Financial Review

DBSH Group's net profit attributable to members ("NPAM") for year 2004 increased 97% to $2.018 billion. Excluding the one-time gains of $187 million from sale of the Group's 10% stake in Wing Lung Bank and $310 million gain from sale of the Group's 59% stake in DBS Thai Danu Bank Public Company Limited ("DTDB") in 2004, NPAM would show a 48% increase over the previous year to $1.521 billion (refer to Note 29.5.1 to the financial statements on disposal of DTDB). Lower provision charge and higher net interest income contributed to the better bottom-line profit.

Income before operating expenses (excluding one-time gains) rose 6% to $4.431 billion, largely due to higher net interest income from growth in customer loans and debt securities. Operating expenses increased 9% to $2.006 billion. Cost-to-income ratio (excluding goodwill amortisation) was 40.7% for 2004 and 43.9% for 2003. Excluding one-time gains, cost-to-income ratio would have been 45.3% for 2004 as compared to 43.9% for 2003. Provision charge for the full year was $47 million as compared to $541 million a year ago.

Consolidated profit and loss account

In $ millions	2004	2003	+/(-)%
Interest income	4,011	3,640	10
Interest expense	(1,445)	(1,265)	14
Net interest income	2,566	2,375	8
Non-interest income	2,362	1,823	30
Income before operating expenses	4,928	4,198	17
Operating expenses	(2,006)	(1,841)	9
Operating profit before goodwill amortisation and provisions	2,922	2,357	24
Goodwill amortisation	(440)	(430)	2
Operating profit before provisions	2,482	1,927	29
Provisions	(47)	(541)	(91)
Share of profits less losses of associated and joint venture companies	77	51	51
Net profit before taxation	2,512	1,437	75
Taxation	(442)	(349)	27
Minority interests	(52)	(63)	(17)
Net profit attributable to members ("NPAM")	2,018	1,025	97
NPAM excluding goodwill amortisation	2,458	1,455	69
Financial ratios (%)			
On a GAAP basis			
Return on assets	1.20	0.66	
Return on equity	12.85	7.04	
Excluding goodwill amortisation			
Return on assets	1.47	0.94	
Return on equity	15.66	9.99	
Cost-to-income ratio (excluding goodwill amortisation)	40.7	43.9	
As a percentage of total operating income:			
Net interest income	52.1	56.6	
Non-interest income	47.9	43.4	

Excluding one-time gains of $497 million, the following profit and loss items would have been:

In $ millions	2004	2003	+/(-)%
Non-interest income	1,865	1,823	2
Income before operating expenses	4,431	4,198	6
Net profit attributable to members	1,521	1,025	48

DBS Bank (Hong Kong) Limited

Net profit after taxation for DBS Bank (Hong Kong) Limited increased 27% to $534 million in 2004, due to higher operating income and lower provisions. In the fourth quarter 2004, DBS Bank (Hong Kong) Limited divested part of its stake in Banco de Oro Universal Bank, a bank in the Philippines, recording a $12 million gain[1/]. The remaining stake was subsequently disposed in first quarter 2005.

Compared to 2003, net interest income for 2004 increased 5%, mainly due to the wider spread between the Prime rate and HIBOR [2/] and growth in customer loans, partly offset by price pressures. Non-interest income for 2004 improved 3%, mainly due to increase in fee and commission income offset by lower income from sales of treasury investment products. Operating expenses were 8% higher due to ongoing investments in people and systems to capture business opportunities. Provision charge was 47% lower than 2003, reflecting the stronger economic environment and property market.

Profit and loss account (Based on Hong Kong Generally Accepted Accounting Principles) [3/]

In $ millions	2004	2003	+/(-)%
Net interest income	804	767	5
Non-interest income	380	368	3
Income before operating expenses	**1,184**	1,135	4
Operating expenses	**(498)**	(463)	8
Operating profit before provisions	**686**	672	2
Provisions	**(91)**	(172)	(47)
Operating profit	**595**	500	19
Net profit before taxation	**620**	501	24
Net profit after taxation	**534**	422	27

Notes:

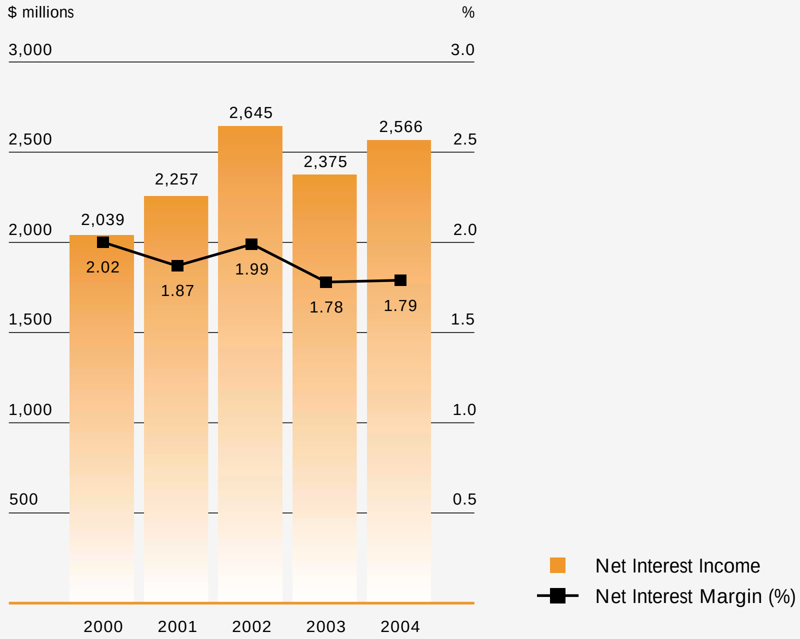
1/ Net gain on disposal of non-trading securities are reported after Operating profit under Hong Kong Generally Accepted Accounting Principles.

2/ HIBOR: Hong Kong Interbank Offer Rate

3/ The exchange rate used for both periods is HK$1 = $0.2100565.

Net Interest Income and Net Interest Margin

Net interest income grew 8% over 2003 to $2.566 billion. This was largely due to growth in interest bearing assets especially in customer loans which grew 7%. Net interest margin for 2004 was 1.79%, slightly higher than 1.78% in 2003.



Net interest income and net interest margin[1]

In $ millions	2004 Average balance	2004 Interest	2004 Average rate (%)	2003 Average balance	2003 Interest	2003 Average rate (%)
Customer loans and advances	**67,049**	**2,279**	**3.40**	62,593	2,342	3.74
Interbank items	**31,347**	**404**	**1.29**	38,323	398	1.04
Securities[2]	**45,149**	**1,328**	**2.94**	32,883	900	2.74
Total interest bearing assets	**143,545**	**4,011**	**2.79**	133,799	3,640	2.72
Deposits	**110,114**	**746**	**0.68**	106,244	718	0.68
Others	**24,313**	**699**	**2.88**	19,092	547	2.87
Total interest bearing liabilities	**134,427**	**1,445**	**1.07**	125,336	1,265	1.01
Net interest income/margin		**2,566**	**1.79**		2,375	1.78

Notes:
1/ Net interest margin is net interest income expressed as a percentage of average interest-earning assets.
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 2004 compared with 2003. 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 2004/2003

In $ millions	Volume	Rate	Net change
Interest income			
Customer loans and advances	167	(230)	(63)
Interbank items	(72)	78	6
Securities	335	93	428
Total interest income	430	(59)	371
Interest expense			
Deposits	27	1	28
Others	150	2	152
Total interest expense	177	3	180

Non-interest income

Non-interest income increased 30% to $2.362 billion. Excluding the $497 million one-time gains, non-interest income was 2% higher.

Fee and commission income in 2004 increased 15% to $1.013 billion, contributed by higher wealth management, stockbroking, investment banking, loan related, and trade and remittance fees.

Excluding the one-time gains in 2004, other income declined 12% for the year due to lower income from sales of treasury structured investment products and lower net gain on investment securities.

In $ millions	2004	2003	+/(-)%
Fee and commission income	**1,013**	884	15
Stockbroking	**198**	169	17
Investment banking	**104**	83	25
Trade and remittances	**128**	111	15
Loan related	**183**	155	18
Deposit related	**99**	103	(4)
Credit card	**87**	89	(2)
Fund management	**43**	40	8
Wealth management (unit trust distribution and bancassurance)	**132**	90	47
Others	**39**	44	(11)
Dividend and rental income	**105**	87	21
Other income	**1,244**	852	46
Net gain on treasury related activities (including structured investment products)	**590**	650	(9)
Net gain on investment securities	**644**[1/]	185	248
Net gain on fixed assets	**4**	3	33
Others	**6**	14	(57)
Total non-interest income	**2,362**	1,823	30
Non-interest income as a percentage of income before operating expenses (%)	**47.9**	43.4	

Note:
1/ Included one-time gains of $310 million from sale of 59% stake in DTDB and $187 million from sale of 10% stake in Wing Lung Bank.

Operating expenses
Excluding goodwill amortisation, operating expenses increased 9% to $2.006 billion mainly due to higher staff costs, advertising and promotion expenses and technology-related expenses. The increase was mainly due to higher staff costs from bonus accrual in line with the stronger bottom-line performance in 2004 and business expansion. Spending on advertising and promotions for retail products were higher with new product launches and branding initiatives in 2004.

In $ millions	2004	2003	+/(-)%
Staff costs	**970**	865	12
Occupancy expenses	**181**	203	(11)
Technology-related expenses	**312**	287	9
Revenue-related expenses	**202**	183	10
Others	**341**	303	13
Total operating expenses	**2,006**	1,841	9
Cost-to-income ratio (%) (excluding goodwill amortisation)	**45.3**[1/]	43.9	
Staff headcount number (at year-end)	**11,454**	12,144	

Note:
1/ Excludes one-time gains arising from sale of Wing Lung shares and disposal of DBS Thai Danu Bank Public Company Limited.

Provision charge

Total provision charge decreased 91% to $47 million in 2004, with specific provision reduced by 88% to $52 million. The decrease was due to better economic conditions and overall credit quality of the loan portfolio, as well as improved valuations.

General provision written-back was $5 million in 2004 compared to an $89 million additional provision in 2003. The write-back in general provision in 2004 followed the adoption of a transitional general provisioning framework ahead of Basel II and in line with revised MAS provisioning guidelines (MAS Notice 612).

In $ millions	2004	2003	+/(-)%
Loans	**86**	352	(76)
Singapore	**38**	182	(79)
Hong Kong	**54**	169	(68)
Other countries	**(6)**	1	NM
Securities, properties and other assets	**(34)**	100	NM
Specific provision	**52**	452	(88)
General provision	**(5)**	89	NM
Total provision charge	**47**	541	(91)

NM: Not meaningful

Balance sheet

At December 31, 2004, total assets were $175.6 billion. Net customer loans grew 8% to $69.7 billion at end December 2004, mainly driven by housing loans and loans granted to manufacturing sector and financial institutions, investment & holding companies. Customer deposits grew 5% to $113.2 billion. The Group's loan-to-deposit ratio at end December 2004 was 61.5%. Including DBSH Group's portfolio of non-trading debt securities, the ratio of loan and non-trading debt securities to deposits was 82.0%.

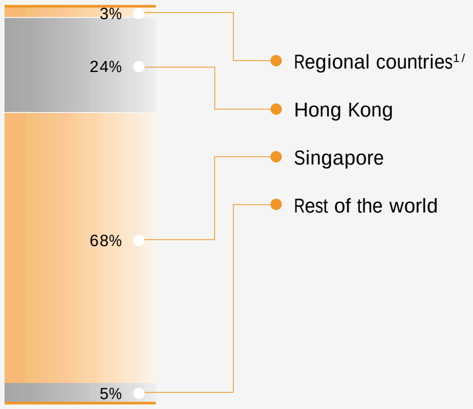
Selected balance sheet data

	At December 31	
In $ millions	2004	2003
Assets		
Total assets	**175,553**	159,595
Total loans [1/]	**94,832**	91,807
Customer loans and advances	**69,664**	64,335
Interbank items	**25,168**	27,472
Investment in quoted and unquoted securities and shares	**47,614**	41,246
Liabilities		
Total liabilities	**157,923**	143,574
Total deposits	**124,145**	115,538
Customer deposits	**113,206**	108,041
Interbank liabilities	**10,939**	7,497
Borrowings and debt securities	**13,897**	11,297
Shareholders' funds	**16,502**	14,896
Financial ratios (%)		
Customer loan-to-deposit ratio	**61.5**	59.5
Customer loan and non-trading debt securities-to-deposit ratio	**82.0**	79.7

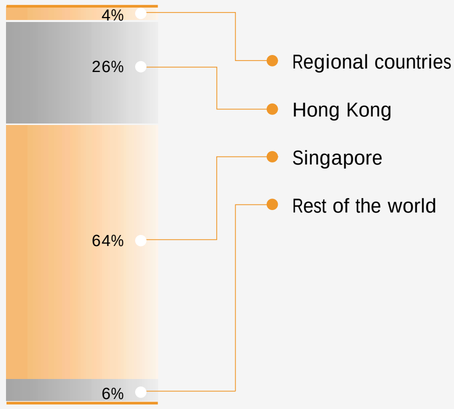
Note:
1/ After deducting cumulative provisions.

Total Assets

2004



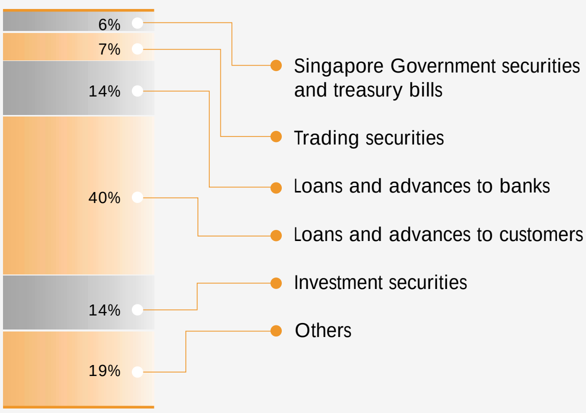
2003



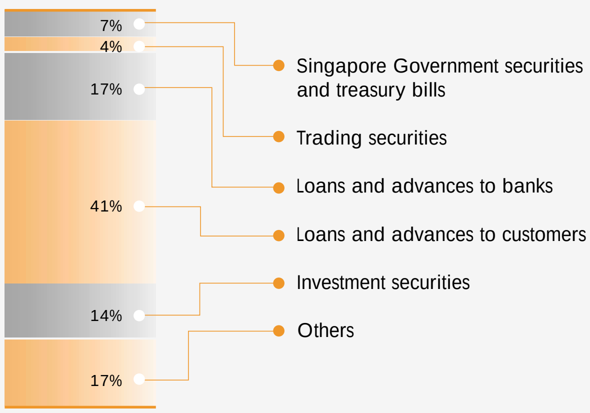
Note:
1/ Regional countries include Malaysia, Indonesia, Thailand, Korea and the Philippines.

Deployment of assets

2004



2003



Customer loans and advances

At December 31, 2004, loans booked in Singapore accounted for 58% of DBSH Group's customer loans and advances, while loans booked in Hong Kong accounted for 34% and the remaining 8% in other overseas branches and subsidiary companies.

Gross customer loans by geographical classification

At December 31

	2004		2003	
	$ millions	%	$ millions	%
Singapore	**41,261**	**58**	36,494	55
Hong Kong	**24,104**	**34**	22,214	33
Regional countries	**2,373**	**3**	4,985	8
Rest of the world	**3,283**	**5**	2,721	4
Total gross customer loans	**71,021**	**100**	66,414	100

Classification of loans

DBSH Group classifies its loans in accordance with guidelines adopted by the MAS and seeks to use international best practices in its approach where possible and applicable. MAS guidelines require banks to classify their loan portfolios which 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) — and to set minimum reserves based on these categories.

Pass grades are applicable for loans that have no indication of default and when full repayment of interest and principal from normal sources is not in any doubt. Special Mention grade is appropriate when there is potential weakness in the borrower's creditworthiness, 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 the potential weaknesses, if not corrected, may result in deterioration of repayment prospects.

Substandard or a 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 sets forth the various categories for classified loans:

Grade assigned to loan	Criteria	Provision level
Substandard	• Well defined weakness(es) are present that jeopardise normal repayment • Borrower is assessed to be viable but requires prompt corrective action • All credits > 90 days past due • Restructured loans (if performing for less than 12 months)	For 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% For loans with security shortfall: • Principal provision is generally 10-49% of unsecured amount • Interest provision is 100%
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%
Loss	• Loss recovery is assessed to be insignificant	• 100% of loan principal amount and interest

DBSH Group may also apply a split classification in appropriate cases. For instance, where a non-performing 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.

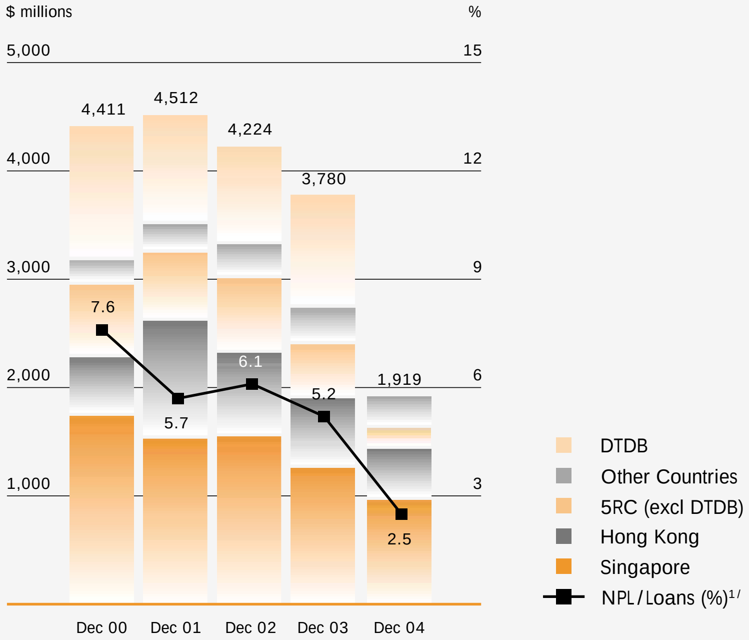
Loans are classified as restructured loans when concessions are granted to the original contractual terms for reasons related to the financial difficulties of the borrower. A restructured loan is generally graded as Substandard or worse. Such loans are not returned to non-classified status until specific 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 $1.9 billion at December 31, 2004 from $3.8 billion at December 31, 2003. Of the total $1.9 billion NPLs, $0.4 billion or 22% were restructured NPLs.

Singapore's NPLs were $1 billion and accounted for 50% of the Group's NPLs, while Hong Kong's NPLs of $0.5 billion accounted for 25%.

The ratio of NPLs to total non-bank loans ("NPL rate") improved from 5.2% in 2003 to 2.5% at December 31, 2004. The NPL rates for Singapore, Hong Kong, regional countries and other countries operations improved to 2.2%, 2.0%, 5.6% and 5.0% respectively, at end December 2004 due to a reduction in non-bank NPLs and a higher loan base.



Note:
1/ 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	
%	**2004**	2003
Customer NPLs as a % of Gross customer loans and advances	**2.5**	5.2
Total NPLs as a % of total assets	**1.1**	2.4

Regional NPLs and associated specific provision

	At December 31			
	2004		2003	
In $ millions	**NPLs**	**Specific Provisions**	NPLs	Specific Provisions
Malaysia	**136**	**53**	233	93
Indonesia	**25**	**5**	55	17
Thailand (excluding DTDB)	**34**	**34**	188	81
Korea	**–**	**–**	17	–
The Philippines	**#**	**#**	8	2
	195	**92**	501	193
DTDB[1/]	**–**	**–**	1,044	378
Total regional countries	**195**	**92**	1,545	571
Hong Kong	**471**	**159**	643	190
China	**71**	**41**	130	59
Total	**737**	**292**	2,318	820

#: Insignificant
1/ DTDB was deconsolidated on June 25, 2004.

NPLs and associated specific provisions by business segments

At December 31

In $ millions	2004 NPLs	2004 Specific Provisions	2003 NPLs	2003 Specific Provisions
Consumer Banking	**356**	**111**	638	224
Enterprise Banking	**599**	**233**	791	276
Investment Banking	**822**	**286**	1,737	551
Others	**142**	**56**	614	272
Total	**1,919**	**686**	3,780	1,323

Loan grading

Of the total $1.9 billion NPLs at end December 2004, 71% were classified as Substandard, 9% as Doubtful and the remaining 20% in the Loss category. 52% of the NPLs were secured by collateral.

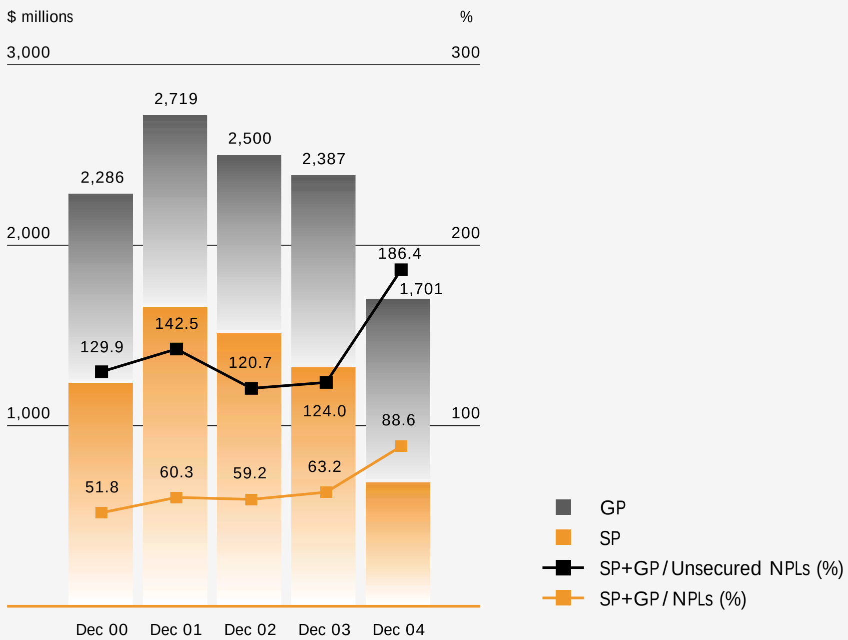
NPLs and associated specific provision by loan grade

At December 31

In $ millions	2004 NPLs	2004 Specific Provisions	2003 NPLs	2003 Specific Provisions
Loan grade				
Substandard	**1,360**	**156**	2,777	409
Doubtful	**169**	**140**	204	143
Loss	**390**	**390**	799	771
Total	**1,919**	**686**	3,780	1,323

Cumulative specific and general provisions

Total cumulative specific and general provisions at end December 2004 were 186.4% of unsecured NPLs and 88.6% of total NPLs.



Cumulative specific and general provisions (continued)

%	At December 31 2004	2003
Total cumulative loan loss provisions as a % of:		
Total assets	**1.0**	1.5
Total NPLs	**89**	63

Approximately 52% of the total NPLs were secured by collateral.

Secured NPLs and associated collateral

In $ millions	At December 31 2004	2003
Unsecured NPLs	**913**	1,926
Collateral type of secured NPLs	**1,007**	1,854
Properties	**821**	1,577
Shares and debentures	**64**	99
Vessels and aircraft	**–**	21
Fixed deposits	**7**	23
Others	**115**	134
Total	**1,919**	3,780

Customer deposits

At December 31, 2004, DBSH Group's customer deposits were $113.2 billion, a 5% increase as compared to $108 billion at December 31, 2003, contributed by an overall increase across all deposit types (refer to Note 18 to the financial statements for detailed breakdown).

Shareholders' funds and liabilities

In 2004, approximately 64% of its funding sources 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.

The following table sets forth a breakdown of DBSH Group's funding sources at the end of the periods indicated:

In $ millions	At December 31 2004	2003
Shareholders' funds	**16,502**	14,896
Customer deposits	**113,206**	108,041
Interbank liabilities	**10,939**	7,497
Other borrowings and other liabilities	**34,906**	29,161
Total	**175,553**	159,595

Unrealised valuation surpluses

Unrealised valuation surpluses in properties and quoted investment securities not recognised in the accounts amounted to $1.2 billion at end December 2004.

	At December 31	
In $ millions	**2004**	2003
Properties	**653**	424
Quoted investments	**531**	436
Total	**1,184**	860

Capital adequacy ratio

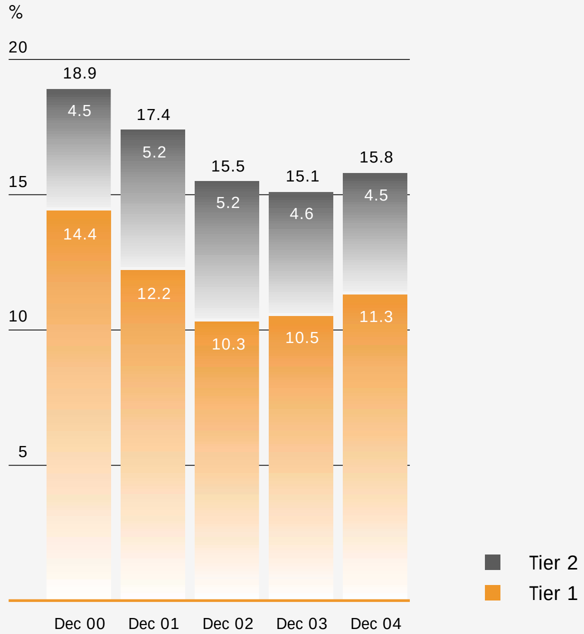
DBSH's capital management policies are to diversify its sources of capital, to allocate capital efficiently and to maintain a prudent relationship between the capital and the risks of its underlying business. DBSH Group monitors the capital adequacy position and market conditions to determine desirability 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	**2004**[1/]	2003
Tier 1 capital		
Paid ordinary/preference shares	**1,559**	1,556
Disclosed reserves/others	**17,146**	15,439
Goodwill	**(6,931)**	(7,371)
	11,774	9,624
Tier 2 capital		
Cumulative general provisions	**971**	768
Subordinated debts	**4,371**	3,531
Others	**(674)**	(38)
	4,668	4,261
Total capital	**16,442**	13,885
Risk weighted assets including market risks	**103,987**	92,067

Note:

1/ Ratios for 2004 were computed based on MAS Notice 637 issued on May 28, 2004. Comparatives for 2003 were not restated and were computed using Bank for International Settlements ("BIS") guidelines.

Capital adequacy ratio



At December 31, 2004, the total Capital Adequacy Ratio ("CAR") for DBSH Group was 15.8% based on MAS capital framework (MAS Notice 637). Tier 1 CAR was 11.3%.

An additional US$750 million subordinated debt which qualifies as Tier 2 capital was included in CAR at December 31, 2004.

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. The overall provision should represent the aggregate amount by which management considers necessary to be written down in the 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 casts 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 debt 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.

Impairment of goodwill
DBSH Group performs an impairment review to ensure that the carrying value of the goodwill is not below its recoverable amount. Recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Therefore, in arriving at the value in use amount, management applies judgement in estimating the future cash flows.