

# **Stronger customer earnings underpin record 2004 results**

**18 February 2005**

## **DBS Group Holdings 2004 Financial Results Presentation to Media and Analysts**

This presentation is available at [www.dbs.com/investor](http://www.dbs.com/investor)

# Stronger customer earnings underpin record 2004 results

- ❑ **4Q performance caps a record year**
- ❑ **Regional operations continue to expand**
- ❑ **Strong asset quality supports 2005 business expansion**
- ❑ **Significant accounting changes for DBS in 2005**

# 2004 recurrent earnings up 48% to a record

(S\$m)	2004 <sup>a</sup>	2003	% change
<b>Net interest income</b>	<b>2,566</b>	<b>2,375</b>	<b>8</b>
<b>Non-interest income</b>	<b>1,865</b>	<b>1,823</b>	<b>2</b>
<b>Operating income</b>	<b>4,431</b>	<b>4,198</b>	<b>6</b>
Staff costs	970	865	12
Other operating expenses	1,036	976	6
<b>Operating expenses</b>	<b>2,006</b>	<b>1,841</b>	<b>9</b>
<b>Operating profit</b>	<b>2,425</b>	<b>2,357</b>	<b>3</b>
<b>Goodwill amortisation</b>	<b>440</b>	<b>430</b>	<b>2</b>
<b>Provisions</b>	<b>47</b>	<b>541</b>	<b>(91)</b>
<b>NPAM</b>	<b>1,521</b>	<b>1,025</b>	<b>48</b>
<b>Cash NPAM</b>	<b>1,961</b>	<b>1,455</b>	<b>35</b>

(a) Excluding one-time gains of \$497m

## 4Q up 10% from a year ago

(S\$m)	4Q 2004	4Q 2003	% change	3Q 2004	% change
Net interest income	636	628	1	645	(1)
Non-interest income	386	425	(9)	442	(13)
<b>Operating income</b>	<b>1,022</b>	<b>1,053</b>	<b>(3)</b>	<b>1,087</b>	<b>(6)</b>
Staff costs	253	217	17	241	5
Other operating expenses	277	265	5	250	11
<b>Operating expenses</b>	<b>530</b>	<b>482</b>	<b>10</b>	<b>491</b>	<b>8</b>
<b>Operating profit</b>	<b>492</b>	<b>571</b>	<b>(14)</b>	<b>596</b>	<b>(17)</b>
Goodwill amortisation	110	110	0	110	0
Provisions/(write-backs)	(31)	82	nm	17	nm
<b>NPAM</b>	<b>321</b>	<b>292</b>	<b>10</b>	<b>362</b>	<b>(11)</b>
<b>Cash NPAM</b>	<b>431</b>	<b>402</b>	<b>7</b>	<b>472</b>	<b>(9)</b>

# Most full-year operating ratios improve

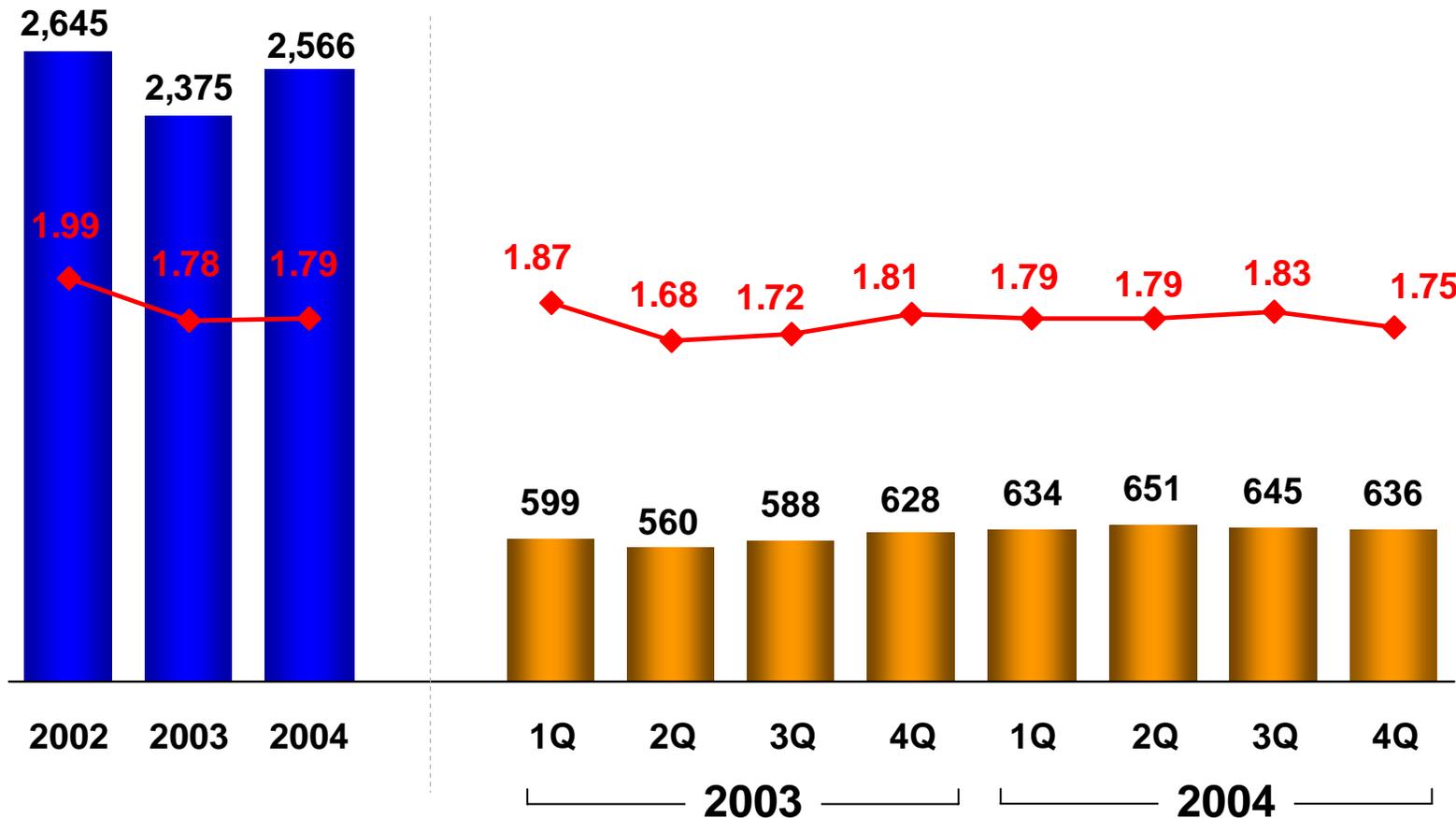
(%)	4Q 2004	3Q 2004	4Q 2003	2004 <sup>a</sup>	2003
Net interest margin	1.75	1.83	1.81	1.79	1.78
Non-interest income/total income	38	41	40	42	43
Cost/income	52	45	46	45	44
ROE	10.5	11.7	10.9	12.7	10.0
Loans/deposits	62	63	60	62	60
Loan + non-trading debt securities/ deposits	82	84	80	82	80
NPL ratio	2.5	2.6	5.2	2.5	5.2

(a) Excluding one-time gains of \$497m

# 4Q margins of 1.75% result in stable full-year margins at 1.79%

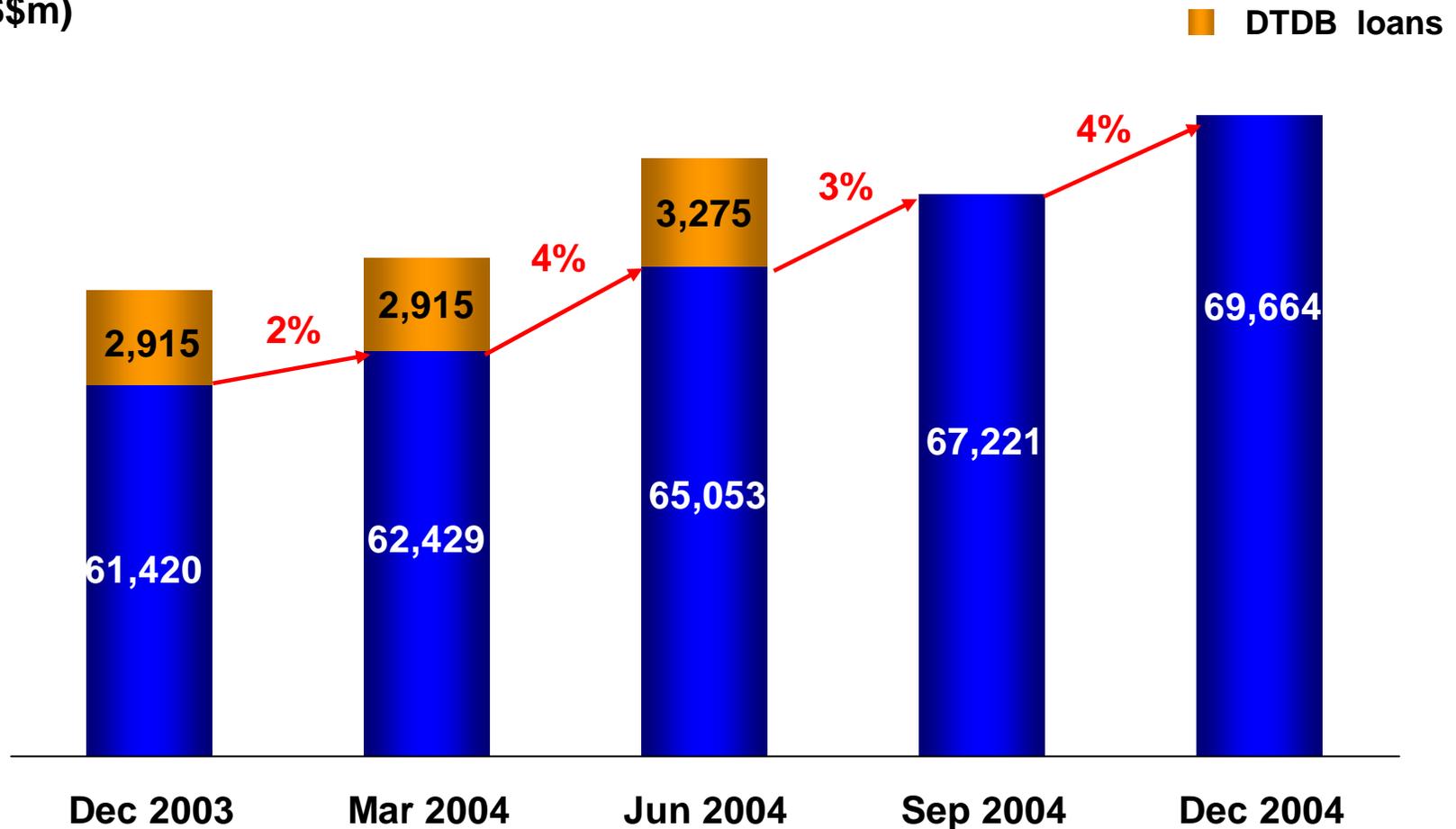
(S\$m)

—◆— Net interest margin (%)

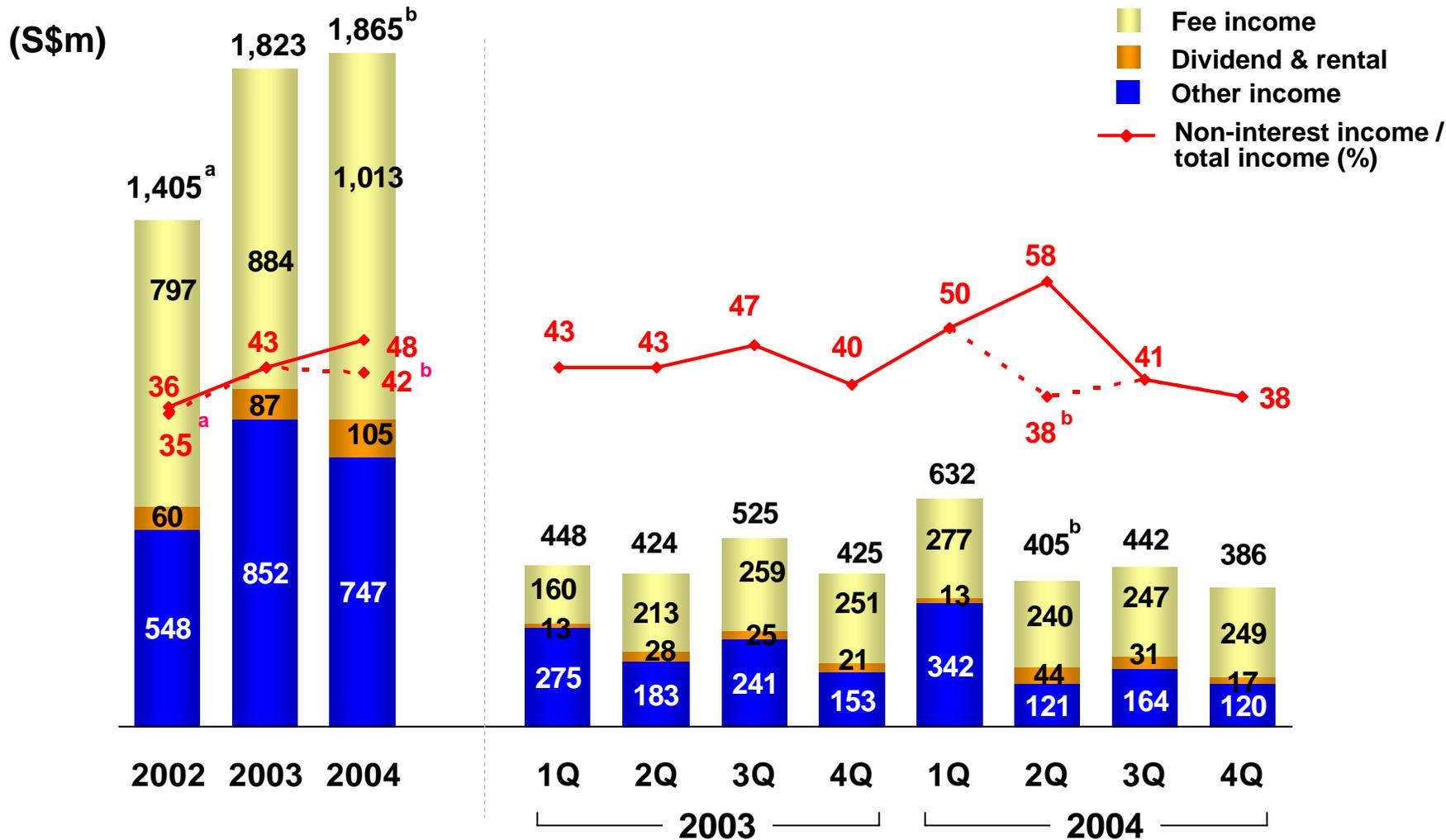


# 4Q customer loans up 4% on quarter, bringing full-year growth to 13%

(S\$m)



# 2004 fee income up 15%, treasury income lower



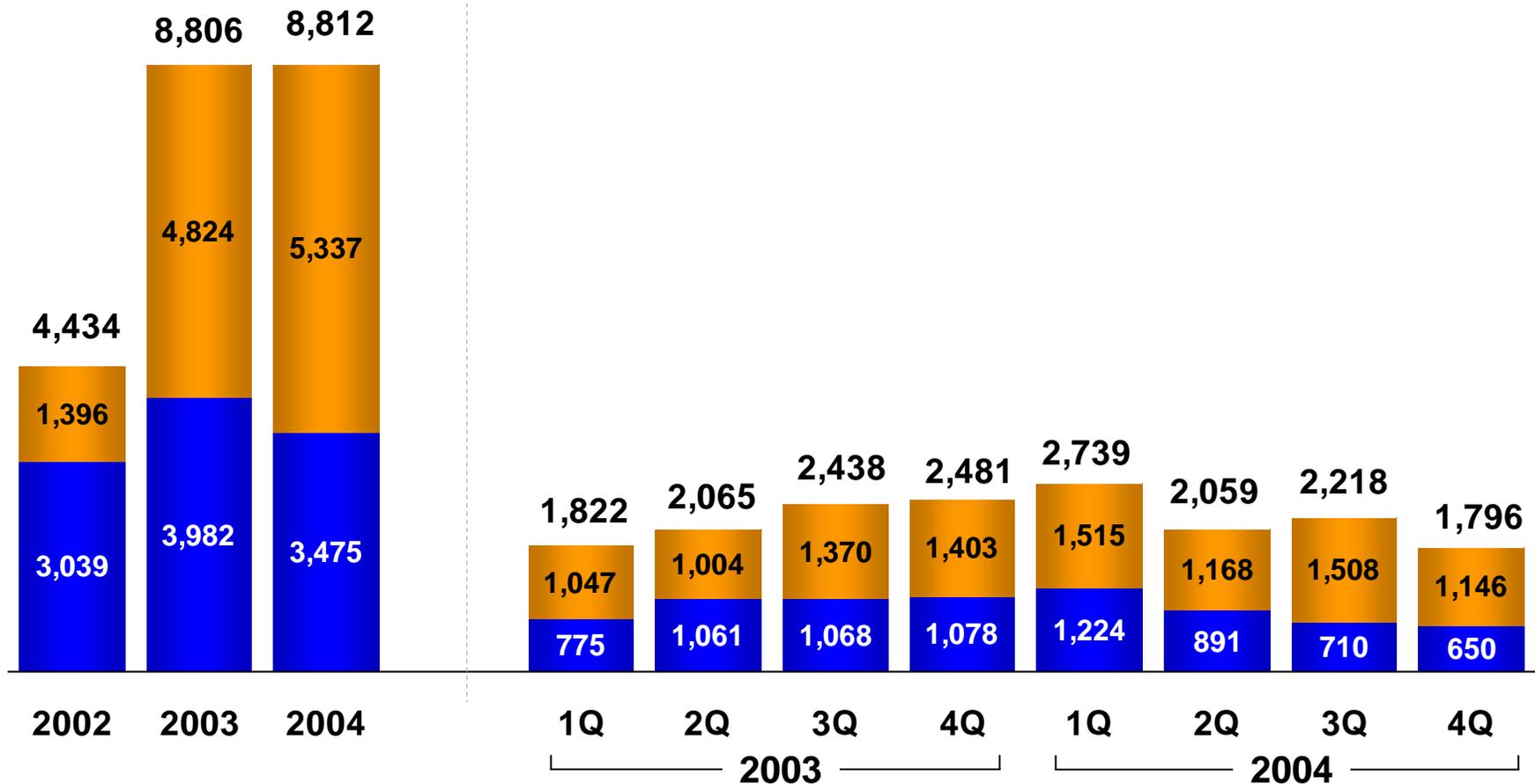
(a) Excluding one-time gains of \$96m

(b) Excluding one-time gains of \$497m

# Wealth management sales consolidate after doubling each year since 1999

(S\$m)

■ Hong Kong  
■ Singapore

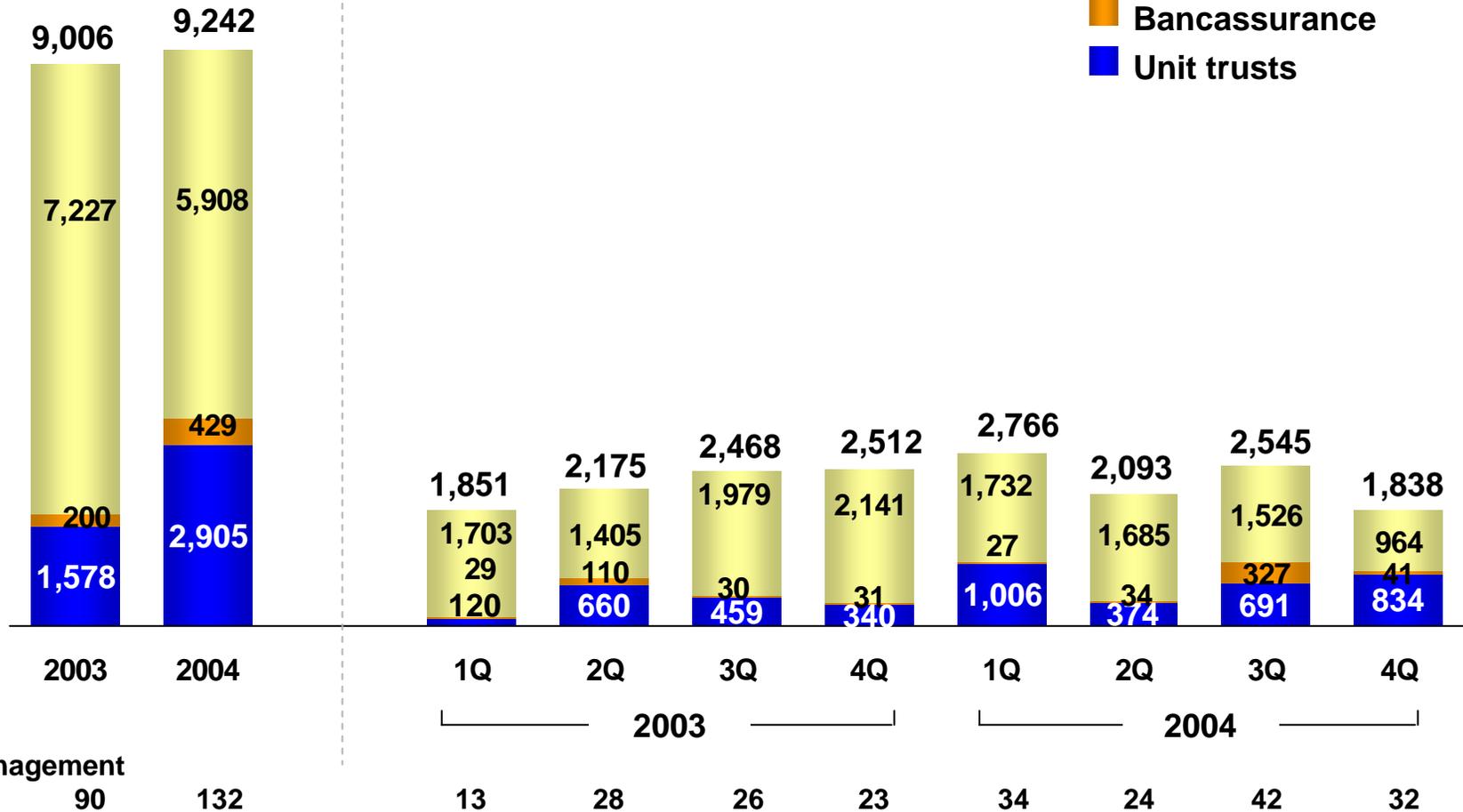


Excluding bancassurance

# Wealth management fees rise 47% in 2004 from higher unit trust and bancassurance sales

(S\$m)

- Structured deposits
- Bancassurance
- Unit trusts



Wealth management fees (S\$m) 90 132

# Reduced year-end activity dampens 4Q treasury non-interest income

- ❑ Seasonal factors dampen 4Q treasury contributions
- ❑ Market uncertainty and reduced customer flows result in lower 2004 performance
- ❑ Fall in DEaR at 31 December reflects slower year-end markets

	Average DEaR		
	1 Jan 2004 to 31 Dec 2004	1 Oct 2003 to 30 Sep 2004	DEaR as at 31 Dec 2004
(S\$m)			
Interest rate	28.2	27.2	24.6
FX	6.2	6.0	3.7
Equity	5.5	5.2	5.5
Diversification effect	(14.0)	(13.3)	(11.8)
<b>Total</b>	<b>25.9</b>	<b>25.1</b>	<b>22.0</b>

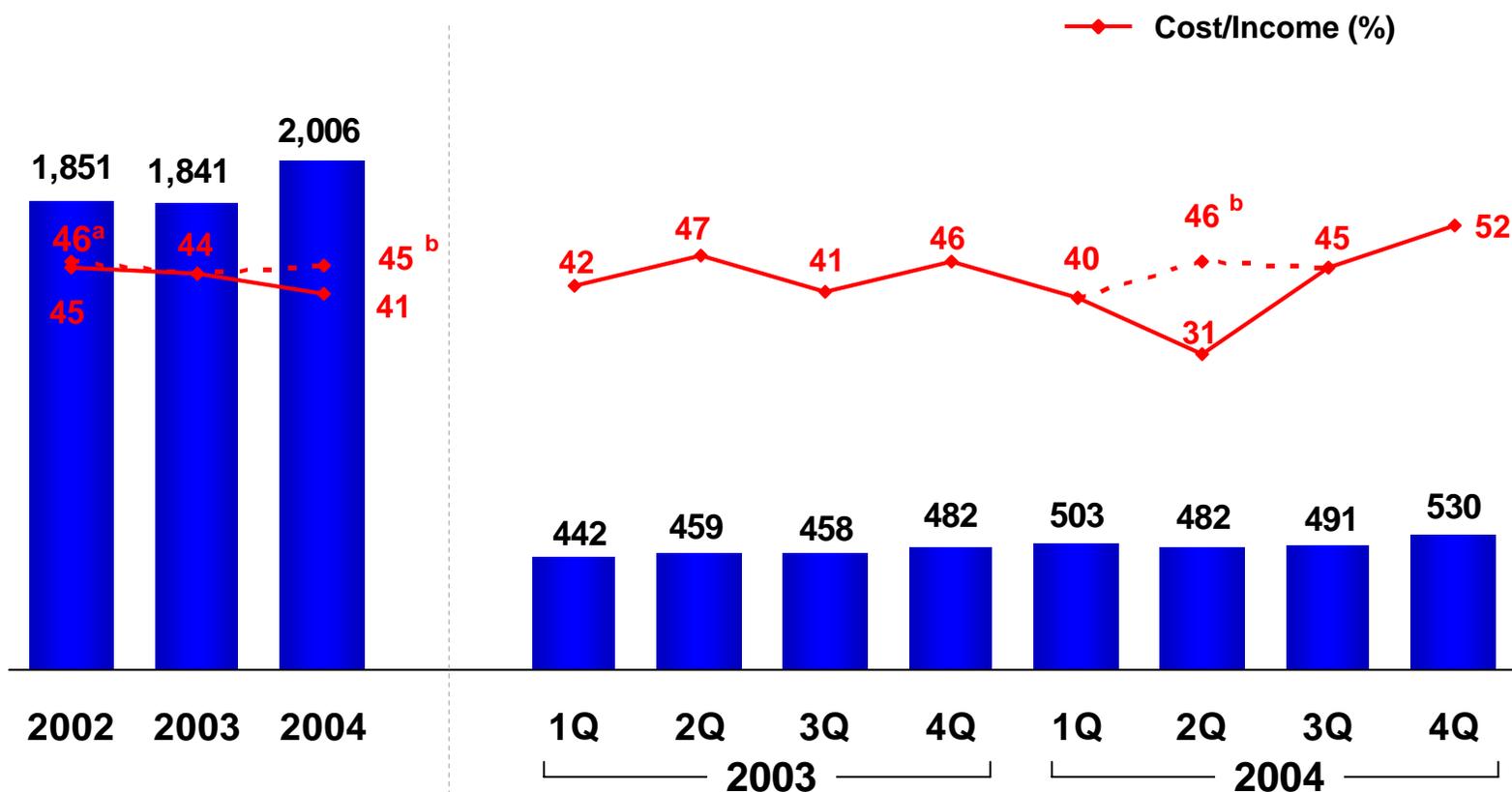
# Full-year revenues rise for all customer businesses

Revenues (\$m)	4Q 2004	4Q 2003	Change	2004	2003	Change
Consumer Banking	401	391	10	1,566	1,441	125
Enterprise Banking	186	173	13	735	631	104
Investment Banking	162	167	(5)	703	668	35
Treasury & Markets	98	149	(51)	740	828	(88)
Central Operations <sup>a</sup>	175	173	2	687	630	57
<b>Total</b>	<b>1,022</b>	<b>1,053</b>	<b>(31)</b>	<b>4,431</b>	<b>4,198</b>	<b>233</b>

(a) Including Central Treasury Unit, DBS Vickers and DBS Asset Management and other subsidiaries and associates but excluding exceptional gains of \$497m in 2004

# Full-year operating costs increase 9%

(S\$m)



Annualised cost / average assets (%)

1.22      1.17      1.20

Headcount <sup>c</sup>

12,035    12,144    11,454

Staff costs (S\$m)

911      865      970

1.16    1.17    1.15    1.21    1.20    1.12    1.18    1.24

12,036    11,948    12,026    12,144    12,173    10,838    11,083    11,454

219    210    219    217    250    226    241    253

(a) Excluding one-time gains of \$96m

(b) Excluding one-time gains of \$497m

(c) At period end

# Stronger customer earnings underpin record 2004 results

- ❑ 4Q performance caps a record year
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- ❑ Strong asset quality supports 2005 business expansion
- ❑ Significant accounting changes for DBS in 2005

# DBS Hong Kong's 2004 net profit up 27%

(S\$m)	2004	2003	% change
Net interest income	804	767	5
Non-interest income	380	368	3
Operating income	1,184	1,135	4
Operating expenses	498	463	8
Operating profit	686	672	2
Provisions	91	172	(47)
Net profit after tax	534	422	27

Exchange rate at HK\$1 to S\$0.21006. Based on Hong Kong GAAP

# DBS Hong Kong's 4Q net profit down 10%

(S\$m)	4Q 2004	4Q 2003	% change	3Q 2004	% change
Net interest income	194	203	(4)	197	(2)
Non-interest income	91	101	(10)	92	(1)
Operating income	285	304	(6)	289	(1)
Operating expenses	133	121	10	126	6
Operating profit	152	183	(17)	163	(7)
Provisions	19	25	(24)	20	(5)
Net profit after tax	126	140	(10)	127	(1)

Exchange rate at HK\$1 to S\$0.21006. Based on Hong Kong GAAP

## DBS HK's ratios remain better than group average

(%)	4Q 2004	3Q 2004	4Q 2003	2004	2003
Net interest margin	2.16	2.28	2.45	2.34	2.38
Non-interest income/total income	32	32	33	32	32
Cost/income	47	44	40	42	41
ROE	13.1	13.8	17.0	14.8	12.8
ROA	1.33	1.39	1.59	1.47	1.25
Loans/deposits	80	81	76	80	76
NPL ratio	1.7	1.8	2.4	1.7	2.4

# Regional revenues grow at faster pace

	Amount (S\$m)		YoY change (%)
	2003	2004	
<b><u>Revenues</u></b>			
Region and rest of world <sup>a</sup>	199	227	14
Hong Kong <sup>b</sup>	1,337	1,361	2
Singapore <sup>c</sup>	2,520	2,773	10
<b>Total</b>	<b>4,056</b>	<b>4,361</b>	<b>8</b>
<b><u>Cash profit</u></b>			
Region and rest of world <sup>a</sup>	64	79	23
Hong Kong <sup>b</sup>	486	625	29
Singapore <sup>c</sup>	863	1,231	43
<b>Total</b>	<b>1,413</b>	<b>1,935</b>	<b>37</b>

(a) Excluding DTDB in all periods

(b) Including non-DBS Bank (HK) operations

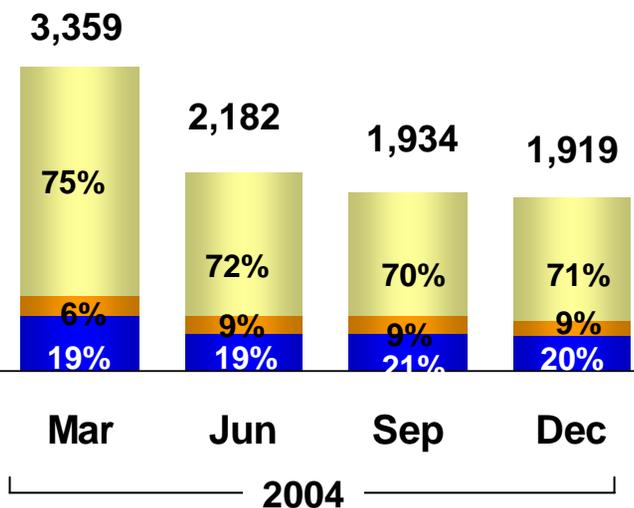
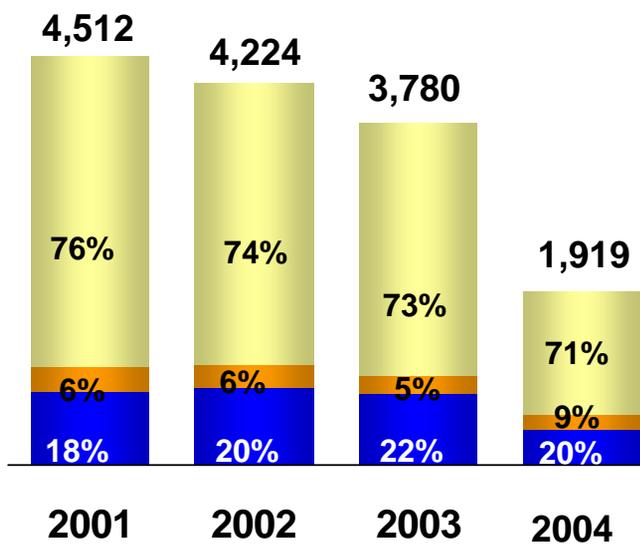
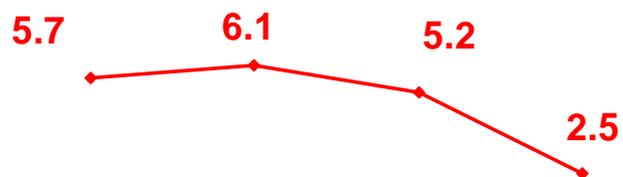
(c) Excluding one-time gains of \$497m in 2004

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# NPL rate falls to 2.5%

(S\$m)



# Non-performing loans stable as additions offset recoveries and write-offs

(S\$m)	4Q 2004	3Q 2004	4Q 2003
NPLs at start of period	1,934	2,182	4,143
New NPLs	325	114	240
Net recoveries of existing NPLs	(261)	(283)	(299)
Write-offs	(79)	(79)	(304)
NPLs at end of period	1,919	1,934	3,780

# 4Q specific provision charges rise on quarter but below year ago

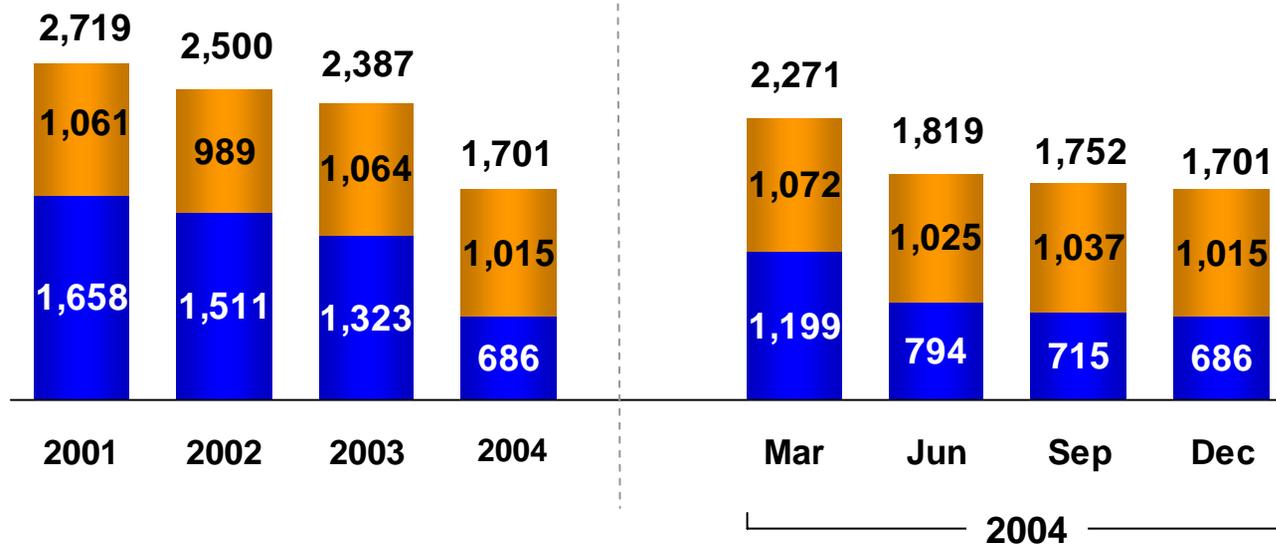
(S\$m)

	4Q 2004	3Q 2004	4Q 2003
<b><u>Add charges for</u></b>			
<b>New NPLs</b>	74	46	64
<b>Existing NPLs</b>	41	28	73
	<b>115</b>	<b>74</b>	<b>137</b>
<b><u>Subtract charges for</u></b>			
<b>Upgrading</b>	2	3	9
<b>Settlements</b>	64	67	41
<b>Recoveries</b>	13	7	9
	<b>79</b>	<b>77</b>	<b>59</b>
<b>Total SP charges</b>	<b>36</b>	<b>(3)</b>	<b>78</b>

# Provision coverage stands at 89%

(S\$m)

GP  
SP



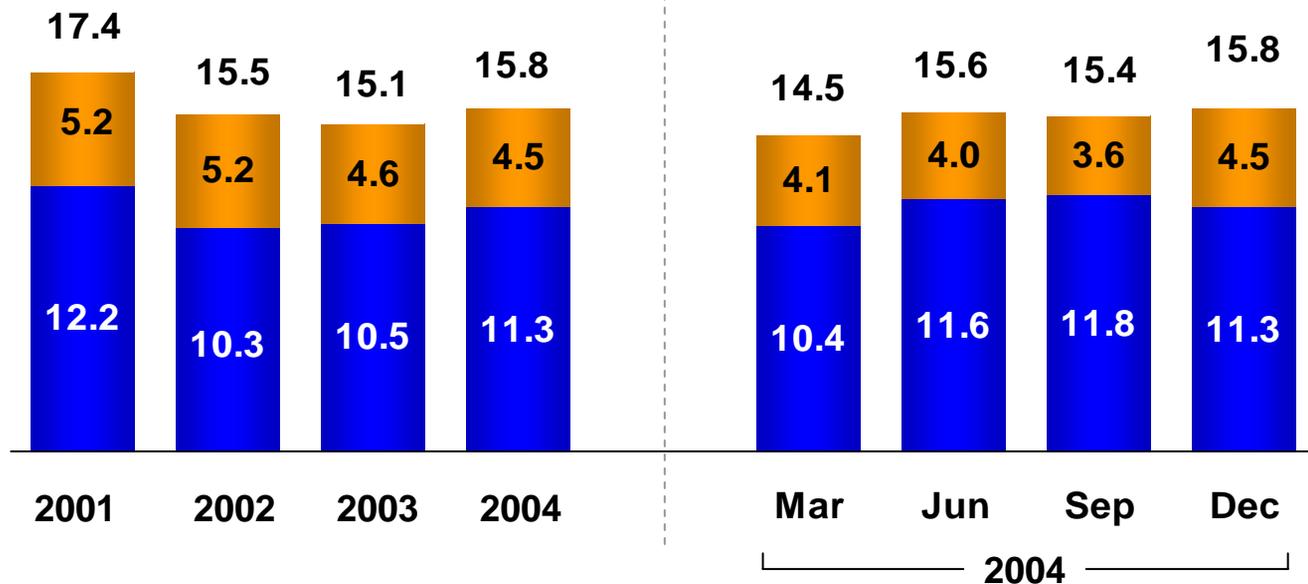
## Coverage ratios (%)

SP+GP / Unsec NPAs	143	121	124	186	132	156	183	186
SP+GP / NPAs	60	59	63	89	68	83	91	89

# Tier-1 CAR trimmed as RWA expands in 4Q; tier-2 boosted by inclusion of new sub-debt

(%)

■ Tier-2 CAR  
■ Tier-1 CAR

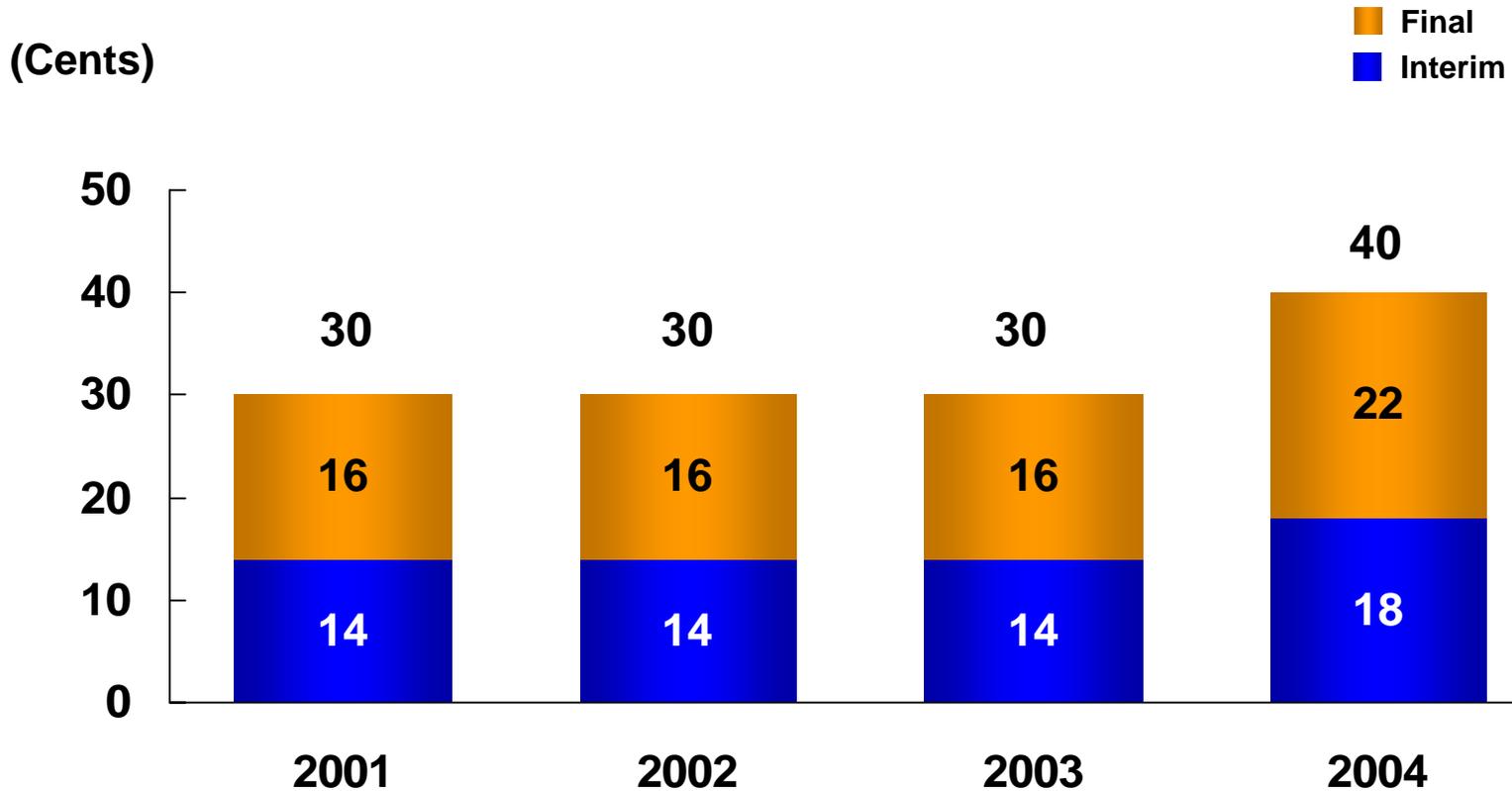


(\$bn)

Tier-1 capital	10.5	8.4	9.6	11.8	10.2	11.2	11.5	11.8
RWA	85.9	81.2	92.1	104.0	97.8	96.6	97.5	104.0

2004 capital ratios based on MAS framework. Earlier periods based on BIS guidelines

# Dividend rate up 33% to 40 cents



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# Significant accounting changes for DBS in 2005

FRS 39	Financial Instruments: Recognition and Measurement
FRS 102	Share-based Payments
FRS 103	Business Combinations

# FRS 39

## Investment securities

Most non-trading securities will be re-classified as AFS and be marked to market

Unrealised changes in fair value for AFS securities will be taken against equity

No change to recognition of interest and dividend income

Proportion of debt securities as at 1 January 2005

- Trading 36%
- AFS 59%
- Loans and receivables 5%

# FRS 39

## **Investment securities** – impact on capital

### AFS debt securities

- unrealised gains or losses have no impact on tier-1

### AFS equity securities

- unrealised losses to be deducted against tier-1 on portfolio basis
- 45% of revaluation gains on qualifying securities can be counted as tier-2

# FRS 39

## Derivatives

All derivatives will be marked to market

Apply hedge accounting to minimise profit and loss volatility

Hedge ineffectiveness taken to profit and loss

## Transitional adjustment to equity

Net impact of FRS 39 changes on 1 January adds \$150m to shareholders' funds

# FRS 102

Fair value of share options granted after 22 November 2002 and unvested on 1 January 2005 will be expensed over vested period

Fair value to be determined by valuation models

Estimated options expense not expected to exceed \$25m in 2005

# FRS 103

Goodwill amortisation, amounting to \$440m in 2004, will no longer be incurred

As at 31 December 2004, we had outstanding goodwill of \$6.9bn for DBS (Hong Kong) and DBS Vickers

Impairment test carried out at least annually and when impairment indicators arise to determine if carrying amount exceeds recoverable amount of investment

Impairment test based on value in use

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