REPORT OF THE DIRECTORS

The directors of DBS Bank (Hong Kong) Limited (the "Bank") submit their report together with the audited financial statements of the Bank and its subsidiaries (together the "Group") for the year ended 31 December 2010.

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 24 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 5.

No interim dividend was paid for the year ended 31 December 2010 (2009: Nil).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 34 to the financial statements.

Share capital

Details of the movements in the share capital of the Bank during the year are set out in Note 33 to the financial statements.

Properties and other fixed assets

Details of the movements in properties and other fixed assets during the year are set out in Note 25 to the financial statements.

Donations

Donations made by the Group during the year amounted to HK$703,000 (2009: HK$371,000).

Directors

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

Seah Lim Huat, Peter – Chairman	(appointed on 14 July 2010)
Piyush Gupta – Vice Chairman	(appointed on 14 July 2010)
J. E. Sebastian Paredes Muirragui – Chief Executive	(appointed on 13 September 2010)
Alexander Reid Hamilton	
Dominic Chiu Fai Ho	(appointed on 27 October 2010)
Leung Ting Mow, Kenneth	
Lo Chung Wing, Victor	
Ng Chee Siong, Robert	(appointed on 27 October 2010)
Cheng Wai Chee, Christopher	(resigned on 25 January 2010)
Wong Kai Yuan, Jeanette	(resigned on 14 June 2010)
Kwa Chong Seng	(resigned on 26 July 2010)
Yip Yok Tak, Amy	(resigned on 1 January 2011)

REPORT OF THE DIRECTORS (CONTINUED)

Directors (continued)

In accordance with Article 90 of the Bank's Articles of Association, Mr. Seah Lim Huat, Peter, Mr. Piyush Gupta, Mr. J. E. Sebastian Paredes Muirragui, Mr. Dominic Chiu Fai Ho and Mr. Ng Chee Siong, Robert retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 98 of the Bank's Articles of Association, Mr. Lo Chung Wing, Victor retires from office at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

Directors' interests in contracts

No contracts of significance in relation to the Bank's business, 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 certain 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 (or their equivalent cash value).

(a) DBSH Share Option Plan

Under the DBSH Share Option Plan (the "Option Plan"), options to subscribe for DBSH ordinary shares may be granted to DBSH Group executives who hold the rank of Vice President (or equivalent) and above and selected employees below the rank of Vice President (or equivalent). The Option Plan expired on 19 June 2009 and it was not extended or replaced. The termination of the Option Plan will not affect the rights of holders of any outstanding existing options. No further options have been granted under the Option Plan since 2006. The persons to whom the DBSH options have been granted do not have any right to participate by virtue of the DBSH options in any share issue of any other company.

At the beginning of the year, Ms. Wong Kai Yuan, Jeanette had outstanding options granted under the Option Plan.

None of the directors had acquired shares in DBSH by exercising options granted pursuant to the Option Plan.

(b) DBSH Share Plan

Under the DBSH Share Plan (the "Share Plan"), DBSH ordinary shares, their equivalent cash value or a combination of both, may be granted to DBSH Group executives who hold such rank as may be determined by the DBSH Compensation and Management Development Committee appointed to administer the Share Plan from time to time.

Where time-based awards are granted, participants are awarded DBSH ordinary shares, their equivalent cash value or a combination of both as part of their deferred bonus, at the end of the prescribed vesting periods. Awards are granted under the Share Plan at the absolute discretion of the DBSH Compensation and Management Development Committee.

During the year, Ms. Wong Kai Yuan, Jeanette and Ms. Yip Yok Tak, Amy were eligible to receive awards under the Share Plan. A total of 117,745 DBSH shares were vested in Ms. Wong Kai Yuan, Jeanette and Ms. Yip Yok Tak, Amy under the Share Plan during the year.

REPORT OF THE DIRECTORS (CONTINUED)

Arrangements to acquire shares (continued)

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 arrangement 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

On 12 November 2002, an Information Technology Outsourcing Agreement (the "IBM Agreement") was entered into between the Bank and IBM China / Hong Kong Limited ("IBM") in relation to the provision by IBM of certain information technology and related services to the Bank. The IBM Agreement was in line with the spirit of the Master Agreement (the "IBM Master Agreement") dated 12 November 2002 entered into between DBS Bank Ltd., the Bank's holding company, and IBM Singapore Pte. Limited. The IBM Agreement commenced on 12 November 2002 and continues until 23:59 (Singapore Time) on 12 December 2012, unless terminated earlier pursuant to the terms of the IBM Master Agreement.

On 1 May 2009, a Hong Kong Country Agreement was entered into between the Bank and Jones Lang LaSalle Limited ("JLL") in relation to the provision by JLL of certain property management and related services to the Bank in Hong Kong. Unless terminated earlier under the terms of the Agreement, it will continue until 30 April 2012.

Apart from the foregoing, no contract concerning the management and administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Seah Lim Huat, Peter
Chairman

Hong Kong, 25 January 2011

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DBS BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 5 to 86 , which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 January 2011

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010**	2009
		HK$'000	HK$'000
Interest income	4	**4,897,268**	5,683,100
Interest expense	5	**(1,050,065)**	(1,246,567)
Net interest income		**3,847,203**	4,436,533
Net fee and commission income	6	**1,216,574**	1,050,408
Net income from financial instruments at fair value through profit or loss	7	**943,119**	575,461
Net income from financial investments	8	**188,671**	81,646
Other income	9	**516,327**	196,339
Total income		**6,711,894**	6,340,387
Total expenses	10	**(3,682,657)**	(2,843,656)
Profit before impairment allowances for credit losses		**3,029,237**	3,496,731
Impairment allowances for credit losses	11	**(228,825)**	(631,066)
Profit before income tax		**2,800,412**	2,865,665
Income tax expense	13	**(356,198)**	(474,213)
Profit attributable to shareholders	14	**2,444,214**	2,391,452
Dividend	15	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 **HK$'000**	2009 HK$'000
Profit attributable to shareholders	**2,444,214**	2,391,452
Other comprehensive income:		
Foreign currency translation differences for foreign operations	**47**	(128)
Available-for-sale financial investments		
– Net valuation taken to equity	**142,046**	783,365
– Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	**6,093**	15,731
– Transferred to income statement on sale	**(143,074)**	(67,316)
– Deferred income tax credited / (charged) to equity	**8,676**	(122,192)
Transfer of land to investment properties		
– Valuation taken to equity	**–**	400,861
– Deferred income tax credited / (charged) to equity	**46,360**	(62,584)
Other comprehensive income attributable to shareholders, net of tax	**60,148**	947,737
Total comprehensive income attributable to shareholders	**2,504,362**	3,339,189

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000 (restated)
Assets			
Cash and balances with banks	16	**38,272,878**	29,355,036
Placements with and advances to banks		**13,731,655**	15,564,769
Trading securities	17	**7,149,653**	2,413,528
Financial assets designated at fair value through profit or loss	18	**39,132**	38,385
Positive fair values for derivative financial instruments		**8,058,299**	3,193,072
Advances to customers less impairment allowances	19	**146,429,224**	130,678,814
Financial investments	21	**26,773,970**	36,634,546
Other assets	22	**4,134,824**	4,783,122
Deferred income tax assets	31(b)	**1,587**	–
Properties and other fixed assets	25	**2,831,240**	3,394,614
– Investment properties		**368,400**	685,800
– Other properties and fixed assets		**2,462,840**	2,708,814
Total assets		**247,422,462**	226,055,886
Liabilities			
Deposits and balances from banks		**783,386**	2,587,657
Trading liabilities	26	**5,787,552**	3,678,555
Financial liabilities designated at fair value through profit or loss	27	**791,862**	658,580
Negative fair values for derivative financial instruments		**8,261,220**	3,404,705
Deposits from customers	28	**188,452,232**	181,870,798
Certificates of deposit issued	29	**5,827,391**	1,552,911
Other liabilities	30	**8,705,503**	6,050,665
Current income tax liabilities	31(a)	**242,574**	380,162
Deferred income tax liabilities	31(b)	**28,749**	95,416
Amount due to a jointly controlled entity	23	**1,161,343**	911,732
Subordinated liability	32	**4,199,256**	4,187,673
Total liabilities		**224,241,068**	205,378,854
Equity			
Share capital	33	**7,000,000**	7,000,000
Reserves	34	**16,181,394**	13,677,032
Total equity		**23,181,394**	20,677,032
Total liabilities and equity		**247,422,462**	226,055,886

Seah Lim Huat, Peter
Director

Piyush Gupta
Director

J. E. Sebastian Paredes Muirragui
Director

Wong Wai Nar, Doris
Secretary

BANK LEVEL BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	**2010 HK$'000**	2009 HK$'000 (restated)
Assets			
Cash and balances with banks	16	**38,270,330**	29,352,427
Placements with and advances to banks		**13,731,655**	15,564,769
Trading securities	17	**7,149,653**	2,413,528
Financial assets designated at fair value through profit or loss	18	**39,132**	38,385
Positive fair values for derivative financial instruments		**8,058,299**	3,193,072
Advances to customers less impairment allowances	19	**146,456,303**	130,705,611
Financial investments	21	**26,773,970**	36,634,546
Other assets	22	**4,133,707**	4,779,468
Interest in a jointly controlled entity	23	**500**	500
Subsidiaries	24	**149,987**	162,768
Properties and other fixed assets	25	**2,824,887**	3,381,344
– Investment properties		**368,400**	685,800
– Other properties and fixed assets		**2,456,487**	2,695,544
Total assets		**247,588,423**	226,226,418
Liabilities			
Deposits and balances from banks		**783,386**	2,587,657
Trading liabilities	26	**5,787,552**	3,678,555
Financial liabilities designated at fair value through profit or loss	27	**791,862**	658,580
Negative fair values for derivative financial instruments		**8,261,220**	3,404,705
Deposits from customers	28	**188,452,232**	181,870,798
Certificates of deposit issued	29	**5,827,391**	1,552,911
Other liabilities	30	**7,824,183**	5,379,576
Current income tax liabilities	31(a)	**238,216**	378,855
Deferred income tax liabilities	31(b)	**28,749**	95,780
Amount due to a jointly controlled entity	23	**2,322,686**	1,823,465
Amounts due to subsidiaries	24	**223,403**	231,039
Subordinated liability	32	**4,199,256**	4,187,673
Total liabilities		**224,740,136**	205,849,594
Equity			
Share capital	33	**7,000,000**	7,000,000
Reserves	34	**15,848,287**	13,376,824
Total equity		**22,848,287**	20,376,824
Total liabilities and equity		**247,588,423**	226,226,418

Seah Lim Huat, Peter
Director

Piyush Gupta
Director

J. E. Sebastian Paredes Muirragui
Director

Wong Wai Nar, Doris
Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total equity HK$'000
Balance as at 1 January 2009	5,200,000	595,503	1,964,731	7,777,609	15,537,843
Issuance of shares	1,800,000	–	–	–	1,800,000
Transferred to retained earnings on sale of investment properties	–	–	(21,562)	21,562	–
Total comprehensive income	–	–	947,737	2,391,452	3,339,189
Balance as at 31 December 2009	**7,000,000**	**595,503**	**2,890,906**	**10,190,623**	**20,677,032**
Transferred to retained earnings on sale of investment properties	**–**	**–**	**(280,975)**	**280,975**	**–**
Total comprehensive income	**–**	**–**	**60,148**	**2,444,214**	**2,504,362**
Balance as at 31 December 2010	**7,000,000**	**595,503**	**2,670,079**	**12,915,812**	**23,181,394**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Net cash inflow from operating activities	36(a)	**3,172,798**	499,761
Investing activities			
Purchase of fixed assets		**(50,671)**	(98,024)
Proceeds from disposal of properties and other fixed assets		**797,434**	117,535
Net cash inflow from investing activities		**746,763**	19,511
Financing activities			
Interest paid for certificates of deposit issued		**(92,739)**	(68,192)
Interest paid for subordinated liability		**(29,047)**	(61,287)
Issuance of certificates of deposit	36(b)	**4,570,911**	–
Redemption of certificates of deposit issued	36(b)	**(36,020)**	(492,500)
Issuance of shares	36(b)	**–**	1,800,000
Net cash inflow from financing activities		**4,413,105**	1,178,021
Increase in cash and cash equivalents		**8,332,666**	1,697,293
Cash and cash equivalents as at 1 January		**31,801,504**	30,104,211
Cash and cash equivalents as at 31 December	36(c)	**40,134,170**	31,801,504

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The principal activities of DBS Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together the "Group") are the provision of banking and related financial services. The Bank is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 11th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.

The ultimate holding company is DBS Group Holdings Ltd. ("DBSH") which is listed, incorporated and domiciled in the Republic of Singapore. The address of its registered office is 6 Shenton Way, DBS Building Tower One, Singapore 068809.

The consolidated financial statements were approved for issue by the Board of Directors on 25 January 2011.

2 Summary of significant accounting policies

The following is a summary of the principal accounting policies applied by the Group and, except where noted, are consistent with those applied in the previous financial year.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. They have been prepared on the historical cost convention, except for derivative financial instruments, available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and investment properties, which have been measured at fair value. In addition, the carrying amounts of assets and liabilities that are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risks.

The preparation of financial statements in conformity with HKFRSs requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity, are disclosed in Note 3.

The adoption of new / revised HKFRSs

On 1 January 2010, the Group adopted the following new or revised HKFRSs which are relevant to its operations.

HKAS 17 (Amendment) – Leases deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. The amendment states that leasehold land is classified as finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the lessee. Previously, leasehold land was classified by the Group as operating lease and disclosed as lease premium for land which was stated at cost less accumulated amortisation. The Group has reassessed the classification of unexpired leasehold land as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance leases retrospectively. This resulted in a decrease in amortisation of lease premium for land and an increase in depreciation by HK$44,043,000 respectively for the year ended 31 December 2010 (2009: HK$45,417,000). On the balance sheet, there were an increase in properties and other fixed assets and a decrease in lease premium for land by HK$1,716,362,000, HK$1,769,614,000 and HK$1,936,861,000 as at 31 December 2010, 31 December 2009 and 1 January 2009 respectively.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

HKAS 39 (Amendment) – Financial Instruments provides further guidance for eligible hedged items. It concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective as the designated one-sided risk excludes the time value of an option. The designation of inflation as a hedged risk is not permitted unless in particular situations. The amendment also clarifies that reclassification of a hybrid contract out of the fair value through profit or loss category is prohibited if an entity is unable to measure the embedded derivative separately.

HKFRS 2 (Amendment) – Share-Based Payment provides new guidance for group cash-settled awards. In cases where the parent issues a cash-settled award to employees of a subsidiary (subsidiary itself has no obligation to settle the award), the amendment confirms that this will be treated as equity-settled transaction in the subsidiary's financial statements.

The adoption of the new or revised HKFRSs did not have any material impact on the Group's financial statements.

New and revised HKFRSs (which are relevant to the Group's operations) issued but not yet effective

The Group is in the process of making an assessment on the impact of the new / revised HKFRSs and has not early adopted the following new / revised standards:

HKFRS 9	Financial Instruments
HKAS 12 (Amendment)	Income Taxes
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues
General Amendments*	Improvements to HKFRS (where applicable)

* The General Amendments contain amendments to a variety of HKFRS which resulted in accounting changes for presentation, recognition, or measurement purposes, as well as terminology or editorial amendments related to a variety of HKFRS. These amendments, if adopted, are not expected to result in significant changes to the Group's accounting policies.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Bank, its subsidiaries and its interest in a jointly controlled entity.

Subsidiaries

Subsidiaries are entities that the Group has power to govern the financial and operating policies of, in order to obtain benefits from their activities. It is generally accompanied by a shareholding of more than 50% of voting rights. Subsidiaries are consolidated from the date control is transferred to the Group to the date control ceases.

Investment in jointly controlled entities

A jointly controlled entity is an entity which is jointly controlled by the Group together with one or more parties through contractual arrangements. The Group recognises its interest in jointly controlled entity using the proportionate consolidation method.

Proportionate consolidation involves combining the Group's share of the jointly controlled entity's income, expenses, assets and liabilities on a line-by-line basis with similar items in the Group's financial statements.

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

Investment cost at Bank level

Investments in subsidiaries and jointly controlled entities are stated at cost less accumulated impairment losses in the Bank's balance sheet. On disposal of investments in subsidiaries and jointly controlled entities, the difference between the net proceeds and the carrying amounts of the investments is taken to the income statement.

Intra-group transactions

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profits resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interests in these companies. Losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred.

(c) Foreign currency translation

(i) Functional and presentation currency

Items in the financial statements of the Bank and each of the Group's subsidiaries are translated into their functional currency, being the currency of the primary economic environment in which the entity operates. The financial statements are presented in Hong Kong dollar, which is the functional currency and presentation currency of the Bank and the Group.

(ii) Foreign currency transactions

Transactions in foreign currencies are measured at foreign exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Foreign exchange differences arising from these translations are recognised in the income statement. Non-monetary assets and liabilities measured at cost in foreign currencies are translated using the exchange rates at the dates of the transactions. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to Hong Kong dollars at the exchange rates ruling at the dates the fair value was determined.

(iii) Foreign operations

The results and financial positions of the Group's operations whose functional currency is not Hong Kong dollar are translated into Hong Kong dollars in the following manner:

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

(iv) Consolidation adjustments

On consolidation, foreign exchange differences arising from the translation of net investments in foreign entities are taken to the translation reserve. When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

2 Summary of significant accounting policies (continued)

(d) Revenue recognition

(i) Net interest income

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

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

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of products and services provided to its customers. Fee and commission income is recognised on the completion of a transaction. For a service that is provided over a period of time, fee and commission income is recognised over the period which the related service is provided or credit risk is undertaken.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income arising from held for trading financial assets is recognised in "Net trading income", while that arising from available-for-sale financial assets is recognised in "Net income from financial investments".

(iv) Rental income

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

(e) 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, placements with and advances to banks and short-term bills and notes classified as trading securities and available-for-sale financial investments which are readily convertible into cash.

(f) Financial instruments

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

The classification of financial instruments is as follows:

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(i) Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets and financial liabilities either acquired or incurred principally for the purpose of short term selling or repurchasing (held for trading) or designated by management on initial recognition (designated under the fair value option).

Derivatives are classified as held for trading unless they are designated as hedging instruments. The specific Group accounting policy on derivatives is detailed in Note 2(l).

Financial instruments designated under the fair value option meet at least one of the following criteria upon designation:

– it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial instruments, or recognising gains or losses on them, using different bases; or
– the financial instruments contain an embedded derivative that would otherwise need to be separately recorded.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

– those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss or available-for-sale; or
– those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets that are either designated in this category or not classified in any other categories. These financial investments are intended to be held for an indefinite period of time, and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

Recognition and derecognition

Purchases and sales of financial assets are recognised on the date that the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Initial measurement

Financial instruments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issue of the financial liability, except for financial instruments at fair value through profit or loss, for which transaction costs are expensed off immediately.

Subsequent measurement

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

Realised and unrealised gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are taken to "net income from financial instruments at fair value through profit or loss" in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial investments classified as available-for-sale are recognised in the investments revaluation reserve, except for hedged items as mentioned in Note 2(l). When financial investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the investments revaluation reserve are taken to the income statement.

Other financial liabilities, except for hedged items as mentioned in Note 2(l), are subsequently carried at amortised cost using the effective interest method.

Determination of fair value

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices. If the market for a financial asset is not active, the Group establishes the fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models. Valuation reserves or pricing adjustments are applied to arrive at the fair values where applicable. The fair values of financial liabilities are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments.

Recognition of day one profit or loss

Where the transaction price is different to the fair value determined using valuation models for which not all inputs are market observable prices or rates, such financial instrument is initially recognised at transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value is not recognised immediately in the income statement. This difference, commonly referred to as "day one profit or loss", is released to the income statement on the earlier of the following: (i) amortisation over the life of the transaction; (ii) when all the market inputs become observable; or (iii) on derecognition.

2 Summary of significant accounting policies (continued)

(g) Impairment of financial assets

Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment allowance is made when there is objective evidence of impairment as a result of the occurrence of loss events that will have an impact on the estimated future cash flows. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and / or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the entity would not otherwise consider; and
- High probability of bankruptcy or other financial reorganisation of the borrower.

Individual impairment allowances are assessed using the discounted cash flow method. Individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collective impairment allowances are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the allowance is recognised in the income statement.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment allowances are reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the allowances for loan impairment in the income statement.

2 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

Available-for-sale financial investments

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial investment is impaired. In the case of an equity investment, a significant or prolonged decline in the fair value of security below its cost is considered in determining whether the asset is impaired. When there is objective evidence of an impairment of an available-for-sale financial investment, the cumulative loss – measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from the investments revaluation reserve and recognised in the income statement. Impairment losses recognised in the income statement on the equity investments are not reversed through the income statement, until the equity investments are disposed of. A subsequent recovery in the value of an available-for-sale debt security whose value is impaired is reversed through the income statement if there has been an identifiable event that led to the recovery.

(h) Sale and repurchase agreements

Repurchase agreements (“Repos”) are treated as collateralised borrowing. The amount borrowed is reflected as a liability either as “Deposits from customers”, “Deposits and balances from banks” or “Financial liabilities at fair value through profit or loss”. The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification.

Reverse repurchase agreements (“Reverse repos”) are treated as collateralised lending. The amount lent is reflected as an asset either as “Advances to customers”, “Placements with and advances to banks” or “Financial assets at fair value through profit or loss”.

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

(i) Properties and other fixed assets

(i) Investment properties

Investment properties are carried at fair value, representing estimated open market value determined by independent qualified valuers. The changes in fair value are recognised in the income statement. Deferred income tax is recognised for the change in fair value of investment properties and charged to the income statement.

Investment properties include land held under finance leases and self-owned buildings.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of the property at the date of transfer is recognised in properties revaluation reserve under HKAS 16 Property, Plant and Equipment. On subsequent disposal of the investment property, the properties revaluation reserve is transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(i) Properties and other fixed assets (continued)

(ii) Properties

Properties are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation is calculated to write off the assets over their estimated useful lives on a straight-line basis as follows:

Freehold land	Not depreciated
Land and buildings	Over the remaining lease period of the land on which it is situated or 50 years, whichever is shorter
Leasehold improvements	Over the lease term of the leased properties or 5 years, whichever is shorter

(iii) Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation on furniture, fixtures and equipment is calculated to write off the assets on a straight-line basis over their estimated useful lives of between 3 and 8 years.

Subsequent expenditure relating to properties and other fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as hire and maintenance expense in the income statement during the financial year in which it is incurred.

On disposal of an item of properties and other fixed assets, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

(j) Impairment of non-financial assets

Properties (excluding investment properties) and other fixed assets, and investment in subsidiaries and jointly controlled entities are reviewed for impairment at each balance sheet date to determine if events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication exists, the carrying value of the asset is written down to its recoverable amount (being the higher of the fair value less cost to sell and the value-in-use). The impairment loss is charged to the income statement.

(k) Provisions and other liabilities

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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

(l) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are classified as assets when the fair value is positive (“Positive fair values for derivative financial instruments”) and as liabilities when fair value is negative (“Negative fair values for derivative financial instruments”).

2 Summary of significant accounting policies (continued)

(l) Derivative financial instruments and hedge accounting (continued)

Changes in the fair value of derivatives other than those designated as fair value hedges, cash flow hedges or net investments in foreign operations hedges are included in "Net trading income".

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

For derivatives designated as hedging instruments, each entity within the Group documents, at the inception, the relationship between the hedging instruments and hedged items, including the risk management objective for undertaking various hedge transactions and methods used to assess the effectiveness of the hedge. Each entity within the Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in the fair values or cash flows of the hedged item.

For a qualifying fair value hedge, the changes in the fair value of the derivative are recorded in the income statement, together with any changes in the fair value of the hedged item attributable to the hedged risk. Gain or loss arising from hedge ineffectiveness is recognised in the income statement under "Net trading income".

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, is amortised to the income statement over its remaining maturity using the effective interest method.

(m) Employee benefits

Employee benefits, which include base pay, cash bonuses, share-based compensation, contribution to defined contribution plans and other staff related allowances, are recognised in the income statement when incurred. For defined contribution plans, contributions are made to publicly or privately administered funds on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations.

Employee entitlement to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(n) Share-based compensation

Employee benefits also include share-based compensation, namely, the DBSH Share Option Plan, the DBSH Share Plan and the DBSH Employee Share Plan run by DBSH, the ultimate holding company of the Bank. The details of the Plans are described in Note 42.

These share-based compensation expenses, which are measured at their fair values at grant date, are cash settled with DBSH, amortised and recognised in the income statement over the relevant vesting periods. Non-market vesting conditions are taken into account in determining the number of shares to be granted or number of options that are expected to become exercisable on vesting dates. The impact of subsequent revision of original estimates, if any, is recognised in the income statement.

2 Summary of significant accounting policies (continued)

(o) Taxation

Current income tax for current and prior periods is recognised at the amount expected to be paid or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted by the balance sheet date.

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

Deferred income tax assets and liabilities are credited or charged in the income statement, except when they relate to items credited or charged directly to reserves, in which case the deferred income tax assets and liabilities are also dealt with in reserves.

(p) Financial guarantees

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the initial measurement less amortisation calculated to recognise the initial measurement in the income statement over the period of the financial guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. Examples include letter of credit, shipping guarantee, airway guarantee, letter of guarantee, etc.

The exposure to potential losses associated with a financial guarantee is monitored periodically. When there is objective evidence indicating probability of losses occurring, a provision is recognised for the financial guarantee.

(q) Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

(r) Dividend payments

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders at the Annual General Meeting. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(s) Offsetting financial instruments

Certain financial assets and liabilities offset each other and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(t) Leases

(i) Finance leases

Leases where substantially all the risks and rewards of ownership are transferred to the Group are accounted for as finance leases. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments. The Group's interests in leasehold land are accounted for as finance leases.

Where the Group is a lessor under finance leases and hire purchase transactions, the amounts due under the leases, net of unearned finance income, are recognised as receivables and included in "Advances to customers". Finance income implicit in rentals receivable is credited to the income statement over the lease period so as to produce an approximately constant periodic rate of return on the net investments outstanding for each financial period.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

Where the Group is a lessor under operating leases, rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

(u) Fiduciary activities

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

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment allowances

The Group establishes, through charges against profit, impairment allowances in respect of estimated loss in advances to customers. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances should represent the aggregate amount by which management considers it necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated ultimate net realisable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When an advance to customer is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The quantum of the allowance is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Impairment allowances (continued)

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments

Fair value is defined as the value at which positions can be closed or sold in a transaction with a willing and knowledgeable counterparty. The majority of the Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Valuation reserves or pricing adjustments will be used to converge to fair value where applicable. The determination of fair value is subject to the Valuation Framework approved by the Board Risk Management Committee and the oversight of senior management committees. The Valuation Framework is implemented by the Group through policies and procedures approved by the committees. These policies and procedures facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors used in the valuation process. Judgement may also be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also materially affect these estimates and the resulting fair value estimates.

(c) Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, judgement is involved in determining the group-wide provision for income taxes. The Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Provisions

Judgement is needed to determine if provision for compensation to certain customers who had bought structured investments from the Group should be recorded in accordance with the requirements in HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. In making this judgement, the Group evaluates the likelihood and estimated amount of outflow of resources which will be required to settle the obligation with reference to factors such as historical settlement experience, arrangement with regulators and advice from legal counsel.

4 Interest income

	2010 **HK$'000**	2009 HK$'000
Interest income on listed investments	**464,197**	634,705
Interest income on unlisted investments	**467,309**	710,001
Other interest income	**3,965,762**	4,338,394
	4,897,268	5,683,100

Interest income recognised on financial assets that are not at fair value through profit or loss amounted to HK$4,849,887,000 (2009: HK$5,633,481,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Interest expense

	2010 HK$'000	2009 HK$'000
Interest expense on subordinated liability maturing after five years	**29,228**	56,859
Other interest expense	**1,020,837**	1,189,708
	1,050,065	1,246,567

Interest expense recognised on financial liabilities that are not at fair value through profit or loss amounted to HK$1,024,738,000 (2009: HK$1,213,185,000).

6 Net fee and commission income

	2010 HK$'000	2009 HK$'000
Fee and commission income	**1,774,086**	1,483,985
Fee and commission expense	**(557,512)**	(433,577)
Net fee and commission income	**1,216,574**	1,050,408
Comprising:		
– Trade and remittances	**355,644**	337,635
– Wealth management	**273,435**	193,493
– Loan-related	**258,247**	171,023
– Credit card	**186,027**	186,766
– Stock broking	**49,876**	55,074
– Deposit-related	**20,100**	26,509
– Guarantees	**10,053**	11,136
– Investment banking	**5,812**	17,239
– Others	**57,380**	51,533
	1,216,574	1,050,408
Of which:		
Fee and commission income arising from		
– Financial assets or financial liabilities not at fair value through profit or loss	**975,991**	790,594
– Trust or other fiduciary activities	**19,475**	27,597
Fee and commission expense arising from		
– Financial assets or financial liabilities not at fair value through profit or loss	**511,617**	406,296

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Net income from financial instruments at fair value through profit or loss

	2010 HK$'000	2009 HK$'000
Net trading income		
– Foreign exchange	**902,016**	542,121
– Interest rates, credit and equities	**216,331**	993,003
	1,118,347	1,535,124
Net loss from financial instruments designated at fair value through profit or loss	**(175,228)**	(959,663)
	943,119	575,461

8 Net income from financial investments

	2010 HK$'000	2009 HK$'000
Debt securities		
– Available-for-sale	**152,136**	67,980
– Loans and receivables	**9,162**	(5,215)
Equity securities (Note)	**27,373**	18,881
	188,671	81,646

Note: Included dividend income of HK$988,000 (2009: HK$636,000) and HK$14,320,000 (2009: HK$13,748,000) from listed and unlisted equity securities respectively.

9 Other income

	2010 HK$'000	2009 HK$'000
Fair value adjustment on investment properties (Note 25(a))	**62,607**	28,609
Net gain on disposal of properties and other fixed assets	**405,106**	70,714
Others	**48,614**	97,016
	516,327	196,339

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Total expenses

	2010 HK$'000	2009 HK$'000 (restated)
Employee benefits		
– Salaries and other short term employee benefits	**1,472,423**	1,329,507
– Pensions	**80,048**	76,314
– Share-based compensation	**22,254**	19,011
Premises and equipment expenses excluding depreciation		
– Rental of premises	**192,977**	226,474
– Others	**247,309**	240,350
Depreciation (Note 25(a))	**281,961**	218,517
Auditor's remuneration	**8,596**	8,353
Computerisation expenses	**242,480**	251,950
Other operating expenses	**1,134,609**	473,180
	3,682,657	2,843,656

11 Impairment allowances for credit losses

	2010 HK$'000	2009 HK$'000
Impairment allowances for credit losses		
– Individual impairment allowances on advances to customers (Note 20)	**56,427**	715,111
– Collective impairment allowances on advances to customers (Note 20)	**176,393**	(83,364)
– Impairment allowances on available-for-sale financial investments	**(3,995)**	(681)
	228,825	631,066
Individual impairment allowances on advances to customers		
– New allowances	**381,262**	1,217,706
– Releases	**(314,428)**	(487,108)
– Recoveries	**(10,407)**	(15,487)
	56,427	715,111
Collective impairment allowances on advances to customers		
– New allowances	**240,227**	255,242
– Releases	**(39,991)**	(313,718)
– Recoveries	**(23,843)**	(24,888)
	176,393	(83,364)
Impairment allowances on available-for-sale financial investments		
– Releases	**(3,995)**	(681)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Bank during the year are as follows:

	2010 **HK$'000**	2009 HK$'000
Fees (Note)	**1,576**	1,330
Salaries, housing and other allowances and benefits in kind	**8,617**	7,935
Pensions	**366**	277
Termination benefits	**1,385**	–
	11,944	9,542

Note: The Directors' fees are payable in 2011 to eligible persons who acted as Directors of DBS Bank (Hong Kong) Limited during the year ended 31 December 2010. Such fees are subject to the approval of the shareholders of DBS Bank (Hong Kong) Limited.

13 Income tax expense

(a) Income tax expense in the consolidated income statement is comprised of:

	2010 **HK$'000**	2009 HK$'000
Hong Kong profits tax		
– Current year	**378,450**	418,756
– (Over) / underprovision in prior years	**(15,742)**	343
Overseas tax		
– Current year	**6,732**	6,909
– Overprovision in prior years	**(24)**	(1,032)
Current income tax	**369,416**	424,976
Deferred income tax (Note 31(b))	**(13,218)**	49,237
	356,198	474,213

Hong Kong profits tax has been provided at 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiaries and branch are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) The deferred income tax (credited) / charged to the consolidated income statement comprises the following temporary differences:

	2010 **HK$'000**	2009 HK$'000
Accelerated depreciation allowances	**(1,071)**	(9)
Impairment allowances	**(21,797)**	44,525
Fair value adjustment on investment properties	**9,650**	4,721
	(13,218)	49,237

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Income tax expense (continued)

(c) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 16.5% (2009: 16.5%) is as follows:

	2010 HK$'000	2009 HK$'000
Profit before income tax	**2,800,412**	2,865,665
Tax calculated at tax rate of 16.5% (2009: 16.5%)	**462,068**	472,835
Effect of different tax rates in other countries	**(2,583)**	(2,447)
Income not subject to tax	**(87,632)**	(23,551)
Expenses not deductible for tax purposes	**–**	27,992
Overprovision in prior years	**(15,766)**	(689)
Others	**111**	73
Income tax expense	**356,198**	474,213

14 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Bank to the extent of HK$2,411,362,000 (2009 HK$2,366,701,000).

15 Dividend

No dividend was paid for the year ended 31 December 2010 (2009: no dividend paid).

16 Cash and balances with banks

	Group		**Bank**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Cash in hand	**426,181**	419,891	**426,181**	419,891
Balances with central banks	**561,709**	361,303	**561,709**	361,303
Balances with banks	**34,030,455**	25,922,914	**34,027,907**	25,920,305
Trade bills	**3,254,533**	2,650,928	**3,254,533**	2,650,928
	38,272,878	29,355,036	**38,270,330**	29,352,427

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Trading securities

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Treasury bills	**4,185,001**	1,119,956
Other debt securities	**2,964,652**	1,293,572
	7,149,653	2,413,528
Of which:		
– Listed in Hong Kong, at fair value	**1,913,836**	1,071,776
– Listed outside Hong Kong, at fair value	**162,480**	10,960
– Unlisted, at fair value	**5,073,337**	1,330,792
	7,149,653	2,413,528
Analysed by issuer as follows:		
– Sovereigns	**6,029,613**	2,319,526
– Public sector entities	**6,653**	3,299
– Banks	**177,011**	90,703
– Corporates	**936,376**	–
	7,149,653	2,413,528
Analysed by rating agency designation as follows:		
– AA- to AA+	**5,958,619**	2,311,865
– A- to A+	**605,736**	82,701
– BBB to BBB+	**85,534**	7,715
– Unrated	**499,764**	11,247
	7,149,653	2,413,528

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers are reported.

18 Financial assets designated at fair value through profit or loss

This is a debt security issued by a bank with a rating of BBB under Standard & Poor's rating designation and is listed in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Advances to customers less impairment allowances

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to customers	**148,603,759**	133,222,917	**148,603,759**	133,222,917
Impairment allowances				
– Individually assessed (Note 20)	**(1,410,619)**	(1,848,459)	**(1,410,619)**	(1,848,459)
– Collectively assessed (Note 20)	**(763,916)**	(695,644)	**(736,837)**	(668,847)
	146,429,224	130,678,814	**146,456,303**	130,705,611

Advances to customers include finance leases and hire purchase contracts receivables and are analysed as follows:

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Gross investments in finance leases and hire purchase contracts receivables:		
– Not later than one year	**1,576,735**	1,907,670
– Later than one year and not later than five years	**2,730,307**	3,180,622
– Later than five years	**7,821,653**	7,868,927
	12,128,695	12,957,219
Unearned future finance income	**(28,659)**	(48,268)
Net investments in finance leases and hire purchase contracts receivables	**12,100,036**	12,908,951
The net investments in finance leases and hire purchase contracts receivables are analysed as follows:		
– Not later than one year	**1,558,780**	1,877,155
– Later than one year and not later than five years	**2,719,605**	3,162,889
– Later than five years	**7,821,651**	7,868,907
	12,100,036	12,908,951

The unguaranteed residual values included in the gross investments in finance leases and hire purchase contracts receivables as at 31 December 2010 and 2009 are considered not material for disclosure purposes.

The individual impairment allowances for finance leases and hire purchase contracts receivables amounted to HK$155,313,000 as at 31 December 2010 (2009: HK$177,184,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Impairment allowances on advances to customers

	Group		
	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'000
As at 1 January 2010	**1,848,459**	**695,644**	**2,544,103**
Amounts written off	**(506,439)**	**(131,964)**	**(638,403)**
Recoveries of advances written off in previous years	**10,407**	**23,843**	**34,250**
Net charge to consolidated income statement (Note 11)	**56,427**	**176,393**	**232,820**
Exchange differences	**1,765**	**–**	**1,765**
As at 31 December 2010	**1,410,619**	**763,916**	**2,174,535**
As at 1 January 2009	1,663,850	958,586	2,622,436
Amounts written off	(545,081)	(204,466)	(749,547)
Recoveries of advances written off in previous years	15,487	24,888	40,375
Net charge / (credit) to consolidated income statement (Note 11)	715,111	(83,364)	631,747
Exchange differences	(908)	–	(908)
As at 31 December 2009	1,848,459	695,644	2,544,103

	Bank		
	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'000
As at 1 January 2010	**1,848,459**	**668,847**	**2,517,306**
Amounts written off	**(506,439)**	**(108,073)**	**(614,512)**
Recoveries of advances written off in previous years	**10,407**	**19,802**	**30,209**
Net charge to income statement	**56,427**	**156,261**	**212,688**
Exchange differences	**1,765**	**–**	**1,765**
As at 31 December 2010	**1,410,619**	**736,837**	**2,147,456**
As at 1 January 2009	1,663,850	934,954	2,598,804
Amounts written off	(545,081)	(169,539)	(714,620)
Recoveries of advances written off in previous years	15,487	20,538	36,025
Net charge / (credit) to income statement	715,111	(117,106)	598,005
Exchange differences	(908)	–	(908)
As at 31 December 2009	1,848,459	668,847	2,517,306

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Financial investments

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Available-for-sale	**24,607,069**	31,753,531
Loans and receivables	**2,166,901**	4,881,015
	26,773,970	36,634,546

(a) Available-for-sale

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Treasury bills	**1,681,462**	1,712,927
Other debt securities	**22,826,074**	29,958,278
Debt securities	**24,507,536**	31,671,205
Equity securities	**99,533**	82,326
	24,607,069	31,753,531
Debt securities		
– Listed in Hong Kong, at fair value	**4,200,927**	2,629,531
– Listed outside Hong Kong, at fair value	**7,888,156**	11,418,791
– Unlisted, at fair value	**12,404,631**	17,608,761
– Unlisted, at cost	**13,822**	14,122
	24,507,536	31,671,205
Equity securities		
– Listed in Hong Kong, at fair value	**69,091**	49,186
– Unlisted, at fair value	**–**	3,766
– Unlisted, at cost	**30,442**	29,374
	99,533	82,326
	24,607,069	31,753,531
Analysed by issuer as follows:		
– Sovereigns	**9,825,313**	4,861,420
– Public sector entities	**1,113,186**	1,155,770
– Banks	**10,037,790**	19,985,747
– Corporates	**3,616,958**	5,736,472
– Others	**13,822**	14,122
	24,607,069	31,753,531

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Financial investments (continued)

(a) Available-for-sale (continued)

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Analysis of debt securities by rating agency designation as follows:		
– AAA	**13,255,807**	9,651,136
– AA- to AA+	**6,740,327**	11,402,868
– A- to A+	**3,487,925**	9,010,977
– BBB to BBB+	**544,107**	1,106,936
– Unrated	**479,370**	499,288
	24,507,536	31,671,205

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers are reported.

As at 31 December 2010, there were no impaired, overdue or rescheduled financial investments (2009: HK$880,000). Impairment loss of HK$3,995,000 (2009: HK$681,000) was written back to the income statement during the year.

(b) Loans and receivables

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Debt securities		
– Listed in Hong Kong	**115,903**	184,760
– Listed outside Hong Kong	**390,065**	612,536
– Unlisted	**1,660,933**	4,083,719
	2,166,901	4,881,015
Analysed by issuer as follows:		
– Banks	**700,775**	2,663,688
– Corporates	**1,466,126**	2,217,327
	2,166,901	4,881,015
Analysed by rating agency designated as follows:		
– AA- to AA+	**59,320**	986,956
– A- to A+	**1,761,189**	3,347,214
– BBB to BBB+	**230,489**	546,845
– Unrated	**115,903**	–
	2,166,901	4,881,015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Financial investments (continued)

(b) Loans and receivables (continued)

The ratings refer to Standard & Poor's ratings (or their equivalent) to the respective issues of the securities, while in the absence of such issue ratings, ratings designated for the issuers are reported.

As at 31 December 2010, the fair value of the above debt securities is HK$2,216,491,000 (2009: HK$4,954,682,000).

The interest income and exchange gain arising from the above debt securities recognised in the income statement for the year ended 31 December 2010 were HK$122,965,000 (2009: HK$261,295,000) and HK$71,265,000 (2009: HK$339,179,000) respectively. Exchange gain or loss arising from these debt securities was managed in conjunction with matched funding where the resulting net exchange gain or loss was insignificant to the income statement.

The fair value gain that would have been recognised in the other comprehensive income if the debt securities had not been reclassified would be HK$32,154,000 (2009: HK$252,442,000).

The above debt securities are neither past due nor impaired.

22 Other assets

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued interest receivables	**371,175**	508,630	**371,175**	508,630
Acceptances	**2,139,256**	1,627,735	**2,139,256**	1,627,735
Other accounts	**1,624,393**	2,646,757	**1,623,276**	2,643,103
	4,134,824	4,783,122	**4,133,707**	4,779,468

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Interest in a jointly controlled entity

	Group		Bank	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Unlisted investments, at cost			**500**	500
Amount due to a jointly controlled entity	**1,161,343**	911,732	**2,322,686**	1,823,465

The Group's interest in the jointly controlled entity recognised in the financial statements is as follows:

	2010 **HK$'000**	2009 HK$'000
Current assets	**1,162,244**	915,263
Non-current assets	**7,939**	13,634
Current liabilities	**893,737**	697,645
Non-current liabilities	**17,199**	–
Share of income	**146,999**	139,901
Share of expenses	**119,004**	120,139

Details of the jointly controlled entity are as follows:

Name of company	**Country of incorporation**	**Place of operation**	**Particulars of issued shares**	**Interest held**	**Principal activities**
Hutchison DBS Card Limited	British Virgin Islands	Hong Kong	500,000 class A shares of HK$1 each 500,000 class B shares of HK$1 each	50%	Provision of credit card services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Subsidiaries

	Bank	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost after impairment loss of HK$2,215,000 (2009: HK$2,215,000)	**145,060**	145,106
Amounts due from subsidiaries	**4,927**	17,662
	149,987	162,768
Amounts due to subsidiaries	**223,403**	231,039

During the year, the subsidiaries have maintained deposit accounts with the Bank under the normal course of business. The other amounts due from / to subsidiaries are repayable on demand and interest free.

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

Name of company	Place of operation and incorporation	Particulars of issued share capital	Principal activities
DBS Corporate Services (Hong Kong) Limited	Hong Kong	500,000 shares of HK$1 each	Provision of corporate services
Ting Hong Nominees Limited	Hong Kong	10,000 shares of HK$1 each	Provision of nominee, trustee and agency services
Overseas Trust Bank Nominees Limited	Hong Kong	50,000 shares of HK$1 each	Provision of nominee services
DBS Trustee H.K. (Jersey) Limited	Jersey	100,000 shares of £1 each	Provision of trustee and trust administration services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Properties and other fixed assets

(a) Properties and other fixed assets movements

Group

	Freehold properties HK$'000	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Subtotal HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
As at 1 January 2010						
– as previously reported	22,967	530,717	1,058,705	1,612,389	685,800	2,298,189
– on adoption of amendment to HKAS 17	–	2,326,949	–	2,326,949	–	2,326,949
As at 1 January 2010 (restated)	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138
Additions	–	1,819	56,468	58,287	–	58,287
Disposals	–	(46,641)	(95,493)	(142,134)	(380,007)	(522,141)
Fair value adjustment	–	–	–	–	62,607	62,607
As at 31 December 2010	22,967	2,812,844	1,019,680	3,855,491	368,400	4,223,891
Accumulated depreciation and impairment						
As at 1 January 2010						
– as previously reported	16,800	210,467	445,922	673,189	–	673,189
– on adoption of amendment to HKAS 17	–	557,335	–	557,335	–	557,335
As at 1 January 2010 (restated)	16,800	767,802	445,922	1,230,524	–	1,230,524
Charge for the year	48	60,870	221,043	281,961	–	281,961
Disposals	–	(37,179)	(82,655)	(119,834)	–	(119,834)
As at 31 December 2010	16,848	791,493	584,310	1,392,651	–	1,392,651
Net book value						
As at 31 December 2010	6,119	2,021,351	435,370	2,462,840	368,400	2,831,240
The analysis of cost or valuation of the above assets as at 31 December 2010 is as follows:						
At cost	22,967	2,812,844	1,019,680	3,855,491	–	3,855,491
At valuation	–	–	–	–	368,400	368,400
	22,967	2,812,844	1,019,680	3,855,491	368,400	4,223,891

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Properties and other fixed assets (continued)

(a) Properties and other fixed assets movements (continued)

Group

	Freehold properties HK$'000	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Subtotal HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
As at 1 January 2009						
– as previously reported	22,967	645,022	961,522	1,629,511	138,200	1,767,711
– on adoption of amendment to HKAS 17	–	2,477,955	–	2,477,955	–	2,477,955
As at 1 January 2009 (restated)	22,967	3,122,977	961,522	4,107,466	138,200	4,245,666
Additions	–	–	150,741	150,741	6	150,747
Disposals	–	(38,355)	(53,558)	(91,913)	(28,754)	(120,667)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
Surplus on revaluation of land upon transfer to investment properties	–	400,861	–	400,861	–	400,861
Transfer from land and buildings to investment properties	–	(547,739)	–	(547,739)	547,739	–
Fair value adjustment	–	–	–	–	28,609	28,609
As at 31 December 2009	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138
Accumulated depreciation and impairment						
As at 1 January 2009						
– as previously reported	16,710	255,702	316,845	589,257	–	589,257
– on adoption of amendment to HKAS 17	–	541,094	–	541,094	–	541,094
As at 1 January 2009 (restated)	16,710	796,796	316,845	1,130,351	–	1,130,351
Charge for the year	90	68,331	150,096	218,517	–	218,517
Disposals	–	(17,247)	(21,019)	(38,266)	–	(38,266)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
As at 31 December 2009	16,800	767,802	445,922	1,230,524	–	1,230,524
Net book value						
As at 31 December 2009	6,167	2,089,864	612,783	2,708,814	685,800	3,394,614
The analysis of cost or valuation of the above assets as at 31 December 2009 is as follows:						
At cost	22,967	2,857,666	1,058,705	3,939,338	–	3,939,338
At valuation	–	–	–	–	685,800	685,800
	22,967	2,857,666	1,058,705	3,939,338	685,800	4,625,138

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Properties and other fixed assets (continued)

(a) Properties and other fixed assets movements (continued)

Bank

	Freehold properties HK$'000	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Subtotal HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
As at 1 January 2010						
– as previously reported	22,967	530,717	1,022,459	1,576,143	685,800	2,261,943
– on adoption of amendment to HKAS 17	–	2,326,949	–	2,326,949	–	2,326,949
As at 1 January 2010 (restated)	22,967	2,857,666	1,022,459	3,903,092	685,800	4,588,892
Additions	–	1,819	56,217	58,036	–	58,036
Disposals	–	(46,641)	(95,193)	(141,834)	(380,007)	(521,841)
Fair value adjustment	–	–	–	–	62,607	62,607
As at 31 December 2010	22,967	2,812,844	983,483	3,819,294	368,400	4,187,694
Accumulated depreciation and impairment						
As at 1 January 2010						
– as previously reported	16,800	210,467	422,946	650,213	–	650,213
– on adoption of amendment to HKAS 17	–	557,335	–	557,335	–	557,335
As at 1 January 2010 (restated)	16,800	767,802	422,946	1,207,548	–	1,207,548
Charge for the year	48	60,870	213,875	274,793	–	274,793
Disposals	–	(37,179)	(82,355)	(119,534)	–	(119,534)
As at 31 December 2010	16,848	791,493	554,466	1,362,807	–	1,362,807
Net book value						
As at 31 December 2010	6,119	2,021,351	429,017	2,456,487	368,400	2,824,887
The analysis of cost or valuation of the above assets as at 31 December 2010 is as follows:						
At cost	22,967	2,812,844	983,483	3,819,294	–	3,819,294
At valuation	–	–	–	–	368,400	368,400
	22,967	2,812,844	983,483	3,819,294	368,400	4,187,694

The fair value of the investment properties has been determined based on valuations performed by A.G. Wilkinson & Associates. The fair value represents the estimated amount at which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Properties and other fixed assets (continued)

(a) Properties and other fixed assets movements (continued)

Bank

	Freehold properties HK$'000	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Subtotal HK$'000	Investment properties HK$'000	Total HK$'000
Cost or valuation						
As at 1 January 2009						
– as previously reported	22,967	645,022	923,571	1,591,560	138,200	1,729,760
– on adoption of amendment to HKAS 17	–	2,477,955	–	2,477,955	–	2,477,955
As at 1 January 2009 (restated)	22,967	3,122,977	923,571	4,069,515	138,200	4,207,715
Additions	–	–	150,301	150,301	6	150,307
Disposals	–	(38,355)	(51,413)	(89,768)	(28,754)	(118,522)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
Surplus on revaluation of land upon transfer to investment properties	–	400,861	–	400,861	–	400,861
Transfer from land and buildings to investment properties	–	(547,739)	–	(547,739)	547,739	–
Fair value adjustment	–	–	–	–	28,609	28,609
As at 31 December 2009	22,967	2,857,666	1,022,459	3,903,092	685,800	4,588,892
Accumulated depreciation and impairment						
As at 1 January 2009						
– as previously reported	16,710	255,702	298,974	571,386	–	571,386
– on adoption of amendment to HKAS 17	–	541,094	–	541,094	–	541,094
As at 1 January 2009 (restated)	16,710	796,796	298,974	1,112,480	–	1,112,480
Charge for the year	90	68,331	143,027	211,448	–	211,448
Disposals	–	(17,247)	(19,055)	(36,302)	–	(36,302)
Elimination of accumulated depreciation upon transfer to investment properties	–	(80,078)	–	(80,078)	–	(80,078)
As at 31 December 2009	16,800	767,802	422,946	1,207,548	–	1,207,548
Net book value						
As at 31 December 2009	6,167	2,089,864	599,513	2,695,544	685,800	3,381,344
The analysis of cost or valuation of the above assets as at 31 December 2009 is as follows:						
At cost	22,967	2,857,666	1,022,459	3,903,092	–	3,903,092
At valuation	–	–	–	–	685,800	685,800
	22,967	2,857,666	1,022,459	3,903,092	685,800	4,588,892

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Properties and other fixed assets (continued)

(b) Operating lease arrangements

As at 31 December, the net book values of the investment properties held by the Group and the Bank are analysed as follows:

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
In Hong Kong held on:		
– Leases of over 50 years	**308,100**	631,300
– Leases of between 10 to 50 years	**60,300**	54,500
	368,400	685,800

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, and may contain an option to renew the lease after that date at which time all terms will be renegotiated. None of the leases include contingent rentals.

During the year, HK$15,341,000 (2009: HK$9,763,000) was recognised as rental income in the income statement in respect of the operating leases.

As at 31 December, the Group and the Bank had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Not later than one year	**9,694**	15,808
Later than one year and not later than five years	**14,569**	17,497
	24,263	33,305

26 Trading liabilities

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Short positions in securities	**5,787,552**	3,678,555

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Financial liabilities designated at fair value through profit or loss

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Structured investment deposits (Note 28)	**467,272**	658,580
Certificates of deposit issued (Note 29)	**324,590**	–
	791,862	658,580

Changes in fair value arising from changes in credit risk is determined as the amount of change in their fair value that is not attributable to changes in market conditions that give rise to market risk. Changes in market conditions that give rise to market risk include changes in benchmark interest rate, foreign exchange rate or index of prices or rates. Changes in fair value arising from changes in credit risk is considered not significant. Net unrealised loss for the financial liabilities designated at fair value through profit or loss amounted to HK$9,877,000 as at 31 December 2010 (2009: net unrealised gain of HK$135,603,000).

28 Deposits from customers

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Deposits from customers		
– As stated in the balance sheets	**188,452,232**	181,870,798
– Structured investment deposits reported as financial liabilities designated at fair value through profit or loss (Note 27)	**467,272**	658,580
	188,919,504	182,529,378
Analysed by:		
– Demand deposits and current accounts	**17,315,141**	16,410,816
– Savings deposits	**68,121,048**	70,510,350
– Time, call and notice deposits	**103,483,315**	95,608,212
	188,919,504	182,529,378

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 Certificates of deposit issued

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Certificates of deposit issued		
– at amortised cost	**2,478,845**	499,309
– adjusted for fair value changes under fair value hedge	**3,348,546**	1,053,602
As stated in the balance sheets	**5,827,391**	1,552,911
Reported as financial liabilities designated at fair value through profit or loss (Note 27)	**324,590**	–
	6,151,981	1,552,911

30 Other liabilities

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued interest payable	**166,400**	160,753	**160,023**	155,770
Short positions in securities	**1,929,717**	475,980	**1,929,717**	475,980
Acceptances	**2,139,256**	1,627,735	**2,139,256**	1,627,735
Other liabilities and provisions	**4,470,130**	3,786,197	**3,595,187**	3,120,091
	8,705,503	6,050,665	**7,824,183**	5,379,576

31 Taxation

(a) Current income tax liabilities

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong profits tax payable	**235,852**	373,250	**231,739**	372,155
Overseas tax payable	**6,722**	6,912	**6,477**	6,700
	242,574	380,162	**238,216**	378,855

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Taxation (continued)

(b) Deferred income tax

The movements on the net deferred income tax liabilities are as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
As at 1 January	**(95,416)**	138,597	**(95,780)**	139,328
Deferred income tax credited / (charged) to income statement (Note 13(a))	**13,218**	(49,237)	**11,995**	(50,332)
Deferred income tax credited / (charged) to equity	**55,036**	(184,776)	**55,036**	(184,776)
As at 31 December	**(27,162)**	(95,416)	**(28,749)**	(95,780)

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

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income tax assets				
Impairment allowances	**124,426**	102,629	**121,791**	100,087
Deferred income tax liabilities				
Accelerated depreciation allowances	**75,057**	76,128	**74,009**	73,950
Fair value adjustment on investment properties	**37,432**	27,782	**37,432**	27,782
Revaluation of properties	**16,224**	62,584	**16,224**	62,584
Revaluation of financial investments	**22,875**	31,551	**22,875**	31,551
	151,588	198,045	**150,540**	195,867

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Taxation (continued)

(b) Deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The deferred tax assets and liabilities are to be recovered and settled after one year and the following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		Bank	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Net deferred income tax liabilities				
Deferred income tax assets	**121,791**	102,629	**121,791**	100,087
Deferred income tax liabilities	**(150,540)**	(198,045)	**(150,540)**	(195,867)
	(28,749)	(95,416)	**(28,749)**	(95,780)
Net deferred income tax assets				
Deferred income tax assets	**2,635**	–	**–**	–
Deferred income tax liabilities	**(1,048)**	–	**–**	–
	1,587	–	**–**	–

32 Subordinated liability

The subordinated loan ("Loan") with principal amount of US$540,000,000 was obtained by the Bank from its intermediate holding company, DBS Bank Ltd., on 12 December 2006. The Loan will mature on 12 December 2016 with an optional repayment date on 13 December 2011. Interest is payable quarterly and is charged at USD 3-month LIBOR plus 0.35% per annum before the optional repayment date and subsequently at USD 3-month LIBOR plus 0.85%.

33 Share capital

	Group and Bank	
	2010 HK$'000	2009 HK$'000
Authorised		
12,000,000,000 ordinary shares of HK$1 each	**12,000,000**	12,000,000
Issued and fully paid		
7,000,000,000 ordinary shares of HK$1 each	**7,000,000**	7,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 Reserves

	Group		Bank	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
(a) Share premium				
As at 1 January and 31 December	**595,503**	595,503	**595,503**	595,503
(b) Other reserves				
(i) Capital reserve				
As at 1 January and 31 December	**11,636**	11,636	**–**	–
(ii) Investments revaluation reserve from available-for-sale financial investments				
As at 1 January	**163,759**	(445,829)	**163,759**	(445,829)
Net valuation taken to equity	**142,046**	783,365	**142,046**	783,365
Amortisation of reserve to income statement arising from reclassification of available-for-sale financial investments to loans and receivables	**6,093**	15,731	**6,093**	15,731
Transferred to income statement on sale	**(143,074)**	(67,316)	**(143,074)**	(67,316)
Deferred income tax credited / (charged) to equity	**8,676**	(122,192)	**8,676**	(122,192)
As at 31 December	**177,500**	163,759	**177,500**	163,759
(iii) Properties revaluation reserve				
As at 1 January	**316,715**	–	**316,715**	–
Valuation taken to equity (Note 25)	**–**	400,861	**–**	400,861
Transferred to retained earnings on sale	**(280,975)**	(21,562)	**(280,975)**	(21,562)
Deferred income tax credited / (charged) to equity	**46,360**	(62,584)	**46,360**	(62,584)
As at 31 December	**82,100**	316,715	**82,100**	316,715
(iv) General reserve				
As at 1 January and 31 December	**2,398,792**	2,398,792	**2,283,928**	2,283,928

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 Reserves (continued)

(b) Other reserves (continued)

	Group		Bank	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
(v) Translation reserve				
As at 1 January	**4**	132	**–**	–
Foreign currency translation differences for foreign operations	**47**	(128)	**–**	–
As at 31 December	**51**	4	**–**	–
Total other reserves	**2,670,079**	2,890,906	**2,543,528**	2,764,402

(c) Retained earnings

	Group		Bank	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
As at 1 January	**10,190,623**	7,777,609	**10,016,919**	7,628,656
Profit attributable to shareholders	**2,444,214**	2,391,452	**2,411,362**	2,366,701
Transferred from properties revaluation reserve on sale of investment properties	**280,975**	21,562	**280,975**	21,562
As at 31 December	**12,915,812**	10,190,623	**12,709,256**	10,016,919
Total reserves	**16,181,394**	13,677,032	**15,848,287**	13,376,824

The investments revaluation reserve represents the cumulative net change in the fair value of available-for-sale financial investments.

Properties revaluation reserve represents revaluation surplus arising on transfer of the land and buildings to investment properties.

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

As at 31 December 2010, HK$757,978,000 (2009: HK$668,872,000) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

35 Fair value measurement

(a) Fair value of financial assets and liabilities not carried at fair value

For financial assets and liabilities not carried at fair value on the financial statements, the Group has ascertained that their fair values were not materially different from the carrying amounts at year end as shown below. The bases of arriving at their fair values are as follows:

(i) Placements with and advances to banks

The estimated fair value of placements with and advances to banks is based on the discounted cash flows using the prevailing money market interest rates for placements and advances with similar remaining maturity.

(ii) Advances to customers

The fair value approximates their carrying amount as majority of the advances to customers are on floating rate terms.

(iii) Financial investments – loans and receivables

Their fair value is set out in Note 21(b).

(iv) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of deposits and other borrowings with fixed interest rates is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

(v) Certificates of deposit issued

The estimated fair value of certificates of deposit issued is based on discounted cash flows using the prevailing money market interest rates with similar remaining maturity.

(vi) Subordinated liability

The fair value of subordinated liability approximates its carrying amount as it is on floating rate term and bears interest at prevailing market interest rate.

(b) Fair value of financial assets and liabilities carried at fair value

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

35 Fair value measurement (continued)

(b) Fair value of financial assets and liabilities carried at fair value (continued)

The following table presents the assets and liabilities measured at fair value as at 31 December:

	Group and Bank			
2010	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Trading securities	**7,148,008**	**–**	**1,645**	**7,149,653**
Financial assets designated at fair value through profit or loss	**39,132**	**–**	**–**	**39,132**
Positive fair values for derivative financial instruments	**338**	**8,057,961**	**–**	**8,058,299**
Available-for-sale financial investments:				
– Debt securities	**19,653,062**	**4,055,542**	**785,110**	**24,493,714**
– Equity securities	**69,091**	**–**	**–**	**69,091**
Liabilities				
Trading liabilities	**5,787,552**	**–**	**–**	**5,787,552**
Financial liabilities designated at fair value through profit or loss	**–**	**467,272**	**324,590**	**791,862**
Negative fair values for derivative financial instruments	**204**	**8,261,016**	**–**	**8,261,220**
Certificates of deposit issued	**–**	**–**	**3,348,546**	**3,348,546**
	Group and Bank			
2009	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Trading securities	2,339,430	74,098	–	2,413,528
Financial assets designated at fair value through profit or loss	38,385	–	–	38,385
Positive fair values for derivative financial instruments	20,140	3,172,932	–	3,193,072
Available-for-sale financial investments:				
– Debt securities	20,243,219	9,343,802	2,070,062	31,657,083
– Equity securities	49,186	3,766	–	52,952
Liabilities				
Trading liabilities	3,678,555	–	–	3,678,555
Financial liabilities designated at fair value through profit or loss	–	658,580	–	658,580
Negative fair values for derivative financial instruments	613	3,404,092	–	3,404,705
Certificates of deposit issued	–	1,053,602	–	1,053,602

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 Fair value measurement (continued)

(b) Fair value of financial assets and liabilities carried at fair value (continued)

Financial instruments that are valued using quoted prices in active markets are classified in Level 1 of the valuation hierarchy. These would include highly liquid government and sovereign securities, listed equities and corporate debt securities which are actively traded. Derivative contracts which are traded in an active exchange market are also classified within Level 1 of the valuation hierarchy.

Where fair value is determined using quoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate debt securities and most of the Group's over-the-counter ("OTC") derivatives.

Financial instruments are considered Level 3 when at least one input to a valuation technique or model is unobservable. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

Securities traded over-the-counter are valued using broker, dealer quotes or any other approved sources. The Group may also use valuation models or discounted cash flow technique to determine the fair value.

Most of the OTC derivatives are priced using valuation models. Where derivative products have been established in the markets for some time, the Group uses models that are widely accepted by the industry.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, Black Scholes and other appropriate valuation models. OTC derivatives which are valued using unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities are classified under Level 3.

35 Fair value measurement (continued)

(b) Fair value of financial assets and liabilities carried at fair value (continued)

The following table presents the changes in Level 3 instruments for the financial year ended 31 December:

2010 HK$'000	**Group and Bank**								
		Gains or losses							
	Opening balance	**Profit or loss**	**Other comprehensive income**	**Purchases / Issues**	**Sale**	**Settlement**	**Transfer into Level 3**	**Transfer out of Level 3**	**Closing balance**
Assets									
Trading Securities	–	1	–	1,644	–	–	–	–	1,645
Available-for-sale financial investments									
– Debt securities	2,070,062	5,689	47,243	–	(296,728)	(54,285)	421,560	(1,408,431)	785,110
Liabilities									
Financial liabilities designated at fair value through profit or loss	–	(18)	–	324,608	–	–	–	–	324,590
Certificates of deposit issued	–	35,840	–	2,230,330	–	–	1,082,376	–	3,348,546

2009 HK$'000	Group and Bank							
		Gains or losses						
	Opening balance	Profit or loss	Other comprehensive income	Purchases	Settlement	Transfer into Level 3	Transfer out of Level 3	Closing balance
Assets								
Trading securities	27,212	–	–	–	–	–	(27,212)	–
Available-for-sale financial investments								
– Debt securities	3,170,343	–	(20,655)	1,322,092	(1,270,215)	644,637	(1,776,140)	2,070,062
Liabilities								
Financial liabilities designated at fair value through profit or loss	14,072	–	–	–	–	–	(14,072)	–

The Group classifies financial instruments in Level 3 when there is reliance on at least one unobservable input to the valuation model attributing to a significant contribution to the instrument value. Economic hedges entered into for Level 2 exposures may be classified within a different category (i.e. Level 1) and similarly, hedges entered for Level 3 exposures may also be classified within a different category (i.e. Level 1 and / or 2) . The effects are presented gross in the table.

In 2010, the Group has refined the classification criteria of the fair value measurement hierarchy to better reflect the observability of prices and valuation parameters under the prevailing market conditions. As a result, comparative figures have been reclassified to conform with current year presentation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Notes to consolidated cash flow statement

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

	2010 HK$'000	2009 HK$'000 (restated)
Profit before income tax	**2,800,412**	2,865,665
Net gain on disposal of properties and other fixed assets	**(405,106)**	(70,714)
Fair value adjustment on investment properties	**(62,607)**	(28,609)
Impairment allowances for credit losses	**228,825**	631,066
Write-off of properties and other fixed assets	**5,925**	8,811
Depreciation	**281,961**	218,517
Advances written off net of recoveries	**(604,153)**	(709,172)
Revaluation for certificates of deposit issued	**64,758**	(93,870)
Amortisation of (premium) / discount on certificates of deposit issued	**(779)**	106
Interest expense for certificates of deposit issued	**105,581**	64,184
Interest expense for subordinated liability	**29,228**	56,859
Profit before changes in operating assets and liabilities	**2,444,045**	2,942,843
Net decrease / (increase) in cash and balances with banks	**516,808**	(2,303,174)
Net increase in placements with and advances to banks	**(809,866)**	(1,489,970)
Net (increase) / decrease in trading securities	**(3,915,056)**	545,072
Net increase in financial assets designated at fair value through profit or loss	**(747)**	(13,331)
Net (increase) / decrease in advances to customers	**(15,380,842)**	1,784,124
Net decrease / (increase) in financial investments	**10,589,563**	(2,838,317)
Net increase in other assets and positive fair values for derivative financial instruments	**(4,216,929)**	(2,061,509)
Net (decrease) / increase in deposits and balances from banks	**(1,804,271)**	1,558,782
Net increase in trading liabilities	**2,108,997**	751,684
Net increase in deposits from customers	**6,390,126**	1,442,555
Net increase in amount due to a jointly controlled entity	**249,611**	103,529
Net increase in other liabilities and negative fair values for derivative financial instruments	**7,497,966**	145,644
Exchange differences and other adjustments	**10,393**	1,221
Cash inflow from operating activities before income tax	**3,679,798**	569,153
Hong Kong profits tax paid	**(500,106)**	(61,755)
Overseas tax paid	**(6,894)**	(7,637)
Net cash inflow from operating activities	**3,172,798**	499,761

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing activities during the year

	Share capital and share premium HK$'000	**Certificates of deposit issued HK$'000**	**Subordinated liability HK$'000**
Balance as at 1 January 2009	5,795,503	2,141,266	4,185,027
Cash inflow from financing activities	1,800,000	–	–
Cash outflow from financing activities	–	(492,500)	–
Revaluation	–	(93,870)	–
Amortisation of discount	–	106	–
Exchange differences and other adjustments	–	(2,091)	2,646
Balance as at 31 December 2009	**7,595,503**	**1,552,911**	**4,187,673**
Cash inflow from financing activities	**–**	**4,570,911**	**–**
Cash outflow from financing activities	**–**	**(36,020)**	**–**
Revaluation	**–**	**64,758**	**–**
Amortisation of premium	**–**	**(779)**	**–**
Exchange differences and other adjustments	**–**	**200**	**11,583**
Balance as at 31 December 2010	**7,595,503**	**6,151,981**	**4,199,256**

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

	2010 HK$'000	2009 HK$'000
Cash and balances with banks repayable with original maturity within three months	**33,548,605**	24,113,955
Placements with and advances to banks repayable with original maturity within three months	**4,555,280**	7,198,260
Treasury bills and notes repayable with original maturity within three months	**2,030,285**	489,289
	40,134,170	31,801,504

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities

(a) Derivatives

The Group uses financial instruments to hedge the positions of the Group. It also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short term market movements in bond price, currency and interest rate. The Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The following is a summary of each significant type of derivatives:

2010	**Group and Bank**			
Derivatives held for trading	**Contract / notional amount HK$'000**	**Credit risk-weighted amount HK$'000**	**Positive fair value HK$'000**	**Negative fair value HK$'000**
Exchange rate contracts				
– Forwards	**45,244,342**	**623,981**	**390,054**	**362,345**
– Swaps	**53,958,100**	**35,041**	**68,967**	**135,052**
– Options purchased	**227,930,984**	**8,547,839**	**6,773,255**	**–**
– Options written	**227,967,812**	**–**	**–**	**6,770,685**
	555,101,238	**9,206,861**	**7,232,276**	**7,268,082**
Interest rate contracts				
– Futures	**94,114**	**–**	**338**	**204**
– Swaps	**111,944,340**	**235,365**	**699,965**	**682,927**
– Options purchased	**828,377**	**28**	**14,240**	**–**
– Options written	**828,377**	**–**	**–**	**14,239**
	113,695,208	**235,393**	**714,543**	**697,370**
Equity contracts	**753,188**	**6,491**	**12,217**	**12,216**
Commodity contracts	**38,354**	**5,682**	**1,908**	**1,908**
Total derivatives held for trading	**669,587,988**	**9,454,427**	**7,960,944**	**7,979,576**
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	**6,102,827**	**29,486**	**112,987**	**301,164**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities (continued)

(a) Derivatives (continued)

2009	Group and Bank			
Derivatives held for trading	Contract / notional amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value HK$'000	Negative fair value HK$'000
Exchange rate contracts				
– Forwards	52,187,441	696,256	939,428	912,912
– Swaps	45,902,898	83,951	118,037	56,840
– Options purchased	79,610,192	1,787,539	1,265,572	–
– Options written	79,994,841	–	–	1,258,606
	257,695,372	2,567,746	2,323,037	2,228,358
Interest rate contracts				
– Futures	8,204,738	–	20,140	613
– Swaps	60,201,062	257,195	795,601	668,737
– Options purchased	181,135	573	386	–
– Options written	181,135	–	–	386
	68,768,070	257,768	816,127	669,736
Equity contracts	2,522,322	8,927	147,392	147,392
Credit derivative contracts	763,863	–	1,825	68,751
Total derivatives held for trading	329,749,627	2,834,441	3,288,381	3,114,237
Derivatives designated and qualified as fair value hedges				
Interest rate contracts				
– Swaps	4,580,777	16,977	43,604	293,991

The above tables include derivatives and embedded derivatives. The amounts are shown on a gross basis and do not take into account the effect of bilateral netting arrangements. The positive and negative fair values of embedded derivatives included in above amounted to HK$15,632,000 and HK$19,520,000 respectively (2009: HK$138,913,000 and HK$3,523,000 respectively). The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk.

The credit risk-weighted amounts as at 31 December 2010 and 2009 are the amounts which have been taken into account the effect of bilateral netting arrangements and have been calculated in accordance with the Banking (Capital) Rules.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 Derivative financial instruments and hedging activities (continued)

(b) Hedging activities

As at 31 December 2010, the Group has interest rate swap agreements in place with a notional amount of HK$6,102,827,000 (2009: HK$4,580,777,000) to hedge the exposure arising from changes in the fair value as a result of market interest rate fluctuation of certain available-for-sale financial investments and certificates of deposit issued. The hedging derivatives and hedged items have similar critical terms.

The losses on the hedging instruments are HK$10,152,000 (2009: HK$48,788,000). The gains on the hedged items attributable to the hedged risk are HK$6,479,000 (2009: HK$48,890,000).

38 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	
	2010	2009
	HK$'000	HK$'000
Direct credit substitutes	**1,080,119**	992,697
Transaction-related contingencies	**657,225**	675,526
Trade-related contingencies	**7,999,192**	6,002,650
Forward forward deposits placed	**6,398,783**	17,099,888
Other commitments with an original maturity of not more than one year	**2,086,715**	2,762,824
Other commitments with an original maturity of more than one year	**1,452,889**	29,141
Other commitments which are unconditionally cancellable	**102,028,736**	93,603,307
	121,703,659	121,166,033
Credit risk-weighted amount	**11,254,549**	10,499,958

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 operation in Hong Kong. There are various termination clauses contained within the agreement that under certain circumstances IBM could require the Group to pay a penalty on early termination of the contract. The exact amount of penalty 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.

The Group has certain contingent liabilities in relation to compensation to certain customers who had bought structured investments from the Group. The Group has applied the requirements under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. At this stage, it is not practicable to provide an estimate of the financial effect of this contingent liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 Capital and lease commitments

(a) Capital commitments

Capital commitments outstanding at the balance sheet date but not yet incurred are as follows:

	Group		Bank	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Expenditure contracted but not provided for	**61,731**	58,977	**61,731**	58,723
Expenditure authorised but not contracted for	**45,628**	80,238	**45,628**	80,238
	107,359	139,215	**107,359**	138,961

There were no capital commitments relating to the jointly controlled entity (2009: HK$254,000).

(b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group and Bank			
	2010		2009	
	Properties HK$'000	**Others HK$'000**	Properties HK$'000	Others HK$'000
Not later than one year	**176,928**	**7,538**	169,554	9,247
Later than one year and not later than five years	**324,919**	**4,573**	335,235	4,906
Later than five years	**186,925**	**–**	239,090	–
	688,772	**12,111**	743,879	14,153

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Assets pledged as security

The Group has liabilities secured by assets deposited with central depositories to facilitate settlement operations. The aggregate amount of secured liabilities and the nature and carrying amounts of the assets pledged as security are as follows:

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Secured liabilities – short positions in securities (Notes 26 and 30)	**7,717,269**	4,154,535
Assets pledged as security		
– Treasury bills	**4,362,975**	2,927,987
– Other securities	**3,312,910**	1,249,337
	7,675,885	4,177,324

41 Financial risk management

Risk governance

Under the Group's risk governance framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of robust enterprise-wide risk management policies and processes. Where necessary, the Group sets risk appetite limits to guide risk-taking.

Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to the risk appetite limits. To provide risk oversight, senior management risk committees are mandated to focus on specific risk areas. These oversight committees are the Hong Kong Risk Executive Committee, the Hong Kong Credit Risk Committee, the Hong Kong Market Risk Committee and the Hong Kong Operational Risk Committee.

On a day-to-day basis, business units have primary responsibility for risk management. In partnership with the business units, independent control functions provide senior management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits for approval in line with the Group's risk governance framework.

(a) Credit risk

Credit risk is the potential earnings volatility caused by obligors' inability to fulfill their contractual debt obligations. Senior management sets the overall direction and policy for managing credit risk at the Group level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. The Core Credit Risk Policy and the accompanying supplemental policies set forth the principles by which the Group conducts its credit risk underwriting activities. The Hong Kong Credit Risk Committee serves as the executive forum for overseeing various aspects of credit risk taking including framework, limits management, policies, processes, methodologies and systems.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk arises from lending, sales and trading as well as derivative activities. Lending exposures are typically represented by the notional value or principal amount of on balance sheet financial instruments. Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Group on behalf of customers, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing. Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. The majority of unused commitments are contingent upon customers observing or meeting certain credit terms and conditions.

The credit exposure of a derivative transaction is based on the positive mark-to-market value to the Group, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Group enters into collateralised margin transactions with counterparties. The Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures. Internally, the Bank measures counterparty credit exposure using the mark-to-market exposure with an appropriate add-on for future potential exposures.

The risk management of the exposures is conducted through the credit application process which includes the assessment of repayment likelihood and the establishment of appropriate credit limits. The Group uses various internal and external risk rating systems (credit scorecards, customer risk grading and credit bureau scores) to assess the level of credit risk accepted by the Group. Business units and credit approvers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure all crucial information is included in the application process for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and / or committees (as delegated) depending on, amongst other things, the size, nature of the proposed transactions and credit quality. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by credit management units at the transaction and the portfolio levels, as appropriate.

In addition to the consideration of the primary recourse to the obligor for the credit risk underwritten, the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and / or third party support as well as the use of credit derivatives to hedge or transfer risk to other third parties form an integral part of the credit risk management process. Some specific mitigation measures are outlined below:

41 Financial risk management (continued)

(a) Credit risk (continued)

(i) Collateral

Where possible, the Group takes collateral as a secondary recourse to the borrower. The collateral includes cash, marketable securities, properties, trade receivables, inventory, equipment and other physical and financial collateral. The Group may also take fixed and floating charges on assets of borrowers. It has put in place policies which govern the determination of eligibility of various collateral to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigations. For collateral taken in the global financial market operations, the collateral is marked to market on a mutually agreed period with the respective counterparties. For collateral taken for commercial banking, the collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. In general, the Group considers the collateral it has taken as well diversified.

(ii) Master netting arrangements

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

(iii) Other risk mitigating factors

In addition, the Group also uses guarantees, credit derivatives and credit insurance as credit risk mitigating factors. Whilst the Group may accept guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation. Credit derivatives are used as credit risk mitigating factors mainly in structured transactions and for global financial market operations.

41 Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is limited to the amounts on the balance sheet as well as commitments to extend credit and contingencies, without taking into account the fair value of any collateral and master netting arrangements. The analysis below shows the maximum exposure to credit risk for the various on- and off-balance sheet items.

	Group	
	2010	2009
	HK$'000	HK$'000
Balances with banks	**37,846,697**	28,935,145
Placements with and advances to banks	**13,731,655**	15,564,769
Trading securities	**7,149,653**	2,413,528
Financial assets designated at fair value through profit or loss	**39,132**	38,385
Positive fair values for derivative financial instruments	**8,058,299**	3,193,072
Advances to customers less impairment allowances	**146,429,224**	130,678,814
Financial investments	**26,674,437**	36,552,220
Other assets	**4,134,824**	4,783,122
Contingent liabilities	**9,736,536**	7,670,873
Commitments	**111,967,123**	113,495,160
	365,767,580	343,325,088

Advances to customers by credit quality

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**144,350,706**	127,564,468
Past due but not impaired	**2,321,786**	2,760,245
Impaired	**1,931,267**	2,898,204
	148,603,759	133,222,917

Impaired advances to customers are individually assessed customer advances with objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

(i) Analysis of advances to customers that were neither past due nor impaired by reference to the loan gradings under the Hong Kong Monetary Authority guidelines

2010	**Group and Bank**		
	Pass HK$'000	**Special mention HK$'000**	**Total HK$'000**
Manufacturing	**7,300,454**	**2,513,203**	**9,813,657**
Building and construction	**25,427,907**	**729,956**	**26,157,863**
Housing loans	**47,015,653**	**11,448**	**47,027,101**
General commerce	**25,718,909**	**5,584,324**	**31,303,233**
Transportation, storage and communication	**10,317,923**	**666,833**	**10,984,756**
Financial institutions, investments and holding companies	**1,304,405**	**5,475**	**1,309,880**
Professionals and private individuals (except housing loans)	**13,674,858**	**29,777**	**13,704,635**
Others	**3,797,592**	**251,989**	**4,049,581**
	134,557,701	**9,793,005**	**144,350,706**

2009	Group and Bank		
	Pass HK$'000	Special mention HK$'000	Total HK$'000
Manufacturing	9,683,456	592,571	10,276,027
Building and construction	24,481,076	306,918	24,787,994
Housing loans	41,658,287	23,099	41,681,386
General commerce	21,197,910	1,187,205	22,385,115
Transportation, storage and communication	11,329,440	88,778	11,418,218
Financial institutions, investments and holding companies	759,500	10,582	770,082
Professionals and private individuals (except housing loans)	11,126,647	70,773	11,197,420
Others	4,901,324	146,902	5,048,226
	125,137,640	2,426,828	127,564,468

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

(ii) Advances to customers that were past due but not impaired

	Past due				
2010	**Less than**			**More than**	
	1 month	**1-2 months**	**2-3 months**	**3 months**	**Total**
Group and Bank	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Manufacturing	**95,349**	**14,122**	**3,000**	**–**	**112,471**
Building and construction	**211,283**	**19,538**	**4,420**	**–**	**235,241**
Housing loans	**675,860**	**40,170**	**4,061**	**–**	**720,091**
General commerce	**254,073**	**23,120**	**1,026**	**–**	**278,219**
Transportation, storage and communication	**339,369**	**5,695**	**–**	**–**	**345,064**
Financial institutions, investments and holding companies	**–**	**–**	**–**	**–**	**–**
Professionals and private individuals (except housing loans)	**179,119**	**7,698**	**1,345**	**282,660**	**470,822**
Others	**158,920**	**958**	**–**	**–**	**159,878**
	1,913,973	**111,301**	**13,852**	**282,660**	**2,321,786**

	Past due				
2009	Less than			More than	
	1 month	1-2 months	2-3 months	3 months	Total
Group and Bank	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Manufacturing	204,871	14,791	20,986	–	240,648
Building and construction	502,433	506	9,037	–	511,976
Housing loans	671,917	8,009	41,682	–	721,608
General commerce	379,967	30,496	10,147	–	420,610
Transportation, storage and communication	207,692	4,472	4,882	–	217,046
Financial institutions, investments and holding companies	10,263	–	–	–	10,263
Professionals and private individuals (except housing loans)	296,204	8,608	2,743	247,641	555,196
Others	79,217	3,522	159	–	82,898
	2,352,564	70,404	89,636	247,641	2,760,245

Advances to customers that were past due by more than 3 months represent individually insignificant advances which are subject to collective impairment allowances assessment.

The fair value of collateral pledged for the advances to customers that were past due but not impaired amounted to HK$4,462,987,000 as at 31 December 2010 (2009: HK$4,096,093,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Advances to customers by credit quality (continued)

(iii) Impaired advances to customers

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Manufacturing	**596,112**	770,389
Building and construction	**109,915**	283,964
Housing loans	**44,373**	90,651
General commerce	**825,050**	1,176,228
Transportation, storage and communication	**10,540**	31,487
Financial institutions, investments and holding companies	**7,000**	7,004
Professionals and private individuals (except housing loans)	**115,484**	196,396
Others	**222,793**	342,085
	1,931,267	2,898,204

	Group and Bank			
	2010		2009	
	HK$'000	**% of gross advances to customers**	HK$'000	% of gross advances to customers
Gross impaired advances	**1,931,267**	**1.30**	2,898,204	2.18
Individual impairment allowances	**(1,410,619)**		(1,848,459)	
	520,648		1,049,745	
Impaired advances covered by collateral	**587,777**		966,997	

The individual impairment allowances were made after taking into account the value of collateral in respect of the above advances.

Renegotiated advances

The renegotiated advances are those advances which are renegotiated at non-commercial terms and currently classified as "Neither past due nor impaired" or "Past due but not impaired". There are no outstanding renegotiated advances as at 31 December 2010 (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Analysis of individual impairment allowances

	Group and Bank					
	As at 1 January 2010 HK$'000	**Amounts written off HK$'000**	**Recoveries of advances written off in previous years HK$'000**	**Net charge to income statement HK$'000**	**Exchange differences HK$'000**	**As at 31 December 2010 HK$'000**
Manufacturing	**534,871**	**(119,447)**	**250**	**13,722**	**–**	**429,396**
Building and construction	**38,554**	**(13,030)**	**1,051**	**18,224**	**–**	**44,799**
Housing loans	**5,564**	**–**	**6,390**	**(10,065)**	**–**	**1,889**
General commerce	**861,268**	**(250,684)**	**1,625**	**(44,769)**	**1,765**	**569,205**
Transportation, storage and communication	**12,460**	**(8,352)**	**189**	**864**	**–**	**5,161**
Financial institutions, investments and holding companies	**6,921**	**–**	**297**	**(355)**	**–**	**6,863**
Professionals and private individuals (except housing loans)	**173,814**	**(39,839)**	**–**	**59,383**	**–**	**193,358**
Others	**215,007**	**(75,087)**	**605**	**19,423**	**–**	**159,948**
	1,848,459	**(506,439)**	**10,407**	**56,427**	**1,765**	**1,410,619**

	Group and Bank					
	As at 1 January 2009 HK$'000	Amounts written off HK$'000	Recoveries of advances written off in previous years HK$'000	Net charge to income statement HK$'000	Exchange differences HK$'000	As at 31 December 2009 HK$'000
Manufacturing	572,910	(112,901)	1,616	73,246	–	534,871
Building and construction	57,361	(35,044)	612	15,625	–	38,554
Housing loans	5,775	(80)	7,094	(7,225)	–	5,564
General commerce	401,923	(192,362)	3,900	648,715	(908)	861,268
Transportation, storage and communication	17,250	(2,333)	293	(2,750)	–	12,460
Financial institutions, investments and holding companies	2,239	–	549	4,133	–	6,921
Professionals and private individuals (except housing loans)	312,628	(126,649)	62	(12,227)	–	173,814
Others	293,764	(75,712)	1,361	(4,406)	–	215,007
	1,663,850	(545,081)	15,487	715,111	(908)	1,848,459

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Analysis of collective impairment allowances

	Group		
	As at 1 January 2010 HK$'000	**Additions / (Releases) HK$'000**	**As at 31 December 2010 HK$'000**
Manufacturing	**86,616**	**(7,728)**	**78,888**
Building and construction	**124,439**	**18,980**	**143,419**
Housing loans	**17,148**	**(2,984)**	**14,164**
General commerce	**232,860**	**52,673**	**285,533**
Transportation, storage and communication	**42,149**	**(11,012)**	**31,137**
Financial institutions, investments and holding companies	**3,132**	**1,327**	**4,459**
Professionals and private individuals (except housing loans)	**161,569**	**14,829**	**176,398**
Others	**27,731**	**2,187**	**29,918**
	695,644	**68,272**	**763,916**

	Group		
	As at 1 January 2009 HK$'000	Additions / (Releases) HK$'000	As at 31 December 2009 HK$'000
Manufacturing	128,667	(42,051)	86,616
Building and construction	150,398	(25,959)	124,439
Housing loans	21,817	(4,669)	17,148
General commerce	367,363	(134,503)	232,860
Transportation, storage and communication	96,055	(53,906)	42,149
Financial institutions, investments and holding companies	2,949	183	3,132
Professionals and private individuals (except housing loans)	149,358	12,211	161,569
Others	41,979	(14,248)	27,731
	958,586	(262,942)	695,644

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(a) Credit risk (continued)

Analysis of collective impairment allowances (continued)

	Bank		
	As at 1 January 2010 HK$'000	**Additions / (Releases) HK$'000**	**As at 31 December 2010 HK$'000**
Manufacturing	**86,616**	**(7,728)**	**78,888**
Building and construction	**124,439**	**18,980**	**143,419**
Housing loans	**17,148**	**(2,984)**	**14,164**
General commerce	**232,860**	**52,673**	**285,533**
Transportation, storage and communication	**42,149**	**(11,012)**	**31,137**
Financial institutions, investments and holding companies	**3,132**	**1,327**	**4,459**
Professionals and private individuals (except housing loans)	**134,772**	**14,547**	**149,319**
Others	**27,731**	**2,187**	**29,918**
	668,847	**67,990**	**736,837**

	Bank		
	As at 1 January 2009 HK$'000	Additions / (Releases) HK$'000	As at 31 December 2009 HK$'000
Manufacturing	128,667	(42,051)	86,616
Building and construction	150,398	(25,959)	124,439
Housing loans	21,817	(4,669)	17,148
General commerce	367,363	(134,503)	232,860
Transportation, storage and communication	96,055	(53,906)	42,149
Financial institutions, investments and holding companies	2,949	183	3,132
Professionals and private individuals (except housing loans)	125,726	9,046	134,772
Others	41,979	(14,248)	27,731
	934,954	(266,107)	668,847

Geographical concentration

Over 90% of the gross advances to customers and the related impaired advances, overdue advances, individual impairment allowances and collective impairment allowances were located in Hong Kong 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk

Market risk affects the values of financial instruments held by the Group, and arises from changes in interest rate yields, foreign exchange rates, equity prices, credit spreads and changes in the correlations and volatilities of these risk factors.

The Group manages market risk in the course of market-making, structuring and packaging products for investors and other clients, as well as to benefit from market opportunities. The Group also manages banking book interest rate risk arising from mismatches in the interest rate profile of assets, liabilities and capital instruments (and associated hedges), including basis risk arising from different interest rate benchmarks, interest rate re-pricing risk, yield curve risks and embedded optionality. To optimise its income and balance sheet management, the Group deploys funds in debt securities or in the interbank market. All types of foreign exchange risk (including unhedged non-trading foreign exchange risk arising from the Group's investment in strategic foreign currency investments) are risk managed as part of the trading book.

The Group's market risk framework identifies the types of market risk to be covered, the risk metrics and methodologies to be used to capture such risk and the standards governing the management of market risk within the Group including limit setting and independent model validation, monitoring and valuation.

The Board Risk Management Committee establishes the Group's risk appetite for market risk in the trading book and the investment book. The Hong Kong Market Risk Committee, which reports to the Hong Kong Risk Executive Committee, oversees the Group's market risk management infrastructure, sets market risk control limits and provides enterprise-wide oversight of all market risks and their management.

The independent market risk management function, which is supported by DBS Bank Ltd. in terms of model analytics and risk architecture, reports to the Senior Risk Executive and is responsible for day-to-day risk monitoring and analysis.

The principal market risk appetite measures for market risk are Value-at-Risk ("VaR") and stress loss. The VaR is supplemented by risk control measures, such as sensitivities to risk factors, including their volatilities, as well as loss triggers for management action.

The Group's general market risk VaR methodology uses a historical simulation approach to forecast the Group's market risk. The methodology is also used to compute average tail loss metrics. The Group computes VaR (in Singaporean Dollars "SG$") for the trading book daily. VaR risk factor scenarios are aligned to parameters and market data used for valuation. The scenarios are maintained in the risk system. Trading book VaR is back-tested against the corresponding profit and loss to monitor its predictive power.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk (continued)

(i) Daily VaR for trading book market risk

The following table shows the period-end, average, high and low daily VaR (at a 99% confidence level over a one-day holding period) for the trading book market risk:

Group	**As at**	**1 January 2010 to 31 December 2010***		
SG$'million	**31 December 2010**	**Average**	**High**	**Low**
Total	**1.4**	**1.0**	**1.9**	**0.2**

	As at	1 January 2009 to 31 December 2009*		
SG$'million	31 December 2009	Average	High	Low
Total	0.6	1.0	3.1	0.4

* Using a 2-year historical observation period up to 31 May 2009, and using a 1-year historical observation period from 1 June 2009.

Although VaR provides valuable insights, no single risk measure can capture all aspects of market risk. Therefore, regular stress testing is carried out to monitor the Group's vulnerability to shocks.

(ii) Monthly total VaR for market risk

Since January 2010, the Group has implemented a comprehensive risk appetite framework for all types of market risk, including interest rate risk in the banking book (except immaterial equity risk in the banking book), in line with its internal capital adequacy assessment process. The Group level monthly total VaR associated with this framework is tabulated below, showing the period-end, average, high and low VaR (at a 99% confidence level over a one-day holding period).

Group	**As at**	**1 January 2010 to 31 December 2010**		
SG$'million	**31 December 2010**	**Average**	**High**	**Low**
Total	**9.2**	**5.8**	**9.2**	**4.1**

In 2010, the Group has migrated to a sensitivity analysis which fully reflects the interdependence between risk variables. For the financial year ended 31 December 2009, the analyses for non-trading foreign exchange and interest rate risks were disclosed separately using different methods and are therefore not comparable and not shown in this analysis.

The economic value impact of changes in interest rates is simulated under various assumptions for the banking book. Based on a 200 basis point upward parallel shock to all yield curves, the simulated economic value change is negative HK$954,000,000. The corresponding simulated economic value change for a 200 basis point downward shock is positive HK$807,000,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(b) Market risk (continued)

(ii) Monthly total VaR for market risk (continued)

Equity risk in the banking book

Equity price risk arises from the Group's strategic investments which are overseen by the Hong Kong Management Committee. The Group's equity exposures booked in its non-trading portfolio as at 31 December 2010 and 2009 were not material and were held for long term investment purpose. They were reported as financial investments in Note 21 to the financial statements and are subject to the accounting and valuation policies set out in Notes 2(f) and 2(g) to the financial statements.

(c) Liquidity risk

Funding liquidity risk (or liquidity risk) is the current and prospective risk arising from the inability of the Group to meet its contractual or regulatory obligations when they become due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group seeks to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The primary tool of monitoring liquidity risk is the maturity mismatch analysis, which presents the profile of future expected cashflows under defined scenarios. This is monitored against available funding and liquid assets over successive time bands and across major currencies under normal and adverse scenarios. In addition, other monitoring metrics (for example, liquidity ratios, deposit concentration ratio, balance sheet analysis) are used as complementary tools to the maturity mismatch analysis.

On a strategic level, the Board Risk Management Committee is responsible for approving the principles and baseline standards under the Group's liquidity risk management framework, as well as defining the Group's tolerance towards liquidity risk. The Hong Kong Risk Executive Committee, which reports to the Board Risk Management Committee, provides oversight of liquidity risk undertaken across the Group and its management. On a tactical level, the Hong Kong Asset and Liability Committee is the primary committee responsible for liquidity management based on the Group's liquidity risk management framework and policies.

To manage liquidity risk within the tolerance defined by the Board, limits and triggers are set on maturity mismatches under normal and adverse scenarios and other monitoring metrics. Such limits seek to ensure that adequate funding and liquid assets are available to meet liquidity needs under both normal and stress scenarios.

As part of its management of liquidity risk inherent in its derivative and non-derivative financial liabilities, the Group employs on a number of strategies. These include maintaining sufficient liquid assets, maintaining diversified sources of liquidity, and having robust internal control processes and contingency plans.

From 2011, the Group will continue to enhance its liquidity risk management infrastructure and processes to ensure compliance with recent standards issued by the Basel Committee of Banking Supervision in accordance with the international implementation timeline.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

The carrying amounts of assets and liabilities analysed by the remaining period as at 31 December to the contractual maturity dates are as follows:

2010	Group							
HK$'million	Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
– Cash and balances with banks	12,092	23,520	2,065	596	–	–	–	38,273
– Placements with and advances to banks	–	–	10,525	3,178	29	–	–	13,732
– Trading securities	–	14	4,189	342	1,963	642	–	7,150
– Financial assets designated at fair value through profit or loss	–	–	–	39	–	–	–	39
– Advances to customers	6,765	15,197	13,906	16,280	35,993	57,381	907	146,429
– Financial investments								
– Debt securities classified as available-for-sale	–	465	1,567	3,266	17,718	1,478	14	24,508
– Debt securities classified as loans and receivables	–	59	78	564	1,258	208	–	2,167
– Equities securities	–	–	–	–	–	–	99	99
– Others	272	8,170	2,157	26	191	25	4,185	15,026
Total assets	19,129	47,425	34,487	24,291	57,152	59,734	5,205	247,423
Liabilities								
– Deposits and balances from banks	755	28	–	–	–	–	–	783
– Trading liabilities	–	4,300	319	189	934	46	–	5,788
– Financial liabilities designated at fair value through profit or loss	–	–	8	318	466	–	–	792
– Deposits from customers	85,544	60,837	28,097	13,945	29	–	–	188,452
– Certificates of deposit issued	–	–	–	3,040	692	2,095	–	5,827
– Subordinated liability	–	–	–	–	–	4,199	–	4,199
– Others	668	12,851	2,583	701	32	17	1,548	18,400
Total liabilities	86,967	78,016	31,007	18,193	2,153	6,357	1,548	224,241

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

2009 HK$'million	Group Repayable on demand	Less than 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
– Cash and balances with banks	3,277	23,938	1,787	353	–	–	–	29,355
– Placements with and advances to banks	–	–	12,309	1,750	1,506	–	–	15,565
– Trading securities	–	220	203	1,027	870	94	–	2,414
– Financial assets designated at fair value through profit or loss	–	–	–	–	38	–	–	38
– Advances to customers	6,341	12,110	11,457	13,514	31,166	54,960	1,131	130,679
– Financial investments								
– Debt securities classified as available-for-sale	–	693	1,541	6,790	21,089	1,545	14	31,672
– Debt securities classified as loans and receivables	–	–	–	1,245	3,040	596	–	4,881
– Equities securities	–	–	–	–	–	–	82	82
– Others	320	4,742	1,659	85	247	35	4,282	11,370
Total assets	9,938	41,703	28,956	24,764	57,956	57,230	5,509	226,056
Liabilities								
– Deposits and balances from banks	883	1,705	–	–	–	–	–	2,588
– Trading liabilities	–	1,558	603	664	654	200	–	3,679
– Financial liabilities designated at fair value through profit or loss	–	79	126	342	112	–	–	659
– Deposits from customers	86,950	49,917	28,164	16,760	80	–	–	181,871
– Certificates of deposit issued	–	–	–	–	498	1,055	–	1,553
– Subordinated liability	–	–	–	–	–	4,188	–	4,188
– Others	608	5,890	2,408	532	176	9	1,218	10,841
Total liabilities	88,441	59,149	31,301	18,298	1,520	5,452	1,218	205,379

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

The contractual undiscounted cash flow projections of the Group's financial assets and liabilities, derivatives, contingent liabilities and commitments analysed by the remaining period as at 31 December to the contractual maturity dates are as follows:

2010	Group					
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
HK$'million						
Financial Assets						
– Cash and balances with banks	12,092	25,603	3,684	–	–	41,379
– Placements with and advances to banks	–	10,542	3,185	32	–	13,759
– Trading securities	–	4,219	402	2,077	701	7,399
– Financial assets designated at fair value through profit or loss	–	–	40	–	–	40
– Advances to customers	7,278	29,779	18,056	40,971	67,323	163,407
– Financial investments						
– Debt securities classified as available-for-sale	–	2,218	3,705	18,747	1,564	26,234
– Debt securities classified as loans and receivables	–	165	624	1,380	227	2,396
– Others	14	9,334	547	2,074	1,038	13,007
	19,384	81,860	30,243	65,281	70,853	267,621
Financial liabilities						
– Deposits and balances from banks	755	28	–	–	–	783
– Trading liabilities	–	4,632	211	943	46	5,832
– Financial liabilities designated at fair value through profit or loss	–	10	321	467	–	798
– Deposits from customers	85,547	89,099	14,039	29	–	188,714
– Certificates of deposit issued	–	19	3,136	1,022	2,300	6,477
– Subordinated liability	–	7	26	509	4,397	4,939
– Others	665	14,272	1,262	2,170	1,075	19,444
	86,967	108,067	18,995	5,140	7,818	226,987

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

2010	Group					
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
HK$'million						
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– inflow	–	36,451	37,598	2,583	–	76,632
– outflow	–	36,496	37,581	2,582	–	76,659
Contingent liabilities and commitments						
– Contingent liabilities	–	9,737	–	–	–	9,737
– Commitments	64,074	47,893	–	–	–	111,967
	64,074	57,630	–	–	–	121,704

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

2009 HK$'million	Group Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Total
Financial Assets						
– Cash and balances with banks	3,277	25,748	355	–	–	29,380
– Placements with and advances to banks	–	12,325	1,765	1,518	–	15,608
– Trading securities	–	431	1,060	887	90	2,468
– Financial assets designated at fair value through profit or loss	–	–	2	40	–	42
– Advances to customers	6,885	24,237	15,273	36,530	65,513	148,438
– Financial investments						
– Debt securities classified as available-for-sale	–	2,495	7,622	22,685	1,730	34,532
– Debt securities classified as loans and receivables	–	37	1,411	3,336	643	5,427
– Others	59	5,497	382	275	39	6,252
	10,221	70,770	27,870	65,271	68,015	242,147
Financial liabilities						
– Deposits and balances from banks	883	1,705	–	–	–	2,588
– Trading liabilities	–	2,171	687	684	190	3,732
– Financial liabilities designated at fair value through profit or loss	–	315	368	115	–	798
– Deposits from customers	86,952	78,136	16,740	81	–	181,909
– Certificates of deposit issued	–	8	53	696	1,208	1,965
– Subordinated liability	–	6	33	648	4,641	5,328
– Others	606	7,269	888	550	53	9,366
	88,441	89,610	18,769	2,774	6,092	205,686
Derivatives settled on a gross basis						
– Foreign exchange contracts						
– inflow	–	51,608	26,889	1,836	–	80,333
– outflow	–	51,540	26,885	1,836	–	80,261
Contingent liabilities and commitments						
– Contingent liabilities	–	7,671	–	–	–	7,671
– Commitments	55,043	58,452	–	–	–	113,495
	55,043	66,123	–	–	–	121,166

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(c) Liquidity risk (continued)

The balances in the above table will not agree with the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as future interest payments.

Customer assets and liabilities (including non-maturing savings / current deposits) are represented on a contractual basis or in a period when they can legally be withdrawn. On a behavioural basis for liquidity risk analysis, the assets and liabilities cash flows may differ from contractual basis.

For the purpose of liquidity risk management, the Group actively monitors and manages its liquidity positions within a 1-year period. A conservative view is adopted in the behavioural profiling of assets, liabilities and off-balance sheet commitments that have exhibited cash flow patterns that differ significantly from the actual contractual maturity profile.

The table below shows the Group's behavioural net and cumulative maturity mismatch between assets and liabilities over a 1-year period under a normal scenario without incorporating growth projections:

HK$'million	Less than 7 days	7 days to 1 month	1 to 3 months	3 to 12 months
2010				
Net liquidity mismatch	**32,811**	**7,993**	**25,101**	**(7,322)**
Cumulative mismatch	**32,811**	**40,804**	**65,905**	**58,583**
2009				
Net liquidity mismatch	32,944	1,692	22,573	(4,008)
Cumulative mismatch	32,944	34,636	57,209	53,201

* As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the information presented above is not directly comparable across past balance sheet dates.

** 1 month is assumed to have 31 and 30 calendar days in 2009 and 2010 respectively.

*** Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events, including legal risk, but does not include strategic or reputational risk. An Operational Risk Management Framework, approved by the Board Risk Management Committee, has been developed with the objective to ensure that operational risks are properly identified, monitored, managed and reported in a structured, systematic and consistent manner.

To manage and control operational risk, the Framework encompasses various tools including, control self-assessment, risk event management and key risk indicator monitoring. Risk events, including any significant incidents that may impact the Group's reputation, are required to be reported based on certain thresholds established. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward looking manner.

A key component of the Framework is a set of Core Operational Risk Standards which provides guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced or outsourcing initiative is subject to a risk review and sign-off process where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services and outsourcing initiatives, are also subject to a similar process. Major operational risk mitigation programmes include Business Continuity Management and Global Insurance Programme. On an annual basis, the Chief Executive Officer provides an attestation to the Board of Directors on the state of business continuity management, including any residual risks.

The Hong Kong Operational Risk Committee oversees the operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Committee also performs regular review of the operational risk profiles and approves corporate operational risk policies.

(e) Capital management

The Bank's capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors and regulators.

The following table sets forth details of capital resources and capital adequacy ratios for the Bank. The Banking Ordinance and the Banking (Capital) Rules set out the current requirements relating to the minimum capital adequacy ratios for an authorized institution incorporated in Hong Kong and the methodology for calculating these ratios. The Bank complied with the capital requirements imposed by the Hong Kong Monetary Authority throughout 2010 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(e) Capital management (continued)

	2010	2009
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	**7,000,000**	7,000,000
Share premium	**595,503**	595,503
Reserves	**11,620,880**	9,011,775
Profit and loss account	**2,348,119**	2,366,701
	21,564,502	18,973,979
Deductions from core capital	**(385,256)**	(252,899)
Core capital after deductions	**21,179,246**	18,721,080
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	**146,332**	242,398
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	**90,169**	87,889
Unrealised fair value gains arising from holdings of debt securities designated at fair value through profit or loss	**112**	–
Collective impairment allowances	**86,640**	115,257
Regulatory reserve	**57,168**	106,476
Term subordinated liability	**4,199,256**	4,187,673
	4,579,677	4,739,693
Deductions from supplementary capital	**(385,256)**	(252,899)
Supplementary capital after deductions	**4,194,421**	4,486,794
Total capital base before deductions	**26,144,179**	23,713,672
Deductions from core capital and supplementary capital	**(770,512)**	(505,798)
Total capital base after deductions	**25,373,667**	23,207,874
Risk-weighted assets	**166,892,828**	149,029,765
Capital adequacy ratio		
Core capital ratio	**12.7%**	12.6%
Supplementary capital ratio	**2.5%**	3.0%
Total capital adequacy ratio	**15.2%**	15.6%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Financial risk management (continued)

(e) Capital management (continued)

The Bank is required to compute its capital adequacy ratio on a combined basis that includes the Bank and its overseas branch. The investments in subsidiaries are deducted from the Bank's core capital and supplementary capital.

The term subordinated liability represents the subordinated loan with principal amount of US$540,000,000 from its intermediate holding company, DBS Bank Ltd., on 12 December 2006. The subordinated loan forms part of the capital base of the Bank with its terms and conditions set out in Note 32 to the financial statements.

42 Material related party transactions

(a) Holding companies and fellow subsidiaries

The Group's immediate holding company is DHB Limited and the ultimate holding company is DBS Group Holdings Ltd. ("DBSH"). DBS Bank Ltd. is an intermediate holding company of the Group.

As part of the Bank and the Group's normal course of business, it enters into various transactions with holding companies and fellow subsidiaries on normal commercial terms. These transactions include interbank placements, taking of deposits, derivative financial instruments, contingent liabilities and commitments.

The Group has policies on lending to related parties which define related parties, credit and reporting processes, requirements and restrictions on such lending. The lending terms and conditions (including interest rates, commissions, fees, etc.) applying to related parties are at arm's length.

Information relating to income and expenses from these transactions during the year and balances outstanding as at 31 December are set out below:

(i) Income and expenses with holding companies and fellow subsidiaries

	DBS Bank Ltd.		**Fellow subsidiaries**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Interest income	**172,618**	389,046	**10,944**	25,430
Interest expense	**(43,884)**	(66,198)	**(1,535)**	(10,529)
Net fee and commission income	**1,468**	234	**(9,336)**	(9,726)
Net (loss) / income from financial instruments at fair value through profit and loss	**(1,520,860)**	2,851,765	**55**	155
Other income	**24,024**	37,018	**7,971**	35,661
Total expenses (charged) / recovered	**(53,927)**	11,010	**20,310**	16,602

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(a) Holding companies and fellow subsidiaries (continued)

(ii) Balances with DBS Bank Ltd. as at 31 December

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks	**21,293,347**	21,626,165	**21,290,798**	21,623,556
Placements with and advances to banks	**10,667,114**	11,491,670	**10,667,114**	11,491,670
Positive fair values for derivative financial instruments	**4,101,043**	1,748,447	**4,101,043**	1,748,447
Other assets	**127,023**	1,531,111	**127,023**	1,531,111
	36,188,527	36,397,393	**36,185,978**	36,394,784
Deposits and balances from banks	**71,066**	1,783,301	**71,066**	1,783,301
Negative fair values for derivative financial instruments	**4,330,969**	1,877,815	**4,330,969**	1,877,815
Subordinated liability	**4,199,256**	4,187,673	**4,199,256**	4,187,673
Other liabilities	**82,360**	68,594	**82,360**	68,594
	8,683,651	7,917,383	**8,683,651**	7,917,383

(iii) Contract / notional amounts of derivative financial instruments with DBS Bank Ltd. and fellow subsidiaries as at 31 December

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Exchange rate contracts	**299,802,742**	141,841,906
Interest rate contracts	**103,714,993**	55,018,301
Equity contracts	**333,629**	1,257,231
Commodities	**19,176**	–
	403,870,540	198,117,438

(iv) Contingent liabilities and commitments with DBS Bank Ltd. and fellow subsidiaries

As at 31 December 2010, total contingent liabilities and commitments with DBS Bank Ltd. and fellow subsidiaries amounted to HK$9,304,002,000 (2009: HK$19,239,737,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(a) Holding companies and fellow subsidiaries (continued)

(v) Balances with immediate holding company and other intermediate holding companies as at 31 December

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Deposits from customers	**316,181**	316,476

(vi) Balances with fellow subsidiaries as at 31 December

	Group		Bank	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks	**–**	455,111	**–**	455,111
Placements with and advances to banks	**1,509,261**	1,506,408	**1,509,261**	1,506,408
Positive fair values for derivative financial instruments	**56**	–	**56**	–
Other assets	**88,509**	138,025	**88,509**	138,025
	1,597,826	2,099,544	**1,597,826**	2,099,544
Deposits and balances from banks	**37,139**	105,706	**37,139**	105,706
Deposits from customers	**820,266**	1,424,516	**820,266**	1,424,516
Other liabilities	**14,684**	15,572	**14,616**	15,572
	872,089	1,545,794	**872,021**	1,545,794

(b) Jointly controlled entity

Under the Joint Venture Agreement (the “Agreement”) between the Bank, Whampoa Limited and Hutchison DBS Card Limited (“HDCL”), the Bank issues and services credit cards under the Compass brand. The Compass credit card receivables are included under “Advances to customers” in the Bank’s balance sheet. Under the Agreement, all the income, expenses and loan impairment allowances on the Compass cards are recorded in the books of HDCL. The income and expenses, assets and liabilities of HDCL are recognised by the Group through proportionate consolidation on a line-by-line basis.

As at 31 December 2010, the amount due from the Bank to the jointly controlled entity is HK$2,322,686,000 (2009: HK$1,823,465,000), of which HK$1,550,000,000 (2009: HK$1,230,000,000) is interest-bearing time deposit and the remaining balance is interest free and repayable on demand. Interest expense on the time deposit for the year ended 31 December 2010 paid and payable to HDCL is HK$46,424,000 (2009: HK$40,960,000). Gross service fee income from HDCL to the Bank for the year ended 31 December 2010 is HK$85,159,000 (2009: HK$80,291,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(c) Directors and senior management and key personnel

(i) Transactions and balances with directors and senior management and key personnel

During the year, the Group has banking transactions with directors of the Bank and DBSH Group and senior management and key personnel of the Bank and their close family members. These transactions, including deposit taking, loans and credit card facilities, are made in the ordinary course of business and on commercial terms, and are not material.

(ii) Compensation of directors and senior management and key personnel

	Group and Bank	
	2010	2009
	HK$'000	HK$'000
Directors' fee	**1,576**	1,330
Fixed remuneration (Note)		
– Salaries and other short term employee benefits	**33,781**	32,710
– Pension	**2,407**	2,427
Variable cash bonus (Note)	**26,826**	19,528
Share-based compensation	**11,021**	7,519
Termination benefits	**1,385**	–
	76,996	63,514

Note: The amount included remuneration in respect of 13 (2009: 16) members of senior management and key personnel as disclosed in accordance with the Supervisory Policy Manual entitled "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority. The variable cash bonus represented cash bonus accrued during the year, to be paid in the following year.

(d) DBSH Share Option Plan

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

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

These share options vest over a period in accordance with a vesting schedule determined by the Compensation and Management Development Committee (the "CMDC") of DBSH, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options. The fair value of options granted is determined using the Binomial model.

The DBSH Share Option Plan expired on 19 June 2009 and the Option Plan was neither extended nor replaced. The termination of this Option Plan will, however, not affect the rights of holders of any outstanding existing options.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(d) DBSH Share Option Plan (continued)

The following table sets out the movements of the unissued ordinary shares of DBSH of par value in Singaporean Dollar ("SG$") 1.00 each under outstanding options, the weighted average exercise prices and expiration dates.

	2010		2009	
	Unissued number of ordinary shares under outstanding options	**Weighted average exercise price SG$**	Unissued number of ordinary shares under outstanding options	Weighted average exercise price SG$
Balance as at 1 January	**2,031,843**	**14.26**	1,929,322	14.18
Movements during the year:				
– Rights issue	**–**	**–**	340,087	14.18
– Exercised	**(203,164)**	**13.84**	(135,277)	12.35
– Forfeited	**(41,874)**	**14.52**	(74,648)	14.35
– Expired	**(16,278)**	**21.05**	–	–
– Transferred in due to staff relocation	**35,476**	**15.48**	–	–
– Transferred out due to staff relocation	**(226,037)**	**14.82**	(27,641)	16.71
Balance as at 31 December	**1,579,966**	**14.19**	2,031,843	14.26
Additional information:				
Outstanding options exercisable as at 31 December	**1,579,966**	**14.19**	2,031,843	14.26
Weighted average remaining contractual life of options outstanding as at 31 December	**2.0 years**		3.1 years	
Range of exercise price of options outstanding as at 31 December	**SG$10.40-SG$22.33**		SG$10.40-SG$22.33	

In 2010, 203,164 options (2009: 135,277) were exercised at their contractual exercise prices. During the year, the weighted average market price of DBSH shares was SG$14.36 (2009: SG$12.80).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(d) DBSH Share Option Plan (continued)

DBSH options	Number of unissued ordinary shares	During the year				Number of unissued ordinary shares	Exercise price per share	Expiry date
	1 January 2010	Transfer in	Transfer out	Exercised	Forfeited / Expired	31 December 2010	SGD	
Mar 2000	9,410	–	–	–	(9,410)	–	20.87	06 Mar 2010
Jul 2000	5,881	–	–	–	(5,881)	–	22.33	27 Jul 2010
Mar 2001	393,013	8,234	(58,817)	–	(11,763)	330,667	17.70	15 Mar 2011
Aug 2001	153,395	–	(11,763)	(33,408)	–	108,224	12.93	01 Aug 2011
Mar 2002	78,696	–	–	–	–	78,696	14.73	28 Mar 2012
Aug 2002	144,332	–	–	(9,410)	(3,529)	131,393	12.27	16 Aug 2012
Dec 2002	11,763	–	–	–	–	11,763	11.47	18 Dec 2012
Feb 2003	372,431	–	(32,936)	(24,017)	(8,233)	307,245	10.40	24 Feb 2013
Mar 2004	667,932	20,562	(93,165)	(118,617)	(16,704)	460,008	14.73	02 Mar 2014
Mar 2005	194,990	6,680	(29,356)	(17,712)	(2,632)	151,970	15.07	01 Mar 2015
	2,031,843	35,476	(226,037)	(203,164)	(58,152)	1,579,966		

(e) DBSH Share Plan

Under the DBSH Share Plan (the “Share Plan”), DBSH ordinary shares (the “shares”) may be granted to the Group executives who hold such rank as may be determined by the CMDC appointed to administer the Share Plan from time to time. The awards could be performance-based and / or time-based.

Where time-based awards are granted, they will only vest after the satisfactory completion of time-based service conditions. Participants are awarded DBSH shares, their equivalent cash value or a combination of both as part of their deferred bonus (at the discretion of the CMDC).

A time-based award comprises two elements, namely, the main award and the “kicker” award. The shares comprised in the “kicker” award constitute twenty percent of the shares comprised in the main award. Thirty-three percent of the shares comprised in the main award will vest two years after the date of grant. A further thirty-three percent of the shares comprised in the main award will vest three years after the date of grant. The remainder thirty-four percent of the shares comprised in the main award, together with the shares comprised in the “kicker” award, will vest four years after the date of grant. For time-based awards, the fair value of the shares awarded are computed based on the market price of the DBSH ordinary shares at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(e) DBSH Share Plan (continued)

The following table sets out the movements of the time-based awards granted in the current and previous financial years pursuant to the Share Plan and their fair values at grant date.

	Group and Bank	
	2010 grant	**2009 grant**
	Number of shares	
Balance as at 1 January 2010	**–**	**339,951**
Granted in 2010	**325,498**	**–**
Forfeited in 2010	**(9,351)**	**(15,244)**
Transferred in due to staff relocation	**–**	**44,414**
Transferred out due to staff relocation	**–**	**(31,787)**
Balance as at 31 December 2010	**316,147**	**337,334**
	SG$	**SG$**
Weighted average fair value per share at grant date	**14.26**	**8.05**

Since the inception of the Share Plan, no awards have been cash-settled under the Share Plan.

(f) DBSH Employee Share Plan

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

Under the ESP, eligible employees are awarded DBSH ordinary shares (the "shares"), their equivalent cash value or a combination of both (at the discretion of the CMDC), when time-based conditions are met. The ESP awards are granted at the absolute discretion of the CMDC.

Time-based awards were granted in the current and previous financial years. The time-based awards will only vest after the satisfactory completion of time-based service conditions. Under such awards, the shares will vest at thirty-three percent two years after the date of grant. A further thirty-three percent will vest three years after the date of grant and the remainder thirty-four percent four years after the date of grant. The fair value of the shares awarded are computed based on the market price of DBSH ordinary shares at the time of the award and is amortised through the income statement over the vesting period. At each balance sheet date, the Group revises its estimates of the number of shares expected to vest based on non-market vesting conditions and the corresponding adjustments are made to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 Material related party transactions (continued)

(f) DBSH Employee Share Plan (continued)

The following table sets out the movements of time-based awards granted in the current and previous financial years pursuant to the ESP and their fair values at grant date.

	Group and Bank	
	2010 grant	**2009 grant**
	Number of shares	
Balance as at 1 January 2010	**–**	**72,000**
Granted in 2010	**135,000**	**–**
Forfeited in 2010	**(14,900)**	**(7,100)**
Transferred in due to staff relocation	**–**	**600**
Transferred out due to staff relocation	**–**	**(1,700)**
Balance as at 31 December 2010	**120,100**	**63,800**
	SG$	**SG$**
Weighted average fair value per share at grant date	**14.26**	**8.05**

Since the inception of the ESP, no awards have been cash-settled under the ESP.

43 Loans to officers

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

	Balance outstanding as at 31 December		**Maximum balance during the year**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Aggregate amount outstanding in respect of principal and interest	**–**	5,664	**5,664**	6,089

44 Provision for Lehman Brothers related Constellation Notes

The Bank has agreed with the Hong Kong Monetary Authority and the Securities and Futures Commission, without admitting any liability, to offer a resolution scheme in respect of the Lehman Brothers ("LB") related Constellation Notes (the "Resolution"). Under the Resolution, the Bank offered to pay in total approximately HK$651 million to its customers who purchased LB-related Constellation Notes and who were classified, at the time of purchase, as having a low to medium risk profile. The provision in relation to the Resolution has been recognised in the income statement for the year ended 31 December 2010.

45 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted in the current year.