

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 2000

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

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DBS KWONG ON BANK LIMITED
(formerly known as 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 2000.

Principal activities

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

Change of name

The name of the Bank was changed to DBS Kwong On Bank Limited with effect from 31st May 2000.

Results and appropriations

The results of the Group for the year ended 31st December 2000 are set out in the consolidated profit and loss account on page 5.

The directors have declared an interim dividend of HK\$0.0575 per ordinary share, totalling HK\$21,562,500 which was paid on 29th December 2000. The directors recommend the payment of a final dividend of HK\$0.1227 per ordinary share, totalling HK\$46,012,500.

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in note 27 to the accounts.

Donations

During the year, the Group made charitable donations of HK\$3,073. (1999: HK\$53,372).

Fixed assets

Details of the movements in fixed assets of the Bank and the Group 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

Mr. Chong Kie Cheong

Mr. Fock Siew Wah

Dr. Victor Fung

Mr. Alexander Reid Hamilton

Mr. Hon Tai Yuen, William

Mr. Leung Ting Mow, Kenneth

Mr. Leung Wing Ching, Winston (Resigned on 1st May 2000)

Mr. Ng Kee Choe

Mr. Neo Poh Kiat

Mr. Paillart, Philippe (Appointed on 17th November 2000)

Mr. Tan Soo Nan (Resigned on 29th May 2000)

Directors (continued)

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.

Directors' interests in contracts

No contract of significance in relation to the Bank's business to which the Bank, its subsidiaries, its fellow subsidiaries or 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 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 Share 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.

Pursuant to the above arrangements, on 6th March 2000 and 27th July 2000, options to subscribe for a total of 307,000 ordinary shares in DBSH were granted to certain directors of the Bank who were in office during the year.

As at the end of the year or date of resignation, if earlier, the following directors of the Bank held shares of DBSH acquired pursuant to the above arrangements:

Mr. Chong Kie Cheong
Mr. Hon Tai Yuen, William
Mr. Ng Kee Choe
Mr. Tan Soo Nan (resigned on 29th May 2000)

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, 23rd February 2001

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
DBS KWONG ON BANK LIMITED**
(formerly known as Kwong On Bank, Limited)
(Incorporated in Hong Kong with limited liability)



We have audited the accounts on pages 5 to 36 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 the Group as at 31st December 2000 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, 23rd February 2001

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2000

	Note	2000 HK\$'000	1999 HK\$'000
Interest income	3	2,206,961	2,040,639
Interest expense	4	(1,373,211)	(1,299,153)
Net interest income		833,750	741,486
Other operating income	5	186,592	195,364
Operating income		1,020,342	936,850
Operating expenses	6	(582,014)	(528,006)
Operating profit before provisions		438,328	408,844
Charge for bad and doubtful debts	7	(51,084)	(389,983)
Operating profit		387,244	18,861
Net gain on disposal of non-trading securities	8	11,396	-
Profit before taxation		398,640	18,861
Taxation	10	(60,892)	(2,486)
Profit for the year	11	337,748	16,375
Retained earnings brought forward		79,564	67,189
		417,312	83,564
Appropriations:			
Transfer to general reserve	27	(5,000)	(4,000)
Dividends	12	(67,575)	-
Retained earnings carried forward		344,737	79,564

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2000

	Note	2000 HK\$'000	1999 HK\$'000
Assets			
Cash and short-term funds	13	6,895,992	6,513,189
Placements with banks and other financial institutions maturing between one and twelve months	14	2,164,900	2,726,099
Trade bills	15	327,507	280,462
Certificates of deposit held	16	696,438	499,651
Held-to-maturity securities	17	262,745	-
Advances and other accounts	18	20,960,342	17,280,879
Non-trading securities	20	15,002	7,810
Fixed assets	22	1,205,932	1,204,284
Total assets		<u>32,528,858</u>	<u>28,512,374</u>
Liabilities			
Deposits and balances of banks and other financial institutions	23	169,453	97,438
Current, fixed, savings and other deposits of customers	24	25,731,556	22,513,543
Certificates of deposit issued	25	1,200,000	900,000
Other accounts and provisions		867,664	764,922
Proposed dividend		46,012	-
Total liabilities		<u>28,014,685</u>	<u>24,275,903</u>
Capital resources			
Share capital	26	750,000	750,000
Reserves	27	3,764,173	3,486,471
Shareholders' funds		<u>4,514,173</u>	<u>4,236,471</u>
Total liabilities and capital resources		<u>32,528,858</u>	<u>28,512,374</u>

Dr. Leung Ding Bong, Ronald, OBE, JP	}	Directors
Mr. Leung Ting Mow, Kenneth		
Mr. Hon Tai Yuen, William		
Mr. Neo Poh Kiat		

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

BALANCE SHEET

AS AT 31ST DECEMBER 2000

	Note	2000 HK\$'000	1999 HK\$'000
Assets			
Cash and short-term funds	13	6,895,992	6,438,189
Placements with banks and other financial institutions maturing between one and twelve months	14	2,080,400	2,676,599
Trade bills	15	327,507	280,462
Certificates of deposit held	16	696,438	499,651
Held-to-maturity securities	17	262,745	-
Advances and other accounts	18	20,957,491	17,277,560
Non-trading securities	20	2,410	2,410
Investments in subsidiaries	21	52,600	52,600
Fixed assets	22	1,198,160	1,196,139
		<hr/> 32,473,743 <hr/>	<hr/> 28,423,610 <hr/>
Total assets			
Liabilities			
Deposits and balances of banks and other financial institutions	23	197,435	125,265
Current, fixed, savings and other deposits of customers	24	25,808,577	22,546,717
Certificates of deposit issued	25	1,200,000	900,000
Other accounts and provisions		855,698	750,662
Proposed dividend		46,012	-
		<hr/> 28,107,722 <hr/>	<hr/> 24,322,644 <hr/>
Total liabilities			
Capital resources			
Share capital	26	750,000	750,000
Reserves	27	3,616,021	3,350,966
		<hr/> 4,366,021 <hr/>	<hr/> 4,100,966 <hr/>
Shareholders' funds			
Total liabilities and capital resources		<hr/> 32,473,743 <hr/>	<hr/> 28,423,610 <hr/>

Dr. Leung Ding Bong, Ronald, OBE, JP	}	Directors
Mr. Leung Ting Mow, Kenneth		
Mr. Hon Tai Yuen, William		
Mr. Neo Poh Kiat		

DBS KWONG ON BANK LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2000

	Note	2000 HK\$'000	1999 HK\$'000
Net cash (outflow) / inflow from operating activities	32(a)	(2,294,730)	1,533,202
Returns on investments and servicing of finance			
Dividends received from listed non-trading securities		111	-
Dividends received from unlisted non-trading securities		1,570	1,255
Dividend paid		(21,563)	-
		<hr/>	<hr/>
Net cash (outflow) / inflow from returns on investments and servicing of finance		(19,882)	1,255
		<hr/>	<hr/>
Taxation			
Hong Kong profits tax paid		(24,864)	(4,860)
		<hr/>	<hr/>
Investing activities			
Proceeds from disposal of non-trading securities		11,733	-
Purchase of fixed assets		(84,190)	(216,126)
Proceeds from disposal of fixed assets		4,987	195
		<hr/>	<hr/>
Net cash outflow from investing activities		(67,470)	(215,931)
		<hr/>	<hr/>
(Decrease) / increase in cash and cash equivalents		(2,406,946)	1,313,666
Cash and cash equivalents at 1st January		9,217,985	7,904,319
		<hr/>	<hr/>
Cash and cash equivalents at 31st December	32(b)	6,811,039	9,217,985
		<hr/> <hr/>	<hr/> <hr/>

DBS KWONG ON BANK LIMITED
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CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST DECEMBER 2000

	Note	2000 HK\$'000	1999 HK\$'000
Gains arising from change in fair value of non-trading securities recognised directly in equity	27	18,925	4,720
Profit for the year		337,748	16,375
Investment revaluation reserve realised and transferred to the profit and loss account on disposal of non-trading securities	27	(11,396)	-
Total recognised gains for the year		<u>345,277</u>	<u>21,095</u>

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS

1 Principal activities

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

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 bank 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.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Bank and its subsidiaries 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, if necessary, for any diminution in value other than temporary in nature. 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 placed in a suspense account included in "Other accounts and provisions" in the balance sheet.

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) Provision for bad and doubtful debts

General provision for bad and doubtful debts is made against loans and advances. In addition, amounts are set aside against specific loans and advances as and when they are considered necessary by the directors. These provisions are deducted from "Advances and other accounts" and "Trade bills" in the balance sheet.

(e) Translation of foreign currencies

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

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(f) Fixed assets and depreciation

(i) Premises

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

Leasehold land	over the period of the lease
Buildings	over the lesser of 20 years and the period of the lease

Independent valuations are performed every three years. In the intervening years, the directors review the carrying value of the premises and adjustment is made where there has been a material change. Increases in valuation are credited to the premises revaluation reserve; decreases are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to the profit and loss account. A revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same property previously debited to the profit and loss account. Upon the disposal of premises, the relevant portion of the realised 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.

Investment properties held on leases with unexpired periods greater than 20 years are not depreciated but 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.

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 depreciation calculated on a straight line basis to write off the assets over their estimated useful lives at the annual rates of 10% to 33¹/₃%.

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(g) 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 which are 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 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 is included in the profit and loss account.

(h) Interest expense capitalisation

Interest expense attributable to the redevelopment of properties which necessarily takes a substantial period of time to get ready for its intended use is capitalised as part of the cost of the properties. The capitalisation rate is determined with reference to the approximate funding cost of the Bank during the relevant period. Interest capitalisation ceases when substantially all the activities necessary to prepare the properties for their intended use are complete.

(i) Operating leases for rented properties

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

(j) Deferred taxation

Deferred taxation is accounted for at the current tax 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
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NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(k) Hire purchase contracts and finance leases

The amounts due from customers in respect of hire purchase contracts and finance leases are included in “Advances and other accounts” at net investment which represents the total rentals receivable under hire purchase contracts and finance leases less unearned income. Finance income implicit in the rental receivable is credited to the profit and loss account over the lease period or hire period so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(l) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward, swap and options transactions undertaken by the Bank in the foreign exchange market. 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 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 positions.

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

3 Interest income

Interest income includes interest from unlisted investments in securities amounting to HK\$54,713,000 (1999: HK\$73,645,000).

4 Interest expense

	2000	1999
	HK\$'000	HK\$'000
Gross interest expense	1,373,211	1,308,197
Less: Interest capitalised as property redevelopment cost	<u>-</u>	<u>(9,044)</u>
Interest expense charged to profit and loss account	<u>1,373,211</u>	<u>1,299,153</u>

The property under development was completed and brought into use in November 1999 and capitalisation of interest ceased as of that date.

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

5 Other operating income

	2000	1999
	HK\$'000	HK\$'000
Fees and commission income	95,988	99,316
Less: Fees and commission expense	(11,489)	(13,646)
Net fees and commission income	84,499	85,670
Net gain from foreign exchange trading	26,219	30,044
Dividend income from non-trading securities		
- listed	111	-
- unlisted	1,570	1,255
Rental income less outgoings	889	131
Others	73,304	78,264
	186,592	195,364

6 Operating expenses

	2000	1999
	HK\$'000	HK\$'000
Staff costs		
- salaries and other costs	331,595	243,620
- retirement benefit costs	16,944	13,471
Premises and other fixed assets, excluding depreciation		
- rental of premises	19,806	39,290
- others	28,827	22,748
Depreciation	72,587	54,335
Loss on disposal of fixed assets		
- premises	4,905	-
- other fixed assets	63	2,626
Auditors' remuneration	2,318	2,323
Restructuring charge (Note)		
- reorganisation of support functions	-	25,000
- fixed assets written off	-	45,544
Other operating expenses	104,969	79,049
	582,014	528,006

Note:

The restructuring charge in 1999 related to initiatives to streamline and improve the Bank's operating functions and realign certain business activities.

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NOTES TO THE ACCOUNTS (CONTINUED)

7 Charge for bad and doubtful debts

	2000	1999
	HK\$'000	HK\$'000
Specific provision against		
Advances to customers	8,560	443,093
Trade bills	-	11,190
Other accounts	827	-
	9,387	454,283
General provision against advances to customers	41,697	(64,300)
	51,084	389,983

8 Net gain on disposal of non-trading securities

During the year, non-trading securities amounting to HK\$11,733,000 were sold realising a gain of HK\$11,396,000.

9 Directors' emoluments

	2000	1999
	HK\$'000	HK\$'000
Fees to independent non-executive directors	300	215
Other directors' fees	597	1,535
Salaries, housing and other allowances, and benefits in kind	12,171	14,615
Retirement benefit contributions	238	1,234
	13,306	17,599

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

10 Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999:16%) on the estimated assessable profit for the year.

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.

Deferred taxation for the year has not been provided / (credited) in respect of the following:

	2000	1999
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(8,925)	927
Other timing differences	1,282	1,253
	<u>(7,643)</u>	<u>2,180</u>

The potential liability / (asset) for deferred taxation for which no provision has been made in the accounts amounts to:

	2000	1999
	HK\$'000	HK\$'000
Accelerated depreciation allowances	909	9,834
Other timing differences	(719)	(2,001)
	<u>190</u>	<u>7,833</u>

The surplus arising from revaluation of the premises and investment properties does not constitute a timing difference as realisation of such revaluation surplus would not result in a tax liability.

11 Profit for the year

The profit for the year is dealt with in the accounts of the Bank to the extent of HK\$332,630,000 (1999: HK\$12,088,000).

12 Dividends

	2000	1999
	HK\$'000	HK\$'000
Interim, paid, of HK\$0.0575 (1999: HK\$Nil) per share	21,563	-
Final, proposed, of HK\$0.1227 (1999: HK\$Nil) per share	46,012	-
	<u>67,575</u>	<u>-</u>

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

NOTES TO THE ACCOUNTS (CONTINUED)

13 Cash and short-term funds

	Group		Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	185,072	462,959	185,072	462,959
Money at call and short notice	6,612,360	5,029,435	6,612,360	4,954,435
Exchange Fund bills (unlisted)	98,560	1,020,795	98,560	1,020,795
	<u>6,895,992</u>	<u>6,513,189</u>	<u>6,895,992</u>	<u>6,438,189</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.

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	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three months or less	234,500	2,726,099	150,000	2,676,599
One year or less but over three months	1,930,400	-	1,930,400	-
	<u>2,164,900</u>	<u>2,726,099</u>	<u>2,080,400</u>	<u>2,676,599</u>

15 Trade bills

	Group and Bank	
	2000	1999
	HK\$'000	HK\$'000
Trade bills	330,391	293,905
Specific provision (note 19)	(2,884)	(13,443)
	<u>327,507</u>	<u>280,462</u>

DBS KWONG ON BANK LIMITED
(formerly known as Kwong On Bank, Limited)

NOTES TO THE ACCOUNTS (CONTINUED)

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	
	2000	1999
	HK\$'000	HK\$'000
One year or less but over three months	228,955	269,913
Five years or less but over one year	467,483	229,738
	696,438	499,651

17 Held-to-maturity securities

	Group and Bank	
	2000	1999
	HK\$'000	HK\$'000
Balance as at 1st January	-	-
Additions	263,095	-
Amortisation of premium	(350)	-
Balance as at 31st December	262,745	-
Held-to-maturity securities are analysed by issuer as follows:		
- central governments and central banks	262,745	-

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

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NOTES TO THE ACCOUNTS (CONTINUED)

18 Advances and other accounts

	Group		Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers	21,220,006	18,067,304	21,220,006	18,067,304
Accrued interest	252,189	102,630	251,815	101,929
	21,472,195	18,169,934	21,471,821	18,169,233
Provision for bad and doubtful debts				
- general (note 19)	(222,697)	(181,000)	(222,697)	(181,000)
- specific (note 19)	(352,974)	(755,367)	(352,974)	(755,367)
	20,896,524	17,233,567	20,896,150	17,232,866
Other accounts	64,645	47,312	61,341	44,694
Specific provision for bad and doubtful debts (note 19)	(827)	-	-	-
	20,960,342	17,280,879	20,957,491	17,277,560

Advances to customers includes hire purchase contracts having the characteristics of finance leases amounting to HK\$710,023,000 (1999: Nil).

Aggregate rentals receivable in respect of hire purchase contracts, including capital repayments, amounted to HK\$1,166,000,000 (1999: Nil).

The cost of assets acquired during the year for letting to customers under hire purchase contracts amounted to HK\$848,235,000 (1999: Nil).

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	
	2000	1999
	HK\$'000	HK\$'000
Gross non-performing loans	1,046,295	2,290,581
Specific provisions	(351,197)	(711,090)
	695,098	1,579,491
Suspended interest	38,233	34,865

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NOTES TO THE ACCOUNTS (CONTINUED)

18 Advances and other accounts (continued)

Non-performing loans represent 4.9% (1999: 12.7%) of total advances to customers.

The 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	
	2000	1999
	HK\$'000	HK\$'000
Repayable on demand	2,382,413	2,527,277
Three months or less	2,701,226	1,947,007
One year or less but over three months	1,431,501	1,077,028
Five years or less but over one year	4,935,145	3,772,639
Over five years	8,702,862	6,593,288
Undated	1,066,859	2,150,065
	<u>21,220,006</u>	<u>18,067,304</u>

19 Provision for bad and doubtful debts

2000

Group	Specific provision	General provision	Total	Suspended Interest
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2000	768,810	181,000	949,810	34,865
Amounts written off	(421,512)	-	(421,512)	(24,009)
Charge to profit and loss account (note 7)	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>	

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NOTES TO THE ACCOUNTS (CONTINUED)

19 Provision for bad and doubtful debts (continued)

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)
Charge to profit and loss account	8,560	41,697	50,257	-
Interest suspended during the year	-	-	-	39,091
Suspended interest recovered	-	-	-	(11,714)
	<u>355,858</u>	<u>222,697</u>	<u>578,555</u>	<u>38,233</u>
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>	

Group and Bank

1999	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended Interest HK\$'000
Balance at 1st January 1999	351,001	245,300	596,301	12,934
Amounts written off	(37,473)	-	(37,473)	(1,880)
Recoveries of advances written off in previous years	999	-	999	-
Charge / (write back) to profit and loss account (note 7)	454,283	(64,300)	389,983	-
Interest suspended during the year	-	-	-	29,079
Suspended interest recovered	-	-	-	(5,268)
	<u>768,810</u>	<u>181,000</u>	<u>949,810</u>	<u>34,865</u>
At 31st December 1999	<u>768,810</u>	<u>181,000</u>	<u>949,810</u>	<u>34,865</u>
Included in:				
Trade bills (note 15)	13,443	-	13,443	
Advances to customers (note 18)	755,367	181,000	936,367	
	<u>768,810</u>	<u>181,000</u>	<u>949,810</u>	

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NOTES TO THE ACCOUNTS (CONTINUED)

20 Non-trading securities

	Group		Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At fair value				
Listed equity securities issued by corporate entities	12,592	-	-	-
Unlisted equity securities issued by corporate entities	2,410	7,810	2,410	2,410
	15,002	7,810	2,410	2,410

21 Investments in subsidiaries

	Bank	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	52,600	52,600

Amounts due to subsidiaries of the Bank are of a trading 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 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 (in members' voluntary liquidation)	Hong Kong	100,000 shares of HK\$1 each	In liquidation
DBS Kwong On Securities Limited	Hong Kong	15,000 shares of HK\$1,000 each	Not yet commenced business

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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
Cost or valuation				
At 1st January 2000	1,097,247	4,000	197,418	1,298,665
Additions	12,573	-	71,617	84,190
Disposals	(11,493)	-	(4,006)	(15,499)
At 31st December 2000	<u>1,098,327</u>	<u>4,000</u>	<u>265,029</u>	<u>1,367,356</u>
Accumulated depreciation				
At 1st January 2000	19,768	-	74,613	94,381
Charge for the year	29,956	-	42,631	72,587
Disposals	(1,988)	-	(3,556)	(5,544)
At 31st December 2000	<u>47,736</u>	<u>-</u>	<u>113,688</u>	<u>161,424</u>
Net book value				
At 31st December 2000	<u>1,050,591</u>	<u>4,000</u>	<u>151,341</u>	<u>1,205,932</u>
At 31st December 1999	<u>1,077,479</u>	<u>4,000</u>	<u>122,805</u>	<u>1,204,284</u>

The analysis of cost or valuation of the above assets is as follows:

2000				
At cost	132,727	-	265,029	397,756
At professional valuation - 1998	965,600	4,000	-	969,600
	<u>1,098,327</u>	<u>4,000</u>	<u>265,029</u>	<u>1,367,356</u>
1999				
At cost	131,647	-	197,418	329,065
At professional valuation - 1998	965,600	4,000	-	969,600
	<u>1,097,247</u>	<u>4,000</u>	<u>197,418</u>	<u>1,298,665</u>

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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 2000	1,088,747	4,000	197,367	1,290,114
Additions	12,573	-	71,617	84,190
Disposals	(11,493)	-	(4,002)	(15,495)
At 31st December 2000	<u>1,089,827</u>	<u>4,000</u>	<u>264,982</u>	<u>1,358,809</u>
Accumulated depreciation				
At 1st January 2000	19,399	-	74,576	93,975
Charge for the year	29,587	-	42,629	72,216
Disposals	(1,988)	-	(3,554)	(5,542)
At 31st December 2000	<u>46,998</u>	<u>-</u>	<u>113,651</u>	<u>160,649</u>
Net book value				
At 31st December 2000	<u>1,042,829</u>	<u>4,000</u>	<u>151,331</u>	<u>1,198,160</u>
At 31st December 1999	<u>1,069,348</u>	<u>4,000</u>	<u>122,791</u>	<u>1,196,139</u>

The analysis of cost or valuation of the above assets is as follows:

2000

At cost	132,727	-	264,982	397,709
At professional valuation - 1998	957,100	4,000	-	961,100
	<u>1,089,827</u>	<u>4,000</u>	<u>264,982</u>	<u>1,358,809</u>

1999

At cost	131,647	-	197,367	329,014
At professional valuation - 1998	957,100	4,000	-	961,100
	<u>1,088,747</u>	<u>4,000</u>	<u>197,367</u>	<u>1,290,114</u>

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NOTES TO THE ACCOUNTS (CONTINUED)

22 Fixed assets (continued)

The net book value of premises and investment properties comprises:

Group

	2000		1999	
	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)	827,441	4,000	845,795	4,000
- On medium-term lease (10-50 years)	223,150	-	231,684	-
	<u>1,050,591</u>	<u>4,000</u>	<u>1,077,479</u>	<u>4,000</u>

Bank

	2000		1999	
	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)	827,441	4,000	845,795	4,000
- On medium-term lease (10-50 years)	215,388	-	223,553	-
	<u>1,042,829</u>	<u>4,000</u>	<u>1,069,348</u>	<u>4,000</u>

Premises and investment properties were revalued at 31st December 1998 on an open market value basis by an independent valuer, Knight Frank, Chartered Surveyors. Had the Group's premises been carried at cost less accumulated depreciation, the carrying amount would have been HK\$436,719,000 (1999: HK\$468,476,000).

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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	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	154,927	21,303	182,909	49,030
Three months or less	14,526	76,135	14,526	76,135
One year or less but over three months	-	-	-	100
	<u>169,453</u>	<u>97,438</u>	<u>197,435</u>	<u>125,265</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 is as follows:

	Group		Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	5,235,730	4,862,723	5,256,251	4,881,496
Three months or less	19,291,187	16,681,903	19,292,687	16,683,404
One year or less but over three months	1,131,338	963,035	1,186,338	975,935
Five years or less but over one year	73,301	5,882	73,301	5,882
	<u>25,731,556</u>	<u>22,513,543</u>	<u>25,808,577</u>	<u>22,546,717</u>

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NOTES TO THE ACCOUNTS (CONTINUED)

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		Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three months or less	-	300,000	-	300,000
One year or less but over three months	900,000	600,000	900,000	600,000
Five years or less but over one year	300,000	-	300,000	-
	<u>1,200,000</u>	<u>900,000</u>	<u>1,200,000</u>	<u>900,000</u>

26 Share capital

	2000	1999
	HK\$'000	HK\$'000
Authorised:		
450,000,000 ordinary shares of HK\$2 each	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
375,000,000 ordinary shares of HK\$2 each	<u>750,000</u>	<u>750,000</u>

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NOTES TO THE ACCOUNTS (CONTINUED)

27 Reserves

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 2000	564,152	-	307,035	4,720	2,531,000	79,564	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
Dividends	-	-	-	-	-	(67,575)	(67,575)
At 31st December 2000	<u>564,152</u>	<u>20,000</u>	<u>307,035</u>	<u>12,249</u>	<u>2,516,000</u>	<u>344,737</u>	<u>3,764,173</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 2000	564,152	307,035	2,409,500	70,279	3,350,966
Profit for the year	-	-	-	332,630	332,630
Dividend	-	-	-	(67,575)	(67,575)
At 31st December 2000	<u>564,152</u>	<u>307,035</u>	<u>2,409,500</u>	<u>335,334</u>	<u>3,616,021</u>

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

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.

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NOTES TO THE ACCOUNTS (CONTINUED)

27 Reserves (continued)

Group

	Share premium 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 1999	564,152	307,035	-	2,527,000	67,189	3,465,376
Change in fair value of non-trading securities	-	-	4,720	-	-	4,720
Transfer from profit and loss account	-	-	-	4,000	(4,000)	-
Profit for the year	-	-	-	-	16,375	16,375
At 31st December 1999	<u><u>564,152</u></u>	<u><u>307,035</u></u>	<u><u>4,720</u></u>	<u><u>2,531,000</u></u>	<u><u>79,564</u></u>	<u><u>3,486,471</u></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 1999	564,152	307,035	2,409,500	58,191	3,338,878
Profit for the year	-	-	-	12,088	12,088
At 31st December 1999	<u><u>564,152</u></u>	<u><u>307,035</u></u>	<u><u>2,409,500</u></u>	<u><u>70,279</u></u>	<u><u>3,350,966</u></u>

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NOTES TO THE ACCOUNTS (CONTINUED)

28 Balances with group companies

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

	<u>Group</u>	
	2000	1999
	HK\$'000	HK\$'000
Cash and short-term funds		
Cash and balances with banks and other financial institutions	1,309	2,194
Money at call and short notice	357,572	1,229,595
Placements with banks and other financial institutions maturing between one and twelve months	1,000,400	666,290
	1,359,281	1,898,079
Trade bills	-	635
Advances and other accounts	24,898	6,022
	1,384,179	1,904,736
Deposits and balances of banks and other financial institutions	(24,745)	-
Current, fixed, savings and other deposits of customers	(10,850)	(10,011)
Certificates of deposit issued	-	(300,000)
Other accounts and provisions	(3,163)	(3,311)
Proposed dividend	(46,012)	-
	(84,770)	(313,322)

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

	<u>Bank</u>	
	2000	1999
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	27,982	27,826
Current, fixed, savings and other deposits of customers	77,073	33,376
Other accounts and provisions	38	130
	105,093	61,332

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

29 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) issuance of certificates of deposit to DBS Bank; and (iv) 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\$3,855,000.

During the year, DBS Bank charged the Bank a fee of HK\$2,700,000 in respect of internal audit services provided to the Bank.

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

30 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	Group and Bank	
	2000	1999
	HK\$'000	HK\$'000
Direct credit substitutes	65,821	76,455
Transaction-related contingencies	69,276	58,782
Trade-related contingencies	816,108	809,249
Forward forward deposits placed	1,104,829	-
Other commitments with an original maturity of		
- under 1 year or which are unconditionally cancellable	2,992,546	3,259,586
- 1 year and over	-	114,800
	5,048,580	4,318,872

DBS KWONG ON BANK LIMITED
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NOTES TO THE ACCOUNTS (CONTINUED)

30 Off-balance sheet exposures (continued)

(b) Derivatives

The following is a summary of the notional contract amounts of each significant type of derivatives:

Group and Bank

	Trading		Hedging		Total	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Exchange rate contracts:						
Currency swaps	-	-	5,216,314	224,793	5,216,314	224,793
Forward contracts	120,244	31,413	-	-	120,244	31,413
Options purchased	-	-	33,860	-	33,860	-
Options written	-	-	16,163	-	16,163	-
	<u>120,244</u>	<u>31,413</u>	<u>5,266,337</u>	<u>224,793</u>	<u>5,386,581</u>	<u>256,206</u>
Interest rate contracts:						
Interest rate swaps	-	-	199,835	-	199,835	-
Forward contracts	27,727	-	-	-	27,727	-
	<u>27,727</u>	<u>-</u>	<u>199,835</u>	<u>-</u>	<u>227,562</u>	<u>-</u>
	<u>147,971</u>	<u>31,413</u>	<u>5,466,172</u>	<u>224,793</u>	<u>5,614,143</u>	<u>256,206</u>

Trading transactions are those which result in positions in financial instruments arising either from matched principal brokering and market making entered into with retail 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.

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NOTES TO THE ACCOUNTS (CONTINUED)

30 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

	Contract amount 2000 HK\$'000	Credit risk- weighted amount 2000 HK\$'000	Replacement cost 2000 HK\$'000	Contract amount 1999 HK\$'000	Credit risk- weighted amount 1999 HK\$'000	Replacement cost 1999 HK\$'000
Contingent liabilities and commitments	5,048,580	484,647		4,318,872	258,597	
Derivatives:						
- Exchange rate contracts	5,386,581	9,046	2,368	256,206	1,035	933
- Interest rate contracts	227,562	120	600	-	-	-
	<u>10,662,723</u>	<u>493,813</u>	<u>2,968</u>	<u>4,575,078</u>	<u>259,632</u>	<u>933</u>

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

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 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.

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NOTES TO THE ACCOUNTS (CONTINUED)

31 Capital and lease commitments

(a) Capital commitments

	<u>Group and Bank</u>	
	2000	1999
	HK\$'000	HK\$'000
Contracted but not provided for		
- fixed assets	12,144	19,977
Authorised but not contracted for		
- fixed assets	23,280	24,707
	35,424	44,684

(b) Lease commitments

	<u>Group</u>		<u>Bank</u>	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating lease commitments in respect of rented properties at 31st December payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:				
Expiring within one year	2,588	856	2,948	1,156
Expiring in the second to fifth years inclusive	10,018	9,726	10,018	9,726
Expiring after the fifth year	21,487	-	21,487	-
	34,093	10,582	34,453	10,882

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NOTES TO THE ACCOUNTS (CONTINUED)

32 Notes to consolidated cash flow statement

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

	2000	1999
	HK\$'000	HK\$'000
Profit before taxation	398,640	18,861
Gain on disposal of non-trading securities	(11,396)	-
Loss on disposal of fixed assets	4,968	2,626
Fixed assets written off	-	45,544
Depreciation	72,587	54,335
Provision for bad and doubtful debts	51,084	389,983
Dividend income from non-trading securities	(1,681)	(1,255)
(Increase) / decrease in placements with banks and other financial institutions with original maturity greater than three months	(2,080,400)	20,000
(Increase) / decrease in trade bills	(36,486)	113,010
(Increase) / decrease in certificates of deposit held with original maturity greater than three months	(196,787)	198,348
Change in held-to-maturity securities	(262,745)	-
(Increase) / decrease in advances and other accounts	(3,746,608)	1,347,783
(Decrease) / increase in deposits and balances of banks and other financial institutions with original maturity greater than three months	(76,135)	76,135
Increase in current, fixed, savings and other deposits of customers	3,218,013	46,161
Change in certificates of deposit issued	300,000	(684,960)
Increase / (decrease) in other accounts and provisions	72,216	(93,369)
	<hr/>	<hr/>
Net cash (outflow) / inflow from operating activities	(2,294,730)	1,533,202
	<hr/> <hr/>	<hr/> <hr/>

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NOTES TO THE ACCOUNTS (CONTINUED)

32 Notes to consolidated cash flow statement (continued)

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

	2000	1999
	HK\$'000	HK\$'000
Cash and short term funds with original maturity within three months	6,895,992	6,513,189
Placements with banks and other financial institutions with original maturity within three months	84,500	2,726,099
Deposits and balances of banks and other financial institutions with original maturity within three months	(169,453)	(21,303)
	<u>6,811,039</u>	<u>9,217,985</u>

33 Loans to officers

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

	Balance outstanding at		Maximum balance	
	31st December		during the year	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>5,121</u>	<u>9,617</u>	<u>18,707</u>	<u>55,881</u>

34 Ultimate holding company

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

35 Approval of accounts

The accounts were approved by the board of directors on 23rd February 2001.

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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

	2000	1999
Capital adequacy ratio	<u>23.2%</u>	<u>25.5%</u>
Adjusted capital adequacy ratio	<u>23.0%</u>	<u>25.5%</u>
Liquidity ratio	<u>45.5%</u>	<u>45.8%</u>

The capital adequacy ratio represents the consolidated ratio of the Bank and its subsidiary, 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:-

	2000	1999
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	525,000	525,000
Share premium	564,152	564,152
Reserves	2,482,508	2,470,376
Profit and loss account	265,269	12,556
	<u>3,836,929</u>	<u>3,572,084</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	372,424	372,424
General provisions for doubtful debts	222,697	181,000
	<u>595,121</u>	<u>553,424</u>
Gross and eligible value of supplementary capital	<u>595,121</u>	<u>553,424</u>
Total capital base before deductions	4,432,050	4,125,508
Deductions:		
Shareholdings in subsidiaries	(27,600)	(27,600)
Total capital base after deductions	<u>4,404,450</u>	<u>4,097,908</u>

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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
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
	<u>280,235</u>	<u>5,753</u>	<u>285,988</u>
1999			
Hong Kong dollar equivalents			
Spot assets	4,537,618	2,395,112	6,932,730
Spot liabilities	(4,716,067)	(2,193,534)	(6,909,601)
Forward purchases	248,236	33,534	281,770
Forward sales	(27,373)	(234,120)	(261,493)
	<u>42,414</u>	<u>992</u>	<u>43,406</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.

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SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(b) By class of business

Group	Consumer banking HK\$'000	Treasury and markets HK\$'000	Corporate financial management HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
2000					
Total operating income	<u>852,336</u>	<u>84,769</u>	<u>83,237</u>	<u>-</u>	<u>1,020,342</u>
Profit before charge for bad and doubtful debts	<u>312,936</u>	<u>48,585</u>	<u>76,807</u>	<u>-</u>	<u>438,328</u>
Profit after charge for bad and doubtful debts	<u>263,021</u>	<u>48,585</u>	<u>75,638</u>	<u>-</u>	<u>387,244</u>
Profit before taxation	<u>263,021</u>	<u>48,585</u>	<u>75,638</u>	<u>11,396</u>	<u>398,640</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.

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.

The classes of business are split in accordance with internal management analyses adopted during the year 2000. The corresponding information for 1999 set out below has not been reclassified to conform with the current year's presentation due to limitation in data sources.

Group	Corporate and retail banking HK\$'000	Inter-bank lending HK\$'000	Foreign exchange and treasury services HK\$'000	Investment income HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
1999						
Total operating income	<u>800,960</u>	<u>54,373</u>	<u>34,759</u>	<u>6,241</u>	<u>40,517</u>	<u>936,850</u>

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SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(b) By class of business (continued)

Corporate and retail banking refers primarily to the provision of loans, trade finance, and international banking services, extension of overdrafts and other account facilities.

Interbank lending represents the placing of funds with other banks and financial institutions in the interbank market.

Foreign exchange and treasury services include the provision of services to customers in the form of foreign exchange trading, the arrangement of remittances and foreign currency deposits.

Investment income primarily comprises interest income from Exchange Fund bills and notes and dividend income.

Other activities include securities brokerage and nominee services, insurance agency services, and property agency services.

(c) Advances to customers

Gross advances to customers by industry sector

	2000	1999
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	92,695	81,508
- Property investment	3,393,065	2,869,617
- Financial concerns	105,698	216,588
- Stockbrokers	346,430	44,455
- Wholesale and retail trade	908,867	952,439
- Manufacturing	1,316,810	1,083,213
- Transport and transport equipment	947,146	203,725
- Others	604,884	1,228,476
Individuals		
- Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	475,374	531,850
- Loans for the purchase of other residential properties	7,551,269	6,012,192
- Others	1,674,120	839,674
Trade finance	3,741,989	3,938,496
Loans for use outside Hong Kong	61,659	65,071
	21,220,006	18,067,304

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SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(c) Advances to customers (continued)

Gross advances to customers by geographical area

	2000	1999
	HK\$'000	HK\$'000
Hong Kong	21,158,347	18,002,233
People's Republic of China excluding Hong Kong	61,325	64,611
Others areas	334	460
	<u>21,220,006</u>	<u>18,067,304</u>

The above analysis of gross advances to customers by geographical area is based on the location of the counterparty. No account has been taken of transfer of risks with respect to claims guaranteed by a party in a country which is different from that of the counterparty.

5 Overdue and rescheduled advances

(a) Overdue advances

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

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>
 1999	 HK\$'000	 % of total advances
Gross amount of advances which have been overdue for:		
- six months or less but over three months	264,350	1.46
- one year or less but over six months	492,580	2.73
- over one year	696,627	3.86
	<u>1,453,557</u>	<u>8.05</u>

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SUPPLEMENTARY INFORMATION (CONTINUED)

5 Overdue and rescheduled advances (continued)

(b) 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:

	2000		1999	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Rescheduled advances to customers	<u>160,146</u>	<u>0.75</u>	<u>56,008</u>	<u>0.31</u>

(c) 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:

	2000 HK\$'000	1999 HK\$'000
Advances which are overdue for more than three months	675,121	1,453,557
Add: rescheduled advances	160,146	56,008
Add: non-accrual advances which are overdue for three months or less	94,478	302,458
Add: non-accrual advances which are not yet overdue	162,317	568,562
Less: advances which are overdue for more than three months and on which interest is still being accrued	<u>(45,767)</u>	<u>(90,004)</u>
Non-performing loans	<u>1,046,295</u>	<u>2,290,581</u>

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

6 Risk management

The major risks inherent in the Bank's businesses are liquidity, credit, interest rate, market and operational risks. Control mechanisms are in place throughout the organization for the purpose of identifying, measuring, monitoring and controlling those risks. Both senior management and the Internal Audit Department are involved in the monitoring and controlling of risks on a regular basis to ensure that the Bank is operating within the established policies and limits.

The Credit Committee monitors the credit risk and quality of the loan portfolio. The Risk Management (Assets and Liabilities) Committee meets on a monthly basis to review the liquidity, interest rate and market exposures of the Bank. Risk management policies and limits for each business area are set by the Executive Committee.

The control mechanism operates in each major risk area is more particularly described below:

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SUPPLEMENTARY INFORMATION (CONTINUED)

6 Risk management (continued)

(a) *Liquidity risk*

Liquidity risk arises from the difference between the maturity profiles of the Bank's assets and liabilities. The Bank's objective is to ensure that the Bank can meet obligations at all times as they fall due and to maintain an adequate stock of high quality assets to provide the Bank with sufficient resources for contingency purposes.

The Risk Management (Assets and Liabilities) Committee sets out key deposit and funding control factors in the liquidity management policies and sets limits in respect of the trigger liquidity ratio, maturity mismatch profile and loan to deposit ratio. It also directs management to prepare contingency plans to meet the liquidity requirement in unexpected circumstances.

The Risk Management (Assets and Liabilities) Committee meets every month to review the liquidity position of the Bank with reference to both the established policies and limits and the current market condition. The Committee directs management to take such measure as it deems necessary from time to time to minimise the Bank's liquidity risk exposure.

The Bank's average liquidity ratio for the twelve months in 2000 was 45.5%, close to 45.8% in respect of the corresponding twelve months in 1999.

(b) *Credit risk*

Credit risk is the risk that a customer or counterparty of the Bank cannot repay the principal and interest on the due date. The Bank maintains a tightly controlled system of authorisation to approve its credit risk exposure at both lending and portfolio level. Branch managers are responsible for monitoring the performance of all loans in their respective branches on a daily basis. Any irregular item is reported to senior management through various departments, including Credit - Individual Banking and Credit - Institutional & Enterprise Banking as soon as it is identified. Credit - Individual Banking and Credit - Institutional & Enterprise Banking perform detailed assessment of each case, placing strong emphasis on customer's operations, credit utilization history, repayment record and repayment abilities.

Loan applications above a certain limit will be submitted to the Credit Committee for approval. The Credit Committee meets on a regular basis to review and approve loan applications. Loan applications above the authorisation limit granted to the Credit Committee are referred to the Executive Committee for approval. The Executive Committee provides policies and guidelines in response to market and regulatory changes and it reviews the overall quality of assets and level of provisioning on a regular basis.

The Risk Management (Asset Quality Review) Committee mobilizes the resources of the various departments: Credit - Individual Banking, Credit - Institutional & Enterprise Banking, Individual Banking, Institutional Banking and the branches to monitor delinquent accounts. A "Watch List Account" system is used to detect problem accounts at an early stage and Credit Administration - MIS has also devised measures to deal with problem accounts speedily.

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SUPPLEMENTARY INFORMATION (CONTINUED)

6 Risk management (continued)

(c) Interest rate risk

Interest rate risk arises when the Bank's interest bearing assets do not reprice at the same time as its interest bearing liabilities thereby affecting the earnings of the Bank. The interest rates of interest bearing assets and liabilities are reported to and reviewed by the Risk Management (Assets and Liabilities) Committee on a monthly basis. Interest rates offered by the Bank on lending and deposits are approved by senior management. Finance and Planning uses trend and sensitivity analysis to assess the impact of changes in market condition or interest rate and the results of this analysis are reported to management.

(d) Operational risk

Operational risk arises as a result of failures in internal control and the unanticipated interruption to the Bank's critical business operations. The Bank maintains systems of control and establishes contingency plans in all critical areas of the Bank's operation. The systems of control are communicated through operating guidelines and procedural manuals for compliance by each operating unit. Management performs an overall review of the systems of control and compliance is enforced by the regular review performed by the Internal Audit Department which reports any irregularity it has identified and makes recommendations to management. Contingency plans are periodically tested to ensure that the plans would function if required.

(e) Market risk

Market risk is the risk of the Bank's earning decline, either immediately or over time, as a result of a change in the level or volatility of market rates and prices. The Bank's market risk arises mainly from trading activities of Treasury & Markets.

The Bank adopts a Daily Earnings at Risk (DEaR) methodology to measure the potential loss not exceed a given level of confidence of the time 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 Board of Directors sets the DEaR limit and the Executive Committee sets appropriate market risk limits to supplement the DEaR limit. 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. All market risk exposures are independently monitored by the Risk Management.

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SUPPLEMENTARY INFORMATION (CONTINUED)

6 Risk management (continued)

(e) Market risk (continued)

The average daily revenue arising from market risk-related activities was HK\$74,000 (1999: HK\$116,000) and the standard deviation of these daily revenues was HK\$147,000 (1999: HK\$41,000). An analysis of the daily distribution of market risk revenues is as follows:

