

# **Growth in non-interest income offsets lower interest margins, higher provisions**

**August 1, 2003**

## **DBS Group Holdings 1H 2003 Financial Results Presentation to Media and Analysts**

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## Highlights of first half results 2003

DBS Group Holdings Ltd	1H 2003	% change from 1H 2002
Net profit attributable to members	S\$466 million	 13.1%
Operating profit (a)	S\$1.142 billion	 3.1%
Operating expenses	S\$901 million	 2.7%
Operating income	S\$2.043 billion	 0.4%

(a) Before goodwill amortization and provisions

## Highlights of first half results 2003

DBS Bank (Hong Kong) Limited	1H 2003	% change from 1H 2002
Net profit after tax	S\$184 million	 12.2%
Operating profit (a)	S\$328 million	 27.1%
Operating expenses	S\$242 million	 2.4%
Operating income	S\$573 million	 4.2%

(a) Operating profit before provisions

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## First half 2003

- ❑ **Higher non-interest income offsets lower net-interest income**
- ❑ **Continued discipline in operating expenses**
- ❑ **Fully-integrated Hong Kong operations showing early signs of distribution power**
- ❑ **Asset quality and capital remain prudently managed**
- ❑ **Additional information**

## Core operating profit continues to grow

(S\$ million)	1H 2003	1H 2002	% change	2Q 2003	1Q 2003	% change
<b>Net interest income</b>	<b>1,159</b>	<b>1,333</b>	<b>(13.1)</b>	<b>560</b>	<b>599</b>	<b>(6.5)</b>
<b>Non-interest income</b>	<b>884</b>	<b>701</b>	<b>26.1</b>	<b>428</b>	<b>456</b>	<b>(6.1)</b>
<b>Operating income</b>	<b>2,043</b>	<b>2,034</b>	<b>0.4</b>	<b>988</b>	<b>1,055</b>	<b>(6.4)</b>
Staff costs	429	466	(7.9)	210	219	(4.1)
Other operating expenses	472	460	2.6	249	223	11.7
<b>Operating expenses</b>	<b>901</b>	<b>926</b>	<b>(2.7)</b>	<b>459</b>	<b>442</b>	<b>3.8</b>
<b>Operating profit (a)</b>	<b>1,142</b>	<b>1,108</b>	<b>3.1</b>	<b>529</b>	<b>613</b>	<b>(13.7)</b>
Goodwill amortization	214	136	57.4	107	107	nm
Provisions	287	203	41.4	172	115	49.6
<b>NPAM</b>	<b>466</b>	<b>536</b>	<b>(13.1)</b>	<b>187</b>	<b>279</b>	<b>(33.0)</b>
<b>Cash NPAM (b)</b>	<b>680</b>	<b>672</b>	<b>1.2</b>	<b>294</b>	<b>386</b>	<b>(23.8)</b>

nm : not meaningful or insignificant

(a) Operating profit before goodwill amortization and provisions

(b) NPAM before goodwill amortization

## First half and second quarter 2003 ratios

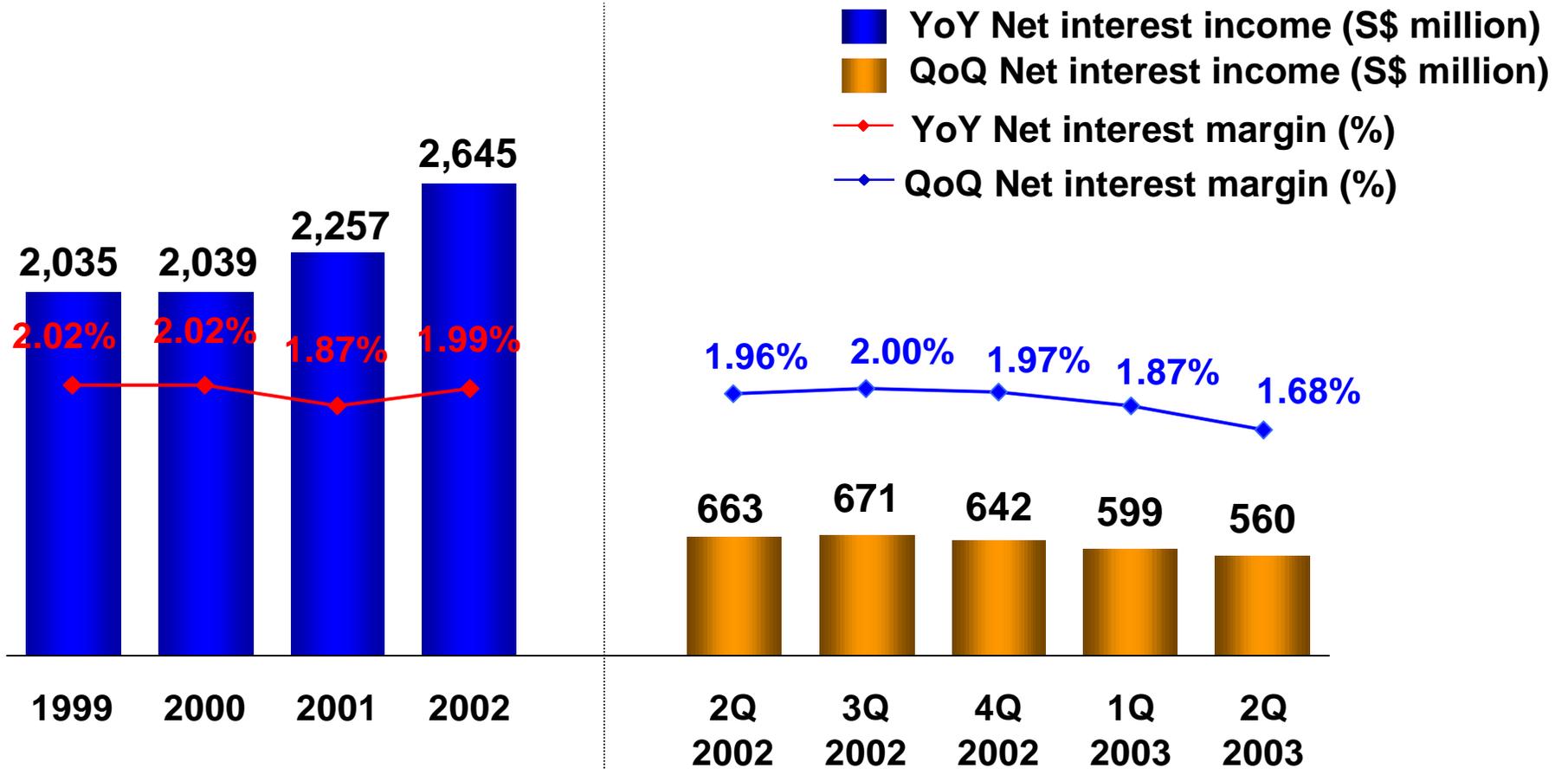
Comparison of	1H 2003	1H 2002	2Q 2003	1Q 2003
Net interest margin	1.78%	1.97%	1.68%	1.87%
Cost-to-income ratio <sup>(a)</sup>	44.1%	45.5%	46.5%	41.9%
Non-interest inc. / operating inc.	43.3%	34.5%	43.3%	43.2%
Cash ROA <sup>(b)</sup>	0.88%	0.89%	0.75%	1.01%
Cash ROE <sup>(b)</sup>	9.31%	9.71%	7.95%	10.59%
NPL ratio	5.9%	5.9%	5.9%	5.9%
Loan-to-deposit ratio	59.4%	62.7%	59.4%	58.4%
Cash EPS (S\$) <sup>(c)</sup>	0.91	0.91	0.78	1.04

(a) Excludes goodwill amortization

(b) Annualized and excludes goodwill amortization

(c) Earnings per share before goodwill amortization, annualized

# Net interest margin affected by continued low interest rates, stiff price competition



## First half 2003 average interest margin

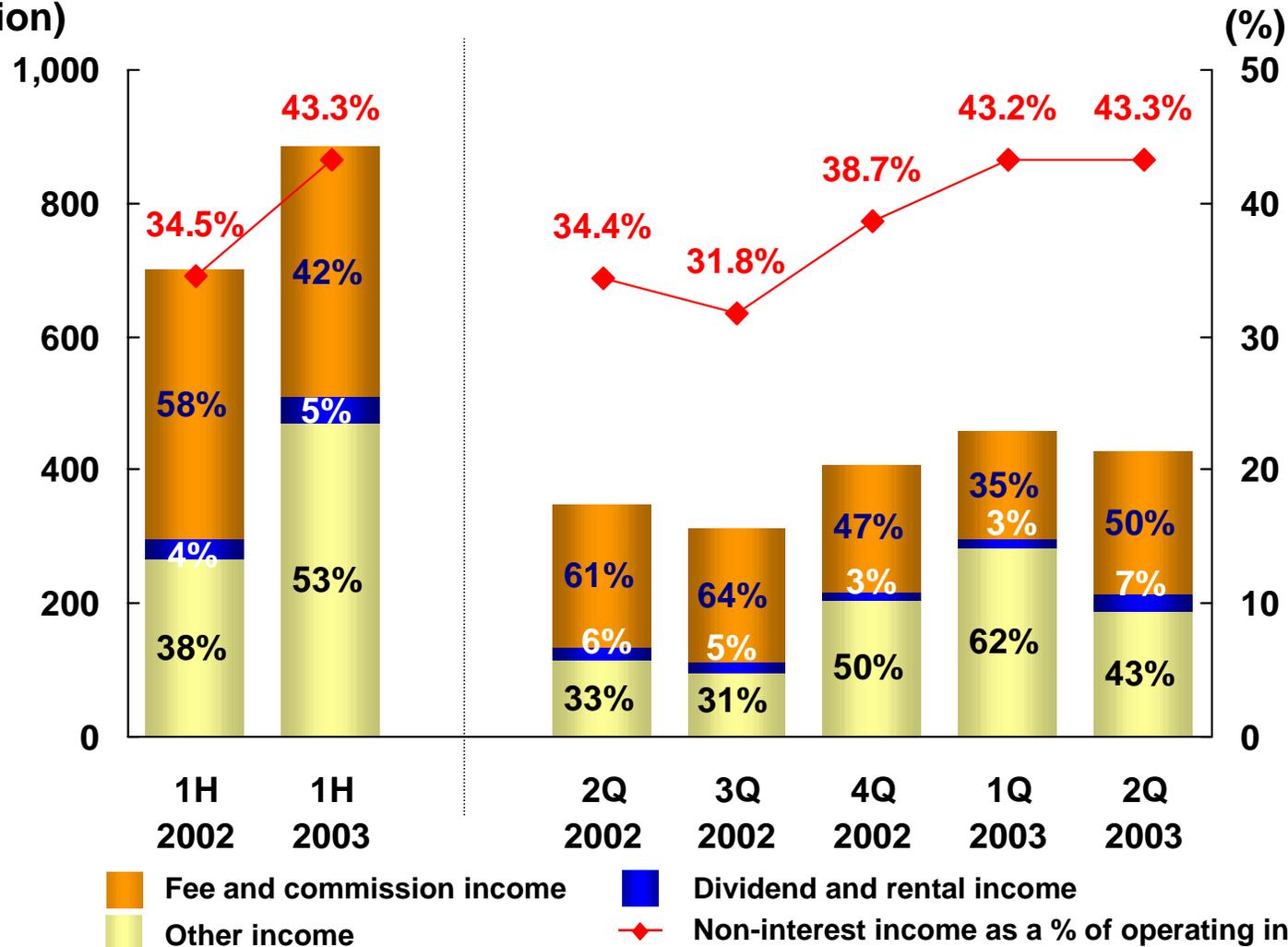
(S\$ million)

	1H 2003			1H 2002		
	Average Bal.	Interest	Average rate %	Average Bal.	Interest	Average rate %
<b>Interest bearing assets</b>						
Customer loans and advances	61,424	1,210	3.97	65,938	1,486	4.54
Interbank items	40,783	202	1.00	47,988	443	1.86
Securities <sup>(a)</sup>	28,909	393	2.74	22,448	357	3.21
<b>Total interest bearing assets</b>	<b>131,116</b>	<b>1,805</b>	<b>2.78</b>	<b>136,374</b>	<b>2,286</b>	<b>3.38</b>
<b>Total interest bearing liabilities</b>	<b>122,387</b>	<b>646</b>	<b>1.06</b>	<b>126,502</b>	<b>953</b>	<b>1.52</b>
<b>Net interest income/margin</b>		<b>1,159</b>	<b>1.78</b>		<b>1,333</b>	<b>1.97</b>

(a) Refers to Singapore Government securities and treasury bills, trading and investment debt securities

# Non-interest income continues to carry momentum and shows a better balance

(S\$ million)



## Second quarter fees up

(S\$ million)	1H 2003	1H 2002	% change	2Q 2003	1Q 2003	% change
Stockbroking	51	83	(38.6)	33	18	83.3
Investment banking	33	32	3.1	26	7	271.4
Trade and remittances	54	55	(1.8)	27	27	nm
Loan related	71	62	14.5	35	36	(2.8)
Deposit related	52	53	(1.9)	26	26	nm
Credit card	41	46	(10.9)	21	20	5.0
Fund management	18	21	(14.3)	11	7	57.1
Wealth management	38	37	2.7	24	14	71.4
Others	16	17	(5.9)	11	5	120.0
<b>Total</b>	<b>374</b>	<b>406</b>	<b>(7.9)</b>	<b>214</b>	<b>160</b>	<b>33.8</b>
Fee-to-income ratio (%)	18.3	20.0		21.7	15.2	

# Investment banking maintains leading presence

## Activities / Transactions in 1H 2003

- 5 Initial Public Offerings (IPOs)**
- 1 Placement**
- 2 Syndications**
- 21 M&A advising relationships**

## Activities / Transactions in the pipeline

- REITs**
- Syndications**
- Initial Public Offerings (IPOs)**
- Mergers and Acquisitions (M&As)**

## Awards and Accolades won in 1H 2003

### **Thomson Financials, July 2003**

The only Singapore Bank among top Asian M&A Advisors

### **Finance Asia, June 2003**

Best Local Investment Bank

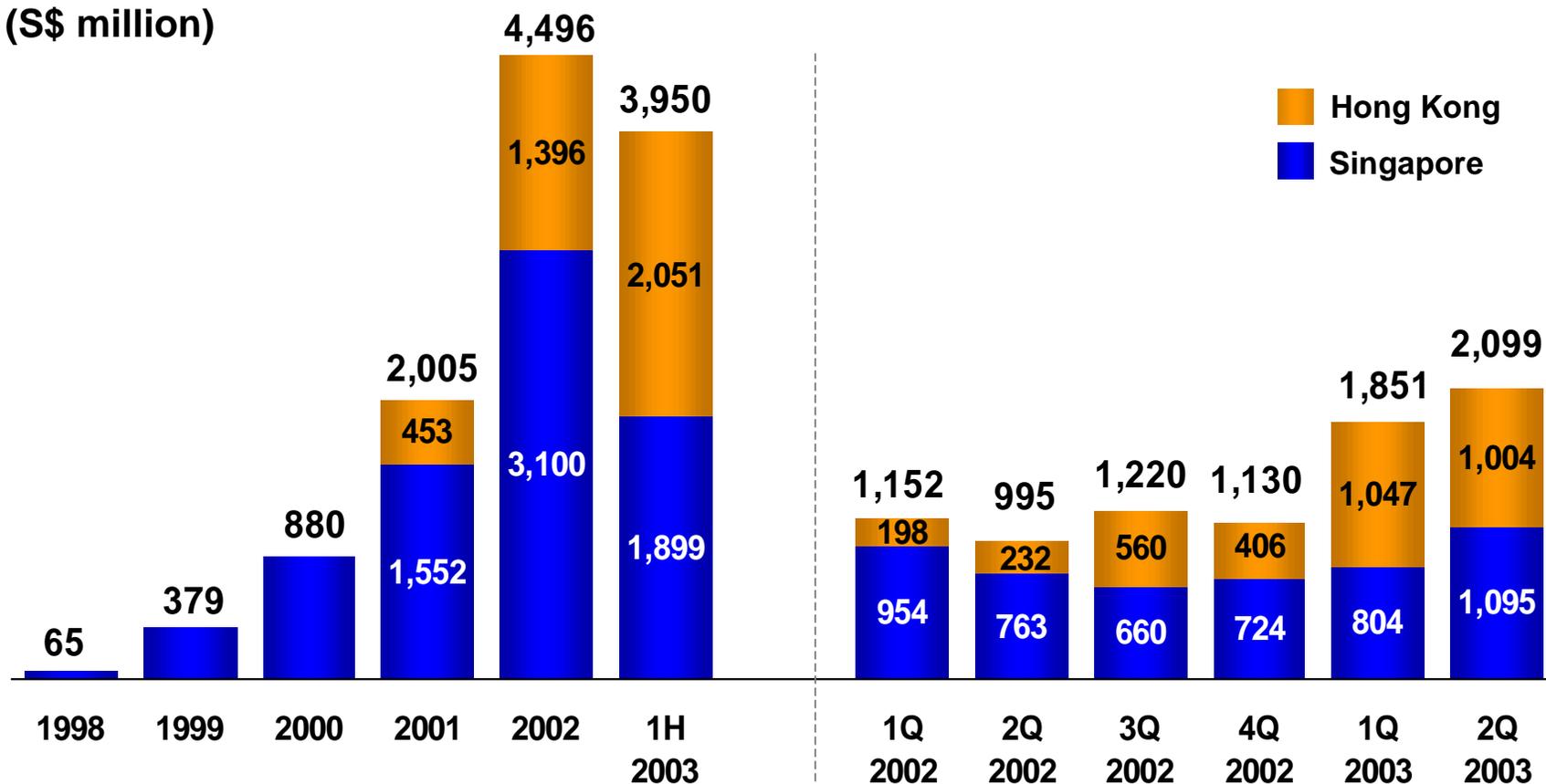
### **AsiaMoney, May 2003**

Ranked 7th: M&A - Advisers Asia (Ex-Japan)

# Wealth management product sales for first half 2003 achieves 88% of full year 2002 sales volume

## Sales Volume of Investment Products (a)

(S\$ million)



(a) Includes unit trusts (such as Horizon, Ei8ht, Up! and other DBSAM programmes) and treasury investment products (such as Growth, Surf, medium-term equity linked notes and structured notes)

## Structured product sales continues to drive other income

(S\$ million)	1H 2003	1H 2002	% change	2Q 2003	1Q 2003	% change
Net gain on treasury products including structured investment products	282	177	59.3	129	153	(15.7)
Net gain on Singapore government securities	135	47	187.2	33	102	(67.6)
Net gain / (loss) on equities	11	13	(15.4)	12	(1)	nm
Net gain on investment securities	32	10	220.0	5	27	(81.5)
Net gain / (loss) on fixed assets	nm	4	nm	1	(1)	nm
Others	9	15	(40.0)	6	3	100
<b>Total</b>	<b>469</b>	<b>266</b>	<b>76.3</b>	<b>186</b>	<b>283</b>	<b>(34.3)</b>

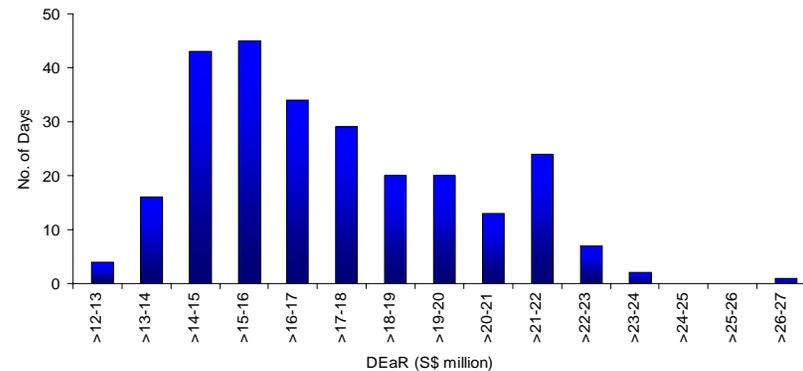
nm: not meaningful or insignificant

# Daily earnings at risk and trading Income

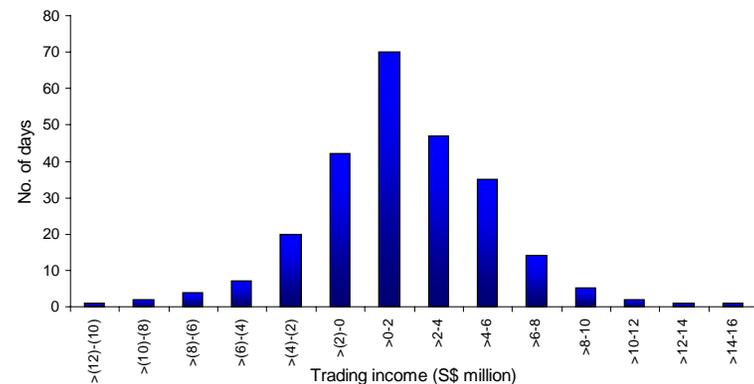
## DEaR for Trading Book (July 1, 2002 - June 30, 2003)

(S\$ million)	At 30 June	Average	High <sup>(a)</sup>	Low <sup>(a)</sup>
Interest rate	21.8	15.5	14.1	8.9
FX	9.4	6.0	14.0	2.2
Equity	3.7	2.3	4.9	0.3
Diversification effect	(12.9)	(6.7)		
<b>Total</b>	<b>22.0</b>	<b>17.1</b>	<b>26.2</b>	<b>12.4</b>

## DBSH Group DEaR for Trading Book



## DBSH Group Daily Distribution of Trading Income



(a) The high (and low) DEaR figures reported for each risk class did not necessarily occur on the same day as the high (and low) reported for total. A corresponding diversification effect cannot be calculated and is therefore omitted from the table.

## First half 2003

- ❑ Higher non-interest income offsets lower net-interest income
- ❑ Continued discipline in operating expenses
- ❑ Fully-integrated Hong Kong operations showing early signs of distribution power
- ❑ Asset quality and capital remain prudently managed
- ❑ Additional information

## Operating expenses contained

(S\$ million)	1H 2003	1H 2002	% change	2Q 2003	1Q 2003	% change
<b>Group operating expenses</b>						
Staff costs	429	466	(7.9)	210	219	(4.1)
Occupancy expenses	99	104	(4.8)	51	48	6.3
Technology-related	144	104	38.5	73	71	2.8
Others <sup>(a)</sup>	229	252	(9.1)	125	104	20.2
<b>Total operating expenses</b>	<b>901</b>	<b>926</b>	<b>(2.7)</b>	<b>459</b>	<b>442</b>	<b>3.8</b>
<b>Cost-to-income ratio (%)</b>	<b>44.1</b>	<b>45.5</b>		<b>46.5</b>	<b>41.9</b>	

(a) Includes advertising & administration expenses, consultancy fees, and revenue-related expenses such as brokerage commissions

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## DBS Hong Kong operating profit improved

(S\$ million) (a)	1H 2003	1H 2002	% change
<b>Net interest income</b>	<b>402</b>	<b>419</b>	<b>(4.1)</b>
<b>Non-interest income</b>	<b>171</b>	<b>131</b>	<b>30.5</b>
<b>Operating income</b>	<b>573</b>	<b>550</b>	<b>4.2</b>
Operating expenses	242	248	(2.4)
Impairment of fixed assets	3	44	(93.2)
<b>Operating profit (b)</b>	<b>328</b>	<b>258</b>	<b>27.1</b>
Provisions	106	62	71.0
<b>Net profit after tax</b>	<b>184</b>	<b>164</b>	<b>12.2</b>

(a) Assumes exchange rate of HK\$1 to S\$0.2258. Based on Hong Kong GAAP

(b) Operating profit before provisions

## Highlights of DBS Hong Kong first half 2003 results

Comparison of	1H 2003	vs. 1H 2002
Net interest margin	2.35%	2.35%
Cost-to-income ratio <sup>(a)</sup>	42.2%	45.1%
Non-interest inc. / operating inc.	29.8%	23.8%
Loan-to-deposit ratio	74.2%	77.5%
ROE <sup>(b)</sup>	9.8%	10.0%
ROA <sup>(c)</sup>	1.03%	1.11%

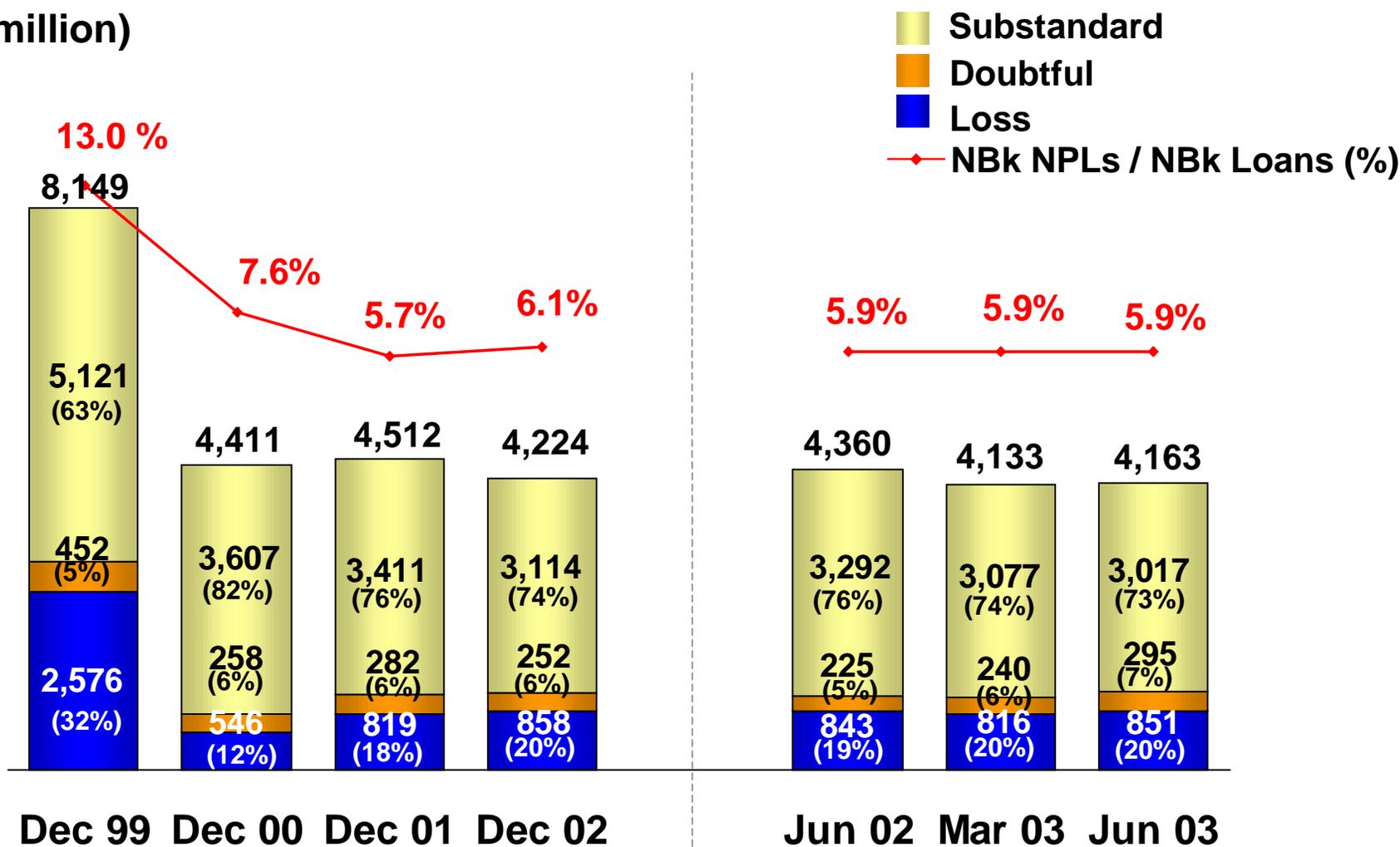
- (a) Excludes goodwill amortization  
(b) Based on monthly average equity  
(c) Based on monthly average assets

## First half 2003

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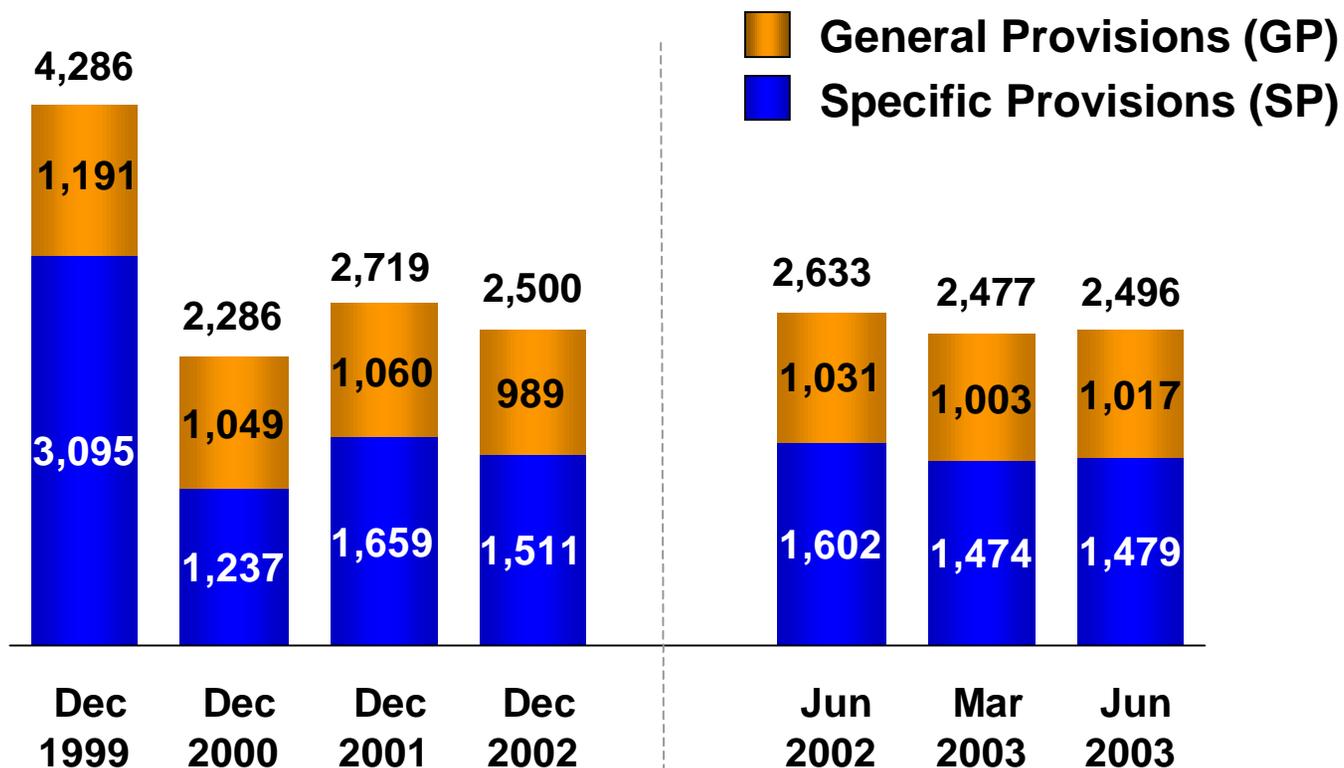
# NPL rate remains unchanged for the quarter

(S\$ million)



# Provisions maintained at satisfactory level, coverage ratios stable

(S\$ million)



## Coverage ratios (%)

SP+GP / Unsec NPLs	118.4	129.9	142.5	120.7	129.2	120.9	118.8
SP+GP / NPLs	52.6	51.8	60.3	59.2	60.4	59.9	60.0

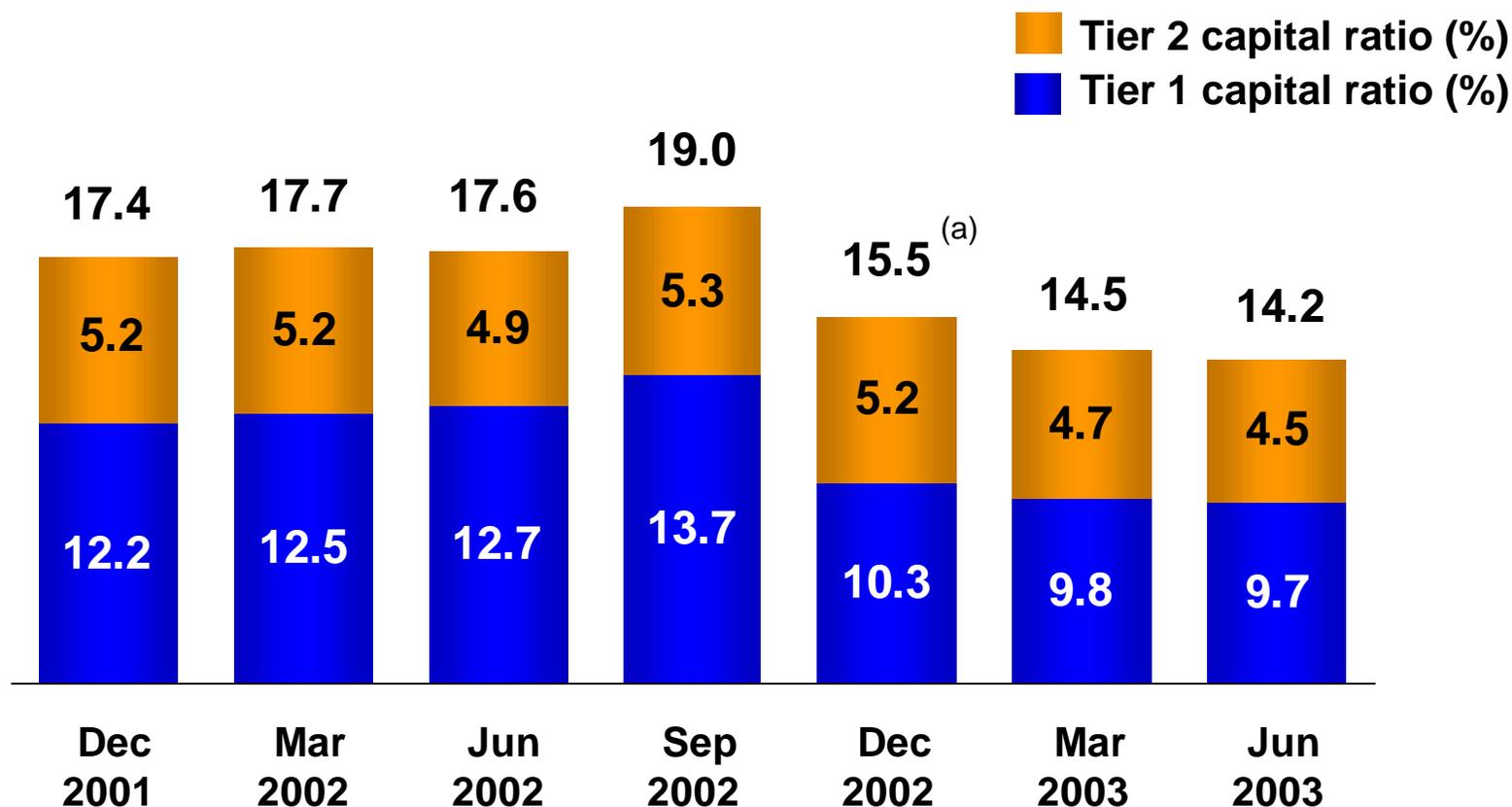
## Loan provisions up, led by general provisions

(S\$ million)

	1H 2003	1H 2002	2Q 2003	1Q 2003	2Q 2002
Loans	172	163	112	60	73
Equities	7	(4)	(9)	16	(7)
Properties & other assets	81	81	53	28	76
Specific provision	260	240	156	104	142
General provision	27	(37)	16	11	(35)
<b>Total</b>	<b>287</b>	<b>203</b>	<b>172</b>	<b>115</b>	<b>107</b>

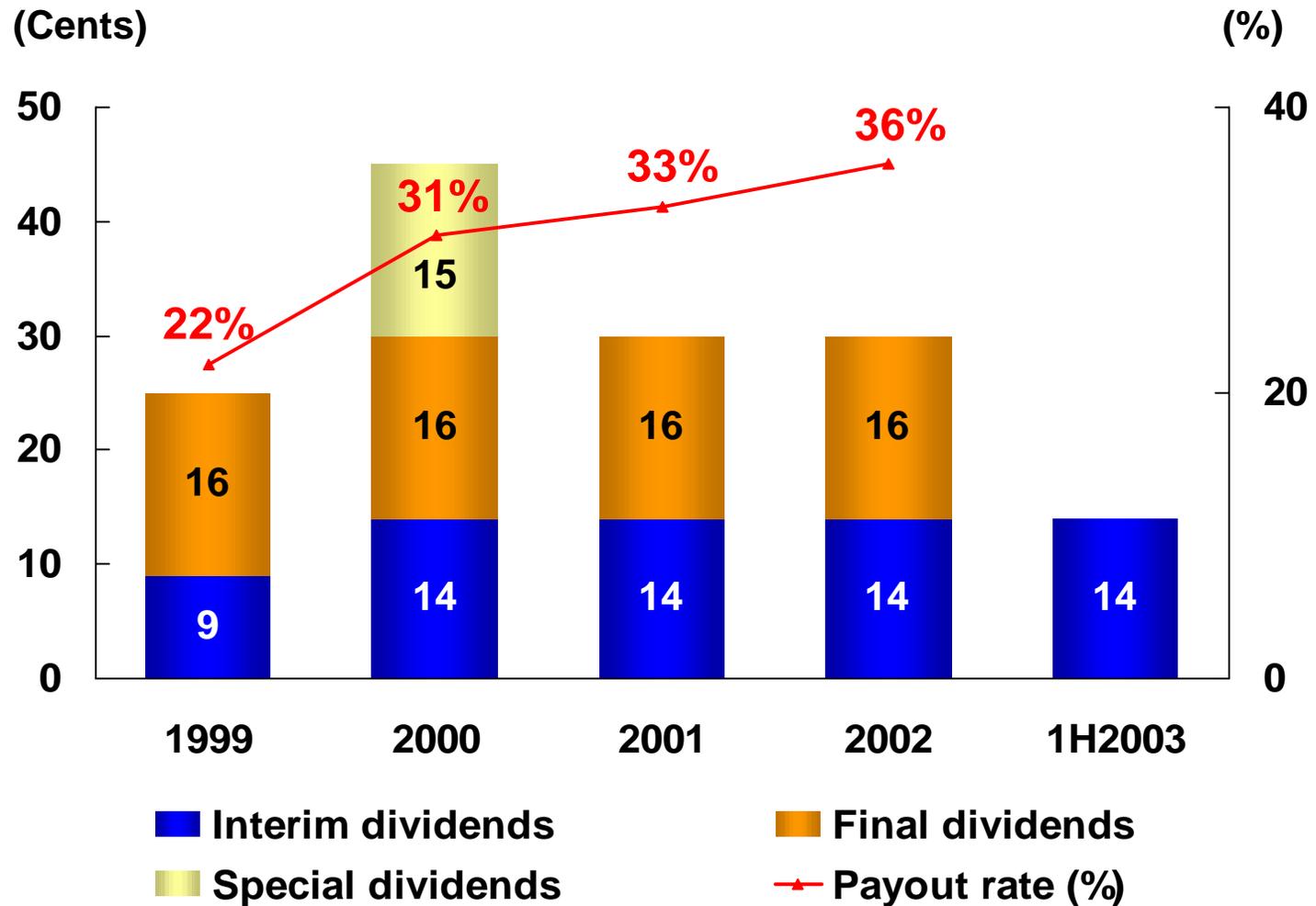
# Capital adequacy remains efficient

## BIS Capital adequacy ratio



(a) Includes Dao Heng second tranche

# Maintaining consistent and sustainable dividend rate



## First half 2003

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# First half 2003

## □ Additional information

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□ Asset quality and Capital	34 - 37

## Second quarter 2003 average interest margin

(S\$ million)

	2Q 2003			1Q 2003		
	Average Bal.	Interest	Average rate %	Average Bal.	Interest	Average rate %
<b>Interest bearing assets</b>						
Customer loans and advances	61,821	602	3.91	61,225	608	4.03
Interbank items	41,298	91	0.88	40,751	111	1.10
Securities <sup>(a)</sup>	30,570	199	2.61	27,718	194	2.83
<b>Total interest bearing assets</b>	<b>133,689</b>	<b>892</b>	<b>2.68</b>	<b>129,694</b>	<b>913</b>	<b>2.86</b>
<b>Total interest bearing liabilities</b>	<b>125,026</b>	<b>332</b>	<b>1.06</b>	<b>121,318</b>	<b>314</b>	<b>1.05</b>
<b>Net interest income/margin</b>		<b>560</b>	<b>1.68</b>		<b>599</b>	<b>1.87</b>

(a) Refers to Singapore Government securities and treasury bills, trading and investment debt securities

## DBS Thai Danu net profit remains healthy

(S\$ million) <sup>(a)</sup>	1H 2003	1H 2002	% change
<b>Net interest income <sup>(b)</sup></b>	<b>51</b>	<b>48</b>	<b>6.0</b>
<b>Non-interest income</b>	<b>19</b>	<b>17</b>	<b>11.6</b>
<b>Operating income</b>	<b>70</b>	<b>65</b>	<b>7.5</b>
Operating expenses	48	45	4.9
<b>Operating profit</b>	<b>22</b>	<b>20</b>	<b>13.5</b>
Provisions	15	14	2.9
<b>Net profit after tax</b>	<b>8</b>	<b>5</b>	<b>40.8</b>

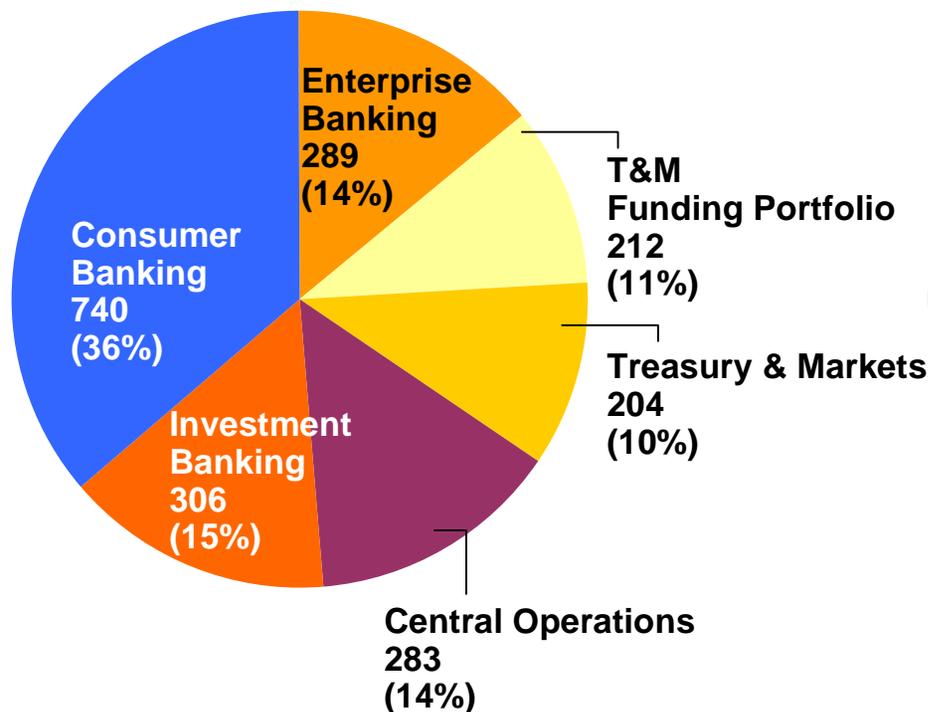
(a) Assumes exchange rate of 1 Baht to S\$0.0418. Based on Thai GAAP

(b) Includes dividend income

# DBS' earnings diversified

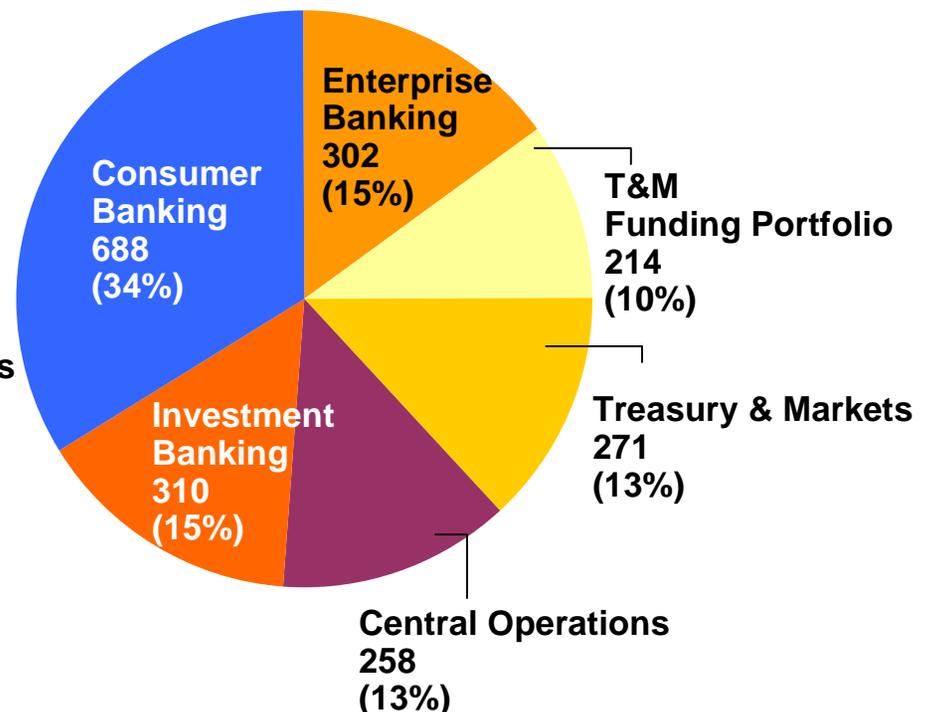
**1H 2002 Total Operating Income**  
**S\$2,034 million**

(S\$ million)



**1H 2003 Total Operating Income**  
**S\$2,043 million**

(S\$ million)

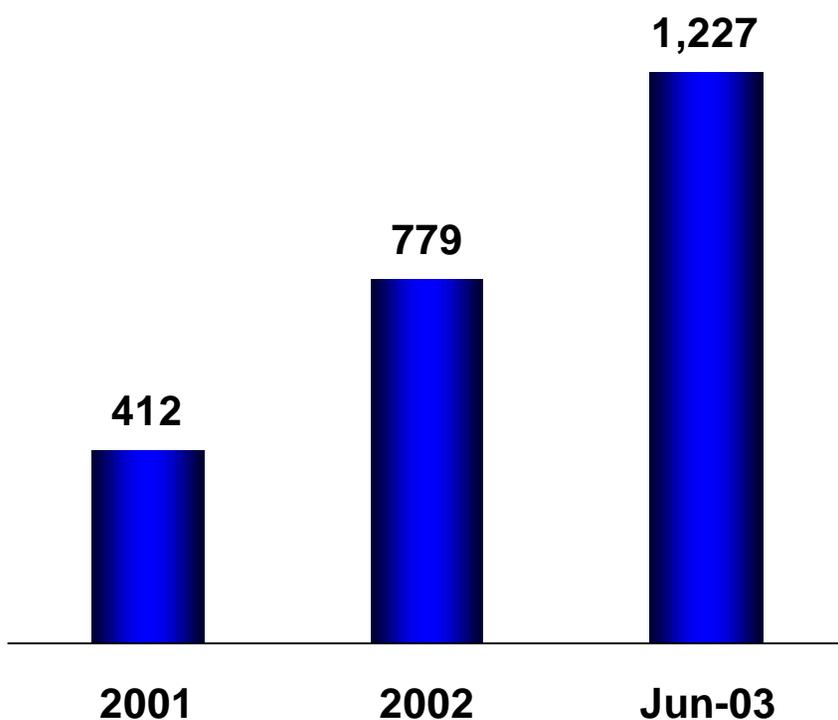


## Similar DEaR to other banks with sophisticated Treasury and Market businesses

Banks (2002)	DEaR / Total Shareholder's Funds
Standard Chartered Bank	0.07%
Bank of America	0.08%
Barclays	0.17%
Citigroup	0.08%
<b>DBS (1H 2003)</b>	<b>0.12%</b>
Deutsche Bank	0.14%
JP Morgan Chase	0.18%
ABN Amro	0.28%
Credit Suisse First Boston	0.20%

# Ratio of Nominal Financial Derivatives to Equity - not indicative of risk exposures

Financial Derivatives  
(S\$ billion)



## Analysis

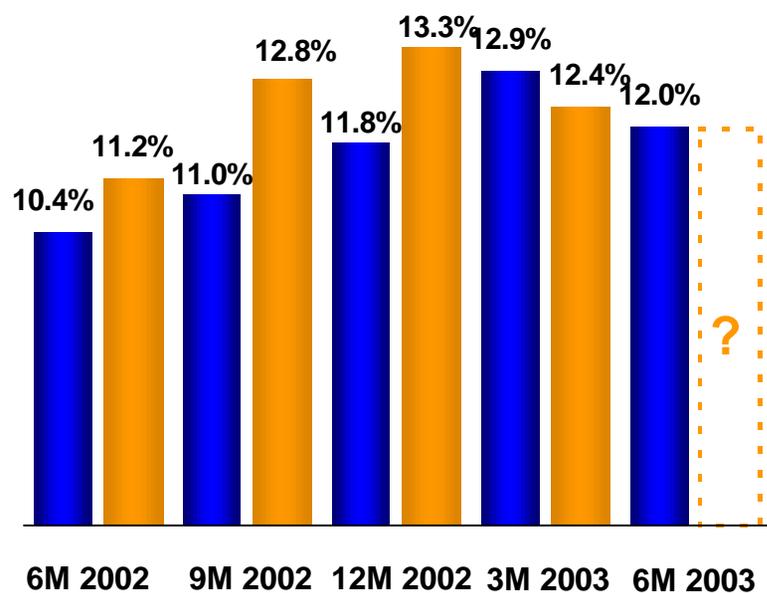
- ◆ Notional value measures activity not risk
- ◆ Better to look at DEaR and “Proxy open positions” (a)

<u>Dec 2002</u>	<u>Proxy open position as % of Tier 1</u>
JP Morgan	55%
Bank of America	23%
Citibank	14%
Bank One	5%
Wachovia Bank	3%
DBS (1H 2003)	8%

(a) See March 03, FDIC paper. Basically, open positions are proxied by adding the fair value of derivatives with negative fair values to those with positive fair values for the derivatives categories (interest rate contracts, foreign exchange contracts, equity contracts, and commodity and other contracts). The absolute value of the position in each category is summed to arrive at a total for each bank.

# DBS Hong Kong Consumer Banking asset quality

## Credit card charge-off rates



■ DBS HK (b) ■ Industry (c)

n.a : not available

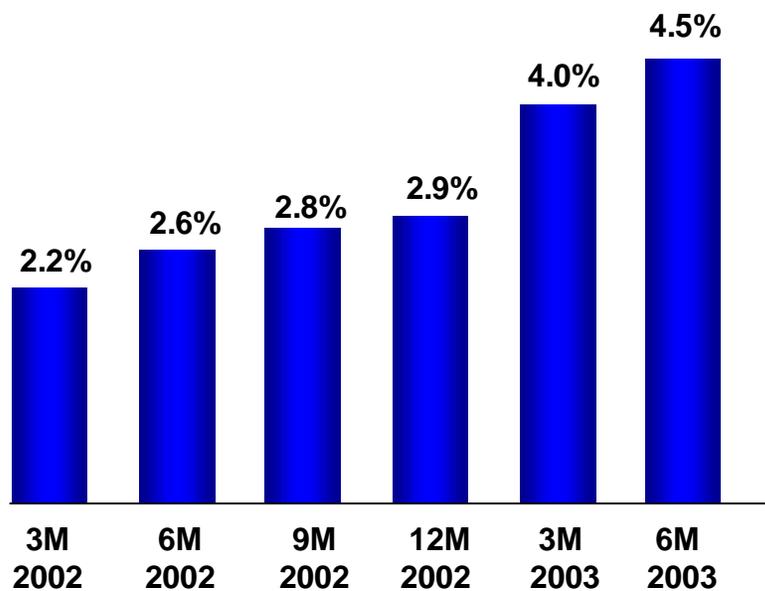
## Credit card delinquency rates

90 days past due	2Q02	3Q02	4Q02	1Q03	2Q03
DBS (HK) (a)	1.0%	1.2%	1.2%	1.1%	1.5%
Industry (c)	1.7%	1.3%	1.3%	1.3%	n.a.

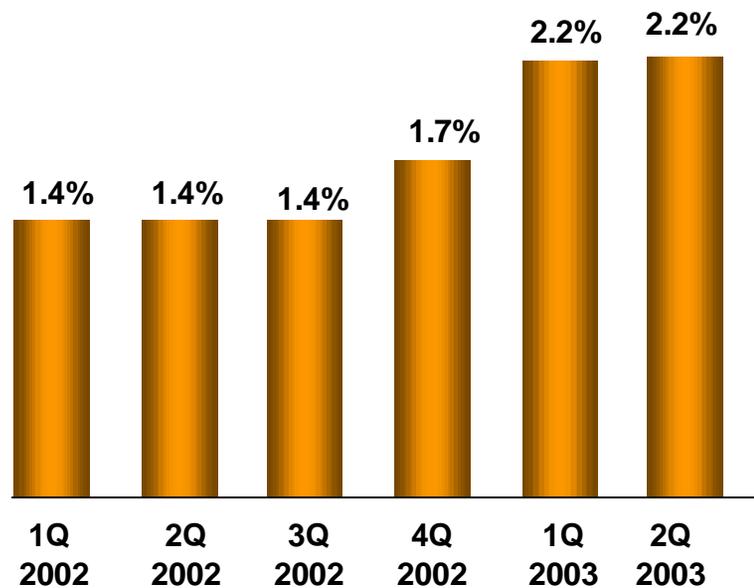
- (a) Delinquency rates as at period end  
 (b) YTD, annualized Credit card charge off rates using HKMA basis  
 (c) Source: Hong Kong Monetary Authority

# DBS Singapore Consumer Banking asset quality

## Credit card charge-off rates



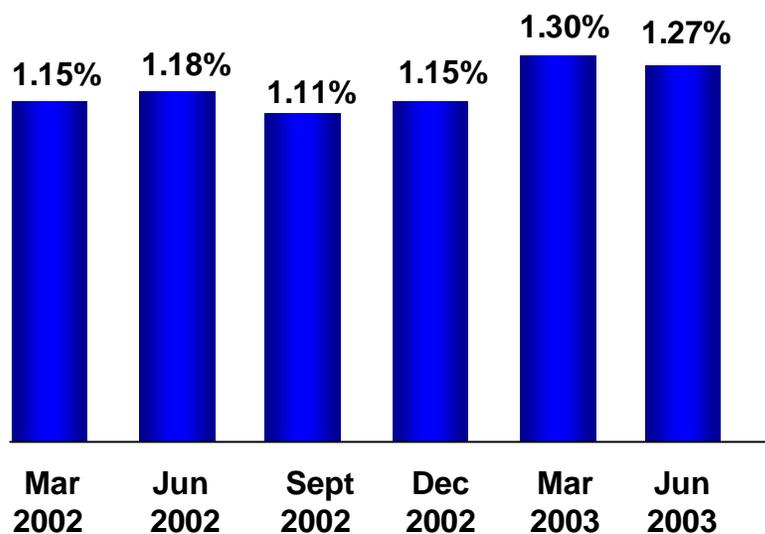
## Credit Card Delinquency Rates (a)



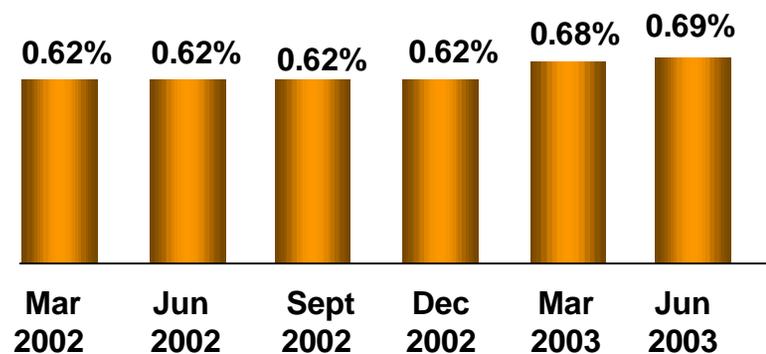
(a) Delinquency rates as at period end

# Residential mortgage delinquency rates

## DBS (Hong Kong) Consumer Banking

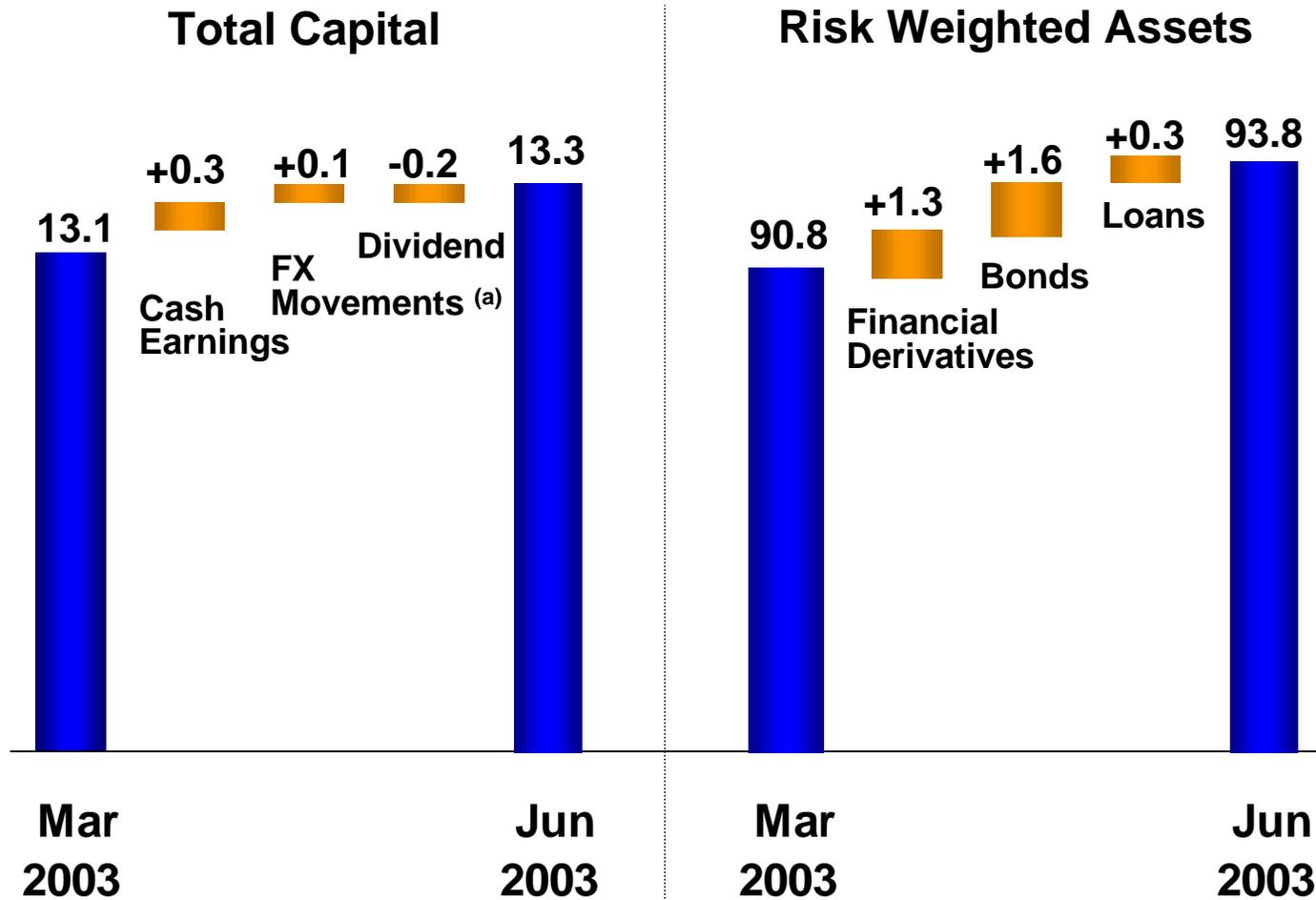


## DBS Singapore Consumer Banking



# Total capital versus RWA

(S\$ billion)



(a) Effect of foreign currency translation of hybrid Tier-1 and Tier-2 subordinated debt issues

