

星展銀行（香港）有限公司
DBS BANK (HONG KONG) LIMITED

**INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED
30 JUNE 2004**

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UNAUDITED INTERIM FINANCIAL DISCLOSURE STATEMENT

The Directors of DBS Bank (Hong Kong) Limited (the “Bank”) are pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2004 as follows:

Basis of Presentation

On 21 July 2003, the undertakings of Overseas Trust Bank Limited (“OTB”) and DBS Kwong On Bank Limited (“DKOB”) were vested in the Bank by virtue of the Dao Heng Bank Limited (Merger) Ordinance. The financial impact of this merger has been disclosed in the 2003 Annual Report of the Bank.

Within this interim financial disclosure statement, the consolidated profit and loss account for the six months ending 30 June 2003 represents the results of the Group prior to the merger. In order to provide additional understanding of the performance of the Group subsequent to the merger, pro forma comparative information for the consolidated profit and loss account has been disclosed. This pro forma comparative information has been prepared as if the undertakings of OTB and DKOB had been vested in the Bank on 1 January 2003.

Certain comparative amounts in this disclosure statement have been reclassified to conform to the current year’s presentation.

Unaudited consolidated profit and loss account

	For the six months ended				
	Note	30 June 2004 HK\$'000	30 June 2003 HK\$'000	Pro forma 30 June 2003 HK\$'000	(Note) Change %
Interest income		2,568,007	2,083,979	2,763,959	-7.1
Interest expense		(603,230)	(778,356)	(987,789)	-38.9
Net interest income		1,964,777	1,305,623	1,776,170	10.6
Other operating income	1	937,560	597,239	756,292	24.0
Operating income		2,902,337	1,902,862	2,532,462	14.6
Operating expenses		(1,137,331)	(808,879)	(1,079,881)	5.3
Operating profit before provisions		1,765,006	1,093,983	1,452,581	21.5
Charge for bad and doubtful debts	2	(243,207)	(350,893)	(470,226)	-48.3
Operating profit		1,521,799	743,090	982,355	54.9
Net gain/(loss) on disposal of fixed assets		4,071	(231)	(485)	
Impairment of fixed assets	3	–	(12,258)	(12,258)	
Net gain on disposal of non-trading securities and held-to-maturity securities	4	3,108	3,169	10,918	-71.5
		1,528,978	733,770	980,530	55.9
Share of profit of a jointly controlled entity	5	27,143	2,836	2,836	857.1
Profit before taxation		1,556,121	736,606	983,366	58.2
Taxation	6	(217,583)	(132,288)	(171,789)	26.7
Profit attributable to shareholders		1,338,538	604,318	811,577	64.9
Dividends	7	–	3,603,523	3,603,523	

Note: The percentage change shown represents the variance between the results for 2004 and the pro forma results for 2003.

Unaudited consolidated balance sheet

	<i>Note</i>	As at 30 June 2004 HK\$'000	As at 31 December 2003 HK\$'000	Change %
Assets				
Cash and short-term funds		22,357,792	23,274,188	-3.9
Placements with banks and other financial institutions maturing between one and twelve months		2,834,531	4,794,928	-40.9
Certificates of deposit held		1,194,869	1,216,013	-1.7
Trading securities		1,044,992	1,147,080	-8.9
Held-to-maturity securities		26,475,139	24,719,284	7.1
Trade bills less provisions	8	1,399,004	1,246,106	12.3
Advances less provisions	9(a)	97,630,604	91,476,620	6.7
Non-trading securities		7,156,180	5,789,244	23.6
Interest in a jointly controlled entity		104,715	80,481	30.1
Fixed assets		4,625,109	4,734,347	-2.3
Other assets		5,786,408	4,226,391	36.9
Total assets		<u>170,609,343</u>	<u>162,704,682</u>	4.9
Liabilities				
Deposits and balances of banks and other financial institutions		3,192,220	1,070,642	198.2
Deposits from customers	10	119,092,007	121,604,354	-2.1
Certificates of deposit issued		8,784,116	7,865,776	11.7
Deferred tax liabilities	6	107,628	134,243	-19.8
Other liabilities		19,051,293	13,020,057	46.3
Amount due to a jointly controlled entity		1,174,346	1,122,438	4.6
7.75% fixed rate subordinated notes		2,040,544	2,030,956	0.5
Total liabilities		<u>153,442,154</u>	<u>146,848,466</u>	4.5
Shareholders' funds				
Share capital		5,200,000	5,200,000	-
Reserves	11	11,967,189	10,656,216	12.3
Shareholders' funds		<u>17,167,189</u>	<u>15,856,216</u>	8.3
Total liabilities and shareholders' funds		<u>170,609,343</u>	<u>162,704,682</u>	4.9

Review of activities

Benefiting from its closer ties with Mainland China under the Closer Economic Partnership Arrangement, the economy of Hong Kong is experiencing a broad based recovery with virtually all sectors rebounding during the period under review. Real GDP grew 6.8% year-on-year in the first quarter of 2004, with the outlook for second quarter growth even more robust. Retail sales improved markedly, in part due to the Chinese Government's extension of the individual travel scheme to more mainland provinces.

The Bank recorded favourable results for the first half of 2004 with both interest and non-interest income registering double digit gains. There was also a large decrease in provisions against bad debts in view of improved asset quality, particularly due to a significantly reduced volume of personal bankruptcy petitions. Consumer Banking Division achieved strong sales of treasury and structured investment products, although momentum slowed down in the second quarter due to uncertainties over the interest rate environment and dampened investor sentiment. The Bank's credit card business experienced a better operating environment in view of strong retail sales and improved consumer confidence.

Enterprise Banking Division recorded good loan growth, especially in trade finance, factoring and the equipment finance businesses. The Bank is allocating more resources to China especially in the Pearl River Delta area where there is a good demand for corporate loans and equipment finance. To further enhance its competitive edge, various business divisions are taking steps to deepen relationships with customers, diversify income streams and cross sell products and services within the DBS Group.

Notes to the accounts

1. Other Operating Income

	For the six months ended		
	30 June 2004	30 June 2003	Pro forma 30 June 2003
	HK\$'000	HK\$'000	HK\$'000
Fees and commission income	625,134	383,428	473,200
Less: fees and commission expenses	(70,433)	(55,182)	(60,759)
Net fees and commission income	554,701	328,246	412,441
Others (Note)	382,859	268,993	343,851
	<u>937,560</u>	<u>597,239</u>	<u>756,292</u>

Note: Others includes income earned from trading activities and the sale of investment products.

2. Charge for bad and doubtful debts

	For the six months ended		
	30 June 2004	30 June 2003	Pro forma 30 June 2003
	HK\$'000	HK\$'000	HK\$'000
Specific provisions			
– New provisions	368,536	476,669	624,240
– Release	(155,576)	(120,186)	(129,431)
– Recoveries	(33,239)	(20,271)	(33,990)
General provisions			
– Advances to customers	62,764	9,906	4,632
– Trade bills receivable from customers	370	2,045	2,045
– Held-to-maturity securities	352	2,730	2,730
	<u>243,207</u>	<u>350,893</u>	<u>470,226</u>

3. Impairment of fixed assets

No impairment loss (six months ended 30 June 2003: HK\$12,258,000) was recognised in the profit and loss account during the period. Impairment losses are primarily a result of a reduction in property values and partly due to a reduction in the expected future cash inflows generated by those premises, including those branches scheduled for closure. Impairment losses are assessed in accordance with the requirements of SSAP31 “Impairment of assets”.

4. Net gain on disposal of non-trading securities and held-to-maturity securities

	For the six months ended		
	30 June 2004	30 June 2003	Pro forma 30 June 2003
	HK\$'000	HK\$'000	HK\$'000
Net gain on disposal of non-trading securities	3,108	886	8,476
Net gain on disposal of held-to-maturity securities	—	2,283	2,442
	<u>3,108</u>	<u>3,169</u>	<u>10,918</u>

5. Share of profit of a 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 receivable balances are included under “Advances to customers” in the Group’s balance sheet. Under the Agreement, loan losses on the Compass cards are borne by HDCL and accordingly, no provisions have been made in the Group accounts for these balances. The revenues and expenses (including interest income and expenses, fee income and loan losses) associated with the Compass cards are recognised by the Group through its 50% share of net profits of HDCL in the “Share of profit of a jointly controlled entity” line in the Group’s consolidated accounts.

6. Taxation

	For the six months ended		
	30 June 2004	30 June 2003	Pro forma 30 June 2003
	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits taxation	226,440	138,292	182,395
Overseas taxation	1,504	1,115	1,115
	<u>227,944</u>	<u>139,407</u>	<u>183,510</u>
Share of a jointly controlled entity’s taxation	4,750	458	458
	<u>232,694</u>	<u>139,865</u>	<u>183,968</u>
Current year taxation	232,694	139,865	183,968
Deferred year taxation	(15,111)	(7,577)	(12,179)
	<u>217,583</u>	<u>132,288</u>	<u>171,789</u>

Hong Kong profits tax has been provided at 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

6. Taxation (Continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation and revaluation of fixed assets and provision of loan losses.

7. Dividends

	For the six months ended		
	30 June 2004	30 June 2003	Pro forma 30 June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous year, approved and paid during the period, of HK\$Nil (six months ended 30 June 2003: HK\$0.039139 per share)	–	203,523	203,523
Special dividend paid of HK\$Nil (six months ended 30 June 2003: HK\$0.653846 per share)	–	3,400,000	3,400,000
	<u>–</u>	<u>3,603,523</u>	<u>3,603,523</u>

8. Trade bills less provisions

	As at 30 June 2004	As at 31 December 2003	Change %
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Trade bills receivable from banks	<u>463,210</u>	<u>341,856</u>	35.5
Trade bills receivable from customers	958,124	913,461	4.9
Less: General provisions	(9,581)	(9,211)	4.0
Specific provisions	(12,749)	–	
Trade bills receivable from customers less provisions	<u>935,794</u>	<u>904,250</u>	3.5
	<u>1,399,004</u>	<u>1,246,106</u>	12.3

9. Advances to, and trade bills receivable from customers

(a) Advances less provisions

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>	Change %
Advances to customers	99,063,117	92,871,278	6.7
General provisions	(972,624)	(909,861)	6.9
Specific provisions	(746,612)	(770,328)	-3.1
	<u>97,343,881</u>	<u>91,191,089</u>	6.7
Advances to customers less provisions			
	97,343,881	91,191,089	6.7
Advances to banks and other financial institutions	286,723	285,531	0.4
	<u>286,723</u>	<u>285,531</u>	0.4
	<u>97,630,604</u>	<u>91,476,620</u>	6.7

(b) Gross Advances to customers

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>	Change %
Gross advances to customers	100,021,241	93,784,739	6.6
General provisions	(982,205)	(919,072)	6.9
Specific provisions	(759,361)	(770,328)	-1.4
	<u>98,279,675</u>	<u>92,095,339</u>	6.7
Including:			
Trade bills receivable from customers			
less provisions (<i>Note 8</i>)	935,794	904,250	3.5
Advances to customers less provisions (<i>Note 9(a)</i>)	97,343,881	91,191,089	6.7
	<u>97,343,881</u>	<u>91,191,089</u>	6.7
	<u>98,279,675</u>	<u>92,095,339</u>	6.7

10. Deposits from customers

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>	Change %
Demand deposits and current accounts	9,458,416	8,484,415	11.5
Savings deposits	38,454,852	35,075,148	9.6
Time, call and notice deposits	71,178,739	78,044,791	-8.8
	<u>119,092,007</u>	<u>121,604,354</u>	-2.1

11. Reserves

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>	Change %
Share premium	595,503	595,503	–
Capital reserve	11,636	11,636	–
Premises revaluation reserve	957,996	979,509	-2.2
Investments properties revaluation reserve	81,500	81,500	–
Investment revaluation reserve	22,940	48,817	-53.0
General reserve	2,398,792	2,398,792	–
Retained earnings	7,898,822	6,540,459	20.8
	<u>11,967,189</u>	<u>10,656,216</u>	12.3

12. Off-balance sheet exposures

(a) Contingent liabilities and commitments

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>
Direct credit substitutes	819,947	899,191
Transaction-related contingencies	374,498	444,189
Trade-related contingencies	5,349,203	4,758,968
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	50,303,856	47,256,608
	<u>56,847,504</u>	<u>53,358,956</u>
Aggregate credit risk-weighted amount	<u>1,889,618</u>	<u>1,867,016</u>

12. Off-balance sheet exposures (Continued)

(b) Derivatives

	As at 30 June 2004 HK\$'000	As at 31 December 2003 HK\$'000
Equity contracts	21,911,992	19,367,462
Exchange rate contracts	112,025,064	82,586,379
Interest rate contracts	183,677,612	192,024,949
	<u>317,614,668</u>	<u>293,978,790</u>
Aggregate credit risk-weighted amount	<u>649,464</u>	<u>679,547</u>
Aggregate replacement cost	<u>2,508,464</u>	<u>2,110,199</u>

The above amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risks.

The credit risk-weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked-to-market (should the counterparty default on its obligations) and is obtained by marking-to-market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

Unaudited consolidated supplementary financial information

1. Capital adequacy and liquidity ratios

	As at 30 June 2004	As at 31 December 2003
Capital adequacy ratio	<u>19.50%</u>	<u>19.47%</u>
Adjusted capital adequacy ratio	<u>18.99%</u>	<u>19.05%</u>
	30 June 2004	30 June 2003
Average liquidity ratio for the period	<u>45.8%</u>	<u>43.8%</u>

The capital adequacy ratio represents the combined 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's Hong Kong offices, and is in accordance with the Fourth Schedule of the Banking Ordinance.

2. Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2004 and 31 December 2003 and reported to the Hong Kong Monetary Authority is analysed as follows:–

	As at 30 June 2004 HK\$'000	As at 31 December 2003 HK\$'000
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)	10,124,299	8,792,694
	<u>15,919,802</u>	<u>14,588,197</u>
Supplementary capital:		
Reserve on revaluation of land and interests in land	727,647	742,706
Reserve on revaluation of holding of securities not held for trading purposes	16,058	34,172
General provisions for doubtful debts	1,000,710	937,135
Term subordinated debt	1,224,327	1,624,765
	<u>2,968,742</u>	<u>3,338,778</u>
Gross and eligible value of supplementary capital		
	<u>2,968,742</u>	<u>3,338,778</u>
Total capital base before deductions	18,888,544	17,926,975
Deductions from total capital base	(588,237)	(617,194)
Total capital base after deductions	<u>18,300,307</u>	<u>17,309,781</u>

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.

3. Currency concentrations

<i>HK\$'million</i>	USD	GBP	EUR	CHF	Others	Total
As at 30 June 2004						
Hong Kong dollar equivalents						
Spot assets	37,297	1,480	1,560	121	11,172	51,630
Spot liabilities	(37,420)	(1,528)	(1,557)	(38)	(11,315)	(51,858)
Forward purchases	40,376	241	665	410	1,668	43,360
Forward sales	(39,968)	(240)	(706)	(463)	(1,460)	(42,837)
Net option position	(10)	6	(7)	-	1	(10)
Net long/(short) non-structural position	<u>275</u>	<u>(41)</u>	<u>(45)</u>	<u>30</u>	<u>66</u>	<u>285</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317</u>	<u>317</u>
<i>HK\$'million</i>	USD	GBP	EUR	CHF	Others	Total
As at 31 December 2003						
Hong Kong dollar equivalents						
Spot assets	36,449	1,376	1,368	134	12,008	51,335
Spot liabilities	(36,795)	(1,460)	(1,304)	(20)	(10,534)	(50,113)
Forward purchases	39,284	158	502	559	1,746	42,249
Forward sales	(38,482)	(116)	(589)	(694)	(3,059)	(42,940)
Net option position	(18)	65	(31)	(38)	26	4
Net long/(short) non-structural position	<u>438</u>	<u>23</u>	<u>(54)</u>	<u>(59)</u>	<u>187</u>	<u>535</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215</u>	<u>215</u>

The net structural position for 2004 represents the Group's Peso investment of HK\$223 million equivalent in Philippines and Renminbi investment of HK\$94 million equivalent in China.

4. Gross advances to customers – by industry sectors

	As at 30 June 2004 HK\$'000	As at 31 December 2003 HK\$'000	Change %
Loans for use in Hong Kong			
Industrial, commercial and financial			
Property development	183,647	162,640	12.9
Property investment	11,375,271	10,766,258	5.7
Financial concerns	777,805	1,039,712	-25.2
Stockbrokers	85,284	141,876	-39.9
Wholesale and retail trade	2,582,052	2,231,798	15.7
Manufacturing	6,832,345	5,666,365	20.6
Transport and transport equipment	8,925,613	7,864,913	13.5
Others	3,911,550	3,330,415	17.4
Individuals			
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,191,701	3,470,608	-8.0
Loans for the purchase of other residential properties	36,277,068	36,143,250	0.4
Credit card advances	4,921,661	5,185,788	-5.1
Others	4,264,586	4,046,157	5.4
Trade finance	15,012,965	12,532,177	19.8
Loans for use outside Hong Kong	1,679,693	1,202,782	39.7
	<u>100,021,241</u>	<u>93,784,739</u>	6.6

5. Gross advances to customers – by geographical areas

Over 90% of the gross advances to customers and related non-performing loans and overdue advances are located in Hong Kong after taking into account the transfer of risks. In general, transfer of risks applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

6. Cross-border claims

<i>HK\$'million</i>	Banks and other financial institutions	Public sector entities	Others	Total
As at 30 June 2004				
Asia Pacific excluding Hong Kong	13,082	572	2,252	15,906
North and South America	3,410	302	367	4,079
Europe	24,166	9	747	24,922
Others	279	0	360	639
	<u>40,937</u>	<u>883</u>	<u>3,726</u>	<u>45,546</u>
As at 31 December 2003				
Asia Pacific excluding Hong Kong	9,475	287	1,559	11,321
North and South America	5,208	392	110	5,710
Europe	30,682	4	93	30,779
Others	299	–	240	539
	<u>45,664</u>	<u>683</u>	<u>2,002</u>	<u>48,349</u>

7. Non-performing advances

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:

	As at 30 June 2004 <i>HK\$'000</i>	% of gross advances to customers	As at 31 December 2003 <i>HK\$'000</i>	% of gross advances to customers
Gross non-performing advances	1,909,251	1.91	2,228,288	2.38
Specific provision	<u>(760,589)</u>		<u>(727,047)</u>	
	<u>1,148,662</u>		<u>1,501,241</u>	
Suspended interest	<u>267,444</u>		<u>266,611</u>	

The specific provisions were made after taking into account the value of collateral in respect of such advances.

8. Overdue and rescheduled advances

(a) Overdue advances

The Group's overdue advances (net of suspended interest) are analysed as follows:

	As at 30 June 2004 <i>HK\$'000</i>	% of gross advances to customers	As at 31 December 2003 <i>HK\$'000</i>	% of gross advances to customers
Gross advances overdue for				
Six months or less but over three months	330,312	0.33	385,890	0.41
One year or less but over six months	295,769	0.29	418,878	0.45
Over one year	507,679	0.51	561,400	0.60
	<u>1,133,760</u>	1.13	<u>1,366,168</u>	1.46

(b) Rescheduled advances

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

	As at 30 June 2004 <i>HK\$'000</i>	% of gross advances to customers	As at 31 December 2003 <i>HK\$'000</i>	% of gross advances to customers
Rescheduled advances to customers				
Performing	48,717	0.05	57,889	0.06
Non-performing	288,640	0.29	304,999	0.33
	<u>337,357</u>	0.34	<u>362,888</u>	0.39

8. Overdue and rescheduled advances *(Continued)*

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

	As at 30 June 2004 <i>HK\$'000</i>	As at 31 December 2003 <i>HK\$'000</i>
Overdue advances to customers as per above (a)	1,133,760	1,366,168
Less: advances which are overdue for more than three months and on which interest is still being accrued	(67,550)	(61,651)
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	288,640	304,999
– others	554,401	618,772
Non-performing advances	<u>1,909,251</u>	<u>2,228,288</u>

(d) Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances. At 30 June 2004, the repossessed assets of the Group amounted to HK\$117,956,000 (31 December 2003: HK\$217,751,000)

Statement of compliance

In preparing the interim results for the first half of 2004, the Bank has fully complied with the disclosure standards set out in the “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Monetary Authority.

Hong Kong, 30 July 2004