

Chairman's Statement 2004 was a good year for Asian economies. Hong Kong and Singapore grew in excess of 7%. Growth was underpinned by strong exports, low inflation and an upturn in business and consumer spending. Against this backdrop, DBS performed well.



S Dhanabalan
Chairman



With a business diversified in consumer, enterprise and wholesale banking, we were able to capitalise on the economic rebound to grow our customer franchise, expand our existing operations, form new ventures and open new overseas offices. We achieved greater diversification in our income with strong growth across all our businesses and across different geographies.

Financial Review

In 2004, Group net profits crossed the \$2 billion mark for the first time. Excluding one-time gains of \$497 million from the disposal of non-core investments, Group net profits was 48% higher than the year before. Operating income rose 17% to \$4.93 billion while operating expenses increased 8% to \$2.45 billion. Aggregate net profits for our consumer, SME and corporate sectors rose 33% from \$888 million to \$1.18 billion. Our fee income grew 15% and exceeded \$1 billion.

Our loan book expanded by 13% to \$69.7 billion during 2004, with new lending to individuals, corporates and SMEs across the region.

Our asset quality improved to pre-Asian crisis levels, helped by more favourable economic conditions. Our non-performing loan ratio stood at a low 2.5%, down from 5.2% the year before while our provision coverage rose to 89% from 63% previously.

Return on equity was the highest in four years at 12.7%. Our capital adequacy ratio rose to 15.8%. With a healthy balance sheet and robust capital ratios, we believe we are in a strong

position to serve our customers, to capture business opportunities and to invest for the future.

Overall, it was a good year for DBS. We were able to reap the fruits of earlier investments in people, processes and systems.

Regional Franchise

During the year, we continued to grow organically in China, India, Indonesia and Malaysia. We hired more staff, introduced new product lines and expanded to new locations. Our efforts are starting to show results in these countries, as evident from the fact that growth in revenues from the region outpaced those from Singapore and Hong Kong last year.

In Thailand, we merged the operations of DBS Thai Danu with that of Thai Military Bank and The Industrial Finance Corporation of Thailand, to form TMB Bank, the country's fifth largest banking group with combined assets in excess of Bt 677 billion (\$29 billion). We believe that TMB Bank's bigger scale offers a more effective way for us to grow in a key market where industry consolidation is actively encouraged by the government.

Shareholder Returns

The Board declared an interim dividend of \$0.18 per share and a final dividend of \$0.22 per share. The total dividend of \$0.40 is a 33% increase over the \$0.30 paid in 2003.

It is the Board's intention to increase the dividend rate in a sustainable manner in line with underlying earnings growth. At the same time, we believe that the region's enormous growth

Left: DBS in India

Our Mumbai branch moved to bigger premises in 2004 and expanded its capabilities to include treasury and markets operations, institutional banking and trade finance.

Right: DBS in China

DBS opened a branch in Guangzhou in July and a representative office in Doughton in December. We were also awarded a Domestic Enterprise licence in Shenzhen and Shanghai, and a derivatives licence for all branches.

potential means that the best long-term return for shareholders will be achieved by using our capital to grow the business, both organically and through selective inorganic opportunities that create value.

Quality of Earnings

Banking and finance are becoming increasingly complex and competitive. As DBS seeks to expand its business and balance risk and return, we will continue to invest in people and systems, in areas such as risk management, financial controls, legal and regulatory compliance, credit assessment and portfolio management. The imminent implementation of the Basel II capital accord adds further urgency to the steps that we need to take. These investments are absolutely necessary for sound banking and will improve the quality of our earnings.

Prospects for 2005

We remain optimistic about economic prospects in Asia notwithstanding market expectations of short-term dislocations in some economies that have grown at breakneck speed in recent years. The challenge for DBS is to sustain our growth momentum from a higher revenue base so that we can continue to strengthen our foundation as a progressive pan-Asian bank. With our stronger capital resources, we are in a better position to embark on various initiatives that will translate into a higher level of service and value for our customers and shareholders in the coming years.

Apology

Though much was achieved in 2004, our performance was marred by the safe deposit box incident in the Mei Foo branch in Hong Kong. There is no excuse for the series of errors that led to the accidental destruction of 83 customers' deposit boxes. We apologise to our customers for the loss and stress that we caused them.

Acknowledgements

I would like to thank our customers, business partners and shareholders for their unstinting support of DBS without which we would not have achieved last year's record earnings.

I am also indebted to my fellow Board members for generously sharing their time and insights. Special thanks go to the four Board members, namely Bernard Chen Tien Lap, Fock Siew Wah, Gail D Fosler and LP Thean, who will be retiring at this year's Annual General Meeting.

Bernard and Siew Wah, who have been on the board for nine and seven years respectively (including tenure on the DBS Bank Board), had wanted to retire last year and were persuaded by me to serve another year. I am grateful to them for their sterling contributions on the Board and in the Audit and Risk Committees.

Siew Wah has very kindly agreed to serve as an Advisor to the Chairman on matters relating to the Bank's plans and business in China. I will also miss Gail's challenging and incisive questions and her perceptive comments on economic issues. I am also grateful to LP Thean who is stepping down after serving with

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much dedication since 2002. I appreciate his balanced views as Chairman of the Compensation Committee. His legal experience and focus on customer interests were invaluable in helping the Board make sound decisions.

I welcome two new Board members, Goh Geok Ling, Chairman of Tuas Power Ltd, and Wong Ngjit Liong, Chairman and CEO of the Venture Group, who joined us in May last year.

I am also pleased to have Ang Kong Hua, Executive Director of NatSteel Ltd, as the latest member of our Board effective March this year.

Last but not least, the management and staff of DBS Group are to be commended for their hard work and dedication. Their contributions helped make DBS a leading financial institution in Asia.



S Dhanabalan

Chairman, DBS Group Holdings

Left: Trade Finance, Hong Kong
DBS Hong Kong maintained its number two position in trade finance amid a very competitive environment.

Right: DBS Jakarta, Indonesia
2004 was a busy year for DBS Indonesia. It tripled its assets, expanded its staff strength and product offerings, relocated to a bigger office in Surabaya and opened a branch in Medan.

