

Dated 29 April 2010

**MS AMY YIP'S RESPONSE TO LEGCO SUBCOMMITTEE
LETTER DATED 26 APRIL 2010**

To the Subcommittee to Study Issues Arising from
Lehman Brothers-related Minibonds
and Structured Financial Products of the Legislative Council

Unless otherwise stated, capitalised terms in this response have the meanings ascribed in the Written Submissions of Ms Amy Yip, Chief Executive Officer of DBS Bank (Hong Kong) Ltd. dated 26 March 2010 (the "Submissions").

1 As stated by Ms Amy YIP at the hearing held on 23 April 2010, the amount of Constellation Notes (CLN Notes) including Lehman Brothers(LB)-related CLN Notes that were distributed through the Consumer Bank accounted for less than 5% of the total sales volume of all investment products. Please advise:

(a) the percentage of CLN Notes out of the total sales volume of all structured financial products;

1.1 2 per cent. from 2003 to 2007.

(b) among the structured financial products sold by DBSHK from September 2003 to September 2007,

(i) the percentage of CLN Notes sold for each of the aforesaid year; and

1.2 Please see table below:

	2003	2004	2005	2006	2007
Percentage of CLN Notes sold	0.35	2.05	2.22	3.79	2.07

(ii) whether there were any periods during which the sale of CLN Notes reached a remarkably high, or low level. If yes, please explain.

1.3 As illustrated in the table above, the percentage of sales attributable to CLN Notes fluctuated slightly from year to year. In 2003, only one series of CLN Notes was sold in the last quarter, so the sales volume of CLN Notes was significantly lower than in later years. The sales volume gradually increased until 2007 when DBSHK ceased distribution of CLN Notes in the last quarter as a result of market volatility.

2 It is noted that DBSHK revised the risk ratings for all CLN Notes to Level 5 in March 2008 (paragraph 14.10 of W26(C)). Please advise the Subcommittee of the person(s) (with name(s) and post title(s)) who made the decision not to notify the customers who had purchased the products concerned of the revised risk ratings.

2.1 At the material time, DBSHK considered that the indicative prices of CLN Notes provided in the monthly statements were the best indicator of product performance and market conditions, and that, customers were thereby appropriately informed so as to decide whether to keep their investment in the CLN Notes. In the circumstances, there was no discussion of whether or not customers should be informed by DBSHK of the revised risk ratings. Consequently, no decision was taken not to inform customers of the revised risk rating. It was neither a regulatory requirement nor market practice to inform customers of risk rating changes.

3 To follow up paragraph 45.1 of W26(C), please inform the Subcommittee of the number of prudential meetings held by HKMA with DBSHK before 2003 (from 2000 onwards). At these prudential meetings, if any, held before 2003, did HKMA express concerns or raise suggestions on boosting the bank's non-interest income?

- 3.1 Records of prudential meetings held between 2000 and 2002 cannot be located. DBS Group's acquisition of Dao Heng Bank became complete in 2003. Prior to 2003, HKMA prudential meetings would have been with Dao Heng Bank.