LETTER TO SHAREHOLDERS

Chairman Peter Seah
and CEO Piyush Gupta

While 2011 began with slow growth in the United States and Europe, market sentiment was fairly sanguine amid expectations that policymakers would be on top of mounting global debt problems.

That confidence started to unravel towards the middle of the year. In August, the US sovereign credit rating was downgraded for the first time in 70 years. In Europe, the massive debt burden of the peripheral economies and, for a while, a seeming lack of political will to resolve these issues prompted concerns that the Eurozone might be in danger of breaking up.

Renewed uncertainties in the US and, more importantly, Europe cast a pall over the global economy. This had a ripple effect on Asia, DBS' own backyard. Singapore, our home market, grew 4.9% in 2011, down from 14.8% the previous year, as demand for exports waned. Fears of contagion from a deepening European crisis also sparked fresh worries of a possible hard landing in China.

In addition, markets were in a state of flux. Banks had to grapple with tightening dollar liquidity in the Asian markets, a collapse of Sing-dollar rates (with SOR – a benchmark interest rate – going negative for the first time in history), and extraordinarily high levels of volatility.

EARNINGS AT RECORD HIGH, SURPASS SGD 3 BILLION MARK IN HISTORIC SINGAPORE FIRST

Despite the challenging operating environment, DBS' focused execution of our Asian strategy, prudent risk management and strong balance sheet enabled us to capture opportunities across the region.

In 2011, we made history by being the first Singapore bank ever to report earnings in excess of SGD 3 billion. Our increased strategic clarity, as well as more focused and disciplined execution, have enabled the bank to turn in what is now eight quarters of consistently strong performance.

Full-year earnings hit a record SGD 3.04 billion, up 15% from the previous year, as increased business volumes and customer flows propelled total income to a new high of SGD 7.63 billion.

Net interest income rose 12% to a record SGD 4.83 billion, as our strong balance sheet enabled us to gain customers and wallet share during the year. Non-interest income grew 2% to SGD 2.81 billion, buoyed by higher fee income from wealth management and trade and remittances activities.

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Asset quality improved with allowance coverage at 126% from 100% the previous year, while the non-performing loan rate declined to 1.3% from 1.9%.

Return on equity rose to 11.0% from 10.2%.

DBS remained well-capitalised with a total capital adequacy ratio of 15.8% and Tier 1 ratio of 12.9%, comfortably above regulatory requirements.

STAYING NIMBLE TO CAPTURE MARKET OPPORTUNITIES IN ASIA

Our ability to deliver record earnings and further improve the strength of our balance sheet is especially heartening, given the difficult macroeconomic conditions that defined most of last year. With the choppiness in markets, as well as the unpredictability of global events, we had to stay constantly watchful and nimble in order to navigate the rapid shifts in the operating environment.

DBS responded well to the challenges, both in dodging the bullets, as well as in seizing windows of opportunities that opened up.

As concerns mounted over the US and European economies, risk aversion grew and we saw dollar liquidity starting to tighten in Asian markets. We were able to take mitigating action early on, which enabled the bank to continue growing with our clients unhampered. Our focus on Wealth Management and Global Transaction Services (GTS), both strategic businesses for us, proved prescient. As the growth of these businesses gained momentum, we significantly improved our deposit gathering capability. Last year, deposits rose by SGD 32 billion, or 16%, to SGD 225 billion. About one-third of the growth was in USD deposits.

DBS also expanded our wholesale funding programmes to diversify our sources of liquidity. We established separate USD 5 billion US and Euro-Commercial Paper programmes, and updated our Global Medium Term Note programme to allow us to tap select US onshore investors. With our reputation as the Safest Bank in Asia, an accolade conferred to us by Global Finance magazine for three years running, and credit ratings that are among the highest in the world, we are able to secure attractive pricing when we tap the debt markets for funding. All in, DBS' focus on improving the bank's

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1 Transforming our corporate banking franchise by working with more local businesses in China

2 Entrenching our leadership in Singapore, with launch of DBS' regional Wealth Management campaign

liquidity position last year has dramatically altered our dollar funding position and our ability to support business growth going forward.

Last year, we also saw a strategic opportunity to accelerate our China growth strategy.

In trade finance, we were able to seize the opportunity to increase lending as some of the European banks retreated. This helped us to grow our loans by 28% or SGD 43 billion to SGD 195 billion, with trade finance accounting for half of the growth.

Our ability to read trends better and nimbly respond to market opportunities also meant that we built out our offshore RMB (CNH) deposit base ahead of time to fund demand for CNH loans. The benefits of this became apparent in 2011, when a tougher monetary policy encouraged Chinese companies to borrow offshore. This enabled us to put our CNH deposits to good use and build a CNH asset book, cementing our leadership in the CNH space.

In China itself, we are also transforming our corporate banking franchise, shifting strategically to work with a greater number of state-owned companies and high-quality privately-owned enterprises in China. As a result of this, the proportion of local business contribution to the bank's revenue also increased during the year.

DRIVING REGIONAL LINES OF BUSINESS

While we continued to entrench our leadership in Singapore, with DBS Singapore's FY2011 income up 7 per cent, we also made progress in building out our regional franchise and re-balancing the geographic mix of our business.

In Hong Kong, our second-largest market, we delivered a 7% increase in constant-currency profit.

Our markets outside Singapore and Hong Kong also grew strongly, and now account for 19% of group earnings, up from 14% the previous year.

In particular, we have staked a good position in China and India, two of the fastest-growing economies in Asia. In 2011, DBS China more than doubled earnings to over RMB 500 million, a record high, while DBS India continued to build on strong growth momentum and

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is today a leading foreign bank in India. In Taiwan, we now operate as a wholly-owned subsidiary. We also have the highest credit ratings among Taiwanese banks. In Indonesia, we continue to be recognised for our corporate banking capabilities, and DBS Indonesia has been named the best provider of treasury and working capital solutions to MNCs and large corporates by The Asset.

Over the year, we also made good progress in driving regional lines of business, namely, Wealth Management, GTS, Small and Medium-sized Enterprises and Treasury & Markets.

BEING A RESPONSIBLE CORPORATE CITIZEN

At DBS, we recognise the social responsibility we have as the owner of POSB, the "People's Bank" in Singapore.

Last year, POSB collaborated with the Tote Board and SE Hub, a social enterprise, to launch a new micro business loan scheme to help low-income individuals. With this scheme, Singaporeans who were previously unable to obtain a loan through other mainstream channels can now get an unsecured loan of SGD 5,000 to SGD 50,000. This is expected to help Singaporeans become more self-reliant by starting up or expanding their micro-businesses.

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14 home

'No frills' POSB branch opens at community club

DBS takes banking back to its post office roots

Basic banking services at all SingPost branches, cash bag deposits for corporates at 4

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3 DBS partners Singapore Post, and widens distribution network to increase customer convenience

4 DBS celebrates the successful subsidiarisation of our operations in Taiwan

While DBS already had the largest banking network in Singapore, with more than 1,100 ATMs, 250 Cash Acceptance Machines and 730 AXS Stations islandwide, over the year, we further expanded the number of distribution touchpoints, offering even greater convenience to customers.

Specifically, in November 2011, we entered into a strategic alliance with Singapore Post, enabling DBS/POSB customers to transact not only at our 80 branches islandwide, but also conduct select banking transactions such as cash withdrawals and deposits at an additional 60 SingPost outlets. Last year, we also opened smaller branches within the community to increase customer convenience, and as part of an overall effort to lower banking costs and cut down on queue times.

Our efforts to improve customer service are now starting to be evident, and the bank has been winning a number of accolades, including that for our customer centre in Singapore and Hong Kong. We are also very pleased to have scored the best among banks in Singapore for customer satisfaction, according to the Customer Satisfaction Index of Singapore put together by the Singapore Management University.

On the community front, we are also doing more to nurture social entrepreneurs. Last year, we rolled out a series of initiatives in support of this cause, and this will continue this year.

DIVIDENDS

The Board proposed a final dividend of 28 cents per share, which will bring the full-year payout to 56 cents per share. The scrip dividend scheme will be applicable to the dividend. For shareholders electing to receive their dividends in scrip, new shares will be issued at a 5% discount to the average of the last-dealt price on each of 9, 10 and 11 May 2012.

ACKNOWLEDGEMENTS

During the year, two industry veterans Nihal Kaviratne and Ho Tian Yee joined DBS as board members. Nihal is a consumer goods stalwart, having had an illustrious career with the Unilever Group spanning 40 years. Tian Yee is a seasoned banker and investment manager, with over 30 years' experience in managing global financial markets. With their distinguished careers, both men complement and strengthen the overall composition of the DBS Boards.

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We would also like to express our gratitude to Kwa Chong Seng, who is stepping down as board member in April 2012. Chong Seng has been a DBS board member since 2003 and we have benefited from his wise counsel and invaluable contributions over the years.

WELL-POSITIONED FOR THE ASIA CENTURY

DBS' solid 2011 results underline our ability to execute well, and this was done as we deepened our benchstrength, strengthened our technology infrastructure, and standardised processes and controls across the region. Last year, we also continued to deepen customer relationships and harness opportunities in a challenging operating environment. We are heartened that DBS has been recognised by Brand Finance as the top bank brand in Singapore, and one of the leading brands in Asia.

Even so, we recognise that there is much more to be done. This year, we will continue to focus on the agenda we have set out, and against which we still have lots of things to accomplish. In particular, we will continue the effort of getting people aligned by creating a uniquely DBS culture. The DBS culture of old has some wonderful qualities including teamwork and harmony. If we can couple this with a strong sense of empowerment and individual accountability, the organisation will truly be a force to be reckoned with. Changing the culture of an organisation takes time. We have started on the journey, are making good progress, and will need to keep pressing ahead.

In addition, we will continue to drive innovation in our business, recognising the myriad changes driven by technology.

The DBS of today is more agile and nimble. Given the passion and commitment of our people, we are optimistic about the future. Together with our 18,000 colleagues around the region, we will continue to pursue growth in a disciplined and judicious manner, so as to build on our ambition to be a leading Asian bank.

Peter Seah Lim Huat
Chairman,
DBS Group Holdings

Piyush Gupta
Chief Executive Officer,
DBS Group Holdings