

**DBS BANK (HONG KONG) LIMITED
(FORMERLY KNOWN AS DAO HENG BANK LIMITED)**

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2003

The Directors of DBS Bank (Hong Kong) Limited (the “Bank”) are pleased to provide additional unaudited information relating to the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31st December 2003 as follows:

Basis of Presentation

By virtue of the Dao Heng Bank Limited (Merger) Ordinance, the audited accounts of the Bank for the year ended 31st December 2003 were prepared as if the undertakings of Overseas Trust Bank Limited (“OTB”) and DBS Kwong On Bank Limited (“DKOB”) had vested in the Bank on 1st January 2003. As a result, the comparative balances for the profit and loss account, the balance sheet and related notes will not be comparable.

In order to provide more meaningful comparative balances, the following unaudited information was prepared as if the undertakings of OTB and DKOB had already been vested in the Group on 1st January 2002.

Pro forma Consolidated Profit and Loss Account

	Note	2003 HK\$'000	2002 HK\$'000	Change %
Interest income		5,331,490	6,391,498	-16.6%
Interest expense		(1,681,330)	(2,689,498)	-37.5%
Net interest income		3,650,160	3,702,000	-1.4%
Other operating income	1	1,755,111	1,247,751	40.7%
Operating income		5,405,271	4,949,751	9.2%
Operating expenses	2	(2,171,454)	(2,237,113)	-2.9%
Impairment of fixed assets		(25,236)	(241,136)	-89.5%
Operating profit before provisions		3,208,581	2,471,502	29.8%
Charge for bad and doubtful debts	3	(821,003)	(750,005)	9.5%
Operating profit		2,387,578	1,721,497	38.7%
Net (loss)/gain on disposal of fixed assets		(21,374)	16,482	
Net gain on disposal of non-trading securities and held-to-maturity securities		10,338	19,064	-45.8%
Impairment loss on non-trading securities		–	(13,998)	
Share of profit of a jointly controlled entity		10,022	3,509	185.6%
Profit before taxation		2,386,564	1,746,554	36.6%
Taxation		(379,154)	(249,632)	51.9%
Profit attributable to shareholders		2,007,410	1,496,922	34.1%

Pro forma Consolidated Balance Sheet

	Note	2003 HK\$'000	2002 HK\$'000	Change %
Assets				
Cash and short-term funds		23,274,188	26,912,693	-13.5%
Placements with banks and other financial institutions maturing between one and twelve months		4,794,928	8,523,654	-43.7%
Certificates of deposit held		1,216,013	1,536,884	-20.9%
Trading securities		1,147,080	2,078,229	-44.8%
Held-to-maturity securities		24,719,284	18,768,297	31.7%
Advances less provisions	4	92,722,726	91,615,437	1.2%
Non-trading securities		5,789,244	2,199,470	163.2%
Interest in a jointly controlled entity		80,481	72,471	11.1%
Fixed assets		4,734,347	5,196,802	-8.9%
Other assets		4,226,391	4,567,520	-7.5%
Total assets		<u>162,704,682</u>	<u>161,471,457</u>	0.8%
Liabilities				
Deposits and balances of banks and other financial institutions		1,070,642	1,869,092	-42.7%
Deposits from customers	5	121,604,354	119,732,900	1.6%
Certificates of deposit issued		7,865,776	6,018,942	30.7%
Other liabilities		13,020,057	13,086,048	-0.5%
Amount due to a jointly controlled entity		1,122,438	1,103,780	1.7%
7.75% fixed rate subordinated notes		2,030,956	2,040,278	-0.5%
Deferred tax liabilities		134,243	142,827	-6.0%
Total liabilities		<u>146,848,466</u>	<u>143,993,867</u>	2.0%
Shareholders' funds				
Share capital		5,200,000	5,200,000	
Reserves	6	10,656,216	12,277,590	-13.2%
		<u>15,856,216</u>	<u>17,477,590</u>	-9.3%
Total liabilities and shareholders' funds		<u>162,704,682</u>	<u>161,471,457</u>	0.8%

UNAUDITED NOTES TO THE ACCOUNTS

1. Other operating income

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Net fees and commission income	859,519	889,185	-3.3%
Dividend and rental income	24,736	24,162	2.4%
Net gain on treasury activities (Note)	833,988	267,284	212.0%
Others	36,868	67,120	-45.1%
	<u>1,755,111</u>	<u>1,247,751</u>	40.7%

Note: Net gain on treasury activities comprise of gains and losses from foreign exchange operation, trading securities and other dealing activities including sales of treasury and treasury investment products.

2. Operating expenses

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Staff costs	1,162,295	1,216,660	-4.5%
Premises and equipment expenses excluding depreciation	224,995	265,045	-15.1%
Depreciation	244,884	250,973	-2.4%
Other operating expenses	539,280	504,435	6.9%
	<u>2,171,454</u>	<u>2,237,113</u>	-2.9%

3. Charge for bad and doubtful debts

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Specific provisions			
– New provisions	1,193,252	1,365,056	-12.6%
– Releases	(315,157)	(483,373)	-34.8%
– Recoveries	(84,223)	(47,913)	75.8%
	<u>793,872</u>	<u>833,770</u>	-4.8%
General provisions			
– Advances to customers	11,253	(85,951)	
– Debts securities	15,878	2,186	626.3%
	<u>26,131</u>	<u>(83,765)</u>	
Charge for bad and doubtful debts	<u>821,003</u>	<u>750,005</u>	9.5%

4. Advances less provisions

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Advances to customers	94,126,595	93,138,754	1.1%
Provisions for bad and doubtful debts			
– General	(919,072)	(911,505)	0.8%
– Specific	(770,328)	(899,636)	-14.4%
	92,437,195	91,327,613	1.2%
Advances to banks and other financial institutions	285,531	287,824	-0.8%
	92,722,726	91,615,437	1.2%
Included in advances to customers are:			
Trade bills	1,255,317	1,065,113	17.9%
General provisions	(9,211)	(6,093)	51.2%
	1,246,106	1,059,020	17.7%

5. Deposits from customers

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Demand deposits and current accounts	8,484,415	6,073,629	39.7%
Savings deposits	35,075,148	17,876,826	96.2%
Time, call and notice deposits	78,044,791	95,782,445	-18.5%
	121,604,354	119,732,900	1.6%

6. Reserves

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	Change %
Share premium	595,503	595,503	–
Capital reserve	11,636	11,636	–
Premises revaluation reserve	979,509	1,153,284	-15.1%
Investment properties revaluation reserve	81,500	81,752	-0.3%
Investment revaluation reserve	48,817	(3,650)	
General reserve	2,398,792	2,398,792	–
Retained earnings	6,540,459	8,040,273	-18.7%
	10,656,216	12,277,590	-13.2%

7. Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Direct credit substitutes	899,191	690,391
Transaction-related contingencies	444,189	461,415
Trade-related contingencies	4,758,968	3,547,264
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	47,256,608	46,978,964
	<u>53,358,956</u>	<u>51,678,034</u>

(b) Derivatives

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Equity contracts	19,367,462	4,350,002
Exchange rates contracts	82,586,379	68,199,068
Interest rate contracts	192,024,949	188,706,988
	<u>293,978,790</u>	<u>261,256,058</u>

8. Capital adequacy and liquidity ratios

	2003	2002
Capital adequacy ratio	<u>19.47%</u>	<u>21.48%</u>
Adjusted capital adequacy ratio	<u>19.05%</u>	<u>20.53%</u>
Average liquidity ratio	<u>45.26%</u>	<u>38.90%</u>

The capital adequacy ratio represents the consolidated ratio of the Bank as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk at the balance sheet date computed in accordance with the guideline "Maintenance of Adequate Capital against Market Risks" issued by the Hong Kong Monetary Authority.

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the period calculated for the Bank, and is in accordance with the Fourth Schedule of the Banking Ordinance.

9. Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Core capital		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	8,792,694	9,191,141
	14,588,197	14,986,644
Supplementary capital		
Reserve on revaluation of land and interests in land	742,706	864,525
Reserve on revaluation of holding of securities not held for trading purposes	34,172	(3,650)
General provisions for doubtful debts	937,135	913,691
Term subordinated debt	1,624,765	2,040,278
Gross and eligible value of supplementary capital	3,338,778	3,814,844
Total capital base before deductions	17,926,975	18,801,488
Deductions from total capital base	(617,194)	(463,441)
Total capital base after deductions	17,309,781	18,338,047

The capital base represents the combined capital base of the Bank as at period end computed in accordance with the Third Schedule of the Banking Ordinance.

10. Advances to customers - By industry sectors

The information concerning gross advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any provisions.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	162,640	149,613
– Property investment	10,766,258	10,530,497
– Financial concerns	1,039,712	1,171,064
– Stockbrokers	141,876	149,809
– Wholesale and retail trade	2,231,798	2,339,847
– Manufacturing	5,666,365	4,603,386
– Transport and transport equipment	7,864,913	7,532,020
– Others	3,330,415	3,343,628
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,470,608	4,043,253
– Loans for the purchase of other residential properties	36,143,250	37,051,250
– Credit card advances	5,185,788	5,321,807
– Others	4,046,157	4,276,285
	80,049,780	80,512,459
Trade finance	12,874,033	11,404,357
Loans for use outside Hong Kong	1,202,782	1,221,938
	94,126,595	93,138,754

11. Non-performing advances to customers and provisions

The gross amount of non-performing advances, net of suspended interest, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such advances are as follows:

	2003		2002	
	<i>HK\$'000</i>	% of total advances to customers	<i>HK\$'000</i>	% of total advances to customers
Gross non-performing advances	2,228,288	2.37	2,168,407	2.33
Specific provisions made in respect of such advances	(727,047)		(764,552)	
	1,501,241		1,403,855	
Suspended interest	266,611		283,913	

12. Overdue and rescheduled advances to customers

(a) Overdue advances to customers

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for:

	2003		2002	
	<i>HK\$'000</i>	% of total advances to customers	<i>HK\$'000</i>	% of total advances to customers
Six months or less but over three months	385,890	0.41	625,921	0.67
One year or less but over six months	418,878	0.44	295,266	0.32
Over one year	561,400	0.60	735,574	0.79
	<u>1,366,168</u>	<u>1.45</u>	<u>1,656,761</u>	<u>1.78</u>

(b) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above):

	2003		2002	
	<i>HK\$'000</i>	% of total advances to customers	<i>HK\$'000</i>	% of total advances to customers
Performing loans	57,889		157,727	
Non-performing loans	304,999		157,092	
Rescheduled advances	<u>362,888</u>	0.39	<u>314,819</u>	0.34

(c) Reconciliation of overdue advances to non-performing advances

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Overdue advances to customers as per (a) above	1,366,168	1,656,761
Less: Advances which are overdue for more than three months and on which interest is still being accrued	(61,651)	(158,156)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
– included in rescheduled advances	304,999	157,092
– others	618,772	512,710
Non-performing loans	<u>2,228,288</u>	<u>2,168,407</u>