

DBS HIGH NOTES 5

CREDIT EVENT IN RESPECT OF LEHMAN BROTHERS HOLDINGS INC.

FREQUENTLY ASKED QUESTIONS

27 OCTOBER 2008

This document has been prepared for information only in respect of DBS High Notes 5 which were issued by DBS Bank Ltd under its US\$3,000,000 Structured Note Programme and the Structured Retail Notes Series 75 and 76 (together the “Reference Notes” and each a “Series”), which were issued under the US\$5,000,000,000 Limited Recourse Secured Note Programme of Constellation Investment Ltd. “arranged by DBS Bank Ltd.

This document is based on publicly available information, and whilst every effort has been made to ensure that the responses to the FAQs below are accurate as at the date this document is issued, DBS Bank Ltd makes no representations or warranties in respect of them.

This document should not be treated as legal or financial advice. No one reading this document is entitled to rely on it as legal or financial advice. Investors should seek independent professional advice with respect to their own positions.

IMPORTANT BACKGROUND INFORMATION

- *DBS High Notes 5 are linked to the Reference Notes.*
- *The Reference Notes are credit-linked notes that are linked to the risk of a credit event (including bankruptcy) occurring to a number of reference entities, including Lehman Brothers Holdings Inc.*
- *The Reference Notes are first-to-default credit-linked notes. This means that if a credit event occurs to any of the reference entities, Constellation Investment Ltd. is required to redeem the Reference Notes at the credit event redemption amount. Consequentially, DBS Bank Ltd is also required to redeem DBS High Notes 5 at the same credit event redemption amount.*
- *The credit event redemption amount is calculated by reference to, among other factors, the price of the reference obligation of the reference entity which has suffered the credit event.*
- *A bankruptcy credit event has occurred in respect of Lehman Brothers Holdings Inc. As a result, Constellation Investment Ltd is required to redeem the Reference Notes and the credit event redemption amount has been calculated. Consequentially, DBS Bank Ltd is required to redeem DBS High Notes 5 at the same credit event redemption amount.*

Questions relating to the credit event redemption amount under the Reference Notes

1. How was the credit event redemption amount calculated?

The credit event redemption amount in relation to each Series of Reference Notes was calculated as follows:

the principal amount of such Series of Reference Notes **multiplied by** the market value of the reference obligation

less

- (i) any depreciation on the collateral; and
- (ii) costs and expenses associated with the termination of the swap agreement in respect of such Series of Reference Notes.

For the SGD denominated Reference Notes, the credit event redemption amount was calculated as follows:

the “USD principal amount” per Note (which means the amount in USD which Constellation Investment Ltd received as the “Party A Initial Exchange Amount” under the swap agreement on the date the Notes were issued) **multiplied by** the market value of the reference obligation

less

- (i) any depreciation on the collateral; and
- (ii) costs and expenses associated with the termination of the swap agreement, and

multiplying the resulting figure by the exchange rate of USD/SGD on the date the credit event redemption amount was calculated.

Each of these components is explained below.

(i) Market value of the reference obligation:

The calculation agent first determined the market value of the reference obligation. It did so by asking dealers that are independent from DBS Bank Ltd to bid for the reference obligation (expressed as a percentage of the face value of the reference obligation) and taking the average bid price obtained from such dealers.

(ii) Depreciation on the collateral:

Secondly, the calculation agent deducted the depreciation on the collateral for the relevant Series of Reference Notes. The depreciation on the collateral means the shortfall of the market value of the collateral compared to the principal amount of the collateral. This was determined by the calculation agent in good faith and in a reasonable manner.

(iii) Costs and expenses associated with termination of swap agreement:

Finally, the calculation agent determined the costs and expenses associated with the termination of the swap agreement in accordance with the terms of the swap agreement. It was determined that there were no such costs or expenses.

2. What was the major contributing factor to the substantial reduction or the reduction to zero of the credit event redemption amount?

The major factor that contributed to the substantial reduction or the reduction to zero of the credit event redemption amount was the substantial notional loss on the reference obligation of Lehman Brothers Holdings Inc. resulting from the substantial drop in the price of such reference obligation. The bankruptcy of Lehman Brothers Holdings Inc. has caused the reference obligations to trade at values close to zero.

3. Why were subordinated obligations chosen as the reference obligation of Lehman Brothers Holdings Inc. for the Reference Notes?

The subordinated obligations of Lehman Brothers Holdings Inc. were chosen for the Reference Notes so that the Reference Notes could offer the relevant returns. DBS High Notes 5 could therefore offer the same returns as the Reference Notes as well.

4. Will a loss to the investors translate into a “win” for DBS Bank Ltd?

Whilst the investors have assumed the risk of occurrence of a credit event under the Reference Notes, DBS Bank Ltd as the swap counterparty has hedged its position by assuming similar credit risk via credit default swaps between it and other market participants. Engaging in such hedging activities means that DBS Bank Ltd is effectively helping to bring together two sets of parties that have opposite appetites for credit risk:

- (a) the investors – being those who want to assume credit risk; and
- (b) other market participants – being those who do not want to assume credit risk.

It follows that a loss to the investors resulting from the credit event redemption amount will not translate into a “win” for DBS Bank Ltd, as it is eventually the other market participants that are the parties with whom the credit risk assumed by the investors have been hedged.

Questions relating to the collateral

5. What is the role of the collateral of the Reference Notes?

The role of the collateral is to secure the payment obligations of Constellation Investment Ltd. to the investors and to DBS Bank Ltd as swap counterparty. The value and quality of the collateral is therefore important to DBS Bank Ltd as well as to the investors.

6. CDOs are complicated instruments. Why were CDOs selected as collateral for the Reference Notes?

We understand that, prior to the recent credit crisis, credit ratings provided by reputable rating agencies were one of the key considerations investors in structured credit products took into account when making their investment decisions. A CDO rated AA by Fitch was therefore selected as high credit quality assets to comprise the collateral for the Reference Notes (AA rating by Fitch represents an investment grade credit rating from the rating agency).

Although CDOs are complicated financial instruments, this does not mean that they are high-risk assets. As disclosed in the Pricing Statement for DBS High Notes 5, the CDO collateral had to be at least AA-rated as at the date of issue of the Reference Notes.

7. Why has the market value of the CDO collateral declined?

The market value of CDOs has generally been adversely affected by the recent credit crisis. The decline in market value of the CDOs chosen as collateral is due to adverse market conditions that have affected all CDOs alike.

8. Who is the issuer of the collateral and whether the issuer is independent from DBS Bank Ltd?

The issuer of the CDOs is Zenesis SPC, which is an exempted company incorporated in the Cayman Islands and registered as a segregated portfolio company (where different portfolio of assets and liabilities for each series are segregated from one another).

No issued shares of Zenesis SPC is held by DBS Bank Ltd and the directors of Zenesis SPC are independent from DBS Bank Ltd and its subsidiaries and affiliates.

9. How was the market value of the collateral determined?

The calculation agent determined the market value of the collateral over a period of time up to but excluding the valuation date in good faith and in a reasonable manner. The determination of the market value of the collateral did not involve the selling of the collateral in the market.

Questions relating to Constellation Investment Ltd.

10. Is Constellation Investment Ltd. independent from DBS Bank Ltd?

Constellation Investment Ltd. is a limited liability exempted company incorporated in the Cayman Islands and its business is limited to issuing notes under the US\$5,000,000,000 Limited Recourse Secured Note Programme. An entity that has been formed with its business limited to special purposes, such as Constellation Investment Ltd., is frequently referred to as a special purpose vehicle or SPV. It is common

market practice for issuers of secured credit-linked notes), such as Constellation Investment Ltd., to be structured as a SPV.

Constellation Investment Ltd. as a SPV is independent from DBS Bank Ltd primarily because:

- (a) all of the issued shares of Constellation Investment Ltd. are legally owned by Deutsche Bank (Cayman) Limited as share trustee which holds them on trust for charitable purposes. Neither DBS Bank Ltd nor any of its subsidiaries or affiliates has any equity interest in, or any control over, Constellation Investment Ltd.; and
- (b) the directors of Constellation Investment Ltd. are professional company directors supplied by Deutsche Bank (Cayman) Limited and are independent from DBS Bank Ltd and its subsidiaries and affiliates. As a general matter, the directors of Constellation Investment Ltd. owe a duty to act in the best interests of Constellation Investment Ltd. and not DBS Bank Ltd. The directors are not bound to enter into any potential transaction presented to them by DBS Bank Ltd and will exercise their own professional judgement in deciding whether any potential transaction is in the best interests of Constellation Investment Ltd.

11. What activities may Constellation Investment Ltd. engage in?

As mentioned above, the business of Constellation Investment Ltd. is limited to issuing notes under the US\$5,000,000,000 Limited Recourse Secured Note Programme. So long as any of the notes issued by Constellation Investment Ltd. under the US\$5,000,000,000 Limited Recourse Secured Note Programme remains outstanding, Constellation Investment Ltd. may not incur any other debt or engage in any business, other than issuing notes under, and entering into transactions contemplated by, the US\$5,000,000,000 Limited Recourse Secured Note Programme.

12. Are assets that back up the Reference Notes kept separate from the assets backing up other series of notes? Is Constellation Investment Ltd. restricted from disposing of its assets?

Constellation Investment Ltd. will use the proceeds of issue of the Reference Notes to buy assets which are used as security for the performance of the payment obligations of Constellation Investment Ltd. with respect to the Reference Notes, and such assets are not available to meet any debts owing to other creditors of Constellation Investment Ltd. The assets which back up the Reference Notes are kept separate from the assets which back up other series of notes.