

**39 Fair Value of Financial Assets and Liabilities**

The following table presents the financial instruments, which are carried at fair values through profit or loss, at December 31, 2005:

In \$ millions	Note	Total	Note	Total
<b>December 31, 2005</b>				
<b>Financial assets at fair value through profit or loss</b>			<b>Financial liabilities at fair value through profit or loss</b>	
<b>Trading</b>			<b>Trading</b>	
Singapore Government securities and treasury bills	15	4,223	Other debt securities in issue	28 3,411
Other government securities	16	2,416	Derivatives (negative replacement values)	35 8,646
Corporate debt securities	16	9,743	Due to non-bank customers - fixed deposits <sup>(a)</sup>	26 6,097
Equity securities	16	719	Payable in respect of short sale of debt securities	27 5,008
Securities pledged	20	433	Other financial liabilities	441
Derivatives (positive replacement values)	35	9,206		
Other financial assets		3,406		
<b>Fair value designated</b>			<b>Fair value designated <sup>(b)</sup></b>	
Singapore Government securities and treasury bills	15	32	Other debt securities in issue	28 107
Corporate debt securities	16	1,295		
Other financial assets		68		

(a) These are structured deposits at fair value through profit or loss.

(b) Changes in the fair value of the financial liabilities designated as at fair value through profit or loss are attributable mainly to equity, interest and currency risk changes. The remaining change that is not attributable to changes in the benchmark interest rate is considered not significant. Unrealised gain for the fair value designated liabilities amount to \$6 million at December 31, 2005.

For financial assets and liabilities not carried at fair values on the financial statements, the Bank has ascertained that their fair values are not materially different from the carrying amounts at year-end. The basis of arriving at their fair values are as follows:

**(a) Cash and balances with central banks and Due from 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.

**(b) Non-trading investments**

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. Unquoted equities of \$97 million as at December 31, 2005 were stated at cost because the fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques supported by observable market data.

**(c) Loans and advances to customers**

The estimated fair value takes into account the relevant market interest rates and credit spread by product types.

**(d) Due to banks and Due to 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.

**(e) Other debt securities issued and bills payable**

The fair value approximates their carrying amounts.

**(f) 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.

## **40 Financial Instruments – Usage and Risk Management**

### **40.1 Use of financial instruments**

The Bank may act as principal, broker or advisor in the use of financial instruments.

The Bank takes positions in exchange-traded and over-the-counter financial instruments including derivatives to take advantage of short-term market movements in, inter alia, equity, bond, currency, interest rate and gold rates and prices. These positions can be for trading, market making or to meet customers' needs.

The Bank's investment portfolio comprises mainly government and corporate bonds, and includes other investments such as third-party managed funds. Derivatives may be used to gain or to hedge market exposure in such investments.

### **40.2 Financial risk management objectives and policies**

As part of overall corporate governance, the Board of Directors has approved a comprehensive Risk Governance Framework covering risk governance for all risk types.

This framework defines authority levels, oversight responsibilities, policy structures and risk appetite limits to manage the risks that arise in connection with the use of financial instruments.

On a day-to-day basis, business units have primary responsibility for managing specific risk exposures while Group Risk exercises independent risk oversight on the Bank as a whole.

#### **(a) 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.

The Bank's trading and investment market risk appetite is determined by the Board of Directors, with detailed limit frameworks recommended by the appropriate risk committee and approved by senior management.

The principal market risk appetite measures are Value at Risk (VaR) and stress loss. VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence. Stress loss is assessed against a set of scenarios using stress moves in the market variables.

At the business unit level, trading exposures are measured and controlled by more granular risk and loss limits such as risk sensitivity-based limits, stress limits and management action triggers.

All trading activities are subject to mark-to-market valuation to reflect the current market value of the trading portfolio and their profit and loss. Investments are subject to limits by market risk type as well as concentration limits.

#### **(b) 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. Examples of financial assets and liabilities which have fixed and floating interest rate exposure include debt securities, loans and derivatives.

The Bank manages its interest rate risk by changing the duration of on-balance sheet items and by way of entering into off-balance sheet interest rate hedging instruments to hedge the interest rate exposure based on market and economic conditions.

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The following tables summarise the Bank's assets and liabilities at carrying amounts at December 31, categorised by the earlier of contractual repricing or maturity dates. Actual dates may differ from contractual dates owing to prepayments and the exercise of options. It should also be noted that any representation of interest rate risk at a specific date offers only a snapshot of the risks taken by the Bank, since the position is being actively managed and can vary significantly on a daily basis. As such, it may not be representative of the level of risk at other times.

In \$ millions	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
<b>2005</b>								
Cash and balances with central banks	552	312	755	112	-	-	3,060	4,791
Due from banks	2,326	6,562	4,531	2,611	953	573	220	17,776
Securities <sup>(a)</sup>	549	2,102	3,343	4,734	8,359	19,184	2,174	40,445
Loans and advances to customers	19,744	9,307	9,924	10,835	2,479	2,001	199	54,489
Other assets <sup>(b)</sup>	-	-	-	-	-	-	24,922	24,922
<b>Total assets</b>	<b>23,171</b>	<b>18,283</b>	<b>18,553</b>	<b>18,292</b>	<b>11,791</b>	<b>21,758</b>	<b>30,575</b>	<b>142,423</b>
Due to banks	2,998	1,568	2,144	1,286	11	11	17	8,035
Due to non-bank customers	57,917	11,774	5,727	4,338	1,359	4,240	-	85,355
Other liabilities <sup>(c)</sup>	520	503	1,178	241	286	2,431	21,143	26,302
Subordinated term debts	-	-	-	-	-	4,930	-	4,930
<b>Total liabilities</b>	<b>61,435</b>	<b>13,845</b>	<b>9,049</b>	<b>5,865</b>	<b>1,656</b>	<b>11,612</b>	<b>21,160</b>	<b>124,622</b>
Shareholders' funds	-	-	-	-	-	-	17,801	17,801
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,801</b>	<b>17,801</b>
<b>On-balance sheet interest rate gap</b>	<b>(38,264)</b>	<b>4,438</b>	<b>9,504</b>	<b>12,427</b>	<b>10,135</b>	<b>10,146</b>	<b>(8,386)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives	6,295	8,081	6,489	3,632	(18,676)	(5,821)	-	-
<b>2004</b>								
Cash and balances with central banks	598	1,002	2,555	3,767	-	-	2,296	10,218
Due from banks	1,301	6,187	8,578	3,255	67	136	134	19,658
Securities <sup>(a)</sup>	574	1,413	4,393	3,205	7,751	17,805	1,827	36,968
Loans and advances to customers	6,710	17,797	8,454	10,735	1,718	1,560	47	47,021
Other assets <sup>(b)</sup>	-	-	-	-	-	-	26,201	26,201
<b>Total assets</b>	<b>9,183</b>	<b>26,399</b>	<b>23,980</b>	<b>20,962</b>	<b>9,536</b>	<b>19,501</b>	<b>30,505</b>	<b>140,066</b>
Due to banks	3,936	2,341	2,275	1,454	85	7	22	10,120
Due to non-bank customers	58,819	12,560	3,619	3,708	1,540	4,645	-	84,891
Other liabilities <sup>(c)</sup>	369	374	812	775	614	954	18,758	22,656
Subordinated term debts	-	-	-	-	-	4,654	-	4,654
<b>Total liabilities</b>	<b>63,124</b>	<b>15,275</b>	<b>6,706</b>	<b>5,937</b>	<b>2,239</b>	<b>10,260</b>	<b>18,780</b>	<b>122,321</b>
Shareholders' funds	-	-	-	-	-	-	17,745	17,745
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,745</b>	<b>17,745</b>
<b>On-balance sheet interest rate gap</b>	<b>(53,941)</b>	<b>11,124</b>	<b>17,274</b>	<b>15,025</b>	<b>7,297</b>	<b>9,241</b>	<b>(6,020)</b>	<b>-</b>
<b>Off-balance sheet interest rate gap</b>								
- Financial derivatives	5,848	6,893	12,868	(10,826)	(13,202)	(1,581)	-	-

- (a) Securities include Singapore Government securities and treasury bills, securities at fair value through profit or loss, non-trading securities and securities pledged.
- (b) Other assets include positive replacement values, investments in joint ventures and associates, properties and other fixed assets, deferred tax assets and other assets.
- (c) Other liabilities include negative replacement values, bills payable, current tax liabilities 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		Singapore	
	Dollar, %	US Dollar, %	Dollar, %	US Dollar, %
	2005		2004	
<b>Assets</b>				
Cash and balances with central banks	-	-	-	-
Due from banks	2.66-3.41	3.85-4.14	1.26-1.34	2.06-2.22
Securities <sup>(a)</sup>	2.47-4.11	3.24-4.97	1.24-3.94	2.62-4.04
Loans and advances to customers	3.33-4.41	3.72-6.29	2.77-4.07	2.70-4.39
<b>Liabilities</b>				
Due to banks	2.49-2.60	3.86-4.11	1.02-1.06	2.15-2.18
Due to non-bank customers	0-1.20	2.97-3.14	0-0.33	1.31-1.60
Subordinated term debts	-	5.00-7.88	-	5.00-7.88

(a) Securities include Singapore Government securities and treasury bills, debt securities at fair value through profit or loss, pledged debt securities and non-trading debt securities and excludes equities.

**(c) 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 assets and liabilities at carrying amounts at December 31, categorised by currency:

In \$ millions	Singapore Dollar	US Dollar	Hong Kong Dollar	Others	Total
<b>2005</b>					
Cash and balances with central banks	4,703	7	5	76	4,791
Due from banks	5,143	6,749	242	5,642	17,776
Securities <sup>(a)</sup>	13,161	15,937	801	10,546	40,445
Loans and advances to customers	32,818	13,673	3,091	4,907	54,489
Other assets <sup>(b)</sup>	5,261	5,441	11,482	2,738	24,922
<b>Total assets</b>	<b>61,086</b>	<b>41,807</b>	<b>15,621</b>	<b>23,909</b>	<b>142,423</b>
Due to banks	660	4,278	812	2,285	8,035
Due to non-bank customers	63,995	14,294	865	6,201	85,355
Other liabilities <sup>(c)</sup>	5,386	12,999	2,930	4,987	26,302
Subordinated term debts	-	4,930	-	-	4,930
<b>Total liabilities</b>	<b>70,041</b>	<b>36,501</b>	<b>4,607</b>	<b>13,473</b>	<b>124,622</b>
Shareholders' funds	17,801	-	-	-	17,801
<b>Total equity</b>	<b>17,801</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,801</b>
<b>Net on-balance sheet position</b>	<b>(26,756)</b>	<b>5,306</b>	<b>11,014</b>	<b>10,436</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>21,426</b>	<b>(14,415)</b>	<b>(4,097)</b>	<b>(2,914)</b>	<b>-</b>
<b>2004</b>					
Cash and balances with central banks	9,985	127	54	52	10,218
Due from banks	3,553	12,315	84	3,706	19,658
Securities <sup>(a)</sup>	12,992	13,889	865	9,222	36,968
Loans and advances to customers	31,666	10,085	1,656	3,614	47,021
Other assets <sup>(b)</sup>	5,858	5,961	11,811	2,571	26,201
<b>Total assets</b>	<b>64,054</b>	<b>42,377</b>	<b>14,470</b>	<b>19,165</b>	<b>140,066</b>
Due to banks	727	7,670	167	1,556	10,120
Due to non-bank customers	61,905	15,457	1,270	6,259	84,891
Other liabilities <sup>(c)</sup>	5,349	8,422	3,629	5,256	22,656
Subordinated term debts	-	4,654	-	-	4,654
<b>Total liabilities</b>	<b>67,981</b>	<b>36,203</b>	<b>5,066</b>	<b>13,071</b>	<b>122,321</b>
Shareholders' funds	17,745	-	-	-	17,745
<b>Total equity</b>	<b>17,745</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,745</b>
<b>Net on-balance sheet position</b>	<b>(21,672)</b>	<b>6,174</b>	<b>9,404</b>	<b>6,094</b>	<b>-</b>
<b>Net off-balance sheet position</b>	<b>14,807</b>	<b>(9,254)</b>	<b>(2,236)</b>	<b>(3,317)</b>	<b>-</b>

(a) Securities include Singapore Government securities and treasury bills, securities at fair value through profit or loss, non-trading securities and securities pledged.

(b) Other assets include positive replacement values, investments in joint ventures and associates, properties and other fixed assets, deferred tax assets and other assets.

(c) Other liabilities include negative replacement values, bills payable, current tax liabilities and other liabilities.

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The table below analyses the Bank's net structural currency exposure by functional currency at December 31:

In \$ millions	Net investments in overseas operations <sup>(a)</sup>	Financial instruments which hedge the net investments <sup>(b)</sup>	Remaining structural currency exposures
<b>2005</b>			
US dollar	343	342	1
Hong Kong dollar	4,407	4,356	51
Others	1,198	610	588
<b>Total</b>	<b>5,948</b>	<b>5,308</b>	<b>640</b>
<b>2004</b>			
US dollar	290	285	5
Hong Kong dollar	4,069	4,017	52
Others	908	525	383
<b>Total</b>	<b>5,267</b>	<b>4,827</b>	<b>440</b>

(a) Refer to net tangible assets of subsidiaries/associates/joint ventures and capital funds/retained earnings of overseas branches operations.

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

**(d) Credit risk**

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

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

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit, without taking into account the fair value of any collateral and master netting arrangements.

**- Derivatives**

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

**- Master netting arrangements**

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

**- Credit-related commitments**

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

Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

**41 Concentration Risk**

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

monitored against these limits, and appropriate actions is taken if limits are breached.

**41.1 Cross-border exposures**

At December 31, 2005, the Bank has exposures to various countries where net exposure exceeded 1% of the Bank's total assets. The exposures are determined based on the location of the credit risk of the customers and counterparties regardless of where the transactions are booked.

The Bank's exposures exceeding 1% of the Bank total assets as at December 31 are as follows:

In \$ millions	Loans and debt securities				Total Exposure	
	Banks	Central banks and Government securities	Non-banks <sup>(a)</sup>	Investments	Amount	As a % of Total assets
Assets in	(1)	(2)	(3)	(4)	(5)=(1+2+3+4)	(6)
<b>2005</b>						
<b>Top 10 countries (Net exposure &gt;1% of Total assets)</b>						
United States	742	2,937	4,605	370	8,654	6.0
South Korea	2,616	792	1,962	-	5,370	3.8
Hong Kong	581	236	4,223	253	5,293	3.7
United Kingdom	1,413	28	2,214	100	3,755	2.6
India	2,367	365	766	-	3,498	2.5
China	900	59	2,073	43	3,075	2.2
Malaysia	1,060	170	1,551	3	2,784	2.0
Taiwan	355	1,677	662	3	2,697	1.9
Germany	1,533	507	569	7	2,616	1.8
Netherlands	955	19	928	5	1,907	1.3
<b>Total</b>	<b>12,522</b>	<b>6,790</b>	<b>19,553</b>	<b>784</b>	<b>39,649</b>	<b>27.8</b>
<b>2004</b>						
<b>Top 10 countries (Net exposure &gt;1% of Total assets)</b>						
United States	1,560	2,540	4,224	314	8,638	6.2
South Korea	2,419	1,230	1,151	19	4,819	3.4
United Kingdom	2,059	15	1,594	113	3,781	2.7
Hong Kong	407	246	2,740	329	3,722	2.7
Taiwan	1,714	910	901	13	3,538	2.5
Malaysia	704	434	1,775	1	2,914	2.1
Netherlands	1,612	21	987	7	2,627	1.9
India	1,625	202	605	-	2,432	1.7
China	1,059	74	1,169	66	2,368	1.7
Germany	1,262	732	194	-	2,188	1.5
<b>Total</b>	<b>14,421</b>	<b>6,404</b>	<b>15,340</b>	<b>862</b>	<b>37,027</b>	<b>26.4</b>

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

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**42 Liquidity Risk**

Liquidity risk is the potential earnings volatility arising from being unable to fund portfolio assets at reasonable rates over required maturities. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. DBS seeks to manage its liquidity to meet its

obligations under normal as well as adverse circumstances, and take advantage of arising lending and investment opportunities. As part of its liquidity risk management, the Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funding capacity and contingency planning.

The table below analyses assets and liabilities of the Bank at December 31 based on the remaining period at balance sheet date to the contractual maturity date. However, contractual terms may not be representative of the behavior of assets and liabilities.

In \$ millions	Less than 7 days	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	No specific maturity	Total
<b>2005</b>								
Cash and balances with central banks	2,391	267	755	107	67	-	1,204	4,791
Due from banks	2,637	6,498	4,150	2,328	1,354	809	-	17,776
Securities <sup>(a)</sup>	14,617	806	1,402	2,383	8,674	10,389	2,174	40,445
Loans and advances to customers	4,742	5,488	5,391	8,304	7,926	22,635	3	54,489
Other assets <sup>(b)</sup>	7	4	10	3	8	2	24,888	24,922
<b>Total assets</b>	<b>24,394</b>	<b>13,063</b>	<b>11,708</b>	<b>13,125</b>	<b>18,029</b>	<b>33,835</b>	<b>28,269</b>	<b>142,423</b>
Due to banks	2,983	1,385	1,738	1,048	351	523	7	8,035
Due to non-bank customers	57,917	11,774	5,727	4,338	1,359	4,240	-	85,355
Other liabilities <sup>(c)</sup>	447	300	643	523	3,062	6,611	14,716	26,302
Subordinated term debts	-	-	-	-	-	4,930	-	4,930
<b>Total liabilities</b>	<b>61,347</b>	<b>13,459</b>	<b>8,108</b>	<b>5,909</b>	<b>4,772</b>	<b>16,304</b>	<b>14,723</b>	<b>124,622</b>
Shareholders' funds	-	-	-	-	-	-	17,801	17,801
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,801</b>	<b>17,801</b>
<b>Net liquidity gap</b>	<b>(36,953)</b>	<b>(396)</b>	<b>3,600</b>	<b>7,216</b>	<b>13,257</b>	<b>17,531</b>	<b>(4,255)</b>	<b>-</b>
<b>2004</b>								
Cash and balances with central banks	2,382	1,000	2,552	3,650	122	-	512	10,218
Due from banks	1,415	6,181	8,308	3,120	313	284	37	19,658
Securities <sup>(a)</sup>	13,822	433	1,216	2,398	7,757	9,515	1,827	36,968
Loans and advances to customers	5,662	4,451	5,180	5,136	7,869	18,723	-	47,021
Other assets <sup>(b)</sup>	44	11	-	7	-	9	26,130	26,201
<b>Total assets</b>	<b>23,325</b>	<b>12,076</b>	<b>17,256</b>	<b>14,311</b>	<b>16,061</b>	<b>28,531</b>	<b>28,506</b>	<b>140,066</b>
Due to banks	3,983	1,926	2,012	1,404	486	309	-	10,120
Due to non-bank customers	58,819	12,560	3,619	3,708	1,540	4,645	-	84,891
Other liabilities <sup>(c)</sup>	754	240	694	618	1,672	5,034	13,644	22,656
Subordinated term debts	-	-	-	-	-	4,654	-	4,654
<b>Total liabilities</b>	<b>63,556</b>	<b>14,726</b>	<b>6,325</b>	<b>5,730</b>	<b>3,698</b>	<b>14,642</b>	<b>13,644</b>	<b>122,321</b>
Shareholders' funds	-	-	-	-	-	-	17,745	17,745
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,745</b>	<b>17,745</b>
<b>Net liquidity gap</b>	<b>(40,231)</b>	<b>(2,650)</b>	<b>10,931</b>	<b>8,581</b>	<b>12,363</b>	<b>13,889</b>	<b>(2,883)</b>	<b>-</b>

- (a) Securities include Singapore Government securities and treasury bills, securities at fair value through profit or loss, non-trading securities and securities pledged.
- (b) Other assets include positive replacement values, investments in joint ventures and associates, properties and other fixed assets, deferred tax assets and other assets.
- (c) Other liabilities include negative replacement values, bills payable, current tax liabilities and other liabilities.

**43 Segmental Reporting**

**43.1 Business segment reporting**

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

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

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

The various customer segments are described below:

- **Consumer Banking**  
 Consumer Banking provides individual customers with a diverse range of banking and related financial services. The products and services offered to customers include current and savings accounts, loans and home finance, cards, payments and investment products.
- **Enterprise Banking**  
 Enterprise Banking provides financial services and products to small and medium-sized businesses. The products and services offered to customers include credit facilities (overdraft, factoring/accounts receivable purchase, trade services and financing, commercial/industrial property financing, hire purchase and government financing and assistance schemes), deposit, payment and collection services and treasury products.

- **Corporate and Investment Banking**  
 Corporate and Investment Banking provides tailored and unique financial solutions to large corporate and institutional clients. The products and services offered to customers include direct lending, corporate finance and advisory banking services for mergers and acquisitions, capital raising through debt and equity markets, capital restructuring, syndicated finance, securities and fiduciary services, cash management and trade services, and private equity.

- **Global Financial Markets**  
 Global Financial Markets provides treasury services to corporations, institutional and private investors, financial institutions and other market participants. It is primarily involved in market making, structuring, equity and debt sales and trading across a broad range of financial products including foreign exchange, interest rate/credit/equity and other structured derivatives. Income from financial products and services relating to other customer segments, e.g. Consumer Banking, Enterprise Banking and Corporate and Investment Banking, is reflected in the respective customer segments. Global Financial Markets also provides equity services through DBS Vickers Securities ("DBSV"). DBSV offers a wide range of services to retail and corporate customers including research, sales and trading, share placement, nominees and securities custodian services and distribution of primary and secondary issues.

- **Central Treasury Unit**  
 Central Treasury Unit is responsible for the management of the Bank's asset and liability interest rate positions and investment of the Bank's excess liquidity and shareholders' funds.

- **Central Operations**  
 Central Operations encompasses a range of activities resulting from central corporate decisions and the related income and expenses not attributed to business segments. These include funding costs of the Bank's subsidiaries, joint ventures and associates and gains/losses on properties. Private banking activities are included in this segment.

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The following table analyses the results, total assets and total liabilities by business segments:

In \$ millions	Consumer Banking	Enterprise Banking	Corporate and Investment Banking	Global Financial Markets	Central Treasury Unit	Central Operations	Total
<b>2005</b>							
Operating income	1,276	293	760	312	109	452	3,202
Operating profit before tax and goodwill charges	669	102	441	117	98	(466)	961
Income tax expense							(246)
<b>Net profit</b>							715
Other Information							
<b>Total assets</b>	19,521	5,459	31,644	59,202	17,756	8,841	142,423
<b>Total liabilities</b>	50,105	7,552	17,061	28,916	(118)	21,106	124,622
Capital expenditure	20	-	3	4	-	128	155
Depreciation	18	1	3	4	-	63	89
<b>2004</b>							
Operating income	999	255	649	620	244	740	3,507
Operating profit before tax and goodwill charges	378	102	481	433	224	638	2,256
Income tax expense							(329)
<b>Net profit</b>							1,927
Other Information							
<b>Total assets</b>	18,542	4,736	26,489	61,039	17,162	12,098	140,066
<b>Total liabilities</b>	48,717	6,508	14,913	33,474	133	18,576	122,321
Capital expenditure	8	1	3	4	-	58	74
Depreciation	19	1	2	4	-	61	87

### 43.2 Geographical segment reporting

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

In \$ millions	Total assets	Operating income	Net profit
<b>2005</b>			
Singapore <sup>(a)</sup>	125,785	2,932	663
Hong Kong	2,967	61	10
Rest of Greater China <sup>(b)</sup>	4,641	60	10
South and Southeast Asia <sup>(c)</sup>	2,006	53	36
Rest of the world <sup>(d)</sup>	7,024	96	(4)
<b>Total</b>	142,423	3,202	715

In \$ millions	Total assets	Operating income	Net profit
<b>2004</b>			
Singapore <sup>(a)</sup>	126,352	3,280	1,829
Hong Kong	2,879	72	47
Rest of Greater China <sup>(b)</sup>	2,990	53	19
South and Southeast Asia <sup>(c)</sup>	1,755	34	30
Rest of the world <sup>(d)</sup>	6,090	68	2
<b>Total</b>	140,066	3,507	1,927

(a) Includes one-time gains of \$303 million and \$497 million in 2005 and 2004 respectively.

(b) Rest of Greater China, includes branch operations in China and Taiwan.

(c) South and Southeast Asia, includes branch and subsidiary operations in India, Indonesia, Malaysia, Thailand and the Philippines.

(d) Rest of the world, includes branch operations in South Korea, Japan, United States of America and United Kingdom.

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The significant operating subsidiaries owned directly and indirectly by the Bank are:

Name of subsidiary	Principal activities	Country of incorporation	Curr-ency	Share capital		Effective shareholding %	
				In millions		2005	2004
<u>Held by the Bank</u>							
1. DBS Vickers Securities Holdings Pte Ltd	Investment holding	Singapore	SGD	207	100	100	100
2. DBS Asset Management Ltd	Investment management services	Singapore	SGD	4	100	100	100
3. DBS Nominees Pte Ltd	Nominee services	Singapore	SGD	#	100	100	100
4. DBS Trustee Ltd	Trustee services	Singapore	SGD	3	100	100	100
5. DBS China Square Ltd	Property investment holding	Singapore	SGD	125	70	70	70
6. DBS Asia Capital Limited *	Corporate finance and advisory services	Hong Kong	HKD	92	100	100	100
7. PT Bank DBS Indonesia *	Commercial banking and financial services	Indonesia	IDR	1,300,000	99	99	99
8. DBSAM Funds	Collective investment scheme	Luxembourg	USD	15	68	77	77
9. DBS Diamond Holdings Ltd	Investment holding	Bermuda	USD	2,245	100	100	100
10. DBS Capital Funding Corporation **	Capital funding	Cayman Islands	USD	#	100	100	100
<u>Held by subsidiaries of the Bank</u>							
11. DBS Vickers Securities (Singapore) Pte Ltd	Securities and futures broker	Singapore	SGD	50	100	100	100
12. DBS Vickers Securities Online (Singapore) Pte Ltd	Securities broker	Singapore	SGD	10	100	100	100
13. DBS Vickers Securities Online Holdings Pte Ltd	Investment holding	Singapore	SGD	42	73	73	73
14. DBS Asset Management (United States) Pte Ltd	Investment management services	Singapore	SGD	#	100	100	100
15. DBS Vickers Research Singapore Pte Ltd	Investment advisory services	Singapore	SGD	1	100	100	100
16. DBS Vickers Securities Nominees (Singapore) Pte Ltd	Nominee services	Singapore	SGD	#	100	100	100
17. DBS Bank (Hong Kong) Limited *	Retail, corporate and investment banking services	Hong Kong	HKD	5,200	100	100	100
18. DBS Asset Management (Hong Kong) Ltd *	Investment management services	Hong Kong	HKD	13	100	100	100
19. DBS Corporate Services (Hong Kong) Limited *	Investment holding and corporate services	Hong Kong	HKD	1	100	100	100
20. DHB Limited *	Investment holding	Hong Kong	HKD	500	100	100	100
21. DBS Vickers Securities Online (HK) Limited *	Securities broker	Hong Kong	HKD	137	100	100	100
22. DBS Vickers (Hong Kong) Limited *	Securities and futures broker	Hong Kong	HKD	150	100	100	100
23. Kenson Asia Ltd *	Corporate services	Hong Kong	HKD	#	100	100	100
24. Kingly Management Ltd *	Corporate services	Hong Kong	HKD	#	100	100	100
25. Worldson Services Ltd *	Corporate services	Hong Kong	HKD	#	100	100	100
26. Ting Hong Nominees Limited *	Nominee services	Hong Kong	HKD	#	100	100	100
27. DBS Vickers Securities Nominees (Hong Kong) Limited *	Nominee services	Hong Kong	HKD	#	100	100	100
28. PT DBS Vickers Securities (Indonesia)*	Securities broker	Indonesia	IDR	55,000	99	75	75
29. DBS Vickers Securities (Thailand) Co. Ltd *	Securities broker	Thailand	THB	396	100	100	100
30. DHJ Management Limited *	Corporate services	British Virgin Islands	USD	#	100	100	100
31. JT Administration Limited *	Corporate services	British Virgin Islands	USD	#	100	100	100
32. Market Success Limited *	Corporate services	British Virgin Islands	USD	#	100	100	100
33. Kendrick Services Limited **	Corporate directorship services	British Virgin Islands	USD	#	100	100	100
34. Lushington Investment Limited **	Corporate shareholding services	British Virgin Islands	USD	#	100	100	100
35. Quickway Limited **	Corporate directorship services	British Virgin Islands	USD	#	100	-	-
36. DBS Group (Hong Kong) Limited *	Investment holding	Bermuda	USD	356	100	100	100
37. DBS Vickers Securities (UK) Ltd *	Securities broker	United Kingdom	GBP	#	100	100	100
38. DBS Vickers Securities (USA), Inc *	Securities broker	United States	USD	#	100	100	100
DBS Trustee H.K. (Jersey) Limited *	Trustee services	Jersey	GBP	#	100	100	100

\* Audited by Ernst & Young firms outside Singapore.

\*\* No statutory audit was performed for these companies as it is not mandatory under local laws and regulations.

The significant joint ventures held directly and indirectly by the Bank are:

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Name of joint venture	Principal activities	Country of incorporation	Curren- ncy	Share capital In millions	Effective shareholding %	
					2005	2004
<u>Held by the Bank</u>						
1. Ayala DBS Holdings Inc.	Investment holding	The Philippines	PHP	3,340	40	40
<u>Held by subsidiaries of the Bank</u>						
2. Hutchinson DBS Card Limited	Provision of credit card services	British Virgin Islands	HKD	1	50	50

The significant associates held directly and indirectly by the Bank are:

Name of associate	Principal activities	Country of incorporation	Curren- ncy	Share capital In millions	Effective shareholding %	
					2005	2004
<u>Quoted - Held by the Bank</u>						
1. Bank of the Philippine Islands	Commercial banking and financial services	The Philippines	PHP	22,386	20.4	20.4
2. Cholamandalam Investments and Finance Company Limited	Consumer finance	India	INR	379	20.0	-
<u>Unquoted - Held by the Bank</u>						
3. Capital OK Company Limited	Consumer finance	Thailand	THB	2,200	40.0	40.0
4. Century Horse Group Limited	Investment holding	British Virgin Islands	USD	-	20.0	20.0
5. Clearing and Payment Services Pte Ltd	Provides service infrastructure for clearing payment and settlement of financial transactions	Singapore	SGD	-	33.3	33.3
6. Investment and Capital Corporation of the Philippines	Financial services	The Philippines	PHP	300	20.0	20.0
7. Network for Electronic Transfers (Singapore) Pte Ltd	Electronic funds transfer	Singapore	SGD	1	33.3	33.3
8. Nextmall Holdings Corporation	Supermarket	Cayman Islands	USD	-	33.7	33.7
9. Orix Leasing Singapore Ltd	Lease and hire-purchase financing of equipment	Singapore	SGD	3	30.0	30.0