

**DBS KWONG ON BANK LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31ST DECEMBER 2001**

## **DBS KWONG ON BANK LIMITED**

<b>CONTENTS</b>	<b>PAGE</b>
Report of the directors	1 - 3
Auditors' report	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Balance sheet	7
Consolidated cash flow statement	8
Consolidated statement of recognised gains and losses	9
Notes to the accounts	10 - 40
Supplementary financial information	41 - 51

## **DBS KWONG ON BANK LIMITED**

### **REPORT OF THE DIRECTORS**

The directors of DBS Kwong On Bank Limited (“the Bank”) submit their report together with the audited accounts of the Bank and the Group for the year ended 31st December 2001.

#### **Principal activities**

The principal activities of the Bank are the provision of banking and related financial services. The principal activities of the subsidiaries are shown in note 21 to the accounts.

#### **Results and appropriations**

The results of the Group for the year ended 31st December 2001 are set out in the consolidated profit and loss account on page 5.

The directors have declared an interim dividend of HK\$0.705 per ordinary share, totalling HK\$264,375,000 which was paid on 18th June 2001. The directors do not recommend the payment of a final dividend.

#### **Reserves**

Movements in the reserves of the Group and the Bank during the year are set out in note 28 to the accounts.

#### **Donations**

During the year, the Group made charitable donations of HK\$37,470. (2000: HK\$3,073).

#### **Fixed assets**

Details of the movements in fixed assets of the Group and the Bank are set out in note 22 to the accounts.

#### **Directors**

The directors during the year and up to the date of this report are:

Dr. Leung Ding Bong, Ronald, OBE, JP (Chairman)	
Mr. Chang Tsou Sun, Lister	(resigned on 31st January 2002)
Mr. Chong Kie Cheong	(resigned on 17th April 2001)
Mr. Fock Siew Wah	
Dr. Victor Fung	
Mr. Alexander Reid Hamilton	
Mr. Hon Tai Yuen, William	
Mr. Leung Ting Mow, Kenneth	
Mr. Ng Kee Choe	(resigned on 27th July 2001)
Mr. Neo Poh Kiat	(resigned on 16th July 2001)
Mr. Paillart, Philippe	
Mr. Wong Kwong Shing, Frank	(appointed on 20th June 2001)

In accordance with Articles 111 and 116 of the Bank's Articles of Association, all directors retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### **Directors' interests in contracts**

No contract of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **Arrangements to acquire shares and debentures**

The DBSH Share Option Scheme (the "Option Scheme") was adopted by the shareholders of DBS Group Holdings Limited ("DBSH"), the Bank's ultimate holding company, at an Extraordinary General Meeting held on 18th September 1999, to replace the DBS Bank Share Option Scheme ("DBS Bank Option Scheme") implemented by The Development Bank of Singapore Ltd ("DBS Bank") following the restructuring of DBS Bank as a wholly-owned subsidiary of DBSH. The Option Scheme was terminated on 18th October 1999 and the outstanding existing DBSH options will continue to remain valid until the date of expiration of the relevant DBS Bank options which they respectively replaced.

The DBSH Share Option Plan (the "Option Plan") was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999 to replace the DBS Bank Share Option Plan (the "DBS Bank Option Plan") implemented by DBS Bank. The DBS Bank Option Plan had, in turn, been adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on 19th June 1999 to replace the DBS Bank Option Scheme.

During the year, options to subscribe for a total of 380,000 shares in DBSH were granted to Messrs. Philippe Paillart, Wong Kwong Shing, Frank, Ng Kee Choe, Chong Kie Cheong, Neo Poh Kiat and Hon Tai Yuen, William pursuant to the above DBSH option arrangements. During the year or before the date of resignation, where applicable, Mr. Hon Tai Yuen, William and Mr. Neo Poh Kiat had acquired shares in DBSH by exercising options granted pursuant to the above option arrangements.

Other than the aforesaid Option Plan and Option Scheme, at no time during the year was the Bank, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

### **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

### **Compliance with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions"**

The Bank has fully complied with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Monetary Authority.

**Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Chairman  
Dr. Leung Ding Bong, Ronald, OBE, JP

Hong Kong, 1st February 2002

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
DBS KWONG ON BANK LIMITED**  
(Incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 5 to 40 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Bank and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the accounts give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 1st February 2002

**DBS KWONG ON BANK LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Interest income	3	2,011,967	2,206,961
Interest expense		(1,099,734)	(1,373,211)
Net interest income		912,233	833,750
Other operating income	4	228,836	186,592
Operating income		1,141,069	1,020,342
Operating expenses	5	(711,273)	(582,014)
Operating profit before provisions		429,796	438,328
Charge for bad and doubtful debts	6	(125,848)	(51,084)
Operating profit		303,948	387,244
Net gain on disposal of non-trading securities	7	-	11,396
Deficit on revaluation of premises and investment properties	8	(33,657)	-
Profit before taxation		270,291	398,640
Taxation	10	(36,713)	(60,892)
Profit attributable to shareholders	11	233,578	337,748
Dividends	12	264,375	67,575







**DBS KWONG ON BANK LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow/(outflow) from operating activities	33(a)	184,658	(2,294,730)
Returns on investments and servicing of finance			
Dividends received from listed non-trading securities		232	111
Dividends received from unlisted non-trading securities		1,380	1,570
Dividends paid		(310,387)	(21,563)
Net cash outflow from returns on investments and servicing of finance		(308,775)	(19,882)
Taxation			
Hong Kong profits tax			
- paid		(104,672)	(24,864)
- refunded		34,264	-
Net tax paid		(70,408)	(24,864)
Investing activities			
Proceeds from disposal of non-trading securities		-	11,733
Purchase of fixed assets		(36,122)	(84,190)
Proceeds from disposal of fixed assets		46	4,987
Net cash outflow from investing activities		(36,076)	(67,470)
Decrease in cash and cash equivalents		(230,601)	(2,406,946)
Cash and cash equivalents at 1st January		6,811,039	9,217,985
Cash and cash equivalents at 31st December	33(b)	6,580,438	6,811,039

**DBS KWONG ON BANK LIMITED****CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Gains and losses recognised directly in equity			
Deficit on revaluation of premises and investment properties	28	(88,799)	-
Recognised (losses)/gains arising from change in fair value of non-trading securities	28	(4,256)	18,925
Net (losses)/gains not recognised in the profit and loss account		(93,055)	18,925
Profit attributable to shareholders		233,578	337,748
Investment revaluation reserve realised and transferred to the profit and loss account on disposal of non-trading securities	28	-	(11,396)
Total recognised gains for the year		140,523	345,277

## **DBS KWONG ON BANK LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **1 Principal activities**

The principal activities of DBS Kwong On Bank Limited (“the Bank”) and its subsidiaries are the provision of banking and related financial services.

#### **2 Principal accounting policies**

##### **(a) Basis of preparation**

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain premises, investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants (“SSAPs”).

##### **(b) Consolidation**

The consolidated accounts include the accounts of the Bank and its subsidiaries (“the Group”) made up to 31st December.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Bank’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

##### **(c) Income recognition**

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts where interest ceases to be accrued or is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Fees and commission income are accounted for in the period when receivable, except for fees receivable in advance which are deferred and recognised over the relevant period.

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

## DBS KWONG ON BANK LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

#### 2 Principal accounting policies (continued)

##### (d) Advances to customers, banks and other financial institutions

All advances are recognised when cash is advanced to borrowers. Advances to customers, banks and other financial institutions are reported on the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Advances to banks and other financial institutions include placements with banks and other financial institutions for more than one year. Cash rebate granted in relation to residential mortgage loans are capitalised and amortised to the profit and loss account over the early prepayment penalty period.

##### (e) Provision for bad and doubtful debts

Provisions are made against specific loans and advances as and when the Group has doubt on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of the asset, taking into account available collaterals, to the expected net realizable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it is not possible to reliably estimate the loss, the Group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the classification of the respective loans and advances.

The Group internally classifies loans and advances into five categories: pass, special mention, substandard, doubtful and loss. The classification of loans and advances is largely based on the assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. The periods that payments of interest and/or principal have been overdue are also taken into account when classifying the loans and advances.

In addition, amounts have been set aside as a general provision for bad and doubtful debts. Both specific and general provisions are deducted from "Advances and other accounts" and "Trade bills" in the balance sheet. When there is no realistic prospect of recovery, the outstanding debt is written off.

##### (f) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

##### (g) Fixed assets and depreciation

###### (i) Premises

Premises represent those properties held for own use and are stated at cost or valuation less accumulated impairment losses and less depreciation calculated to write off the assets over their estimated useful lives on a straight line basis as follows:

Leasehold land	Period of the lease
Buildings	Lesser of 20 years and the period of the lease

## **DBS KWONG ON BANK LIMITED**

### **NOTES TO THE ACCOUNTS (CONTINUED)**

#### **2 Principal accounting policies (continued)**

##### **(g) Fixed assets and depreciation (continued)**

###### **(i) Premises (continued)**

Independent valuations are performed every three years. The valuations are on an open market value basis related to individual properties. In the intervening years, the directors review the carrying value of the premises and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the premises revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same asset and thereafter are debited to the profit and loss account. Any subsequent increases are credited to operating profit to the amount previously debited. Upon the disposal of premises, the relevant portion of the premises revaluation reserve in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

###### **(ii) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years, valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases in valuation are credited to the profit and loss account up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are not revalued but are depreciated over the remaining terms of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

###### **(iii) Furniture, fixtures and equipment**

Furniture, fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on furniture, fixtures and equipment is calculated to write off the assets on a straight line basis over their estimated useful lives at the annual rates of 10% to 33-1/3%.

## **DBS KWONG ON BANK LIMITED**

### **NOTES TO THE ACCOUNTS (CONTINUED)**

#### **2 Principal accounting policies (continued)**

##### **(g) Fixed assets and depreciation (continued)**

###### **(iv) Impairment and gain or loss on sale**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that premises, furniture, fixtures and equipment and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

##### **(h) Investments in securities**

###### **(i) Held-to-maturity securities**

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for diminution in their value other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as an expense in the profit and loss account as they arise.

The amortisation of premiums and discounts arising on acquisition of dated debt securities is included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

###### **(ii) Non-trading securities**

Non-trading securities include debt and equity securities which are not held for trading purposes. Non-trading securities are stated at fair value on the balance sheet. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Changes in fair value of non-trading securities are recognised in the investment revaluation reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is included in the profit and loss account.

## **DBS KWONG ON BANK LIMITED**

### **NOTES TO THE ACCOUNTS (CONTINUED)**

#### **2 Principal accounting policies (continued)**

##### **(i) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

##### **(j) Hire purchase contracts and finance leases**

Where the Group or the Bank is a lessor under finance leases, the amounts due under the leases, net of unearned finance income, are recognised as receivable and are included in "Advances and other accounts". Finance income implicit in rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period. Dealer commission for hire purchase contracts or lease financing loans are amortised over the terms of the leases.

##### **(k) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight line basis over the lease term.

##### **(l) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

##### **(m) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

##### **(n) Off-balance sheet financial instruments**

Off-balance sheet financial instruments arise from futures, forwards, swaps and options transactions undertaken by the Group in the foreign exchange, interest rate, equity and other markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market value and the gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.



## **DBS KWONG ON BANK LIMITED**

### **NOTES TO THE ACCOUNTS (CONTINUED)**

#### **2 Principal accounting policies (continued)**

##### **(n) Off-balance sheet financial instruments (continued)**

Unrealised gains on transactions which are marked to market are included in “Advances and other accounts”. Unrealised losses on transactions which are marked to market are included in “Other accounts and provisions”.

##### **(o) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

##### **(p) Related party transactions**

For the purpose of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**3 Interest income**

	2001 HK\$'000	2000 HK\$'000
Interest income on listed investments	24,313	1,755
Interest income on unlisted investments	35,523	52,958
Other interest income	1,952,131	2,152,248
	<u>2,011,967</u>	<u>2,206,961</u>

**4 Other operating income**

	2001 HK\$'000	2000 HK\$'000
Fees and commission income	157,644	95,988
Less: fees and commission expense	(29,177)	(11,489)
	<u>128,467</u>	<u>84,499</u>
Net fees and commission income	128,467	84,499
Net gain from foreign exchange trading	39,544	26,219
Dividend income from non-trading securities		
- listed	232	111
- unlisted	1,380	1,570
Rental income less outgoings	861	889
Others	58,352	73,304
	<u>228,836</u>	<u>186,592</u>

**5 Operating expenses**

	2001 HK\$'000	2000 HK\$'000
Staff costs		
- salaries and other costs	390,779	331,595
- pension costs	23,406	16,944
Premises and other fixed assets excluding depreciation		
- rental of premises	26,571	19,806
- others	47,266	28,827
Depreciation	61,411	72,587
(Profit)/loss on disposal of fixed assets		
- premises	-	4,905
- other fixed assets	(32)	63
Auditors' remuneration	2,574	2,318
Other operating expenses	159,298	104,969
	<u>711,273</u>	<u>582,014</u>

**DBS KWONG ON BANK LIMITED****NOTES TO THE ACCOUNTS (CONTINUED)****6 Charge for bad and doubtful debts**

Net charge for bad and doubtful debts	2001 HK\$'000	2000 HK\$'000
Specific provisions against		
Advances to customers	93,225	8,560
Trade Bills	6,110	-
Other accounts	(346)	827
	<u>98,989</u>	<u>9,387</u>
General provisions against advances to customers	26,859	41,697
	<u>125,848</u>	<u>51,084</u>

Net charge for bad and doubtful debts	2001 HK\$'000	2000 HK\$'000
Specific provisions		
New provisions	193,099	199,077
Releases	(91,619)	(189,690)
Recoveries*	(2,491)	-
	<u>98,989</u>	<u>9,387</u>
General provisions	26,859	41,697
	<u>125,848</u>	<u>51,084</u>

\* The recoveries of bad and doubtful debts in 2000 amounting to HK\$1,483,000 were included in "Other operating income".

**7 Net gain on disposal of non-trading securities**

During the year, no non-trading securities were sold. In 2000, non-trading securities amounting to HK\$11,733,000 were sold realising a gain of HK\$11,396,000.

**DBS KWONG ON BANK LIMITED****NOTES TO THE ACCOUNTS (CONTINUED)****8 Deficit on revaluation of premises and investment properties**

	2001 HK\$'000
Deficit on revaluation of premises	121,456
Less: amounts covered by previous revaluation surplus (Note 28)	(88,799)
	<hr/>
Deficit on revaluation of premises charged to the profit and loss account	32,657
Deficit on revaluation of investment properties	1,000
	<hr/>
	33,657
	<hr/> <hr/>

**9 Directors' emoluments**

	2001 HK\$'000	2000 HK\$'000
The aggregate amounts of emoluments payable to directors of the Bank during the year are as follows :		
Fees	855	897
Salaries, housing allowances, other allowances, and benefits in kind	11,093	12,171
Pension benefit	249	238
	<hr/>	<hr/>
	12,197	13,306
	<hr/> <hr/>	<hr/> <hr/>

**10 Taxation**

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated profit and loss account represents:

	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	50,170	60,898
Over-provision in prior years	(13,457)	(6)
	<hr/>	<hr/>
	36,713	60,892
	<hr/> <hr/>	<hr/> <hr/>

No deferred taxation has been provided as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future. The revaluation of premises and investment properties (note 8) does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in taxation liability.

## DBS KWONG ON BANK LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

#### 11 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Bank to the extent of HK\$217,185,000 (2000: HK\$332,630,000).

#### 12 Dividends

	2001 HK\$'000	2000 HK\$'000
Interim dividend paid of HK\$0.705 (2000: HK\$0.0575) per ordinary share	264,375	21,563
Final dividend paid of HK\$0.1227 per ordinary share in 2000	-	46,012
	<u>264,375</u>	<u>67,575</u>

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were HK\$Nil and HK\$46,012,500 respectively. Under the Group's new accounting policy as described in note 28, the final dividend for 2000 has been written back against opening reserve as at 1st January 2001 in note 28 and are now recognised in 2001.

#### 13 Cash and short-term funds

	<u>Group and Bank</u>	
	2001 HK\$'000	2000 HK\$'000
Cash and balances with banks and other financial institutions	191,070	185,072
Money at call and short notice	6,909,862	6,612,360
Exchange Fund Bills (unlisted)	-	98,560
	<u>7,100,932</u>	<u>6,895,992</u>

Exchange Fund Bills held are stated at amortised cost and are intended to be held to maturity. These Exchange Fund Bills held have contractual maturity dates falling within a period of three months or less as at 31st December.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**14 Placements with banks and other financial institutions maturing between one and twelve months**

The maturity profile of placements with banks and other financial institutions maturing between one and twelve months analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	Group		Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three months or less	505,000	234,500	450,000	150,000
One year or less, but over three months	200,455	1,930,400	155,955	1,930,400
	705,455	2,164,900	605,955	2,080,400

**15 Trade bills**

	Group and Bank	
	2001	2000
	HK\$'000	HK\$'000
Trade bills	391,833	330,391
Specific provision (Note 19)	(7,981)	(2,884)
	383,852	327,507

**16 Certificates of deposit held**

Certificates of deposit held are unlisted, intended to be held to maturity and stated at amortised cost. The maturity profile of certificates of deposit held analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	Group and Bank	
	2001	2000
	HK\$'000	HK\$'000
Three months or less	49,996	-
One year or less, but over three months	372,446	228,955
Five years or less, but over one year	516,428	467,483
	938,870	696,438

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**17 Held-to-maturity securities**

	<u>Group and Bank</u>	
	2001	2000
	HK\$'000	HK\$'000
Balance as at 1st January	262,745	-
Additions	214,571	263,095
Amortisation of premium/discount	(3,744)	(350)
	<u>473,572</u>	<u>262,745</u>
Balance as at 31st December	<u><u>473,572</u></u>	<u><u>262,745</u></u>
Held-to-maturity securities are analysed by issuer as follows:		
- central governments and central banks	259,478	262,745
- public sector entities	78,959	-
- banks and other financial institutions	135,135	-
	<u>473,572</u>	<u>262,745</u>
	<u><u>473,572</u></u>	<u><u>262,745</u></u>
Listed securities, at amortised cost		
- listed in Hong Kong	259,478	262,745
- listed outside Hong Kong	214,094	-
	<u>473,572</u>	<u>262,745</u>
	<u><u>473,572</u></u>	<u><u>262,745</u></u>
Market value of listed securities	<u>488,724</u>	<u>-</u>

The above held-to-maturity securities have contractual maturity dates as at 31st December of greater than one year but not exceeding five years.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**18 Advances and other accounts**

	Group		Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Advances to customers	23,700,276	21,220,006	23,700,276	21,220,006
Accrued interest	314,744	252,189	314,237	251,815
	<u>24,015,020</u>	<u>21,472,195</u>	<u>24,014,513</u>	<u>21,471,821</u>
Provision for bad and doubtful debts				
- general (Note 19)	(249,556)	(222,697)	(249,556)	(222,697)
- specific (Note 19)	(171,802)	(352,974)	(171,802)	(352,974)
	<u>23,593,662</u>	<u>20,896,524</u>	<u>23,593,155</u>	<u>20,896,150</u>
Other accounts	385,683	64,645	383,230	61,341
Specific provision for bad and doubtful debts (Note 19)	(482)	(827)	-	-
	<u>385,201</u>	<u>63,818</u>	<u>383,230</u>	<u>61,341</u>
	<u><u>23,978,863</u></u>	<u><u>20,960,342</u></u>	<u><u>23,976,385</u></u>	<u><u>20,957,491</u></u>

The gross amount of non-performing loans, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such loans are as follows:

	Group and Bank			
	2001		2000	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Gross non-performing loans	496,215	2.1	1,046,295	4.9
Specific provisions made in respect of such advances	(133,066)		(351,197)	
	<u>363,149</u>		<u>695,098</u>	
Suspended interest	<u>21,417</u>		<u>38,233</u>	

The above specific provisions were made after taking into account the value of collateral in respect of such advances as at 31st December.



**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**18 Advances and other accounts (continued)**

The maturity profile of advances to customers analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	Group and Bank	
	2001 HK\$'000	2000 HK\$'000
Repayable on demand	2,442,445	2,382,413
Three months or less	3,704,077	2,701,226
One year or less, but over three months	2,024,611	1,431,501
Five years or less, but over one year	6,685,327	4,935,145
Over five years	8,265,944	8,702,862
Undated	577,872	1,066,859
	<u>23,700,276</u>	<u>21,220,006</u>

Advances to customers include finance lease receivables, analysed as follows:

	Group and Bank	
	2001 HK\$'000	2000 HK\$'000
Gross investment in finance leases, receivable :		
Not later than one year	274,675	61,865
Later than one year and not later than five years	773,832	212,552
Later than five years	1,047,359	891,583
	<u>2,095,866</u>	<u>1,166,000</u>
Unearned future finance income on finance leases	(482,207)	(455,977)
Net investment in finance leases	<u>1,613,659</u>	<u>710,023</u>

The net investment in finance leases may be analysed as follows:

Not later than one year	183,391	37,672
Later than one year and not later than five years	569,706	129,431
Later than five years	860,562	542,920
	<u>1,613,659</u>	<u>710,023</u>

The unguaranteed residual value included in the gross investment in finance leases in 2001 and 2000 are not considered to be material.

The allowance for uncollectable finance lease receivables included in the provision for loan losses amounted to HK\$30,827,000 as at 31st December 2001 (2000: HK\$14,426,000)

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**19 Provision for bad and doubtful debts**

2001

Group	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance at 1st January 2001	356,685	222,697	579,382	38,233
Amounts written off	(277,900)	-	(277,900)	(23,889)
Recoveries of advances written off in previous years (Note 6)	2,491	-	2,491	-
Charge to profit and loss account (Note 6)	98,989	26,859	125,848	-
Interest suspended during the year	-	-	-	14,964
Suspended interest recovered	-	-	-	(7,891)
At 31st December 2001	<u>180,265</u>	<u>249,556</u>	<u>429,821</u>	<u>21,417</u>
Included in:				
Trade bills (Note 15)	7,981	-	7,981	
Advances to customers (Note 18)	171,802	249,556	421,358	
Other accounts (Note 18)	482	-	482	
	<u>180,265</u>	<u>249,556</u>	<u>429,821</u>	

2001

Bank	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance at 1st January 2001	355,858	222,697	578,555	38,233
Amounts written off	(277,900)	-	(277,900)	(23,889)
Recoveries of advance written off in previous years	2,491	-	2,491	-
Charge to profit and loss account	99,334	26,859	126,193	-
Interest suspended during the year	-	-	-	14,964
Suspended interest recovered	-	-	-	(7,891)
At 31st December 2001	<u>179,783</u>	<u>249,556</u>	<u>429,339</u>	<u>21,417</u>
Included in:				
Trade bills (Note 15)	7,981	-	7,981	
Advances to customers (Note 18)	171,802	249,556	421,358	
	<u>179,783</u>	<u>249,556</u>	<u>429,339</u>	

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**19 Provision for bad and doubtful debts (continued)**

2000 Group	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance at 1st January 2000	768,810	181,000	949,810	34,865
Amounts written off	(421,512)	-	(421,512)	(24,009)
Recoveries of advances written off in previous years (Note 6)	-	-	-	-
Charge to profit and loss account (Note 6)	9,387	41,697	51,084	-
Interest suspended during the year	-	-	-	39,091
Suspended interest recovered	-	-	-	(11,714)
At 31st December 2000	<u>356,685</u>	<u>222,697</u>	<u>579,382</u>	<u>38,233</u>
Included in:				
Trade bills (Note 15)	2,884	-	2,884	
Advances to customers (Note 18)	352,974	222,697	575,671	
Other accounts (Note 18)	827	-	827	
	<u>356,685</u>	<u>222,697</u>	<u>579,382</u>	
2000 Bank	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance at 1st January 2000	768,810	181,000	949,810	34,865
Amounts written off	(421,512)	-	(421,512)	(24,009)
Recoveries of advances written off in previous years	-	-	-	-
Charge to profit and loss account	8,560	41,697	50,257	-
Interest suspended during the year	-	-	-	39,091
Suspended interest recovered	-	-	-	(11,714)
At 31st December 2000	<u>355,858</u>	<u>222,697</u>	<u>578,555</u>	<u>38,233</u>
Included in:				
Trade bills (Note 15)	2,884	-	2,884	
Advances to customers (Note 18)	352,974	222,697	575,671	
	<u>355,858</u>	<u>222,697</u>	<u>578,555</u>	

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**20 Non-trading securities**

	Group		Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At fair value				
Listed equity securities issued by corporate entities	8,336	12,592	-	-
Unlisted equity securities issued by corporate entities	2,410	2,410	2,410	2,410
	<u>10,746</u>	<u>15,002</u>	<u>2,410</u>	<u>2,410</u>

**21 Investments in subsidiaries**

	Bank	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	<u>52,500</u>	<u>52,600</u>

Amounts due to/from subsidiaries of the Bank are of a normal business nature and are recorded in their respective balance sheet captions as disclosed in note 29(b) to the accounts.

Details of the subsidiaries which are wholly and directly owned by the Bank are as follows:

Name	Place of operation and incorporation	Issued share capital	Principal Activities
DBS Kwong On Finance Limited	Hong Kong	25,000 shares of HK\$1,000 each	Deposit-taking
DBS Kwong On Bank (Nominees) Limited	Hong Kong	3 shares of HK\$100 each	Nominee services
DBS Kwong On Insurance Company Limited	Hong Kong	30,000 shares of HK\$1,000 each	Insurance
DBS Kwong On Futures Limited	Hong Kong	2,500,000 shares of HK\$1 each	Not yet commenced business
DBS Kwong On Property Agency Company Limited	Hong Kong	100,000 shares of HK\$1 each	Liquidated on 9th January 2002
DBS Kwong On Securities Limited	Hong Kong	15,000 shares of HK\$1,000 each	Not yet commenced business

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**22 Fixed assets**

Group

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Cost or valuation</b>				
At 1st January 2001	1,098,327	4,000	265,029	1,367,356
Additions	289	-	35,833	36,122
Revaluation	(199,116)	(1,000)	-	(200,116)
Disposals	-	-	(70,681)	(70,681)
At 31st December 2001	899,500	3,000	230,181	1,132,681
<b>Accumulated depreciation</b>				
At 1st January 2001	47,736	-	113,688	161,424
Charge for the year	29,924	-	31,487	61,411
Revaluation	(77,660)	-	-	(77,660)
Disposals	-	-	(67,462)	(67,462)
At 31st December 2001	-	-	77,713	77,713
<b>Net book value</b>				
At 31st December 2001	899,500	3,000	152,468	1,054,968
At 31st December 2000	1,050,591	4,000	151,341	1,205,932
The analysis of cost or valuation of the above assets is as follows:				
<b>2001</b>				
At cost	-	-	230,181	230,181
At professional valuation 2001	899,500	3,000	-	902,500
	899,500	3,000	230,181	1,132,681
<b>2000</b>				
At cost	132,727	-	265,029	397,756
At professional valuation 1998	965,600	4,000	-	969,600
	1,098,327	4,000	265,029	1,367,356

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**22 Fixed assets (continued)**

Bank

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2001	1,089,827	4,000	264,982	1,358,809
Additions	289	-	35,833	36,122
Revaluation	(196,916)	(1,000)	-	(197,916)
Disposals	-	-	(70,681)	(70,681)
At 31st December 2001	893,200	3,000	230,134	1,126,334
Accumulated depreciation				
At 1st January 2001	46,998	-	113,651	160,649
Charge for the year	29,555	-	31,482	61,037
Revaluation	(76,553)	-	-	(76,553)
Disposals	-	-	(67,462)	(67,462)
At 31st December 2001	-	-	77,671	77,671
Net book value				
At 31st December 2001	893,200	3,000	152,463	1,048,663
At 31st December 2000	1,042,829	4,000	151,331	1,198,160
The analysis of cost or valuation of the above assets is as follows:				
2001				
At cost	-	-	230,134	230,134
At professional valuation 2001	893,200	3,000	-	896,200
	893,200	3,000	230,134	1,126,334
2000				
At cost	132,727	-	264,982	397,709
At professional valuation 1998	957,100	4,000	-	961,100
	1,089,827	4,000	264,982	1,358,809

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**22 Fixed assets (continued)**

The net book value of premises and investment properties are analysed as follows:

Group	2001		2000	
	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000	Investment properties HK\$'000
Held in Hong Kong				
- On long-term lease (over 50 years)	677,100	3,000	827,441	4,000
- On medium-term lease (10-50 years)	222,400	-	223,150	-
	<u>899,500</u>	<u>3,000</u>	<u>1,050,591</u>	<u>4,000</u>
Bank				
	2001		2000	
	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000	Investment properties HK\$'000
Held in Hong Kong				
- On long-term lease (over 50 years)	677,100	3,000	827,441	4,000
- On medium-term lease (10-50 years)	216,100	-	215,388	-
	<u>893,200</u>	<u>3,000</u>	<u>1,042,829</u>	<u>4,000</u>

Premises and investment properties were revalued on 31st August 2001 on the basis of their open market value by an independent firm of chartered surveyors, Jones Lang Lasalle. The carrying amount of the Group's premises would have been HK\$407,084,000 (2000: HK\$436,719,000) had they been stated at cost less accumulated depreciation.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**23 Deposits and balances of banks and other financial institutions**

The maturity profile of deposits and balances of banks and other financial institutions analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	Group		Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	338,967	154,927	367,006	182,909
Three months or less	181,527	14,526	181,527	14,526
	<u>520,494</u>	<u>169,453</u>	<u>548,533</u>	<u>197,435</u>

**24 Current, fixed, savings and other deposits of customers**

The maturity profile of current, fixed, savings and other deposits of customers analysed by the remaining period as at 31st December to the contractual maturity dates are as follows:

	Group		Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	6,522,256	5,235,730	6,556,986	5,256,251
Three months or less	20,193,428	19,291,187	20,194,928	19,292,687
One year or less, but over three months	1,763,334	1,131,338	1,805,334	1,186,338
Five years or less, but over one year	189,941	73,301	189,941	73,301
	<u>28,668,959</u>	<u>25,731,556</u>	<u>28,747,189</u>	<u>25,808,577</u>

**25 Certificates of deposit issued**

The maturity profile of certificates of deposit issued analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	Group and Bank	
	2001	2000
	HK\$'000	HK\$'000
One year or less, but over three months	-	900,000
Five years or less, but over one year	300,000	300,000
	<u>300,000</u>	<u>1,200,000</u>



**DBS KWONG ON BANK LIMITED****NOTES TO THE ACCOUNTS (CONTINUED)****26 Other accounts and provisions**

Included in the balance sheet captions "Other accounts and provisions" is the provision for staff related expenses.

	<u>Group and Bank</u> Staff related expenses 2001 HK\$'000
At 1st January 2001	67,343
Additional provisions	52,663
Less: over-provisions reversed	(17,920)
	<hr/>
Charged to profit and loss account	34,743
Less: amounts utilised	(44,614)
	<hr/>
At 31st December 2001	57,472
	<hr/> <hr/>

It is expected that the provision on staff related expenses will be utilized in the next twelve months after the year end.

**27 Share capital**

	2001 HK\$'000	2000 HK\$'000
Authorised:		
450,000,000 ordinary shares of HK\$2 each	900,000	900,000
	<hr/>	<hr/>
Issued and fully paid:		
375,000,000 ordinary shares of HK\$2 each	750,000	750,000
	<hr/>	<hr/>

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**28 Reserves**

2001 Group	Share premium HK\$'000	Capital reserve HK\$'000	Premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2001 as previously reported	564,152	20,000	307,035	12,249	2,516,000	344,737	3,764,173
Effect of adopting SSAP 9 (Revised) (Note(a))	-	-	-	-	-	46,012	46,012
Restatement of premises revaluation reserve (Note(b))	-	-	38,116	-	-	(38,116)	-
At 1st January 2001 as restated	564,152	20,000	345,151	12,249	2,516,000	352,633	3,810,185
Change in fair value of non-trading securities	-	-	-	(4,256)	-	-	(4,256)
Deficit on revaluation of premises	-	-	(88,799)	-	-	-	(88,799)
Profit for the year	-	-	-	-	-	233,578	233,578
2000 Final dividend paid (Note 12)	-	-	-	-	-	(46,012)	(46,012)
2001 Interim dividend paid (Note 12)	-	-	-	-	-	(264,375)	(264,375)
At 31st December 2001	564,152	20,000	256,352	7,993	2,516,000	275,824	3,640,321

The Group's capital reserve represents the amount of the general reserve of a wholly owned subsidiary capitalised in payment in full for additional shares issued to the Bank.

The general reserve is comprised of transfer from the previous years' retained earnings and is distributable.

Note(a) In accordance with the revised SSAP 9 "Events after balance sheet date", the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability as at the balance sheet date. This change in accounting policy is applied retrospectively and has resulted in a decrease in total liabilities of the Group and the Bank as at 31st December 2000 by HK\$46,012,000 and an increase in the shareholders' funds of the Group and the Bank by the same amount.

Note(b) In prior years, deficits arising from the revaluation of certain premises were offset by the revaluation surplus of other premises. In accordance with the Bank's accounting policy, the premises revaluation reserve has now been restated to exclude the revaluation deficits. These deficits amounting to HK\$38,116,000 which were previously netted off in the premises revaluation reserve instead of being charged to profit and loss in prior years have been adjusted against the opening balance of retained earnings in these accounts.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**28 Reserves (continued)**

2001

Bank

	Premises		General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
	Share premium HK\$'000	revaluation reserve HK\$'000			
	At 1st January 2001 as previously reported	564,152			
Effect of adopting SSAP 9 (Revised) (Note(a))	-	-	-	46,012	46,012
Restatement of premises revaluation reserve (Note(b))	-	38,116	-	(38,116)	-
At 1st January 2001 as restated	564,152	345,151	2,409,500	343,230	3,662,033
Deficit on revaluation of premises	-	(88,799)	-	-	(88,799)
Profit for the year	-	-	-	217,185	217,185
2000 Final dividend paid (Note 12)	-	-	-	(46,012)	(46,012)
2001 Interim dividend paid (Note 12)	-	-	-	(264,375)	(264,375)
At 31st December 2001	564,152	256,352	2,409,500	250,028	3,480,032

2000

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Premises	Investment	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
			revaluation reserve HK\$'000	revaluation reserve HK\$'000			
			At 1st January 2000 as previously reported	564,152			
Restatement of premises revaluation reserve (Note(b))	-	-	38,116	-	-	(38,116)	-
At 1st January 2000 as restated	564,152	-	345,151	4,720	2,531,000	41,448	3,486,471
Change in fair value of non-trading securities	-	-	-	18,925	-	-	18,925
Disposal of non- trading securities	-	-	-	(11,396)	-	-	(11,396)
Transfer from profit and loss account	-	-	-	-	5,000	(5,000)	-
Amount capitalised on issue of shares	-	20,000	-	-	(20,000)	-	-
Profit for the year	-	-	-	-	-	337,748	337,748
2000 Interim dividend paid (Note 12)	-	-	-	-	-	(21,563)	(21,563)
At 31st December 2000	564,152	20,000	345,151	12,249	2,516,000	352,633	3,810,185

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**28 Reserves (continued)**

2000 Bank	Share premium HK\$'000	Premises revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2000 as previously reported	564,152	307,035	2,409,500	70,279	3,350,966
Restatement of premises revaluation reserve (Note (b))	-	38,116	-	(38,116)	-
At 1st January 2000 as restated	564,152	345,151	2,409,500	32,163	3,350,966
Profit for the year	-	-	-	332,630	332,630
2000 Interim dividend paid	-	-	-	(21,563)	(21,563)
At 31st December 2000	564,152	345,151	2,409,500	343,230	3,662,033

**29 Balances with group companies**

- (a) Included in the following balance sheet captions are amounts due from/(to) fellow subsidiaries:

	Group	
	2001 HK\$'000	2000 HK\$'000
Cash and short-term funds		
Cash and balances with banks and other financial institutions	1,513	1,309
Money at call and short notice	634,655	357,572
Placements with banks and other financial institutions maturing between one and twelve months	-	1,000,400
Advances and other accounts	37,473	24,898
	<u>673,641</u>	<u>1,384,179</u>
Deposits and balances of banks and other financial institutions	(185,536)	(24,745)
Current, fixed, savings and other deposits of customers	(84,977)	(10,850)
Other accounts and provisions	(14,802)	(3,163)
	<u>(285,315)</u>	<u>(38,758)</u>

## DBS KWONG ON BANK LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

#### 29 Balances with group companies (continued)

- (b) Included in the following balance sheet captions are amounts due to subsidiaries of the Bank:

	Bank	
	2001 HK\$'000	2000 HK\$'000
Deposits and balances of banks and other financial institutions	28,039	27,982
Current, fixed, savings and other deposits of customers	78,282	77,073
Other accounts and provisions	9	38
	<u>106,330</u>	<u>105,093</u>

#### 30 Related party transactions

As part of the Bank's normal course of business, it entered into various transactions with The Development Bank of Singapore ("DBS Bank") and its subsidiaries during the year on normal commercial terms. These transactions include: (i) interbank placements; (ii) taking of deposits from subsidiaries of DBS Bank; (iii) purchasing of certificates of deposit; (iv) foreign exchange and derivatives and (v) issuance of letters of credit and trade facilities in favour of DBS Bank.

Pursuant to a service agreement entered into during the year between the Bank and DBS Bank, the Bank provided advice, assistance and specific support in relation to back office activities to the Hong Kong branch of DBS Bank. The Bank received service fees from DBS Bank which are calculated at actual costs incurred by the Bank plus 5%. The aggregate amount of service fees received from DBS Bank during the year amounted to HK\$15,720,000 (2000: HK\$3,855,000).

During the year, DBS Bank charged the Bank a fee of HK\$8,096,000 (2000: HK2,700,000) in respect of internal audit and systems security services provided to the Bank.

The above transactions have no significant impact on the results of the Bank.

#### 31 Off-balance sheet exposures

- (a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	Group and Bank	
	2001 HK\$'000	2000 HK\$'000
Direct credit substitutes	76,179	65,821
Transaction-related contingencies	102,865	69,276
Trade-related contingencies	953,356	816,108
Forward deposits placed	15,950	1,104,829
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	5,992,154	2,992,546
	<u>7,140,504</u>	<u>5,048,580</u>

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**31 Off-balance sheet exposures (continued)**

(b) Derivatives

The following is an analysis of the aggregate notional amounts of each significant type of derivative:

Group and Bank

	Trading		Hedging		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity contracts:						
Options purchased	2,004	-	-	-	2,004	-
Options written	2,004	-	-	-	2,004	-
	<u>4,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,008</u>	<u>-</u>
Exchange rate contracts:						
Currency swaps	641,130	-	-	5,216,314	641,130	5,216,314
Forward contracts	263,931	120,244	-	-	263,931	120,244
Options purchased	176,246	-	-	33,860	176,246	33,860
Options written	158,948	-	-	16,163	158,948	16,163
	<u>1,240,255</u>	<u>120,244</u>	<u>-</u>	<u>5,266,337</u>	<u>1,240,255</u>	<u>5,386,581</u>
Interest rate contracts:						
Interest rate swaps	-	-	5,053,594	199,835	5,053,594	199,835
Futures options purchased	3,898,875	-	-	-	3,898,875	-
Futures options written	3,898,875	-	-	-	3,898,875	-
Options written	857,753	-	-	-	857,753	-
Forward contracts	-	27,727	-	-	-	27,727
	<u>8,655,503</u>	<u>27,727</u>	<u>5,053,594</u>	<u>199,835</u>	<u>13,709,097</u>	<u>227,562</u>
	<u>9,899,766</u>	<u>147,971</u>	<u>5,053,594</u>	<u>5,466,172</u>	<u>14,953,360</u>	<u>5,614,143</u>

Trading transactions are those which result in positions in financial instruments arising either from matched principal brokering and market making entered into with customers or those used to cover the positions arising from such transactions.

Hedging transactions are those entered into to reduce risk by taking a position which offsets existing or anticipated exposure to a change in market rates or prices other than those on the trading book.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**31 Off-balance sheet exposures (continued)**

(c) Contract amounts, credit risk-weighted amounts and replacement costs

As at 31st December, the contract amounts, credit risk weighted amounts and replacement costs of the above off-balance sheet exposures are as follows:

Group and Bank	2001			2000		
	Contract amount	Credit risk-weighted amount	Replacement cost	Contract amount	Credit risk-weighted amount	Replacement cost
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	7,140,504	321,473	-	5,048,580	484,647	-
Derivatives:						
- Equity contracts	4,008	60	-	-	-	-
- Exchange rate contracts	1,240,255	4,389	4,059	5,386,581	9,046	2,368
- Interest rate contracts	13,709,097	46,308	203,355	227,562	120	600
	<u>22,093,864</u>	<u>372,230</u>	<u>207,414</u>	<u>10,662,723</u>	<u>493,813</u>	<u>2,968</u>

The Group had not entered into any bilateral netting agreements during the year and accordingly the above amounts are shown on a gross basis.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**32 Capital and lease commitments**

(a) Capital commitments

Capital commitments outstanding as at 31st December not provided for in the accounts were as follows:

	<u>Group and Bank</u>	
	2001 HK\$'000	2000 HK\$'000
Expenditure contracted but not provided for - fixed assets	11,840	12,144
Expenditure authorised but not contracted for - fixed assets	2,246	23,280
	<u>14,086</u>	<u>35,424</u>

(b) Lease commitments

At 31 December 2001 the Group had future aggregate minimum lease payment under non-cancellable operating leases as follows:

	<u>Group</u>		<u>Bank</u>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Land and Buildings				
Expiring within one year	31,142	30,512	31,502	30,872
Expiring in the second to fifth years inclusive	80,899	104,406	80,899	104,406
	<u>112,041</u>	<u>134,918</u>	<u>112,401</u>	<u>135,278</u>
Other Equipment				
Expiring within one year	9,588	5,325	9,588	5,325
Expiring in the second to fifth years inclusive	7,571	6,886	7,571	6,886
	<u>17,159</u>	<u>12,211</u>	<u>17,159</u>	<u>12,211</u>



**DBS KWONG ON BANK LIMITED**

**NOTES TO THE ACCOUNTS (CONTINUED)**

**33 Notes to consolidated cash flow statement**

(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	270,291	398,640
Gain on disposal of non-trading securities	-	(11,396)
(Profit)/loss on disposal of fixed assets	(32)	4,968
Write-off of fixed assets	3,204	-
Deficit on revaluation of premises and investment properties	33,657	-
Depreciation	61,411	72,587
Provision for bad and doubtful debts	128,339	51,084
Dividend income from non-trading securities	(1,612)	(1,681)
Decrease/(increase) in placements with banks and other financial institutions with original maturity greater than three months	1,374,945	(2,080,400)
Increase in trade bills	(61,442)	(36,486)
Increase in certificates of deposit held with original maturity greater than three months	(242,432)	(196,787)
Increase in held-to-maturity securities	(210,827)	(262,745)
Increase in advances and other accounts	(3,138,374)	(3,746,608)
Decrease in deposits and balances of banks and other financial institutions with original maturity greater than three months	-	(76,135)
Increase in current, fixed, savings and other deposits of customers	2,937,403	3,218,013
(Decrease)/increase in certificates of deposit issued	(900,000)	300,000
(Decrease)/increase in other accounts and provisions	(69,873)	72,216
	<u>184,658</u>	<u>(2,294,730)</u>

(b) Analysis of the balances of cash and cash equivalents

	2001 HK\$'000	2000 HK\$'000
Cash and short term funds with original maturity within three months	7,100,932	6,895,992
Placements with banks and other financial institutions with original maturity within three months	-	84,500
Deposits and balances of banks and other financial institutions with original maturity within three months	(520,494)	(169,453)
	<u>6,580,438</u>	<u>6,811,039</u>

**DBS KWONG ON BANK LIMITED****NOTES TO THE ACCOUNTS (CONTINUED)****34 Loans to officers**

Particulars of loans made to officers and disclosed pursuant to section 161B(4B) of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31st December		Maximum balance during the year	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Aggregate amount outstanding in respect of principal and interest	18,776	5,121	20,587	18,707

**35 Ultimate holding company**

The Bank's ultimate holding company is DBS Group Holdings Limited, a listed company incorporated in Singapore.

**36 Approval of accounts**

The accounts were approved by the board of directors on 1st February 2002.

## DBS KWONG ON BANK LIMITED

### SUPPLEMENTARY INFORMATION

The following information is disclosed as part of the accompanying information to the accounts and does not form part of the audited accounts.

#### 1 Capital adequacy and liquidity ratios

	2001	2000
Capital adequacy ratio	<u>20.0%</u>	<u>23.2%</u>
Adjusted capital adequacy ratio	<u>20.0%</u>	<u>23.0%</u>
Liquidity ratio	<u>41.2%</u>	<u>45.5%</u>

The capital adequacy ratio represents the consolidated ratio of the Bank and its subsidiary, DBS Kwong On Finance Limited, as at 31st December computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk at the balance sheet date computed in accordance with the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

The liquidity ratio is the simple average of each calendar month's average liquidity ratio for the year calculated for the Bank's Hong Kong offices in accordance with the Fourth Schedule of the Banking Ordinance.

#### 2 Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:-

	2001 HK\$'000	2000 HK\$'000
Core capital:		
Paid up ordinary share capital	525,000	525,000
Share premium	564,152	564,152
Reserves	2,445,286	2,482,508
Profit and loss account	217,376	265,269
	<u>3,751,814</u>	<u>3,836,929</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	336,946	372,424
General provisions for doubtful debts	249,556	222,697
	<u>586,502</u>	<u>595,121</u>
Gross and eligible value of supplementary capital		
	<u>4,338,316</u>	<u>4,432,050</u>
Total capital base before deductions		
Deductions:		
Shareholdings in subsidiaries	(27,500)	(27,600)
	<u>4,310,816</u>	<u>4,404,450</u>
Total capital base after deductions		

**DBS KWONG ON BANK LIMITED****SUPPLEMENTARY INFORMATION (CONTINUED)****2 Components of capital base after deductions (continued)**

The capital base represents the consolidated capital base of the Bank and its subsidiary, DBS Kwong On Finance Limited, as at 31st December computed in accordance with the Third Schedule of the Banking Ordinance.

**3 Currency concentrations**

	Group		
	US\$ HK\$'000	Others HK\$'000	Total HK\$'000
2001			
Hong Kong dollar equivalents			
Spot assets	6,225,296	2,572,688	8,797,984
Spot liabilities	(5,935,004)	(2,583,895)	(8,518,899)
Forward purchases	954,840	80,881	1,035,721
Forward sales	(512,253)	(75,749)	(588,002)
Net option position	(28,680)	29,854	1,174
Net long position	<u>704,199</u>	<u>23,779</u>	<u>727,978</u>
2000			
Hong Kong dollar equivalents			
Spot assets	5,788,175	2,119,118	7,907,293
Spot liabilities	(5,553,781)	(2,081,784)	(7,635,565)
Forward purchases	2,830,153	48,066	2,878,219
Forward sales	(2,800,475)	(79,647)	(2,880,122)
Net option position	16,163	-	16,163
Net long position	<u>280,235</u>	<u>5,753</u>	<u>285,988</u>

The Group has no material net structural position in any particular foreign currency.

**4 Segmental information****(a) By geographical area**

Over 90% of the Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arise from or are booked in Hong Kong.

**DBS KWONG ON BANK LIMITED**

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Segmental information (continued)**

(b) By class of business

	Group				Consolidated HK\$'000
	Consumer banking HK\$'000	Treasury and markets HK\$'000	Corporate financial management HK\$'000	Other activities HK\$'000	
2001					
Total operating income	916,197	139,579	85,293	-	1,141,069
Profit before charge for bad and doubtful debts	271,665	106,824	51,307	-	429,796
Profit after charge for bad and doubtful debts	145,734	106,824	51,390	-	303,948
Profit before taxation	145,734	106,824	51,390	(33,657)	270,291
2000					
Total operating income	852,336	84,769	83,237	-	1,020,342
Profit before charge for bad and doubtful debts	312,936	48,585	76,807	-	438,328
Profit after charge for bad and doubtful debts	263,021	48,585	75,638	-	387,244
Profit before taxation	263,021	48,585	75,638	11,396	398,640

Consumer banking is constituted of enterprise banking business (which includes mainly extension of credit and trade finance facilities to and acceptance of deposits from commercial, industrial and institutional customers) and individual banking business (which includes mainly acceptance of deposits from individual customers and extension of mortgage lending, personal loans).

Treasury and markets activities involve mainly the provision of foreign exchange activities and the management of structural interest rate risk and gapping position.

Corporate financial management activities involve the overall funding (excess capital, fixed asset financing and staff mortgage loan funding, etc) of the Group.

Other activities include the net gain on disposal of non-trading securities and deficit on revaluation of premises and investment properties.

**DBS KWONG ON BANK LIMITED**

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Segmental information (continued)**

(c) Advances to customers

Gross advances to customers by industry sector

	Group	
	2001	2000
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	111,927	92,695
- Property investment	4,287,659	3,393,065
- Financial concerns	146,781	105,698
- Stockbrokers	291,750	346,430
- Wholesale and retail trade	880,039	908,867
- Manufacturing	1,635,900	1,316,810
- Transport and transport equipment	1,562,189	947,146
- Others	458,689	604,884
Individuals		
- Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	344,204	475,374
- Loans for the purchase of other residential properties	7,259,701	7,551,269
- Credit card advances	622,157	-
- Others	2,145,691	1,674,120
Trade finance	3,889,456	3,741,989
Loans for use outside Hong Kong	64,133	61,659
	<u>23,700,276</u>	<u>21,220,006</u>

Gross advances to customers by geographical area

	2001	2000
	HK\$'000	HK\$'000
Hong Kong	23,636,143	21,158,347
People's Republic of China excluding Hong Kong	64,133	61,325
Other areas	-	334
	<u>23,700,276</u>	<u>21,220,006</u>

The above analysis of gross advances to customers by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

**DBS KWONG ON BANK LIMITED****SUPPLEMENTARY INFORMATION (CONTINUED)****4 Segmental information (continued)**

## (d) Cross-border claims

Group

	Banks and other financial institutions	
	2,001	2,000
As at 31st December	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	2,294	3,136
North and South America	918	1,002
Middle East and Africa	6	4
Europe	4,871	4,936
	<u>8,089</u>	<u>9,078</u>
	<u><u>8,089</u></u>	<u><u>9,078</u></u>

The above analysis of cross-border claims by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

Other than the above, the Group does not have any claims from public sector entities not other counter parties outside Hong Kong.

**DBS KWONG ON BANK LIMITED**

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**5 Overdue and rescheduled advances**

(a) Overdue advances

The Group's overdue advances (net of suspended interest) are analysed as follows:

2001	HK\$'000	% of total advances
Gross amount of advances which have been overdue for:		
- six months or less but over three months	101,051	0.43
- one year or less but over six months	98,080	0.41
- over one year	185,878	0.78
	<u>385,009</u>	<u>1.62</u>

2000	HK\$'000	% of total advances
------	----------	---------------------

Gross amount of advances which have been overdue for:		
- six months or less but over three months	115,829	0.54
- one year or less but over six months	124,778	0.59
- over one year	434,514	2.05
	<u>675,121</u>	<u>3.18</u>

(b) Trade bills

	2001 HK\$'000	2000 HK\$'000
Overdue for :		
- six months or less but over three months	724	-
- one year or less but over six months	6,495	-
- over one year	630	1,012
	<u>7,849</u>	<u>1,012</u>



**DBS KWONG ON BANK LIMITED**

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**5 Overdue and rescheduled advances (continued)**

(c) Rescheduled advances

The Group's rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above) are analysed as follows:

	2001		2000	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Rescheduled advances to customers				
Performing	3,094	0.01	-	-
Non-performing	34,970	0.15	160,146	0.75
	<u>38,064</u>	<u>0.16</u>	<u>160,146</u>	<u>0.75</u>

(d) Overdue advances are reconciled to non-performing loans, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, as follows:

	2001	2000
	HK\$'000	HK\$'000
Overdue advances to customers as per above (a)	385,009	675,121
Less: advances which are overdue for more than three months and on which interest is still being accrued	(61,775)	(45,767)
Add: advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
- included in rescheduled advances	34,970	160,146
- others	138,011	256,795
Non-performing loans	<u>496,215</u>	<u>1,046,295</u>

All of the Group's overdue and non-performing loans are located in Hong Kong.

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Risk management**

The Board and the Senior Management of the Group believes that the ability to develop and maintain top-class risk management skills in measuring, monitoring, interpreting and forecasting the Group's risk profile a critical internal capability.

The Group has developed and maintained a sound framework of policies and controls for identifying, evaluating, monitoring and controlling key risks pertaining to the Group's business. Key risks inherent in the Group's business include capital management, credit, liquidity, interest rate, market and operational risks where committees, policies, procedures and limits are established to manage them. A stringent product review and approval process is also in place for managing risks in new products and activities. All approval authorities are delegated by the Board and the Senior Management of the Group taking into account experience of the relevant officers.

Risk related policies and controls are subject to regular review by the relevant business units, Risk Management, Senior Management and committees based on changing customer needs and business conditions. The internal auditors (reporting directly to the Board) also conduct independent reviews on the adequacy and effectiveness of these key policies and controls and ensure that the Group is operating within the established policies, procedures and limits.

**(i) Capital management**

It is the Group's policy to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. Capital is allocated to the various activities of the Group depending on the risk reward criteria and regulatory requirements.

The Group's consolidated capital adequacy ratio of 20.0% as at 31st December 2001 was well above the statutory minimum ratio of 8%.

**(ii) Credit risk management**

Credit risk is the risk of loss due to the inability or unwillingness of a customer or counterparty to meet its payment obligations.

The Group's Credit Policies and Procedures Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes and the system of loan classification and provision. Credit applications are guided by a set of credit principles which all extensions of credit must adhere to and these applications are subject to regular independent review. Business units, credit units and approvers all have the responsibility to ensure that credits are properly assessed, classified and all crucial information included in the application for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and/or committees (as delegated) depending on, among other things, the size and nature of the proposed transactions.

Credit exposure is measured in terms of current and potential exposure. Current credit exposure is represented by the notional or principal value of on-balance sheet financial instruments and off-balance sheet direct credit substitutes, and by the positive market value of derivative instruments. Exposures are monitored against credit limits and other control limits (such as large exposures and concentrations limits) by independent credit control unit at both the transaction and portfolio levels.

## **DBS KWONG ON BANK LIMITED**

### **SUPPLEMENTARY INFORMATION (CONTINUED)**

#### **6 Risk management (continued)**

##### (ii) Credit risk management (continued)

These credit policies and limits are established taking into account factors such as prevailing business and economic conditions, the Group's risk appetite to a single customer, or particular industries or sectors and regulatory requirements.

##### (iii) Liquidity management

Liquidity risk is the risk that the Group cannot meet its current obligations as when they fall due and arises from the difference between the maturity profile of the Group's assets and liabilities. The Group's objective is to ensure that the Group can meet obligations at all times as they fall due and to maintain an adequate stock of high quality of assets to provide the Group with sufficient resources for contingency purposes.

The Group measures and monitors its liquidity (across all classes of assets and liabilities) through maintenance of prudent ratios (such as liquidity, maturity mismatch and loan to deposit ratios) and funding policies approved by the Asset and Liability Committee (ALCO) and Senior Management. ALCO also directs management to prepare contingency plans to meet the liquidity requirement in unexpected circumstances. A prudent level of realizable liquid assets is also maintained by the Group to meet unexpected and material cash requirement.

The Group average liquidity ratio for the year ended 31st December 2001 was 41.2% which was well above the statutory minimum ratio of 25%.

##### (iv) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rate. The Group's interest rate open positions arise from investments and other normal banking activities.

The risk primarily results from the re-pricing gaping of interest-bearing assets and liabilities. Interest rates offered by the Group on lending and deposits are approved by Senior Management. The Group manages its interest rate risk by way of entering into on and off-balance sheet interest rate hedging instruments to hedge the interest rate risk exposure based on market and economic conditions. The interest rate risk exposure is managed by Treasury & Markets subject to the limits approved by the Senior Management and ALCO. The exposure is independently monitored by Risk Management and reviewed by the Senior Management and ALCO regularly.

## **DBS KWONG ON BANK LIMITED**

### **SUPPLEMENTARY INFORMATION (CONTINUED)**

#### **6 Risk management (continued)**

##### **(v) Operational risk**

Operational risk is the risk of loss attributable to human or procedural errors, systems failures, frauds, inadequate internal controls and procedures or other external event risks.

The Group manages operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, positions and documentation, maintaining key backup procedures, and undertaking regular contingency planning. Insurance cover is also taken to minimize losses in business operations and holdings of fixed assets.

##### **(vi) Market risk management**

Market risk arises from the net effect of changes in interest rates, foreign exchange rates, securities, equities and commodity prices as well as in their correlations and volatility levels in the markets in which the Group operates. It arises primarily from its holdings in the trading book of foreign exchange contracts, debt securities and derivatives and other financial contracts.

The Group's market risk limits of the different activities are approved by the Executive Committee. Exposures are measured and controlled by various market risk limits (such as stop loss and time bucket concentration limits). All trading activities are subject to the mark-to-market valuation to reflect the current market value of the trading portfolios and their profit and loss. Market risk exposures are monitored independently by Risk Management. Exceptions are reviewed and approved by the appropriate level of Senior Management and the Executive Committee.

The Group adopts a Daily Earnings at Risk (DEaR) methodology in measuring the potential loss with a given confidence level, over a pre-specified horizon. It takes into account all pertinent risk factors and covers all financial instruments which expose the Bank to market risk.

**DBS KWONG ON BANK LIMITED**

**SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Risk management (continued)**

The average daily revenue arising from the Group's market risk related treasury activities for the year ended 31st December 2001 was HK\$74,000 (2000: HK\$74,000) and the standard deviation for such daily revenue was HK\$435,000 (2000: HK\$147,000). An analysis of the daily distribution of market risk revenues is as follows:

**Daily Distribution of Market Risk Revenues**

