

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 2002.

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 20 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 5.

For the year ended 31st December 2002, a special dividend of approximately HK\$3.06667 (year ended 31st December 2001: an interim dividend of HK\$0.705) per share totalling HK\$1,150,000,000 (year ended 31st December 2001: HK\$264,375,000) was paid on 13th November 2002.

The directors do not recommend the payment of a final dividend for the year ended 31st December 2002 (year ended 31st December 2001: Nil).

Fixed assets

Movements in fixed assets of the Group and the Bank during the year are set out in note 21 to the accounts.

Reserves

Movements in the reserves of the Group and the Bank during the year are set out in note 26 to the accounts.

Donations

During the year, the Group did not make any charitable donations (year ended 31st December 2001: HK\$37,470).

Directors

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

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

Mr. Leung Ting Mow, Kenneth - Vice-chairman

Mr. Wong Kwong Shing, Frank

Mr. Fock Siew Wah

Dr. Fung Kwok King, Victor

Mr. Alexander Reid Hamilton

Mr. Chang Tsou Sun, Lister

(resigned on 31st January 2002)

Mr. Philippe Paillart

(resigned on 22nd June 2002)

Mr. Hon Tai Yuen, William

(resigned on 1st September 2002)

In accordance with Article 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.

DBS KWONG ON BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Interests in contracts

No contract of significance, to which the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies 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

The following were arrangements which subsisted at the end of the year or at any time during the year which enabled the directors of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd (“DBSH”), the ultimate holding company of the Bank, or to be awarded shares of DBSH.

(a) *Share Option Scheme/Plan*

The DBSH Share Option Scheme (the “Option Scheme”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999, to replace the DBS Bank Share Option Scheme (the “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 370,000 shares in DBSH were granted to Messrs. Philippe Paillart, Wong Kwong Shing, Frank and Hon Tai Yuen, William pursuant to the above DBSH option arrangements. Mr. Hon Tai Yuen, William had acquired shares in DBSH by exercising options granted pursuant to the above option arrangements during the year and before the date of his resignation.

(b) *Performance Share Plan*

The DBSH Performance Share Plan (“PSP”) is a stock-based plan where DBSH ordinary shares are given free of charge to eligible employees. The number of shares awarded is based on the DBSH Group’s 3-year period performance as well as the performance of the individual. At the start of the 3-year performance period, an eligible employee will be advised of the number of DBSH ordinary shares that he could receive at the end of the performance period, which is based on his demonstrated performance. During the year or before his date of resignation, where applicable, Messrs. Philippe Paillart, Wong Kwong Shing, Frank and Hon Tai Yuen, William were eligible to receive performance shares under the PSP.

DBS KWONG ON BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Arrangements to acquire shares (continued)

(c) Vesting of Shares

During the year or before his date of resignation, where applicable, a total of 42,980 DBSH shares were vested in Messrs. Wong Kwong Shing, Frank and Hon Tai Yuen, William under the PSP or as part of the retention packages to the relevant director(s).

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiary of 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 will retire at the forthcoming annual general meeting.

A members' resolution was passed on 12th November 2002 to appoint Ernst & Young as auditors of the Bank for the financial year ending 31st December 2003 until the conclusion of the annual general meeting in 2004.

On behalf of the board

Dr. Leung Ding Bong, Ronald, OBE, JP

Director

Hong Kong, 10th February 2003

DBS KWONG ON BANK LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF DBS KWONG ON BANK LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 5 to 41 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 judgements 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 2002 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, 10th February 2003

DBS KWONG ON BANK LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT***FOR THE YEAR ENDED 31ST DECEMBER 2002*

	Note	2002 HK\$'000	2001 HK\$'000
Interest income	3	1,536,504	2,011,967
Interest expense		(546,666)	(1,099,734)
Net interest income		989,838	912,233
Other operating income	4	275,223	228,836
Operating income		1,265,061	1,141,069
Operating expenses	5	(577,822)	(711,305)
Operating profit before provisions		687,239	429,764
Charge for bad and doubtful debts	7	(240,340)	(125,848)
Operating profit		446,899	303,916
Net loss on disposal/revaluation of fixed assets	8	(2,951)	(33,625)
Profit before taxation		443,948	270,291
Taxation	9	(69,740)	(36,713)
Profit attributable to shareholders	10	374,208	233,578
Dividends	11	1,150,000	264,375

DBS KWONG ON BANK LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	12	7,839,008	7,100,932
Placements with banks and other financial institutions maturing between one and twelve months	13	-	705,455
Trade bills	14	462,064	383,852
Certificates of deposit held	15	699,087	938,870
Held-to-maturity securities	16	469,779	473,572
Advances and other accounts	17	22,302,941	23,978,863
Non-trading securities	19	9,304	10,746
Fixed assets	21	1,011,960	1,054,968
Total assets		<u>32,794,143</u>	<u>34,647,258</u>
Liabilities			
Deposits and balances of banks and other financial institutions	22	520,579	520,494
Deposits from customers	23	27,490,067	28,668,959
Certificates of deposit issued	24	300,000	300,000
Other accounts and provisions		870,411	767,484
Total liabilities		<u>29,181,057</u>	<u>30,256,937</u>
Capital resources			
Share capital	25	750,000	750,000
Reserves	26	2,863,086	3,640,321
Shareholders' funds		<u>3,613,086</u>	<u>4,390,321</u>
Total liabilities and capital resources		<u>32,794,143</u>	<u>34,647,258</u>

Leung Ding Bong, Ronald, OBE, JP
Director

Wong Kwong Shing, Frank
Director

Leung Ting Mow, Kenneth
Director

Wong Wai Nar, Doris
Secretary

DBS KWONG ON BANK LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	12	7,839,008	7,100,932
Placements with banks and other financial institutions maturing between one and twelve months	13	-	605,955
Trade bills	14	462,064	383,852
Certificates of deposit held	15	699,087	938,870
Held-to-maturity securities	16	469,779	473,572
Advances and other accounts	17	22,302,841	23,976,385
Non-trading securities	19	2,410	2,410
Investments in subsidiaries	20	42,500	52,500
Fixed assets	21	1,011,960	1,048,663
		<hr/>	<hr/>
Total assets		32,829,649	34,583,139
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Deposits and balances of banks and other financial institutions	22	548,297	548,533
Deposits from customers	23	27,508,644	28,747,189
Certificates of deposit issued	24	300,000	300,000
Other accounts and provisions		870,330	757,385
		<hr/>	<hr/>
Total liabilities		29,227,271	30,353,107
		<hr/> <hr/>	<hr/> <hr/>
Capital resources			
Share capital	25	750,000	750,000
Reserves	26	2,852,378	3,480,032
		<hr/>	<hr/>
Shareholders' funds		3,602,378	4,230,032
		<hr/> <hr/>	<hr/> <hr/>
Total liabilities and capital resources		32,829,649	34,583,139
		<hr/> <hr/>	<hr/> <hr/>

Leung Ding Bong, Ronald, OBE, JP
Director

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Director

Leung Ting Mow, Kenneth
Director

Wong Wai Nar, Doris
Secretary

DBS KWONG ON BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January		<u>4,390,321</u>	<u>4,560,185</u>
Deficit on revaluation of bank premises	8	-	(88,799)
Change in fair value of non-trading securities	26	<u>(1,443)</u>	<u>(4,256)</u>
Net losses not recognised in the profit and loss account		<u>(1,443)</u>	<u>(93,055)</u>
		4,388,878	4,467,130
Profit attributable to shareholders		374,208	233,578
Dividends	26	<u>(1,150,000)</u>	<u>(310,387)</u>
Total equity as at 31st December		<u>3,613,086</u>	<u>4,390,321</u>

DBS KWONG ON BANK LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities before taxation	31(a)	1,793,960	186,270
Hong Kong profits tax paid		(37,148)	(104,672)
Hong Kong profits tax refunded		63	34,264
Net cash inflow from operating activities		1,756,875	115,862
Investing activities			
Disposal of a subsidiary	31(c)	(1,511)	-
Purchase of fixed assets		(28,230)	(36,122)
Proceeds from disposal of fixed assets		4,884	46
Net cash outflow from investing activities		(24,857)	(36,076)
Net cash inflow before financing activities		1,732,018	79,786
Financing activities			
Dividends paid		(1,150,000)	(310,387)
Net cash outflow from financing activities		(1,150,000)	(310,387)
Increase/(decrease) in cash and cash equivalents		582,018	(230,601)
Cash and cash equivalents at 1st January		6,580,438	6,811,039
Cash and cash equivalents at 31st December	31(b)	7,162,456	6,580,438

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.

The gain or loss on the disposal of subsidiaries is the difference between: i) the proceeds of the sale and, ii) the Group’s share of its net assets together with any unamortised goodwill or negative goodwill.

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.

(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.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(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 loans and advances, 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) *Repossessed assets*

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advance.

(g) *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.

(h) *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)

(h) 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 up 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)

(h) Fixed assets and depreciation (continued)

(iv) Impairment

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.

(i) 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.

(j) 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.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(k) *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.

(l) *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.

(m) *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.

(n) *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.

(o) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The accounting treatment adopted for these instruments is dependent upon the intention for which the transactions are undertaken, as elaborated below.

(i) Trading transactions

Derivative transactions undertaken for trading purposes include transactions to service customers' needs and for proprietary purposes, as well as any related hedges. Derivative transactions undertaken for trading purposes are measured at fair value. The resultant profits and losses arising on re-measurement of trading transactions at fair value are included in the profit and loss account as “Other operating income”. Unrealised gains on derivative transactions which are held at fair value are included in “Other assets” in the balance sheet. Unrealised losses on transactions which are held at fair value are included in “Other accounts and provisions”.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(o) *Off-balance sheet financial instruments (continued)*

(ii) Non-trading transactions

Certain derivatives may be designated as a hedge of interest rate, exchange rate or price exposures that are inherent in the assets and liabilities of the Group.

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

- a) the derivative instrument must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cashflows being hedged and which results from potential movements in interest rates, exchange rates and market values; and
- b) there is adequate evidence of the intention to hedge. Linkage with the underlying risk inherent in the assets, liabilities, other positions or cashflows being hedged, must be established at the outset of the transaction.

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

Hedging transactions, which have been superseded, cease to be effective or are terminated prior to the end of the life of the assets, liabilities, other positions or cashflows being hedged, are measured at fair value. Any profit or loss arising is deferred and amortised as interest income or expense in the profit and loss account over the remaining life of the items previously being hedged.

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

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

(iii) Fair values of derivative transactions

The fair value of a derivative is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. Where available, quoted and observable market prices are used as the measure of fair value. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could materially affect the resulting fair value estimates.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(o) *Off-balance sheet financial instruments (continued)*

- (iv) Offsetting of assets and liabilities arising from derivative transactions

Derivative transactions are offset only when the Group has the ability to insist on net settlement such as by means of entering into a master netting agreement or other legally enforceable arrangements. Any right to insist on a net settlement that is contingent is only taken into account when the Group is able to enforce net settlement in all situations of default by the other party or parties including insolvency of any parties to the contract, and the ability to insist on a net settlement is assured beyond doubt.

Derivative transactions are not offset unless the related settlement currencies are the same, or are denominated in freely convertible currencies for which quoted exchange rates are available in an active market.

(p) *Employee benefits*

- (i) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee – administered funds. The pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

- (ii) Profit sharing and bonus plan

Liabilities for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

- (iii) Equity compensation benefits

There is a Share Option Scheme and a Share Option Plan run by the Group's ultimate holding company. Under the Scheme and the Plan, share options are granted to eligible staff. There is also a Performance Share Plan run by the Group's ultimate holding company. Under this plan ordinary shares in the ultimate holding company are given free of charge to eligible employees based on the performance of the DBS Group and of the individual.

Equity compensation benefits resulting from the issue of share options to the Group's employees are not recognised in the Group's accounts.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(q) *Contingent liabilities*

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, it will then be recognised as a provision.

(r) *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.

3 Interest income

	2002 HK\$'000	2001 HK\$'000
Interest income on listed investments	20,715	24,313
Interest income on unlisted investments	17,031	35,523
Other interest income	1,498,758	1,952,131
	<u>1,536,504</u>	<u>2,011,967</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

4 Other operating income

	2002 HK\$'000	2001 HK\$'000
Fees and commission income	186,466	179,625
Less: fees and commission expense	(18,589)	(29,177)
Net fees and commission income	167,877	150,448
Net gain from foreign exchange trading	41,563	39,544
Net gain from other dealing activities	58,206	-
Dividend income from non-trading securities		
- listed	232	232
- unlisted	1,830	1,380
Rental income less outgoings	575	861
Others	4,940	36,371
	<u>275,223</u>	<u>228,836</u>

Note: In 2002, interest recovered from non-performing loans in relation to previous years was booked under "Interest Income". In 2001, such interest, amounting to HK\$25,386,000, was included in "Others" under "Other operating income".

5 Operating expenses

	2002 HK\$'000	2001 HK\$'000
Staff costs		
- salaries and other costs	310,780	390,779
- pension costs	13,370	23,406
Premises and other fixed assets excluding depreciation		
- rental of premises	27,202	26,571
- others	40,998	47,266
Depreciation	63,402	61,411
Auditors' remuneration	2,040	2,574
Other operating expenses	120,030	159,298
	<u>577,822</u>	<u>711,305</u>

Note: Staff costs include directors' emoluments (Note 6).

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

6 Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
The aggregate amounts of emoluments payable to directors of the Bank during the year are as follows:		
Fees	760	855
Salaries, housing allowances, other allowances, and benefits in kind	9,761	11,093
Pension benefit	135	249
	<u>10,656</u>	<u>12,197</u>

7 Charge for bad and doubtful debts

	2002 HK\$'000	2001 HK\$'000
Net charge for bad and doubtful debts		
Specific provisions		
New provisions	308,155	193,099
Releases	(31,372)	(91,619)
Recoveries	(4,352)	(2,491)
	<u>272,431</u>	<u>98,989</u>
General provisions	(32,091)	26,859
	<u>240,340</u>	<u>125,848</u>
Analysis by asset category		
Specific provisions against		
Advances to customers	280,349	93,225
Trade bills	(7,918)	6,110
Other accounts	-	(346)
	<u>272,431</u>	<u>98,989</u>
General provisions against advances to customers	(32,091)	26,859
	<u>240,340</u>	<u>125,848</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

8 Net loss on disposal/revaluation of fixed assets

	2002 HK\$'000	2001 HK\$'000
Deficit on revaluation of premises	-	(121,456)
Less: amounts covered by previous revaluation surplus (Note 26)	-	88,799
	<hr/>	<hr/>
Deficit on revaluation of premises charged to the profit and loss account	-	(32,657)
Deficit on revaluation of investment properties	-	(1,000)
	<hr/>	<hr/>
	-	(33,657)
(Loss)/profit on disposal of fixed assets	(2,951)	32
	<hr/>	<hr/>
	(2,951)	(33,625)
	<hr/> <hr/>	<hr/> <hr/>

9 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

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

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	73,338	50,170
Over-provision in prior years	(3,598)	(13,457)
	<hr/>	<hr/>
	69,740	36,713
	<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 26) does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in taxation liability.

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Bank to the extent of HK\$522,346,000 (2001: HK\$217,185,000).

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

11 Dividends

	2002	2001
	HK\$'000	HK\$'000
2002 Special dividend paid of HK\$3.067 per ordinary share	1,150,000	-
2001 Interim dividend paid of HK\$0.705 per ordinary share	-	264,375
	<u>1,150,000</u>	<u>264,375</u>

12 Cash and short-term funds

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	259,491	191,070
Money at call and short notice	7,579,517	6,909,862
	<u>7,839,008</u>	<u>7,100,932</u>

13 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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three months or less	-	505,000	-	450,000
One year or less, but over three months	-	200,455	-	155,955
	<u>-</u>	<u>705,455</u>	<u>-</u>	<u>605,955</u>

14 Trade bills

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Trade bills	462,127	391,833
Specific provision (Note 18)	(63)	(7,981)
	<u>462,064</u>	<u>383,852</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 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	
	2002	2001
	HK\$'000	HK\$'000
Three months or less	-	49,996
One year or less, but over three months	301,475	372,446
Five years or less, but over one year	397,612	516,428
	699,087	938,870

In 2002, the Group disposed of certain certificates of deposit of book value HK\$99,925,000 due to the downgrading of the issuer's credit rating and this has resulted in a loss on disposal of HK\$80,000.

16 Held-to-maturity securities

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Balance as at 1st January	473,572	262,745
Additions	-	214,571
Amortisation of premium	(3,793)	(3,744)
Balance as at 31st December	469,779	473,572

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000

Held-to-maturity securities are analysed by the remaining period as at 31st December to the contractual maturity dates as follows:

One year or less, but over three months	78,367	-
Five years or less, but over one year	391,412	473,572
	469,779	473,572

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

16 Held-to-maturity securities (continued)

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Held-to-maturity securities are analysed by issuer as follows:		
- central governments and central banks	256,211	259,478
- public sector entities	78,367	78,959
- banks and other financial institutions	135,201	135,135
	469,779	473,572
Listed securities, at amortised cost		
- listed in Hong Kong	256,211	259,478
- listed outside Hong Kong	213,568	214,094
	469,779	473,572
Market value of listed securities	491,248	488,724

17 Advances and other accounts

	Group		Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to banks and financial institutions	46,347	-	46,347	-
Advances to customers	21,749,205	23,700,276	21,749,205	23,700,276
Accrued interest	279,319	314,744	279,319	314,237
	22,074,871	24,015,020	22,074,871	24,014,513
Provision for bad and doubtful debts				
- general (Note 18)	(217,465)	(249,556)	(217,465)	(249,556)
- specific (Note 18)	(163,390)	(171,802)	(163,390)	(171,802)
	21,694,016	23,593,662	21,694,016	23,593,155
Other accounts	608,925	385,683	608,825	383,230
Specific provision for bad and doubtful debts (Note 18)	-	(482)	-	-
	608,925	385,201	608,825	383,230
	22,302,941	23,978,863	22,302,841	23,976,385

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

17 Advances and other accounts (continued)

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			
	2002		2001	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross non-performing loans	448,677	2.1	496,215	2.1
Specific provisions made in respect of such advances	(132,613)		(133,066)	
	<u>316,064</u>		<u>363,149</u>	
Suspended interest	<u>10,463</u>		<u>21,417</u>	

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

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	
	2002	2001
	HK\$'000	HK\$'000
Repayable on demand	2,266,193	2,442,445
Three months or less	3,940,440	3,704,077
One year or less, but over three months	1,882,681	2,024,611
Five years or less, but over one year	5,866,351	6,685,327
Over five years	7,250,376	8,265,944
Undated	543,164	577,872
	<u>21,749,205</u>	<u>23,700,276</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

17 Advances and other accounts (continued)

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

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Five years or less, but over one year	46,347	-
	46,347	-

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

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Gross investment in finance leases, receivable:		
Not later than one year	341,340	274,675
Later than one year and not later than five years	739,862	773,832
Later than five years	698,779	1,047,359
	1,779,981	2,095,866
Unearned future finance income on finance leases	(315,904)	(482,207)
Net investment in finance leases	1,464,077	1,613,659

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

Not later than one year	291,369	183,391
Later than one year and not later than five years	605,894	569,706
Later than five years	566,814	860,562
	1,464,077	1,613,659

The unguaranteed residual value included in the gross investment in finance leases in 2002 and 2001 are not considered to be material.

The allowance for uncollectable finance lease receivables included in the provision for loan losses amounted to HK\$14,714,000 as at 31st December 2002 (2001: HK\$30,827,000).

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

18 Provision for bad and doubtful debts

2002

Group	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance at 1st January 2002	180,265	249,556	429,821	21,417
Amounts written off	(293,113)	-	(293,113)	(6,455)
Recoveries of advances written off in previous years (Note 7)	4,352	-	4,352	-
Charge/(write-back) to profit and loss Account (Note 7)	272,431	(32,091)	240,340	-
Disposal of a subsidiary	(482)	-	(482)	-
Interest suspended during the year	-	-	-	5,251
Suspended interest recovered	-	-	-	(9,750)
At 31st December 2002	<u>163,453</u>	<u>217,465</u>	<u>380,918</u>	<u>10,463</u>
Included in:				
Trade bills (Note 14)	63	-	63	
Advances to customers (Note 17)	<u>163,390</u>	<u>217,465</u>	<u>380,855</u>	
	<u>163,453</u>	<u>217,465</u>	<u>380,918</u>	
Bank	Specific Provision HK\$'000	General Provision HK\$'000	Total HK\$'000	Suspended Interest HK\$'000
Balance at 1st January 2002	179,783	249,556	429,339	21,417
Amounts written off	(293,113)	-	(293,113)	(6,455)
Recoveries of advance written off in previous years	4,352	-	4,352	-
Charge/(write-back) to profit and loss account	272,431	(32,091)	240,340	-
Interest suspended during the year	-	-	-	5,251
Suspended interest recovered	-	-	-	(9,750)
At 31st December 2002	<u>163,453</u>	<u>217,465</u>	<u>380,918</u>	<u>10,463</u>
Included in:				
Trade bills (Note 14)	63	-	63	
Advances to customers (Note 17)	<u>163,390</u>	<u>217,465</u>	<u>380,855</u>	
	<u>163,453</u>	<u>217,465</u>	<u>380,918</u>	

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

18 Provision for bad and doubtful debts (continued)

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 7)	2,491	-	2,491	-
Charge to profit and loss account (Note 7)	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 14)	7,981	-	7,981	
Advances to customers (Note 17)	171,802	249,556	421,358	
Other accounts (Note 17)	482	-	482	
	<u>180,265</u>	<u>249,556</u>	<u>429,821</u>	
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 14)	7,981	-	7,981	
Advances to customers (Note 17)	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 Non-trading securities

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At fair value				
Listed equity securities				
issued by corporate entities	6,894	8,336	-	-
Unlisted equity securities				
issued by corporate entities	2,410	2,410	2,410	2,410
	<u>9,304</u>	<u>10,746</u>	<u>2,410</u>	<u>2,410</u>

20 Investments in subsidiaries

	Bank	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	<u>42,500</u>	<u>52,500</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 28(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 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

As set out in Note 31(c), the Group disposed of DBS Kwong On Insurance Limited during the year resulting in no gain or loss on disposal. The results of DBS Kwong On Insurance Limited included in the Group's results for the year amounted to HK\$Nil (2001: HK\$16,027,000).

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 Fixed assets

Group	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2002	899,500	3,000	230,181	1,132,681
Additions	-	-	28,230	28,230
Disposals	(4,636)	-	(6,109)	(10,745)
At 31st December 2002	894,864	3,000	252,302	1,150,166
Accumulated depreciation				
At 1st January 2002	-	-	77,713	77,713
Charge for the year	27,730	-	35,672	63,402
Disposals	(27)	-	(2,882)	(2,909)
At 31st December 2002	27,703	-	110,503	138,206
Net book value				
At 31st December 2002	867,161	3,000	141,799	1,011,960
At 31st December 2001	899,500	3,000	152,468	1,054,968
The analysis of cost or valuation of the above assets is as follows:				
2002				
At cost	-	-	252,302	252,302
At professional valuation 2001	894,864	3,000	-	897,864
	<u>894,864</u>	<u>3,000</u>	<u>252,302</u>	<u>1,150,166</u>
2001				
At cost	-	-	230,181	230,181
At professional valuation 2001	899,500	3,000	-	902,500
	<u>899,500</u>	<u>3,000</u>	<u>230,181</u>	<u>1,132,681</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 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 2002	893,200	3,000	230,134	1,126,334
Additions	6,300	-	28,230	34,530
Disposals	(4,636)	-	(6,062)	(10,698)
At 31st December 2002	894,864	3,000	252,302	1,150,166
Accumulated depreciation				
At 1st January 2002	-	-	77,671	77,671
Charge for the year	27,730	-	35,672	63,402
Disposals	(27)	-	(2,840)	(2,867)
At 31st December 2002	27,703	-	110,503	138,206
Net book value				
At 31st December 2002	867,161	3,000	141,799	1,011,960
At 31st December 2001	893,200	3,000	152,463	1,048,663
The analysis of cost or valuation of the above assets is as follows:				
2002				
At cost	6,300	-	252,302	258,602
At professional valuation 2001	888,564	3,000	-	891,564
	894,864	3,000	252,302	1,150,166
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

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 Fixed assets (continued)

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

Group	2002		2001	
	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)	656,536	3,000	677,100	3,000
- On medium-term lease (10-50 years)	210,625	-	222,400	-
	<u>867,161</u>	<u>3,000</u>	<u>899,500</u>	<u>3,000</u>
Bank				
Bank	2002		2001	
	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)	656,536	3,000	677,100	3,000
- On medium-term lease (10-50 years)	210,625	-	216,100	-
	<u>867,161</u>	<u>3,000</u>	<u>893,200</u>	<u>3,000</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\$374,745,000 (2001: HK\$407,084,000) had they been stated at cost less accumulated depreciation.

22 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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repayable on demand	50,799	338,967	78,517	367,006
Three months or less	469,780	181,527	469,780	181,527
	<u>520,579</u>	<u>520,494</u>	<u>548,297</u>	<u>548,533</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

23 Deposits from customers

	Group		Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	2,277,499	2,162,927	2,294,576	2,197,709
Savings deposits	3,581,384	3,932,103	3,581,384	3,932,103
Time, call and notice deposits	21,631,184	22,573,929	21,632,684	22,617,377
	<u>27,490,067</u>	<u>28,668,959</u>	<u>27,508,644</u>	<u>28,747,189</u>

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

	Group		Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	5,858,883	6,095,030	5,875,960	6,129,812
Three months or less	20,565,434	20,620,654	20,566,934	20,622,102
One year or less, but over three months	940,532	1,763,334	940,532	1,805,334
Five years or less, but over one year	125,218	189,941	125,218	189,941
	<u>27,490,067</u>	<u>28,668,959</u>	<u>27,508,644</u>	<u>28,747,189</u>

24 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	
	2002	2001
	HK\$'000	HK\$'000
One year or less, but over three months	300,000	-
Five years or less, but over one year	-	300,000
	<u>300,000</u>	<u>300,000</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Share capital

	Group and Bank	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
450,000,000 ordinary shares of HK\$2 each	900,000	900,000
Issued and fully paid:		
375,000,000 ordinary shares of HK\$2 each	750,000	750,000

26 Reserves

2002

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 2002	564,152	20,000	256,352	7,993	2,516,000	275,824	3,640,321
Change in fair value of non-trading securities	-	-	-	(1,443)	-	-	(1,443)
Profit for the year	-	-	-	-	-	374,208	374,208
2002 Special dividend paid (Note 11)	-	-	-	-	(899,972)	(250,028)	(1,150,000)
Disposal of a subsidiary	-	(20,000)	-	-	20,000	-	-
At 31st December 2002	564,152	-	256,352	6,550	1,636,028	400,004	2,863,086

Bank

	Share premium HK\$'000	Premises revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2002	564,152	256,352	2,409,500	250,028	3,480,032
Profit for the year	-	-	-	522,346	522,346
2002 Special dividend paid (Note 11)	-	-	(899,972)	(250,028)	(1,150,000)
At 31st December 2002	564,152	256,352	1,509,528	522,346	2,852,378

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

26 Reserves (continued)

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	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	-	-	-	-	-	(46,012)	(46,012)
2001 Interim dividend paid (Note 11)	-	-	-	-	-	(264,375)	(264,375)
At 31st December 2001	<u>564,152</u>	<u>20,000</u>	<u>256,352</u>	<u>7,993</u>	<u>2,516,000</u>	<u>275,824</u>	<u>3,640,321</u>

Bank

	Share premium HK\$'000	Premises revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2001	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	-	-	-	(46,012)	(46,012)
2001 Interim dividend paid (Note 11)	-	-	-	(264,375)	(264,375)
At 31st December 2001	<u>564,152</u>	<u>256,352</u>	<u>2,409,500</u>	<u>250,028</u>	<u>3,480,032</u>

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.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

27 Balances with group companies

(a) *Included in the following balance sheet captions are amounts due from/(to) intermediary holding company and its fellow subsidiaries:*

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	5,923	1,513
Money at call and short notice	836,620	634,655
Trade bills	4,409	-
Advances and other accounts	128,339	37,473
	975,291	673,641
	(485,889)	(185,536)
Deposits and balances of banks and other financial institutions	(89,273)	(84,977)
Deposits from customers	(35,116)	(14,802)
Other accounts and provisions	(610,278)	(285,315)

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

	Bank	
	2002	2001
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	27,718	28,039
Deposits from customers	18,577	78,282
Other accounts and provisions	1	9
	46,296	106,330

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 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\$12,898,000 (2001: HK\$15,720,000). During the year, DBS Bank charged the Bank a fee of HK\$33,921,000 (2001: HK\$8,096,000) in respect of administrative, operational and system supports provided to the Bank.

The Bank has provided operation services to and received IT services from Dao Heng Bank Limited, a subsidiary of DBS Bank during the year. The Bank has received a net amount of HK\$7,080,000 from Dao Heng Bank Limited for such services provided and services rendered.

29 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	
	2002	2001
	HK\$'000	HK\$'000
Direct credit substitutes	93,582	76,179
Transaction-related contingencies	139,931	102,865
Trade-related contingencies	964,935	953,356
Forward deposits placed	-	15,950
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	6,831,568	5,992,154
	8,030,016	7,140,504

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 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		Non-trading		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity contracts:						
Options purchased	570,258	2,004	-	-	570,258	2,004
Options written	570,258	2,004	-	-	570,258	2,004
	<u>1,140,516</u>	<u>4,008</u>	<u>-</u>	<u>-</u>	<u>1,140,516</u>	<u>4,008</u>
Exchange rate contracts:						
Currency swaps	77,987	641,130	-	-	77,987	641,130
Forward contracts	99,442	263,931	-	-	99,442	263,931
Options purchased	115,337	176,246	-	-	115,337	176,246
Options written	49,751	158,948	-	-	49,751	158,948
	<u>342,517</u>	<u>1,240,255</u>	<u>-</u>	<u>-</u>	<u>342,517</u>	<u>1,240,255</u>
Interest rate contracts:						
Interest rate swaps	124,723	-	6,841,533	5,053,594	6,966,256	5,053,594
Futures options purchased	1,559,730	3,898,875	-	-	1,559,730	3,898,875
Futures options written	3,899,325	3,898,875	-	-	3,899,325	3,898,875
Options purchased	84,836	-	-	-	84,836	-
Options written	43,981	857,753	-	-	43,981	857,753
	<u>5,712,595</u>	<u>8,655,503</u>	<u>6,841,533</u>	<u>5,053,594</u>	<u>12,554,128</u>	<u>13,709,097</u>
	<u><u>7,195,628</u></u>	<u><u>9,899,766</u></u>	<u><u>6,841,533</u></u>	<u><u>5,053,594</u></u>	<u><u>14,037,161</u></u>	<u><u>14,953,360</u></u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 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

	2002			2001		
	Contract amount HK\$'000	Credit risk-weighted amount HK\$'000	Replacement cost HK\$'000	Contract amount HK\$'000	Credit risk-weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	8,030,016	355,801	-	7,140,504	321,473	-
Derivatives:						
- Equity contracts	1,140,516	28,657	22,649	4,008	60	-
- Exchange rate contracts	342,517	1,744	1,593	1,240,255	4,389	4,059
- Interest rate contracts	12,554,128	58,537	275,322	13,709,097	46,308	203,355
	22,067,177	444,739	299,564	22,093,864	372,230	207,414

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.

(d) *Other contingent liabilities*

In November, 2002, the Group entered into a ten-year outsourcing agreement with IBM with respect to the provision of information technology and related support to the Group's operations in Hong Kong. As with all similar market standard arrangements, there are various termination clauses contained within the agreement that under certain circumstances could require the Group to pay a penalty on early termination of the contract. The exact amount of any penalty amount cannot be reliably determined as it is dependent upon business volumes over the period of the contract and on the timing of the termination itself.

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 Off-balance sheet exposures (continued)

(d) Other contingent liabilities (continued)

In February 2002, the Group entered into a Life Insurance Bancassurance Distribution Agreement (“Agreement”) with CGNU International Insurance PLC. Under the Agreement, the Group and a subsidiary of the Group’s ultimate holding company, have a joint and several obligation, to pay a termination fee if the Group terminate the Agreement. The amount of termination fee payable is determined in accordance with the schedule of termination fee included in the Agreement, and ranges from HK\$145 million to HK\$38 million, depending on when the Agreement is terminated.

30 Capital and lease commitments

(a) Capital commitments

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

	Group and Bank	
	2002 HK\$’000	2001 HK\$’000
Expenditure contracted but not provided for - fixed assets	1,839	11,840
Expenditure authorised but not contracted for - fixed assets	697	2,246
	<u>2,536</u>	<u>14,086</u>

(b) Lease commitments

At 31st December 2002 the Group had future aggregate minimum lease payment under non-cancellable operating leases as follows:

	Group		Bank	
	2002 HK\$’000	2001 HK\$’000	2002 HK\$’000	2001 HK\$’000
Land and buildings				
Expiring within one year	31,320	31,142	31,320	31,502
Expiring in the second to fifth years inclusive	58,646	80,899	58,646	80,899
	<u>89,966</u>	<u>112,041</u>	<u>89,966</u>	<u>112,401</u>
Other equipment				
Expiring within one year	7,510	9,588	7,510	9,588
Expiring in the second to fifth years inclusive	3,208	7,571	3,208	7,571
	<u>10,718</u>	<u>17,159</u>	<u>10,718</u>	<u>17,159</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

31 Notes to consolidated cash flow statement

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

	2002	2001
	HK\$'000	HK\$'000
Profit before taxation	443,948	270,291
Loss/(profit) on disposal of fixed assets	2,951	(32)
Write-off of fixed assets	-	3,204
Deficit on revaluation of premises and investment properties	-	33,657
Depreciation	63,402	61,411
Provision for bad and doubtful debts	240,340	125,848
Recoveries of advances written off in previous years	4,352	2,491
Decrease in placements with banks and other financial institutions with original maturity greater than three months	549,482	1,374,945
Increase in trade bills	(70,294)	(61,442)
Decrease/(Increase) in certificates of deposit held with original maturity greater than three months	239,783	(242,432)
Decrease/(Increase) in held-to-maturity securities	3,793	(210,827)
Decrease/(Increase) in advances and other accounts	1,410,807	(3,138,374)
(Decrease)/Increase in deposits from customers	(1,178,892)	2,937,403
Decrease in certificates of deposit issued	-	(900,000)
Increase /(Decrease) in other accounts and provisions	84,288	(69,873)
	<hr/>	<hr/>
Net cash inflow from operating activities before taxation	<u>1,793,960</u>	<u>186,270</u>

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

	2002	2001
	HK\$'000	HK\$'000
Cash and short term funds with original maturity within three months	7,683,035	7,100,932
Deposits and balances of banks and other financial institutions with original maturity within three months	(520,579)	(520,494)
	<hr/>	<hr/>
	<u>7,162,456</u>	<u>6,580,438</u>

DBS KWONG ON BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

31 Notes to consolidated cash flow statement (continued)

(c) Disposal of subsidiary

During the year, the Group disposed of its interest in DBS Kwong On Insurance Limited, a wholly owned subsidiary of the Group. The carrying value of the assets and liabilities disposed of were as follows:

	HK\$'000
Cash and balances with bank and other financial institutions	32,412
Other assets	8,479
Other accounts and provisions	(9,990)
	<u>30,901</u>
Satisfied by cash	<u>30,901</u>
Analysis of net cash outflow in respect of disposal of subsidiary:	
	HK\$'000
Cash consideration received	30,901
Cash and cash equivalents disposed of	(32,412)
Net cash outflow in respect of disposal of subsidiary	<u>(1,511)</u>

32 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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>1,958</u>	<u>18,776</u>	<u>54,197</u>	<u>20,587</u>

33 Ultimate holding company

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

34 Approval of accounts

The accounts were approved by the board of directors on 10th February, 2003.

DBS KWONG ON BANK LIMITED

UNAUDITED 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

	2002	2001
Capital adequacy ratio	<u>17.6%</u>	<u>20.0%</u>
Adjusted capital adequacy ratio	<u>17.5%</u>	<u>20.0%</u>
Liquidity ratio	<u>41.5%</u>	<u>41.2%</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:-

	2002 HK\$'000	2001 HK\$'000
Core capital:		
Paid up ordinary share capital	525,000	525,000
Share premium	564,152	564,152
Reserves	2,662,662	2,445,286
Profit and loss account	<u>(628,098)</u>	<u>217,376</u>
	<u>3,123,716</u>	<u>3,751,814</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	336,946	336,946
General provisions for doubtful debts	<u>217,465</u>	<u>249,556</u>
Gross and eligible value of supplementary capital	<u>554,411</u>	<u>586,502</u>
Total capital base before deductions	3,678,127	4,338,316
Deductions:		
Shareholdings in subsidiaries	<u>(17,500)</u>	<u>(27,500)</u>
Total capital base after deductions	<u>3,660,627</u>	<u>4,310,816</u>

DBS KWONG ON BANK LIMITED

UNAUDITED 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
2002			
Hong Kong dollar equivalents			
Spot assets	6,803,198	3,068,462	9,871,660
Spot liabilities	(6,454,203)	(3,098,561)	(9,552,764)
Forward purchases	247,458	52,971	300,429
Forward sales	(260,792)	(27,876)	(288,668)
Net option position	(38,645)	39,760	1,115
	<u>297,016</u>	<u>34,756</u>	<u>331,772</u>
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
	<u>704,199</u>	<u>23,779</u>	<u>727,978</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

UNAUDITED 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	
2002					
Total operating income	<u>919,447</u>	<u>288,630</u>	<u>56,984</u>	<u>-</u>	<u>1,265,061</u>
Profit before charge for bad and doubtful debts	<u>379,921</u>	<u>245,824</u>	<u>61,494</u>	<u>-</u>	<u>687,239</u>
Profit after charge for bad and doubtful debts	<u>138,293</u>	<u>245,824</u>	<u>62,782</u>	<u>-</u>	<u>446,899</u>
Profit before taxation	<u>138,293</u>	<u>245,824</u>	<u>62,782</u>	<u>(2,951)</u>	<u>443,948</u>
Total operating assets	<u>41,938</u>	<u>2,372</u>	<u>-</u>	<u>964,650</u>	<u>1,008,960</u>
	Group				
	Consumer banking HK\$'000	Treasury and markets HK\$'000	Corporate financial management HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
2001					
Total operating income	<u>916,197</u>	<u>139,579</u>	<u>85,293</u>	<u>-</u>	<u>1,141,069</u>
Profit before charge for bad and doubtful debts	<u>271,633</u>	<u>106,824</u>	<u>51,307</u>	<u>-</u>	<u>429,764</u>
Profit after charge for bad and doubtful debts	<u>145,702</u>	<u>106,824</u>	<u>51,390</u>	<u>-</u>	<u>303,916</u>
Profit before taxation	<u>145,702</u>	<u>106,824</u>	<u>51,390</u>	<u>(33,625)</u>	<u>270,291</u>
Total operating assets	<u>43,726</u>	<u>2,473</u>	<u>-</u>	<u>1,005,769</u>	<u>1,051,968</u>

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.

DBS KWONG ON BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(b) By class of business (continued)

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.

(c) Advances to customers

Gross advances to customers by industry sector

	Group	
	2002	2001
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	115,489	111,927
- Property investment	4,206,014	4,287,659
- Financial concerns	147,451	146,781
- Stockbrokers	95,872	291,750
- Wholesale and retail trade	911,568	880,039
- Manufacturing	1,905,724	1,635,900
- Transport and transport equipment	1,135,648	1,562,189
- Others	711,851	458,689
Individuals		
- Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	266,489	344,204
- Loans for the purchase of other residential properties	6,248,505	7,259,701
- Credit card advances	517,327	622,157
- Others	1,255,518	2,145,691
Trade finance	4,163,582	3,889,456
Loans for use outside Hong Kong	68,167	64,133
	21,749,205	23,700,276

DBS KWONG ON BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(c) Advances to customers (continued)

Gross advances to customers by geographical area

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	21,681,038	23,636,143
People's Republic of China excluding Hong Kong	68,167	64,133
	21,749,205	23,700,276

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.

(d) Cross-border claims

Group

	Banks and other financial institutions	
	2002	2001
	HK\$ million	HK\$ million
As at 31st December		
Asia Pacific excluding Hong Kong	1,961	2,294
North and South America	909	918
Middle East and Africa	1	6
Europe	5,229	4,871
	8,100	8,089

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 nor other counterparties outside Hong Kong.

DBS KWONG ON BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

5 Overdue and rescheduled advances

(a) Overdue advances

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

2002	HK\$'000	% of total advances to customers
Gross amount of advances which have been overdue for:		
- six months or less but over three months	106,964	0.49
- one year or less but over six months	83,633	0.38
- over one year	184,132	0.85
	<u>374,729</u>	<u>1.72</u>

2001	HK\$'000	% of total advances to customers
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>

(b) Trade bills

	2002 HK\$'000	2001 HK\$'000
Overdue for:		
- six months or less but over three months	-	724
- one year or less but over six months	88	6,495
- over one year	-	630
	<u>88</u>	<u>7,849</u>

DBS KWONG ON BANK LIMITED

UNAUDITED 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:

	2002		2001	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Rescheduled advances to customers				
Performing	3,278	0.02	3,094	0.01
Non-performing	17,889	0.08	34,970	0.15
	21,167	0.10	38,064	0.16

(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:

	2002 HK\$'000	2001 HK\$'000
Overdue advances to customers as per above (a)	374,729	385,009
Less: advances which are overdue for more than three months and on which interest is still being accrued	(64,003)	(61,775)
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	17,889	34,970
- others	120,062	138,011
Non-performing loans	448,677	496,215

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

(e) Repossessed assets

At 31st December 2002, the repossessed assets of the Group and the Bank amounts to HK\$3,410,000 (2001: HK\$5,959,000).

DBS KWONG ON BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance

The Board delegates certain responsibilities to various committees. The following specialized committees of the Bank were established:-

(i) *Executive Committee*

The Executive Committee is responsible for the management and administration of the Bank. The Board delegates all its power to the Executive Committee as stated in the terms of reference except any powers which must be retained by the Board by the operation of law or which cannot be delegated by law and the power to make calls and forfeit shares as specified in Article 153 of the Bank's Articles of Association. The Executive Committee shall report to the Board in respect of matters which are not conducted on normal commercial terms or which are outside the ordinary course of the business of the Bank. The Executive Committee comprises two executive directors of the Bank.

(ii) *Audit Committee*

The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. Its main duties include discussion with the external auditors the nature and scope of the audit, to review the Bank's financial statements before submission to the Board and to review the Bank's internal audit programme, internal control and compliance systems. The Audit Committee comprises three members who are appointed by the Board, two of whom are Independent Directors.

(iii) *Credit Committee*

The Credit Committee is authorised by the Executive Committee to approve any currency exchange contracts and arrangements with any customer, government entity or financial institution, which, in aggregate with all other currency exchange contracts and arrangements with the same group as the relevant customer, or in aggregate with all other currency exchange contracts and arrangements with the relevant government entity or financial institution, are for amounts within the relevant limits as may be prescribed by the Executive Committee from time to time, and which are on normal commercial terms and are within the normal course of business of the Bank. Any such contracts or arrangements which are in respect of amounts in excess of the relevant limits as prescribed by the Executive Committee from time to time shall be referred to the Executive Committee. Any such contracts or arrangements which are not on normal commercial terms or are outside the ordinary course of business of the Bank shall be referred to the Executive Committee for its approval, but the Executive Committee may, at its discretion, refer the matter to the Board. The Credit Committee comprises five members appointed by the Executive Committee.

(iv) *Asset and Liability Committee*

The Asset and Liability Committee manages the Bank's income against changing interest and currency rate conditions and maturities/duration. The Asset and Liability Committee comprises seven members appointed by the Executive Committee.

(v) *Risk Management Committee*

The Risk Management Committee provides comprehensive and Bank-wide oversight of all risks and their management. It oversees the liquidity position and control market risk. The Risk Management Committee comprises thirteen members appointed by the Executive Committee.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(vi) Human Resources Committee

The Human Resources Committee co-ordinates all policies, processes and activities across the group pertaining to the recruitment, training, performance measurement, appraisal and development of staff. The Human Resources Committee comprises eight members appointed by the Executive Committee.

7 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 17.6% as at 31st December 2002 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.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(ii) Credit risk management (continued)

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.

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 2002 was 41.5% 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.

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 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.

The average daily revenue arising from the Group's market risk related treasury activities for the year ended 31st December 2002 was HK\$189,000 (2001: HK\$74,000) and the standard deviation for such daily revenue was HK\$551,000 (2001: HK\$435,000). An analysis of the daily distribution of market risk revenues is as follows:

Daily Distribution of Market Risk Revenues

