

# Managing diversified businesses against challenging conditions

**April 21, 2003**

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

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## Managing diversified businesses against challenging conditions

- ◆ Net profit increased 0.4% to S\$279 million
- ◆ Operating expenses declined again, down 3.7%
- ◆ Hong Kong operations showed strong results
- ◆ The SARS impact was manageable but still uncertain

## Managing diversified businesses against challenging conditions

- ❑ **Margin pressure offset by diversified non-interest income businesses**
- ❑ **Continued discipline on operating expenses**
- ❑ **Operating profit up in Hong Kong, Thailand**
- ❑ **Prepared for next challenge to asset quality**
- ❑ **Although manageable to date, SARS impact uncertain**

## Operating profit momentum continues

(S\$ million)	1Q 2003	4Q 2002	% change	1Q 2002	% change
<b>Net interest income</b>	<b>599</b>	<b>642</b>	<b>(6.7)</b>	<b>670</b>	<b>(10.6)</b>
<b>Non-interest income</b>	<b>456</b>	<b>406</b>	<b>12.2</b>	<b>354</b>	<b>28.6</b>
<b>Operating income</b>	<b>1,055</b>	<b>1,048</b>	<b>0.6</b>	<b>1,024</b>	<b>2.9</b>
Staff costs	219	226	(2.9)	237	(7.6)
Other operating expenses	224	246	(9.3)	223	0.5
<b>Operating expenses</b>	<b>442</b>	<b>471</b>	<b>(6.2)</b>	<b>459</b>	<b>(3.7)</b>
<b>Operating profit <sup>(a)</sup></b>	<b>613</b>	<b>577</b>	<b>6.2</b>	<b>565</b>	<b>8.3</b>
Goodwill amortization	107	73	47.2	68	58.4
Provisions	115	181	(36.4)	96	20.2
<b>NPAM</b>	<b>279</b>	<b>282</b>	<b>(1.1)</b>	<b>278</b>	<b>0.4</b>
<b>Cash NPAM <sup>(b)</sup></b>	<b>386</b>	<b>355</b>	<b>8.9</b>	<b>346</b>	<b>11.7</b>

(a) Operating profit before goodwill amortization and provisions

(b) NPAM before goodwill amortization

## Highlights of First Quarter 2003 progress

Comparison of	1Q 2003	vs. 4Q 2002	vs. 1Q 2002
Net interest margin	1.87%	1.97%	2.02%
Cost-to-income ratio <sup>(a)</sup>	41.9%	45.0%	44.8%
Non-interest inc. / operating inc.	43.2%	38.7%	34.6%
Cash ROA <sup>(b)</sup>	1.01%	0.95%	0.91%
Cash ROE <sup>(b)</sup>	10.59%	9.95%	10.05%
NPL ratio	5.9%	6.1%	5.9%
Loan-to-deposit ratio	58.4%	59.9%	60.5%
Cash EPS (\$) <sup>(c)</sup>	1.04	0.95	0.94

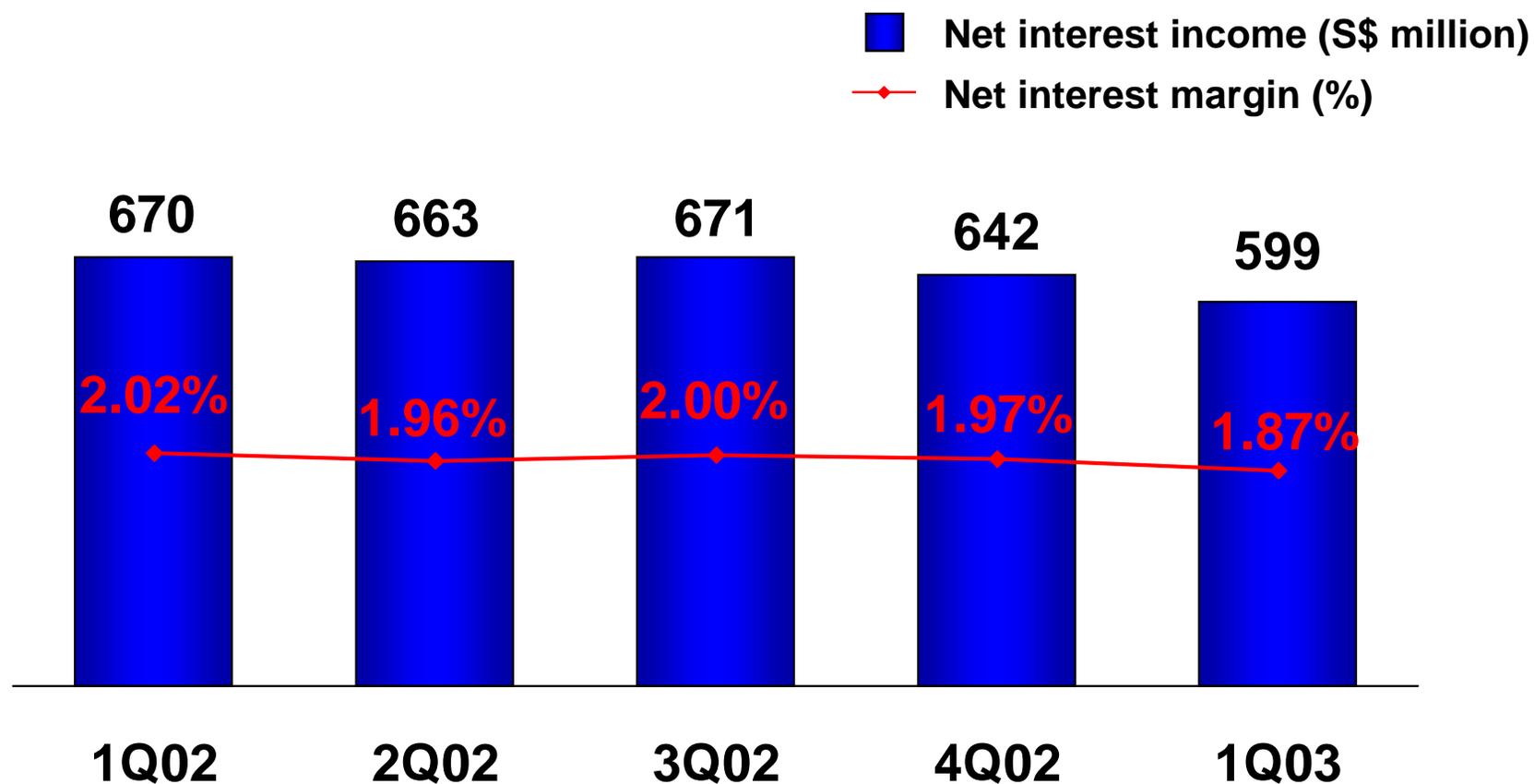
(a) Excludes goodwill amortization

(b) Annualized

(c) Earnings per share before goodwill amortization, annualized

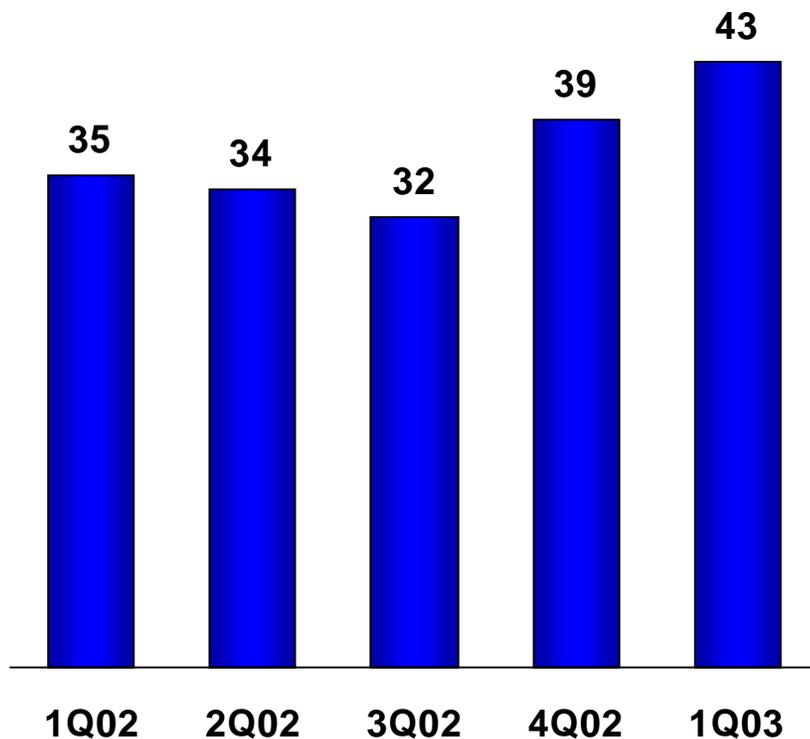


## Net interest margin affected by excess market liquidity, intense price competition



# Non-interest income gains strength

Non-interest income to Operating income (%)



(S\$ million)

	1Q 2003	4Q 2002	1Q 2002
Fee and commission income	160	191	193
Dividend and rental income	13	12	9
Other income	283	203	152
<b>Total</b>	<b>456</b>	<b>406</b>	<b>354</b>

## Fee income affected by market weakness

(S\$ million)	1Q 2003	4Q 2002	% change	1Q 2002	% change
Trade and remittances	27	27	(1.8)	29	(7.5)
Deposit related	26	27	(5.7)	27	(6.2)
Credit card	20	22	(11.1)	21	(5.4)
Loan related	36	40	(11.3)	26	39.3
Investment banking	7	22	(69.2)	13	(46.6)
Stockbroking	18	23	(19.0)	47	(60.7)
Fund management	7	9	(16.6)	12	(38.4)
Wealth management (a)	14	14	nm	13	2.9
Others	5	7	(21.4)	5	nm
<b>Total</b>	<b>160</b>	<b>191</b>	<b>(15.9)</b>	<b>193</b>	<b>(16.7)</b>
<b>Fee-to-income ratio (%)</b>	<b>15.2</b>	<b>18.2</b>		<b>18.7</b>	

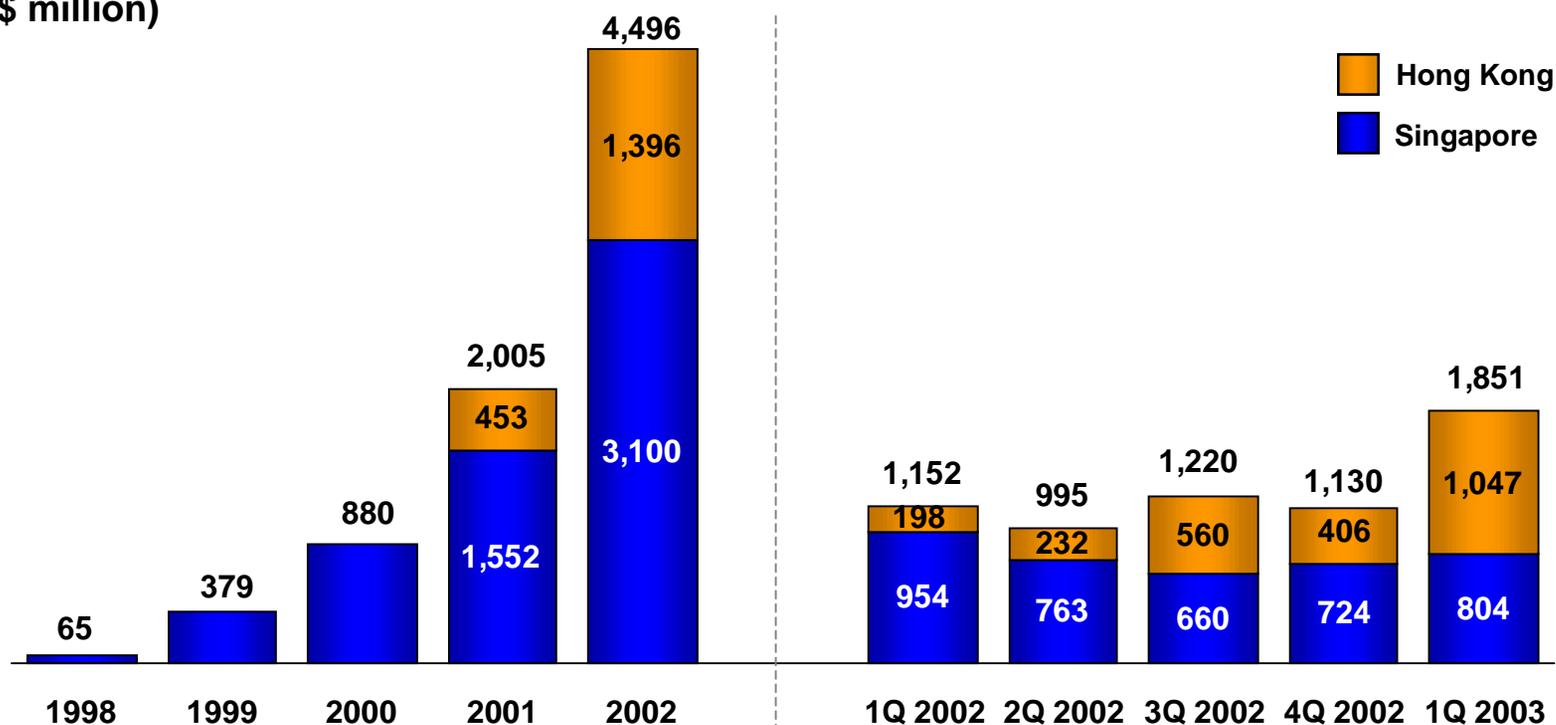
nm: not meaningful or insignificant

(a) Part of the earnings is reflected under "Other Income"

# Successfully migrating Singapore product capabilities to larger Hong Kong market

## 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)

## Sale of investment products contributed substantially to Other Income

(S\$ million)	1Q 2003	4Q 2002	% change	1Q 2002	% change
Net gain on treasury products including structured investment products	153	77	98.6	94	63.3
Net gain on Singapore government securities	102	17	486.2	26	289.0
Net gain / (loss) on equities	(1)	98	nm	15	nm
Net gain / (loss) on investment securities	27	(1)	nm	7	307.7
Net gain / (loss) on fixed assets	(1)	5	nm	nm	nm
Others	3	7	(56.8)	10	(70.2)
<b>Total</b>	<b>283</b>	<b>203</b>	<b>39.8</b>	<b>152</b>	<b>86.5</b>

nm: not meaningful or insignificant

## Managing diversified businesses against challenging conditions

- ❑ Margin pressure offset by diversified non-interest income businesses
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- ❑ Prepared for next challenge to asset quality
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## Operating expenses managed down again

(S\$ million)	1Q 2003	4Q 2002	% change	1Q 2002	% change
<b>Group operating expenses</b>					
Staff costs	219	226	(2.9)	237	(7.6)
Occupancy expenses	48	58	(17.0)	54	(12.1)
Technology-related expenses	71	66	7.6	51	39.2
Others <sup>(a)</sup>	104	121	(14.7)	117	(10.5)
<b>Total expenses</b>	<b>442</b>	<b>471</b>	<b>(6.2)</b>	<b>459</b>	<b>(3.7)</b>
<b>Cost-to-Income ratio (%)</b>	<b>41.9</b>	<b>45.0</b>		<b>44.8</b>	

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

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## Dao Heng and DBS Kwong On operating profit up

(S\$ million) (a)	1Q 2003	4Q 2002	% change	1Q 2002	% change
Net interest income	199	205	(2.9)	210	(5.2)
Non-interest income	84	71	18.3	69	21.7
<b>Operating income</b>	<b>283</b>	<b>276</b>	<b>2.5</b>	<b>279</b>	<b>1.4</b>
Operating expenses	114	132	(13.6)	128	(10.9)
Impairment of fixed assets	1	10	(90.0)	-	nm
<b>Operating profit</b>	<b>168</b>	<b>134</b>	<b>25.4</b>	<b>151</b>	<b>11.3</b>
Provisions	43	64	(32.8)	21	104.8
<b>Net profit after tax</b>	<b>103</b>	<b>74</b>	<b>39.2</b>	<b>110</b>	<b>(6.4)</b>

(a) Assumes exchange rate of HK\$1 to S\$0.2261. Based on Hong Kong GAAP  
nm: not meaningful or insignificant

## DBS Thai Danu maintains steady growth

(S\$ million) (a)	1Q 2003	4Q 2002	% change	1Q 2002	% change
Net interest income (b)	25	26	(4.3)	23	10.3
Non-interest income	12	10	22.6	9	36.6
Operating income	37	36	3.1	31	17.6
Operating expenses	24	23	1.5	22	8.6
Operating profit	13	12	6.1	9	38.6
Provisions	9	9	4.8	7	29.4
Net profit after tax	4	4	9.3	2	64.7

(a) Assumes exchange rate of 1 baht to S\$0.0411. Based on Thai GAAP

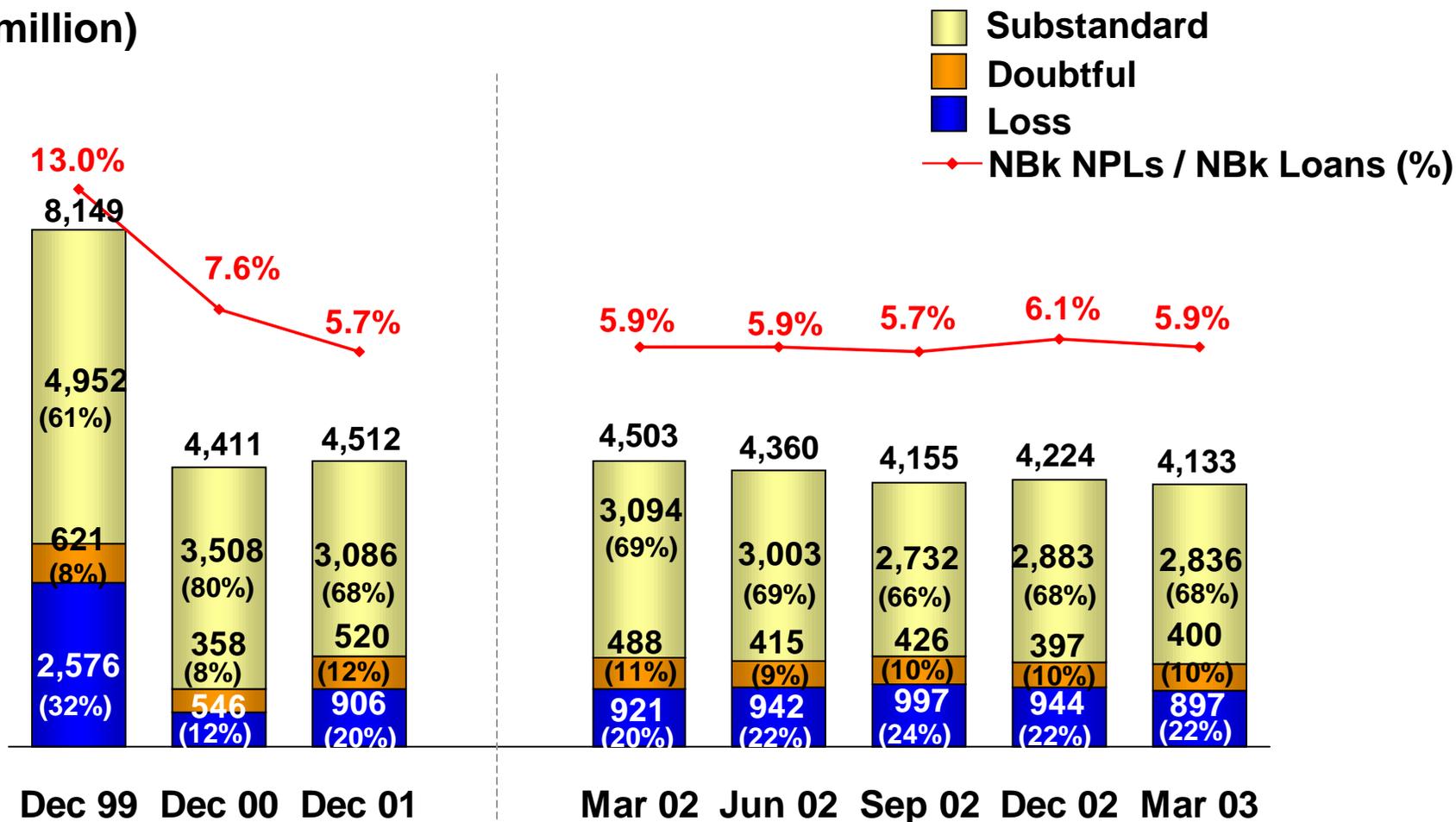
(b) Includes dividend income

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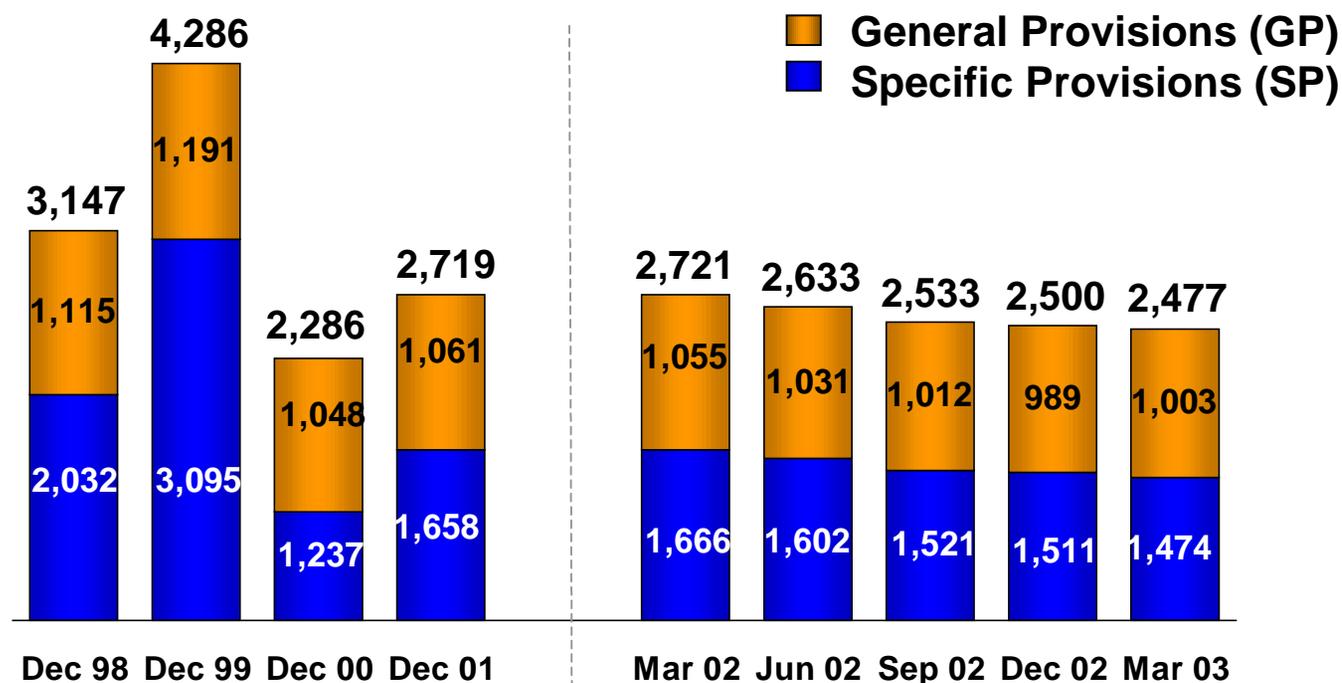
# NPL quantum, rate declined in the quarter

(S\$ million)



## Provisions maintained at satisfactory level

(S\$ million)



Coverage ratios (%)											
SP+GP / Unsec NPLs		102.7	118.4	129.9	142.5	132.0	129.2	124.8	120.7	120.9	
SP+GP / NPLs		44.4	52.6	51.8	60.3	60.4	60.4	61.0	59.2	59.9	

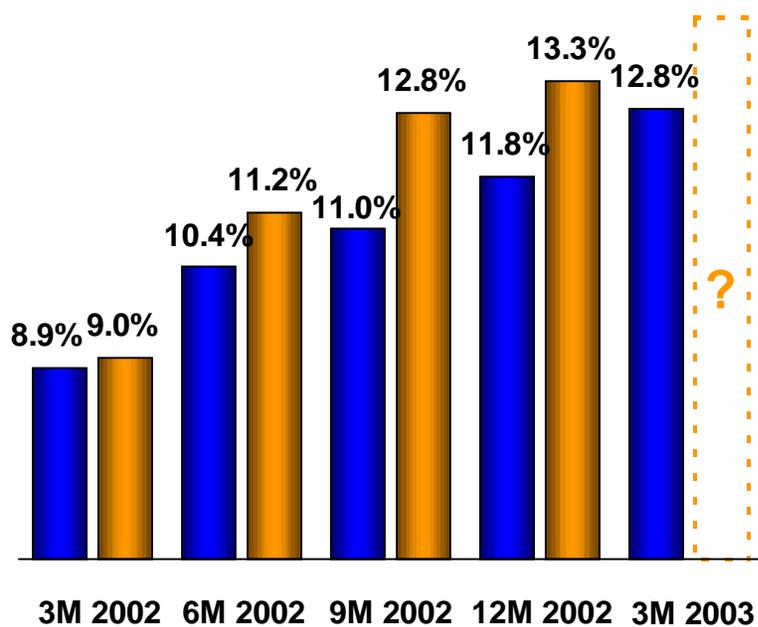
## Loan provisions down, account for 62% of total provisions

(S\$ million)	1Q 2003	4Q 2002	% Change	1Q 2002	% Change
Loans	60	121	(50.8)	90	(34.0)
Equities	16	19	(19.5)	3	441.0
Properties & other assets	28	36	(24.4)	5	450.9
Specific provision	104	176	(41.1)	98	5.7
General provision	11	5	138.1	(2)	nm
<b>Total</b>	<b>115</b>	<b>181</b>	<b>(36.4)</b>	<b>96</b>	<b>19.8</b>

nm: not meaningful or insignificant

# DBS Hong Kong Consumer Banking asset quality still better than industry

## Credit card charge-off rates



■ DBS HK (b) ■ Industry (c)

n.a : not available

## Credit card delinquency rates

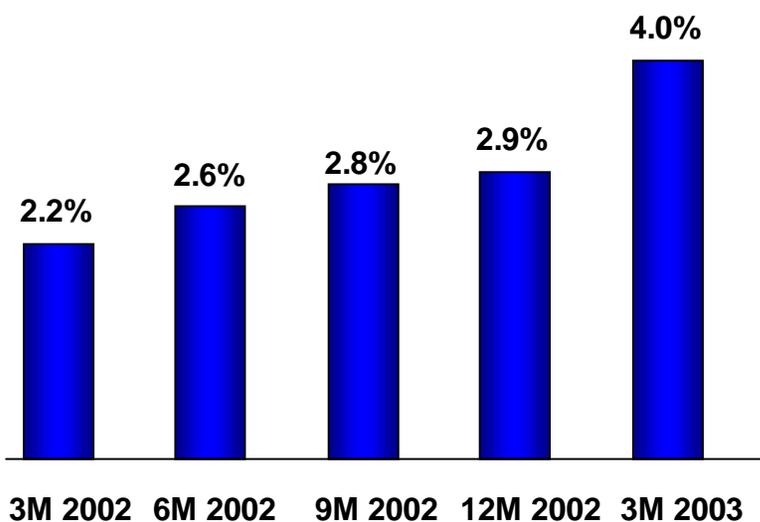
90 days past due	1Q02	2Q02	3Q02	4Q02	1Q03
DBS (HK) (a)	1.1%	1.0%	1.2%	1.2%	1.1%
Industry (b)	1.9%	1.7%	1.3%	1.3%	n.a

As of March 2003, the 90-day past due residential mortgage delinquency rate was 1.3%

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

# DBS Singapore Consumer Banking asset quality satisfactory <sup>(a)</sup>

## Credit card charge-off rates



## Credit card delinquency rates <sup>(b)</sup>

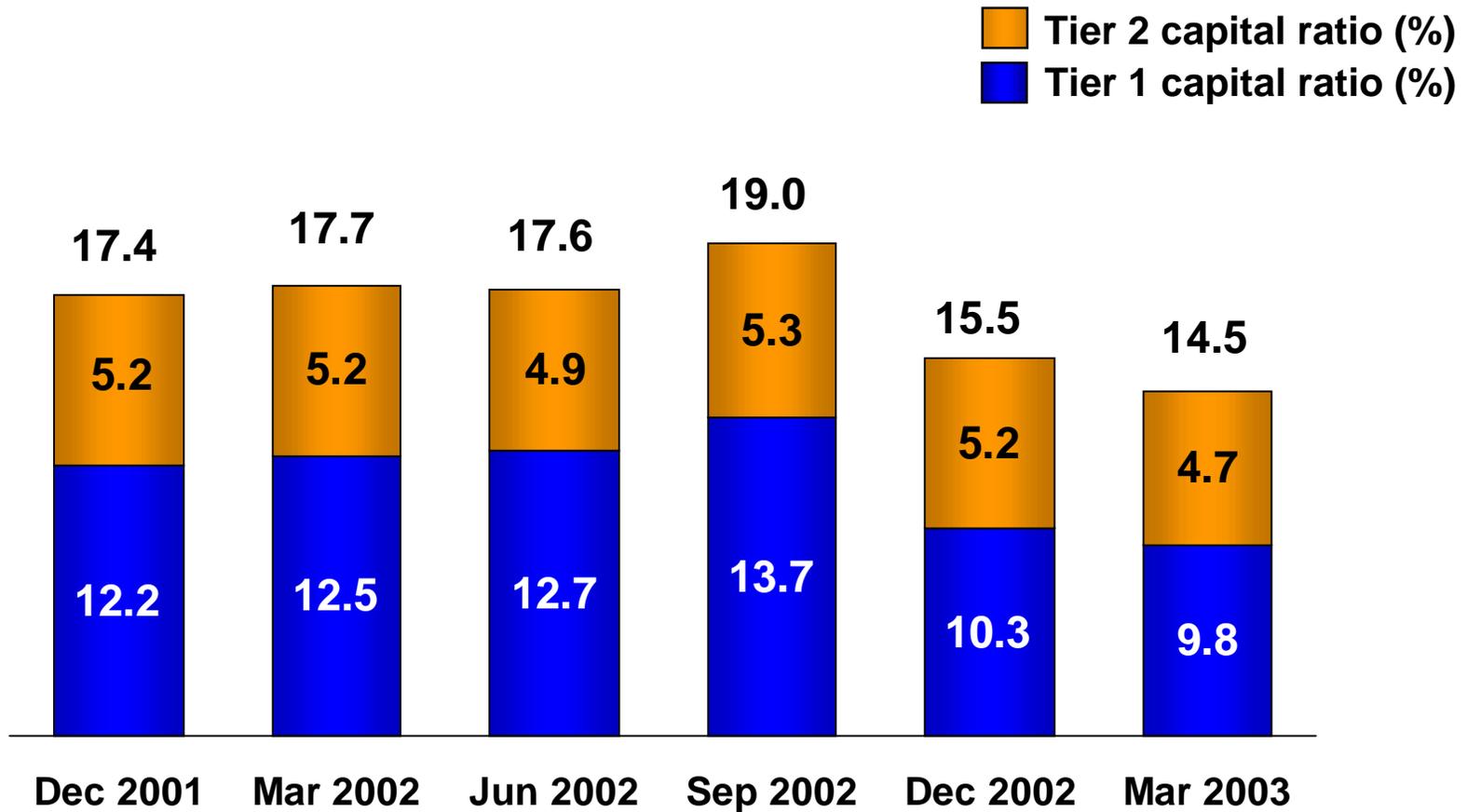
	1Q02	2Q02	3Q02	4Q02	1Q03
90 days past due	1.4%	1.4%	1.4%	1.7%	2.2%

As of March 2003, the 90-day past due residential mortgage delinquency rate was 0.7%

(a) DBS Consumer Banking - Singapore  
 (b) Delinquency rates as at period end

# Capital adequacy remains efficient

## BIS Capital adequacy ratio



## Capital management

Comparison of	Mar 2003	Dec 2002	
Tier-1 Capital (S\$ million)	8,891	8,393	↑ 5.9%
Risk-Weighted Asset (S\$ million)	90,835	81,239	↑ 11.8%
Tier-1 CAR (%)	9.8%	10.3%	↓ 0.5% pt
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Cash earnings (S\$ million) <sup>(a)</sup>	386	355	↑ 8.9%
Annualized return on Tier-1 (%)	17.4%	16.9%	↑ 0.5% pt

(a) Net profit excluding goodwill amortization

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# SARS – Took pre-emptive action, early

## Business Contingency Plan (activated on March 27, 2003)

- ◆ Among the first in the region to activate Contingency Plans on March 27
- ◆ Divided workforce into multiple locations
- ◆ Identified back-up staff from other units
- ◆ Developed branch back-up plans
- ◆ Suspended most business travel to high risk locations

## Customers

- ◆ Made special banking arrangements for Singapore healthcare workers and patients
- ◆ Reached-out to valued customers to see if we could extend help
- ◆ Mobilized call centre and internet to offer products and services

# SARS – Took pre-emptive action, early

## Employees

- ◆ **Employees returning from SARS affected areas asked to take a 10-day home quarantine**
- ◆ **Reimbursed SARS medical screening**
- ◆ **Granted reasonable unrecorded leave to attend to family matters related to SARS**
- ◆ **Stepped-up cleaning and disinfection of facilities, including the increase of air recycling and the placing of disinfection gels in the air-conditioning units**
- ◆ **Tracked health situation (Confirmed cases):**
  - ✓ **A DBS HK Call Centre employee living in Amoy Gardens was infected, but has recovered and was discharged from the hospital.**
  - ✓ **A DBS HK credit manager has been out of the office since April 11 with flu-like symptoms and was confirmed over the weekend with SARS. None of his co-workers has developed symptoms in the past 10 days.**
    - **Neither confirmed cases had personal contact with customers**
    - **No other suspected case among DBS employees**

## SARS – Net revenue impact not large, so far

Group Business Segments	Impact
Consumer Banking	<ul style="list-style-type: none"><li>◆ Net revenue impact for the first two weeks of April is not significant</li><li>◆ In the first two weeks of April, Singapore branch traffic declined by 19%. Currently, branch traffic has recovered to a 4% below normal level</li><li>◆ Hong Kong branch traffic initially dropped 23%, but is currently 10% below normal traffic level</li><li>◆ ATM traffic and withdrawals are down in both Hong Kong and Singapore</li><li>◆ Hong Kong internet banking and automated phone banking increased by 20%</li><li>◆ No major impact on customer service quality level</li></ul>

## SARS – Net revenue impact not large, so far

Group Business Segments	Impact
<b>Investment Banking</b>	<ul style="list-style-type: none"><li>◆ Transaction volumes for the first two weeks of April were normal</li><li>◆ Pipeline of transactions and loans satisfactory, but dependent on market conditions</li><li>◆ Corporate loan book is diversified. There has been no immediate deterioration of our asset quality that would warrant concerns</li></ul>
<b>Enterprise Banking</b>	<ul style="list-style-type: none"><li>◆ Trade finance business volumes holding up</li><li>◆ Year-on-year, SME business profitability holding up</li><li>◆ Loan portfolio is diversified with no heavy concentration in travel and restaurant-related businesses</li></ul>

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