

**DBS BANK (HONG KONG) LIMITED**

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***Financial Highlights of 2006 Interim Results and Key Ratios***

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- Profit attributable to shareholders up by 54.5% (HK\$590 million) from first half of 2005 to HK\$1,674 million
- Operating profit before impairment allowances up 33.8% (HK\$456 million) from first half of 2005 to HK\$1,805 million
- Net interest margin up 53 basis points from first half of 2005 to 2.76%
- Net interest income up 32.7% (HK\$635 million) from first half of 2005 to HK\$2,576 million
- Non-interest income down 3.9% (HK\$26 million) from first half of 2005 to HK\$645 million
- Operating expenses up 12.1% (HK\$152 million) from first half of 2005 to HK\$1,416 million
- Impairment allowances up 26.1% (HK\$37 million) from first half of 2005 to HK\$178 million
- Gross advances to customers increased 2.7% (HK\$3.1 billion) from end of 2005 to HK\$115.1 billion
- Deposits from customers increased 7.4% (HK\$10.4 billion) from end of 2005 to HK\$152.2 billion
- Cost-to-income ratio improved from 48.4% for first half of 2005 to 44.0%
- Return on average total assets up from 1.2% for first half of 2005 to 1.7%
- Return on average shareholders' funds up from 12.2% for first half of 2005 to 18.0%
- Loans to deposits ratio down from 78.0% as at 31 December 2005 to 74.6%
- Ratio of impaired advances to gross advances to customers up from 1.66% as at 31 December 2005 to 1.70%
- Adjusted capital adequacy ratio down from 17.7% as at 31 December 2005 to 15.1%

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***DBS Bank (Hong Kong) Limited  
reported attributable profit of HK\$1,674 million  
(up 54.5%) for the first half of 2006***

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DBS Bank (Hong Kong) Limited today announced its 2006 unaudited interim results. The Bank recorded a consolidated profit attributable to shareholders of HK\$1,674 million, an increase of 54.5% compared with the first half of 2005.

The growth in the Bank's profit was mainly attributable to higher operating income and the one-off disposal gain on an office building. On a year-on-year basis, return on average total assets rose from 1.2% to 1.7%, while return on average shareholders' funds also rose from 12.2% to 18.0%.

**REVIEW OF ACTIVITIES**

Hong Kong's economy continued to see robust performance and solid growth in the first half of 2006. External trade was boosted by buoyant trade flows with Mainland China and intra-regional trade. In early June, the unemployment rate fell to 4.9%, the lowest level since 2001. With the improving employment outlook and continued strong inbound tourism, consumer spending and retail sales have benefited. In spite of rising interest rates, investment expenditure on fixed assets was resilient.

With increasing interdependence of the economies of Mainland China and Hong Kong, the Bank continued its strategy to further expand its Mainland China business. The Bank opened a branch in Suzhou in April 2006 following the opening of a representative office in Hangzhou in the second half of 2005. Corporate and Investment Banking Division continued to achieve good loan growth especially in the SME business in the

Pearl River Delta area. On the retail side, the Bank continued launching new products to the market.

## **FINANCIAL PERFORMANCE**

During the period, the Bank achieved its goal of growing in operating income and profit. Operating profit before impairment allowances was HK\$1,805 million, up 33.8% from the first half of 2005.

Total operating income increased by 23.3% to HK\$3,221 million. Riding on the buoyant Hong Kong economy, higher loan volume and wider net interest margin, net interest income grew by 32.7% to HK\$2,576 million.

Non-interest income decreased by 3.9% to HK\$645 million. Net fees and commission income increased by 19.9% to HK\$638 million, which was offset by a decline in income from treasury related activities.

Total operating expenses rose by 12.1% to HK\$1,416 million, with staff costs increasing by 17.9% mainly due to upward wage pressure, while non-staff costs rose by 5.1%. The cost-to-income ratio was 44.0% compared to 48.4% in the first half of 2005.

As at 30th June 2006, the level of impaired advances increased to HK\$2.0 billion, or 1.70% of total gross advances to customers, compared to HK\$1.9 billion or 1.66% as at 31st December 2005.

Total gross advances to customers increased 2.7% from 31st December 2005 to HK\$115.1 billion mainly due to growth in trade finance and property-related loans. Customer deposits increased 7.4% to HK\$152.2 billion. The loans-to-deposits ratio lowered to 74.6% from 78.0% as at 31 December 2005.

The Bank's financial position remains good. The adjusted capital adequacy ratio dropped to 15.1% as at 30th June 2006 from 17.7% as at 31st December 2005 as a result of the 7.1% increase in total risk-weighted assets and dividend payment of HK\$2.8 billion during the first half of 2006. The average liquidity ratio remained healthily at 42.0% for the first half of 2006.