Financial review

DBSH Group's operating profit before goodwill amortisation and provisions for 2003 was $2.357 billion, a 2.7% increase over 2002. The improved performance was principally due to an increase in non-interest income, driven by higher fee and commission income, stronger sales of treasury investment products and better trading income. At the same time, net interest income was lower, due to a decline in interest margins. After deducting $430 million goodwill amortisation and $541 million provision charge, net profit attributable to members ("NPAM") was 6.6% lower, at $1.025 billion. The cost-to-income ratio (excluding goodwill amortisation) improved to 43.9% compared to 44.6% for 2002.

DBSH Group adopted accounting policy changes during the year, relating mainly to the measurement of trading and investment securities (as detailed in Note 2.2 to the financial statements). If these accounting policies had not been adopted, 2003 NPAM would have been $1.018 billion, compared to the $1.017 billion previously reported for 2002.

Consolidated profit and loss account

In $ millions	2003	2002[1]
Interest income	3,640	4,406
Interest expense	(1,265)	(1,761)
Net interest income	2,375	2,645
Non-interest income	1,823	1,501
Income before operating expenses	4,198	4,146
Operating expenses	(1,841)	(1,851)
Operating profit before goodwill amortisation and provisions	2,357	2,295
Goodwill amortisation	(430)	(278)
Operating profit before provisions	1,927	2,017
Provisions	(541)	(544)
Share of profits less losses of associated and joint venture companies	51	45
Net profit before taxation	1,437	1,518
Taxation	(349)	(311)
Minority interests	(63)	(110)
Net profit attributable to members ("NPAM")	1,025	1,097
NPAM excluding goodwill amortisation	1,455	1,375
Financial ratios (%)		
On a GAAP basis		
Return on assets	0.66	0.73
Return on equity	7.04	7.94
Excluding goodwill amortisation		
Return on assets	0.94	0.91
Return on equity	9.99	9.95
Cost-to-income ratio (excluding goodwill amortisation)	43.9	44.6
As a percentage of income before operating expenses:		
Net interest income	56.6	63.8
Non-interest income	43.4	36.2

Note:

(1) Figures for 2002 have been restated to reflect the changes in accounting policy as detailed in Note 2.2 to the financial statements.

DBS Bank (Hong Kong) Limited

The acquisition of 71.6% of Dao Heng Bank Group Limited ("DHG") through DBS Diamond Holdings Limited ("DDH"), a subsidiary of DBS Bank Ltd, was completed on June 29, 2001. DBS Bank Ltd exercised its call option to acquire the remaining 28.4% of the DDH shares on January 10, 2003 following which DHG became a wholly-owned subsidiary of DBS Bank Ltd. Pursuant to the Hong Kong legislative and regulatory requirements, the legal merger of Dao Heng Bank Limited, Overseas Trust Bank Limited and DBS Kwong On Bank Limited was completed on July 21, 2003. The merged entity was named DBS Bank (Hong Kong) Limited on the same date.

Operating profit for 2003 showed a 38.1% year-on-year increase, mainly due to higher non-interest income and lower impairment charges for fixed assets. Non-interest income rose 40.7%, due to higher sales of treasury investment products and better trading income. Net interest income, however, was lower, and provisions were higher. The reduction in net interest income was mainly attributable to sluggish loan demand. Provisions were 9.8% higher than that for 2002, when there was a significant write-back in loan provisions. Operating expenses declined 2.9%, mainly through the streamlining of operations.

Profit and loss account (based on Hong Kong generally accepted accounting principles)[1]

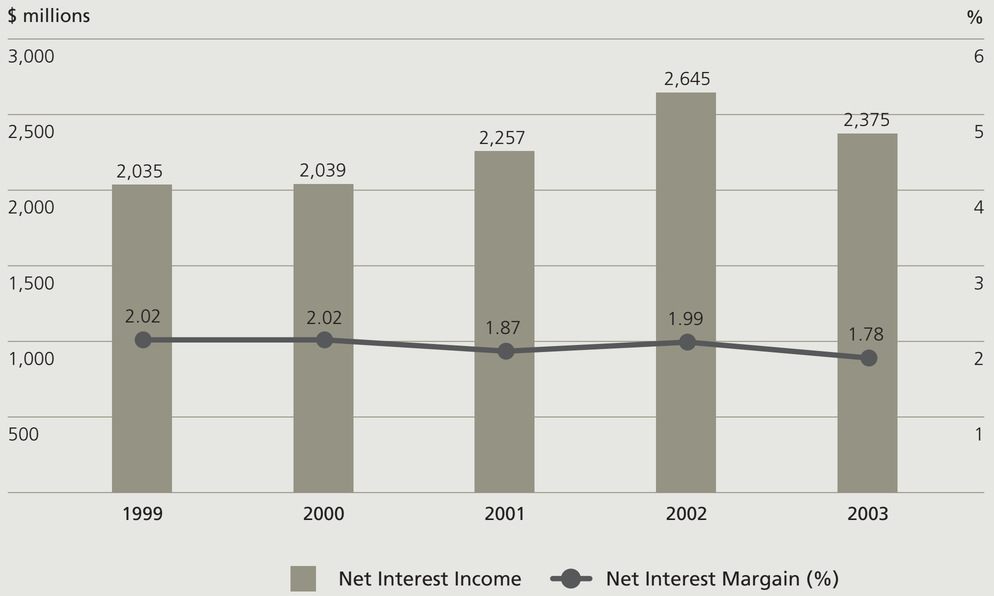
In $ millions	2003	2002
Net interest income	800	812
Non-interest income	384	273
Income before operating expenses	1,184	1,085
Operating expenses	(476)	(490)
Impairment of fixed assets	(6)	(53)
Operating profit before provisions	702	542
Provisions	(180)	(164)
Operating profit	522	378
Net profit before taxation	523	384
Net profit after taxation	440	330

Note:
(1) The exchange rate used for both periods is HK$1 = $0.2190519

Net interest income and net interest margin

Net interest income for 2003 fell 10.2% to $2.375 billion, compared to 2002. The decrease was mainly due to narrower spread on loans and debt securities in a highly competitive loan market and low interest rate environment.

Net interest margin was 1.78% for 2003 compared to 1.99% for 2002.



Net interest spread and net interest margin

%	2003	2002
Gross interest yield	2.72	3.32
Net interest spread [1]	1.71	1.88
Net interest margin [2]	1.78	1.99

Notes:
(1) Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing funds.
(2) Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

Net interest income and net interest margin

	2003			2002		
In $ millions	Avg[1] balance	Interest	Avg rate (%)	Avg balance	Interest	Avg rate (%)
Customer loans and advances	62,593	2,342	3.74	64,221	2,705	4.21
Interbank items	38,323	398	1.04	45,055	766	1.70
Securities [2]	32,883	900	2.74	23,375	935	4.00
Total interest bearing assets	133,799	3,640	2.72	132,651	4,406	3.32
Total interest bearing liabilities	125,336	1,265	1.01	122,714	1,761	1.44
Net interest income/margin		2,375	1.78		2,645	1.99

Notes:
(1) Avg: Average
(2) Refers to Singapore Government securities and treasury bills, trading and investment debt securities.

Volume and rate analysis

The following table allocates changes in interest income and interest expense between changes in volume and changes in rate for 2003 compared with 2002. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on monthly average interest bearing assets and liabilities. Variances caused by changes in both volume and rate have been allocated to both volume and rate based on the proportional change in either volume or rate.

	Increase/(Decrease) for 2003/2002		
In $ millions	Volume	Rate	Net change
Customer loans and advances	(69)	(294)	(363)
Interbank items	(114)	(254)	(368)
Securities	380	(415)	(35)
Total interest income	197	(963)	(766)
Total interest expense	60	(556)	(496)

Non-interest income

Fee and commission income in 2003 increased 10.9% to $884 million over 2002. The increase was due to higher stockbroking fees following a buoyant equity market in the second half of 2003, improved wealth management sales and loan related earnings from increased syndicated loan activities.

Compared to 2002, other income for 2003 increased 32.3% to $852 million, due to higher gains from interest rate trading and sale of investment products.

With the change in accounting policy (see Note 2.2 to the financial statements), realised gains from Singapore Government securities held as investments were included in "Net gain on investment securities".

In $ millions	2003	2002
Fee and commission income	884	797
Stockbroking	169	119
Investment banking	83	76
Trade and remittances	111	112
Loan related	155	145
Deposit related	103	108
Credit card	89	93
Fund management	38	36
Wealth management (unit trust distribution and bancassurance)	92	76
Others	44	32
Dividend and rental income	87	60
Other income	852	644
Net gain on treasury activities (including structured investment products)	648	397
Net gain on investment securities	183	214
Net gain on fixed assets	3	10
Others	18	23
Total non-interest income	1,823	1,501
Non-interest income as a % of income before operating expenses	43.4	36.2

Operating expenses

Excluding goodwill amortisation, year-on-year ("YOY") operating expenses declined 0.5%.

Staff costs showed a 5% decrease to $865 million, largely due to staff reduction resulting from the outsourcing of certain technology-related functions in the Group. The increase in technology-related expenses was mainly due to investments in new systems, capacity enhancements to meet customer demands and payment of outsourcing fees. Revenue-related expenses, which include commission paid to remisiers and brokerage expenses, increased as a result of higher transaction volumes.

YOY, the Group's cost-to-income ratio (excluding goodwill amortisation) was 43.9% for 2003 compared to 44.6% for 2002

Operating expenses

In $ millions	2003	2002
Staff costs	865	911
Occupancy expenses	203	219
Technology-related expenses	287	228
Revenue-related expenses	183	140
Others	303	353
Total operating expenses	1,841	1,851
Cost-to-income ratio (excluding goodwill amortisation) (%)	43.9	44.6
Staff headcount number (at year-end)	12,144	12,035

Provision charge

Total provision charge was $541 million for 2003. Approximately 71% of the total charge was related to non-bank loans.

Higher general provisions were made in 2003 following an increase in customer loans and investment securities. This increase contrasts with 2002 where customer loans declined and general provision reserves were released.

In $ millions	2003	2002
Loans	352	401
Securities	65	25
Properties and other assets	35	153
Specific provision	452	579
General provision	89	(35)
Total provision charge	541	544

Balance sheet

At the end of December 2003, total assets were $159.6 billion. Compared to end December 2002, customer loans increased 6% to $64.3 billion despite a highly competitive environment. The increase in loans was mainly accounted for by loans granted to “manufacturing”, “general commerce” and “financial institutions, investment & holding companies" sectors. Customer deposits increased 6.6% to $108 billion. The Group’s loan-to-deposit ratio at the end of December 2003 was 59.5%. Adjusted for DBSH Group’s portfolio of non-trading debt securities, the ratio of loan and non-trading debt securities to deposits would be 79.7%.

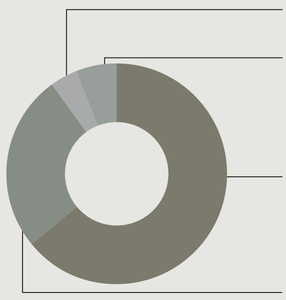
Selected balance sheet data

		At December 31
In $ millions	2003	2002
Assets		
Total assets	159,595	149,445
Total loans (1)	91,807	99,476
Customer loans and advances	64,335	60,709
Interbank items	27,472	38,767
Investment in quoted and unquoted securities and shares	41,246	27,801
Liabilities		
Total liabilities	144,699	135,208
Total deposits	115,538	106,192
Customer deposits	108,041	101,315
Interbank liabilities	7,497	4,877
Borrowings and debt securities	11,297	10,695
Shareholders' funds	14,896	14,237
Financial ratios		
Customer loan-to-deposit ratio (%)	59.5	59.9
Customer loan and non-trading debt securities-to-deposit ratio (%)	79.7	73.2

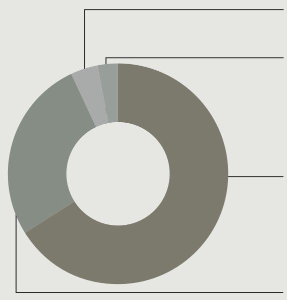
Note:

(1) After deducting cumulative provisions

Total assets

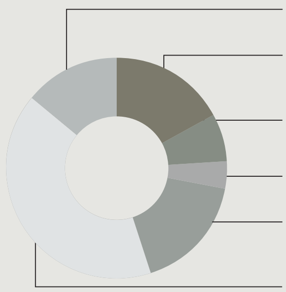


2003

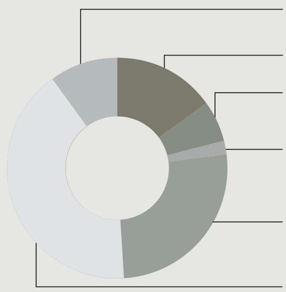


2002

Deployment of assets



2003



2002

Note:
(1) Regional countries ("RC") include Malaysia, Indonesia, Thailand, Korea and The Philippines

Customer loans and advances

At December 31, 2003, loans booked in Singapore accounted for 55% of DBSH Group's customer loans and advances, while loans booked in Hong Kong accounted for 33% and the remaining 12% in other overseas branches and subsidiary companies.

Gross customer loans by geographical classification

At December 31

	2003		2002	
	$ millions	%	$ millions	%
Singapore	36,494	55.0	34,399	54.7
Hong Kong	22,214	33.4	22,218	35.3
Regional countries	4,985	7.5	3,907	6.2
Rest of the world	2,721	4.1	2,377	3.8
Total gross customer loans	66,414	100.0	62,901	100.0

Classification of non-performing loans

DBSH Group classifies its loans in accordance with MAS' guidelines as well as internal loan grading policies. MAS' guidelines require banks to classify their loan portfolios to take into account the risks inherent in the portfolio. These classifications, and underlying collateral valuations, are used to determine minimum levels of loan loss reserves which banks are required to maintain.

MAS' guidelines require banks to categorise their loan portfolios into five categories – two categories for performing loans (Pass and Special Mention) and three categories for classified, or non-performing loans (Substandard, Doubtful and Loss).

Pass grades are applicable for loans that have no indication of default and full repayment of principal and interest from normal sources is not in any doubt. Special Mention grade is appropriate when there is potential weakness in the borrower's credit worthiness, but such weakness is not to the extent that a substandard or inferior grade is warranted. Special Mention loans generally have adequate debt service capacity but require close and active supervision because potential weakness, if not corrected, may result in deterioration of repayment prospects. Substandard and worse grade is appropriate when there are well defined weakness(es) in a borrower's position that jeopardise repayment of principal or interest from normal sources.

The following table set forth the various categories for classified loans:

Grade assigned to loan	Criteria	Provision Level
Substandard	• Well defined weakness(es) that may jeopardise normal repayment; • Default has occurred or is likely to occur; • Borrower is assessed to be viable but requires prompt corrective action; • All credits ≥ 90 days past due; • Restructured loans (subject to performance criteria).	Loans which are fully secured based on net realisable value of collateral considering current market conditions: • No provision is required for the principal amount; • Interest provision is 100%. Loans with security shortfall: • Principal provision is generally 10-49% of unsecured amount; • Interest provision is 100%. In addition, a general provision is made on the outstanding principal.
Doubtful	• Credit with severe weakness(es) • Borrower viability is highly questionable; • Full repayment is highly questionable; • Vigorous remedial action required.	• 50% to less than 100% of loan principal amount, determined on a case by case basis; • Interest provision is 100%. In addition, a general provision is made on the outstanding principal.
Loss	• Loss recovery is assessed to be insignificant with no security available as alternative recourse.	• 100% of loan principal and interest. In addition, a general provision is made on the outstanding principal.

DBSH Group may also apply a split classification in appropriate cases. For instances, where a loan is partially secured, the portion covered by collateral may be classified as Substandard while the unsecured portion of the loan will be classified as Loss.

Loans are classified as restructured loans when concessions are granted to the original contractual terms for reasons related to the financial difficulties of the borrower. A restructured loan is generally graded as substandard or worse. Such loans are not returned to non-classified status until specific conditions have been met, including a reasonable period of sustained performance under the restructured terms.

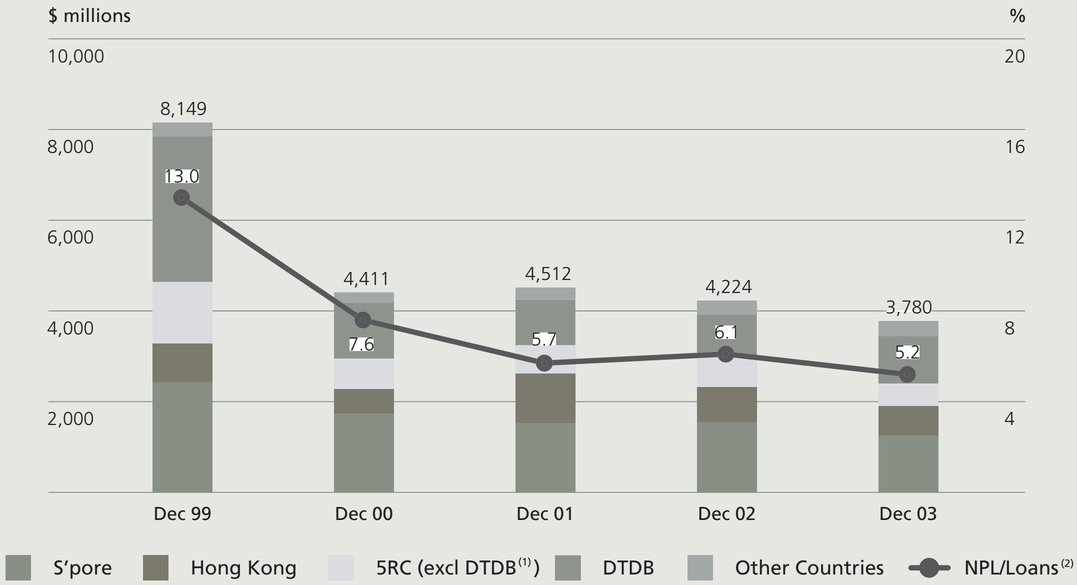
Non-performing loans

The volume of non-performing loans ("NPLs") declined to $3.8 billion at the end of December 2003. Approximately $1.4 billion of restructured NPLs continues to be included in the total volume of NPLs.

The ratio of NPLs to the total non-bank loans ("NPL rate") decreased from 6.1% at the end of December 2002 to 5.2% at the end of December 2003. The NPL rates for Singapore, Hong Kong and regional countries operations improved to 3.3%, 2.9% and 19% respectively at the end of December 2003 due to reduction in non-bank NPLs and higher loan base.

The Group's Hong Kong credit card business recorded a 1.5% delinquent loan rate for 90 days past due. The net charge-off rate for 2003 was 10.8%, down from the 11.8% in 2002. The lower charge-off rate reflects the improving economic condition in Hong Kong.

Group NPLs



Notes:
(1) DTDB: DBS Thai Danu Bank Public Company Limited.
(2) NPL rate is computed based on total non-bank customer NPLs (excluding non-performing debt securities and contingent items) divided by total gross non-bank customer loans.

%	At December 31 2003	2002
Customer NPLs as a % of Gross customer loans and advances	5.2	6.1
Total NPLs as a % of total assets	2.4	2.8

Regional NPLs and associated specific provisions

In $ millions	2003 NPLs	2003 Specific provisions	2002 NPLs	2002 Specific provisions
				At December 31
Malaysia	233	93	329	119
Indonesia	55	17	110	45
Thailand (excluding DTDB)	188	81	197	86
Korea	17	–	17	–
The Philippines	8	2	37	22
	501	193	690	272
DTDB	1,044	378	905	372
Total regional countries	1,545	571	1,595	644
Hong Kong	643	190	772	227
China	130	59	167	63
Total	2,318	820	2,534	934

NPLs and associated specific provisions by business segments

In $ millions	2003 NPLs	2003 Specific provisions	2002 NPLs	2002 Specific provisions
				At December 31
Consumer Banking	638	224	593	203
Enterprise Banking	791	276	974	271
Investment Banking	1,737	551	2,072	742
Others [1]	614	272	585	295
Total	3,780	1,323	4,224	1,511

Note:

(1) Refers to NPLs under special asset management in DTDB.

Loan grading

As at end December 2003, the percentage classification of NPLs into substandard, doubtful and loss categories remains relatively unchanged compared to end December 2002.

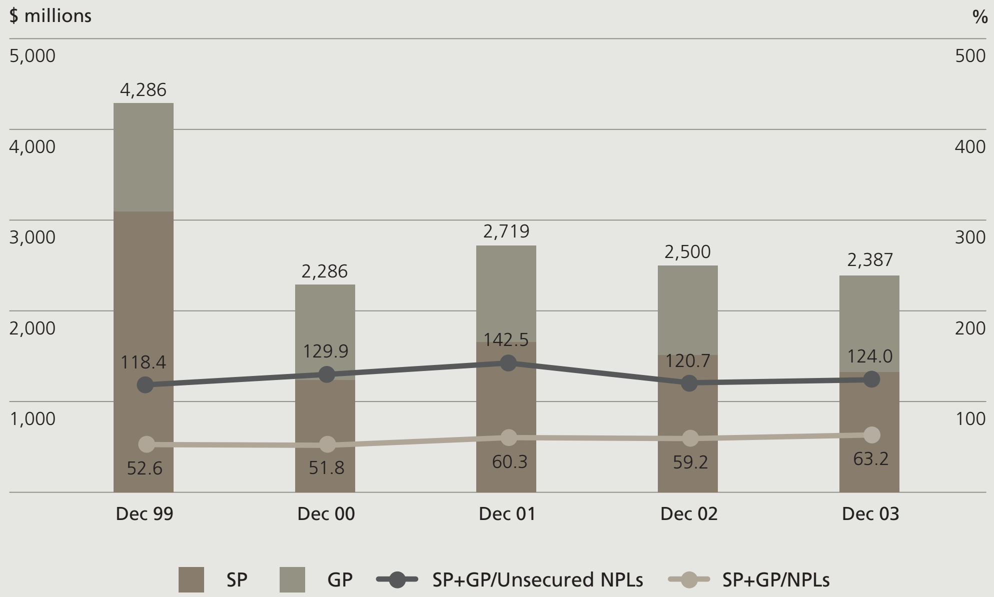
Of the total $3.8 billion NPLs as at the end of December 2003, 73% were classified as substandard, 5% as doubtful and the remaining 22% in the loss category.

NPLs and associated specific provisions by loan grade

In $ millions	2003 NPLs	2003 Specific provisions	2002 NPLs	2002 Specific provisions
				At December 31
Sub-standard	2,777	409	3,114	436
Doubtful	204	143	252	181
Loss	799	771	858	894
Total	3,780	1,323	4,224	1,511

Cumulative specific and general provisions

Total cumulative specific and general provisions ("SP" and "GP") at the end of December 2003 was 124% of unsecured NPLs and 63% of total NPLs.



%	2003	2002
	At December 31	
Total cumulative loan loss provisions as a % of:		
Total assets	1.5	1.7
Total NPLs	63	59

Approximately 49% of the total NPLs were secured by collateral.

Secured NPLs and associated collateral

In $ millions	2003	2002
	At December 31	
Unsecured NPLs	1,926	2,071
Collateral type of secured NPLs	1,854	2,153
Properties	1,577	1,756
Shares and debentures	99	145
Vessels and aircraft	21	36
Fixed deposits	23	33
Others	134	183
Total	3,780	4,224

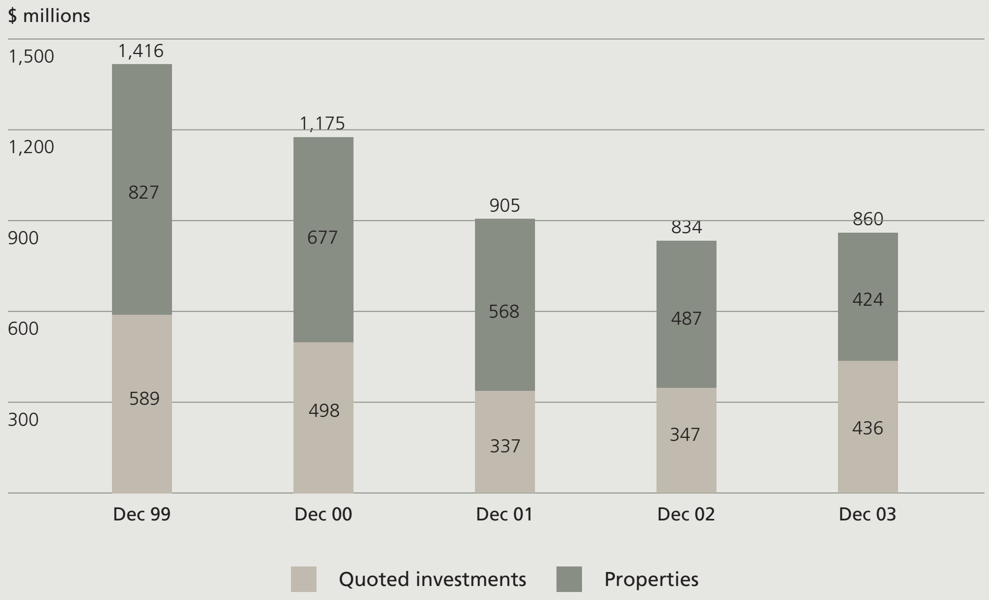
Customer deposits
At December 31, 2003, DBSH Group's customer deposits were $108 billion, an increase of 6.6% as compared with $101.3 billion at December 31, 2002, contributed mainly by higher savings account balances (refer to Note 18 to the financial statements for detailed breakdown).

Shareholders' funds and liabilities
In 2003, approximately 68% of its funding requirements were met by deposits. Although DBSH Group's funding consists primarily of short term deposits, customers often roll over their deposits at maturity, thus providing DBSH Group with a stable source of long-term funds.

Other major sources of funds include borrowings from offshore currency markets, domestic money markets in countries in which DBSH Group operates and has bilateral arrangements with financial institutions in various countries.

		At December 31
In $ millions	**2003**	2002
Shareholders' funds	**14,896**	14,237
Customer deposits	**108,041**	101,315
Interbank liabilities	**7,497**	4,877
Other borrowings and other liabilities	**29,161**	29,016
Total	**159,595**	149,445

Unrealised valuation surpluses
Unrealised valuation surpluses in properties and quoted investment securities not recognised in the accounts amounted to $860 million at the end of December 2003.

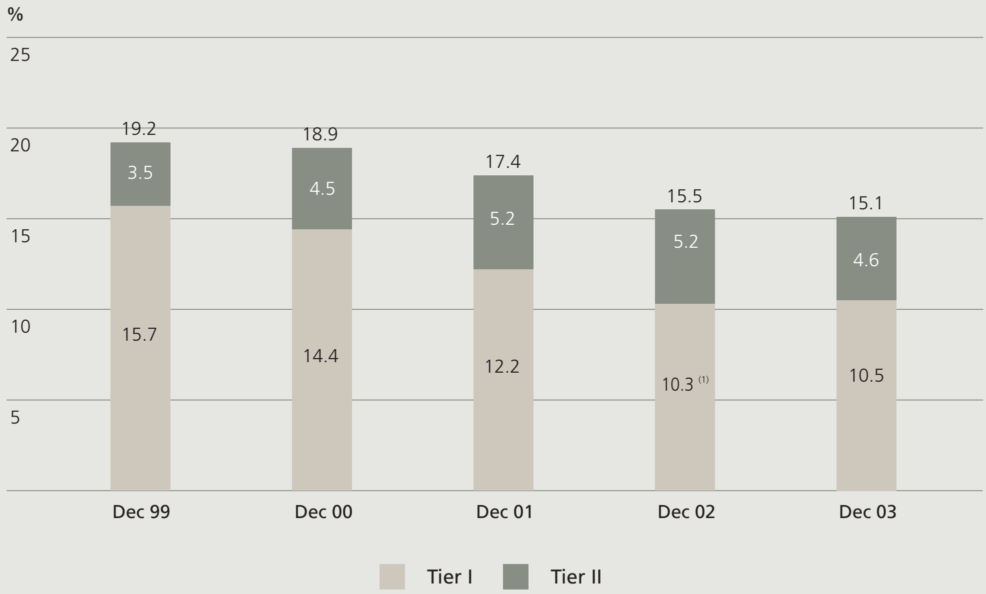


Capital adequacy ratio

DBSH's capital management policies are to diversify its sources of capital, to allocate capital efficiently and to maintain a prudent relationship between the capital and the risks of its underlying business. DBSH Group monitors the capital adequacy position and market conditions to determine desirability and timing of raising additional capital. In determining capital requirements, DBSH Group projects business growth, capital investment plans, earnings and reserve requirements.

	At December 31	
In $ millions	**2003**	2002
Tier I capital		
Paid ordinary/preference shares	**1,556**	1,555
Disclosed reserves/others	**8,068**	6,838
	9,624	8,393
Tier II capital		
Asset revaluation reserves	**209**	92
Cumulative general provisions	**768**	682
Subordinated debts	**3,531**	3,696
Deductions against capital	**(247)**	(237)
	4,261	4,233
Total capital	**13,885**	12,626
Risk weighted assets including market risks	**92,067**	81,239
Capital adequacy ratio (%)		
Tier I ratio	**10.5**	10.3
Tier II ratio	**4.6**	5.2
Total (Tier I & II) ratio	**15.1**	15.5

At end of December 2003, the total Capital Adequacy Ratio ("CAR") for the DBSH Group, measured according to the Bank for International Settlements guidelines was 15.1%, of which Tier I CAR was 10.5%.



Note:

(1) Compared to end December 2001, the reduction in the Tier I CAR ratio was primarily due to the deduction of additional goodwill with DBS' purchase of the DBS Diamond Holdings Limited minority interest.

Critical accounting estimates

DBSH Group's accounting policies and use of estimates are integral to understanding the results reported. The Group's accounting estimates require management's judgement to ascertain the valuation of assets and liabilities. Detailed policies and control procedures have been established to ensure that valuation methods, including any judgements made, are well controlled, independently reviewed and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of DBSH Group's critical accounting estimates involving management valuation judgements.

Provisioning policy

It is DBSH Group's policy to establish, through charges against profit, a provision in respect of the estimated loss inherent in the lending book. The provision consists of an element which is specific to individual counterparties and also a general element which, whilst determined as reflecting losses already within the lending book, cannot be specifically applied. In addition to general and specific provisions, DBSH Group also holds a country risk provision. The overall provision 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.

Specific element of the provision

In determining the specific provisions, management considers the amount of the loan and its other commitments to the borrower, the payment history of the borrower, the borrower's business prospects, the collateral value of the loan (how easily it could be realised and for how much) and the costs to obtain repayment. When a loan is classified, specific provision will be provided based on a percentage of the difference between the loan principal and its related collateral value (the unsecured portion). The actual percentage provided would depend on management's judgement and whether the loan is graded "Substandard", "Doubtful" or "Loss". The quantum of the provision is directly 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.

General element of the provision

The general element of the provision is made to cover losses which, although not specifically identified, are known from experience to exist in any loan portfolio.

Loan interest

DBSH Group stops accruing interest once a loan has been classified as non-performing. However, the fact that a loan is classified does not remove the Group's entitlement to interest income; it merely cast doubt on whether the Group will be able to collect it.

Write-offs

For loans managed on an individual basis, DBSH Group would consider writing off a portion of the loan when recovery action has been instituted, and the loss can be determined with reasonable certainty. For loans managed on a portfolio basis, the policy is to write off loans that are overdue after 180 days. DBSH Group continues to make every effort to recover amounts owing, even after write-offs have been recorded.

Fair value of financial instruments

DBSH Group carries its debts and equity securities held for trading at fair value. Fair value is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with the Group's trading or investment strategy. The majority of the firm's assets reported at fair value are based on quoted 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. The valuation process takes into consideration factors such as liquidity and concentration concerns, and for the derivative portfolio, counterparty credit risk. Management applies judgement in determining the factors used in the valuation process. Also, judgement must be applied in estimating prices for less readily observable external parameters. Finally, other factors such as model assumptions, market dislocations and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.