



Economic growth in Asia surged ahead in 2005, hardly affected by higher oil prices, natural disasters and terrorist threats.

Against this backdrop, our 2005 bottom-line results were disappointing. Group net profit fell 15% to \$1.65 billion excluding one-time gains and goodwill charges. Our continued strong loan growth and record net interest and fee income were offset by lower treasury earnings in a flat yield curve market environment.

Our treasury franchise propelled DBS' product offerings and bottom-line results over the last five years. Although market conditions constrained our 2005 treasury earnings, we can point to encouraging progress in strengthening the depth and breadth of our customer franchise across the region. Contribution from the consumer and SME businesses, for example, increased 24% to \$1.17 billion in 2005, accounting for 54% of Group operating profit before taxation excluding one-time gains and goodwill charges.

Net interest and fee income reached a record as volume growth was sustained in most customer segments. Net interest income rose 9% to \$2.94 billion as loans expanded 14% and margins improved in the second half of the year. Fee income increased for the seventh consecutive year by 6% to \$986 million.

Asset quality remained strong. The ratio of non-performing loans continued to improve, ending at 2.1% at year-end, compared to 2.5% in 2004 and 5.2% in 2003. A significant proportion, 37%, of our non-performing loans has yet to miss a payment, even though we chose

to classify them as non-performing. DBS boosted provision coverage to a record 97% from 89% the year before. We have the capacity and appetite to grow our loan book to support our customers' growth in the region.

AT THE CROSSROADS OF A RESURGENT ASIA

Singapore and Southeast Asia are at the crossroads of a reawakened China and India, and a more assertive Middle East. This resurgence is most evident in the financial markets, as Asia takes centre stage for economic growth and capital formation.

DBS, as the largest bank in Singapore and the fifth largest in Hong Kong, is well-positioned at the crossroads of a resurgent Asia.

Our access to customers in the region, our product structuring capabilities, and our unmatched distribution to new and traditional investors make DBS unique in the intermediation of regional capital flows.

INTERMEDIATING REGIONAL CAPITAL FLOWS

What sets DBS apart from most international banks and domestic financial institutions is our end-to-end ability to originate, structure, hedge, write research, and distribute financial products in Asia. We support clients through our willingness to act as principals in committing our balance sheet or in marshalling our regional distribution network. We are not merely agents in search of fees; we aim to be true client advocates.



Celebrating ten years in Shanghai
DBS Shanghai marked its 10th anniversary by relocating to a new office building at the heart of the financial centre.

We secure mandates through our leading SME franchise in Hong Kong and our unrivalled access to corporate and SME issuers in Singapore, as well as from our growing presence in the rest of emerging Asia. At the same time, we structure, repackage, underwrite or privately place these transactions through our extensive retail distribution network in Singapore and Hong Kong, our growing private banking client base in Asia, and our access to traditional institutional investors around the world.

Our pioneering work in introducing, structuring and distributing Real Estate Investment Trusts (REITs) illustrates our leadership in cross-border intermediation. We launched the now booming REIT market in Singapore in 2002. Three years later we were at the front line, channelling cross-border capital to Thailand, Malaysia, and Singapore REIT issuers.

- In August, we launched the Central Pattana Retail Growth Property Fund for Thailand's largest retail property developer Central Pattana. The 10.9 billion Baht (US\$265 million) fund was the largest Thai property fund Initial Public Offering (IPO) and the first Thai property fund to be marketed extensively to international investors. DBS, through our wholly-owned DBS Vickers Securities Thailand, was joint financial advisor, joint lead manager and joint bookrunner for this groundbreaking transaction that attracted investors from Hong Kong, Singapore, Australia and Europe. Our affiliate TMB Bank was the other joint financial advisor and lead underwriter.

- In December, we launched the IPO for Starhill REIT, the largest property trust in Malaysia with prime assets in Kuala Lumpur's golden triangle. DBS was joint bookrunner for this property trust controlled by the diversified firm YTL Corp Berhad. The RM513 million (US\$135 million) IPO on Bursa Malaysia was nine times oversubscribed with investors from the United Kingdom, Europe, Singapore and Hong Kong.
- Hongkong Land's inaugural Singapore dollar bond offering was upsized by 40% from \$500 million to \$700 million to meet overwhelming demand. We acted as joint bookrunner and lead manager for what was the largest Singapore dollar bond by a foreign issuer in 2005. *FinanceAsia* named this financing the "Best Local Currency Bond of the Year."
- Our presence in the local markets makes it easier for us to stand by our clients even in turbulent times. We launched PT Bank Internasional Indonesia's (BII) benchmark US\$150 million global bond issue in April, even as two international banks withdrew as joint bookrunners due to weak and volatile market conditions. As the sole remaining bookrunner, DBS offered an alternative issuance strategy to meet BII's objective of raising its subordinated debt within a desired deadline. In a move labelled "gutsy" by market pundits, DBS underwrote the entire issue, reflecting our confidence in the issuer and our ability to distribute to end investors. DBS successfully placed the issue with investors in Jakarta, Singapore, Hong Kong and London.



- During the year, DBS managed over 100 syndicated loans across Asia and was ranked top five in Asia's league tables. We were one of the most active arrangers in the leveraged buy-out (LBO) syndicated financing sector. We arranged the US\$600 million acquisition financing for Indonesia's Arindo Global, which was one of the largest and highly structured buyout financings in Southeast Asia in 2005. We also arranged a KRW472 billion term loan facility for Korea's Hi-mart Holdings, the largest financial sponsor LBO transaction last year in Korea which *The Asset* called "Best Deal in Korea".

These regional financings, and many others throughout the year, demonstrate that DBS is well-positioned at matching issuers and investors as Asia becomes the centre for capital formation.

GROWING ACROSS THE REGION

During the year, DBS opened new branches in China, India and Indonesia, expanded our product range and acquired new customers.

- In China, we continued to focus on three growth areas: Northern China, the Yangtze Delta and the Pearl River Delta. During the year, we introduced corporate banking at our Guangzhou branch, opened a representative office in Hangzhou, and launched local currency products to local Chinese corporations at our Beijing branch. Our current network of four branches and four representative offices in China will be further expanded with approvals to open a branch in Suzhou and a sub-branch in Shanghai.

DBS was ranked fourth among mandated arrangers and bookrunners for China syndicated loans in 2005. During the year, DBS was co-lead manager for China Construction Bank's HK\$63.6 billion IPO, the largest ever Chinese issue.

- In India, we opened our New Delhi branch and provided innovative financial solutions to a number of blue-chip companies in India. We expanded our business lines by introducing SME banking and a comprehensive range of investment banking services. We added advisory, cash management, trade finance, custody and treasury solutions to our suite of customer services by leveraging our global financial markets and advisory expertise. Last year, DBS ranked third as mandated arrangers for India syndicated loans, and broke into the M&A league tables at eighth position.

We plan to capitalise on the free trade agreement (Closer Economic Cooperation Agreement) between Singapore and India to open more branches in India this year.

Apart from organic growth, we reached out to India's mass retail segment through a strategic alliance with the well-respected Murugappa Group of Chennai. Together, we formed a Non-Bank Finance Company joint venture to launch consumer finance on a pan-India basis, with each becoming equal 37.5% joint controlling partners of Cholamandalam DBS Finance. Our shared vision is to build a leading financial services franchise in mass retail finance, asset management and securities, leveraging DBS' experience in a similar consumer finance joint venture in Capital OK,



Thailand. The partnership allows DBS to deepen our participation in the growing economy of India and gain access to an increasing number of middle income consumers.

- In Indonesia, we achieved strong asset growth of 85% in 2005 across our network of five branches in Jakarta, Medan, Bandung, Semarang and Surabaya. DBS Indonesia was ranked second in the Indonesian IPO underwriter league tables by Bloomberg. It also ranked second as mandated arranger for Indonesia syndicated loans by *Basis Point*. We expanded the range of financial services offered to our Indonesian customers with added focus on treasury solutions, cash management and trade finance services. During the year, we raised our profile as one of the largest trade finance banks in the country. DBS was also the joint lead and bookrunner for PT Wahana Ottomitra Multiartha Tbk's IDR500 billion domestic bond issue, our second financing for the company since taking it public in 2004. We also joined PT Bank Internasional Indonesia in a strategic cash management tie-up which allows DBS' clients to leverage our partner's physical branch network for cash transactions.
- DBS continued to support its Malaysian client franchise by extending our leadership in the capital markets. For example, DBS was the sole global coordinator and joint bookrunner for Genting International PLC's IPO and dual listing on the Singapore stock exchange during the year. Genting International, the overseas arm of Malaysia's gaming operator Genting Berhad, raised approximately \$350 million.

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Setting new benchmarks in the REIT market
 DBS was the joint lead arranger for Mapletree Logistics Trust's IPO, the first Asia-focused logistics REIT in Singapore.

Unwavering commitment to our customers
 Bank Internasional Indonesia's US\$150 million bond issue sole led by DBS was described as "one of the pluckiest pieces of underwriting in the Asian offshore bond market".

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Extending our reach in India
 DBS opened a branch in New Delhi and set up a consumer finance joint venture with a leading Non-Banking Finance Company in 2005.

REACHING OUT TO ASIA'S RISING AFFLUENT

One of the most striking features of modern Asia is the rise of a confident new middle class. Traditionally savings-oriented, Asia's new middle class is fast becoming consumers, travellers and investors.

DBS has been reaching out to Asia's rising affluent long before it became fashionable. We now serve almost five million customers in two of the most developed and best regulated markets, Singapore and Hong Kong.

In Singapore, we have the largest retail network of 768 ATMs and 86 branches, including POSB-branded ATMs and branches. Our ATM network handles about 50% of all ATM transactions in Singapore and allows us to lead the distribution of IPOs, REITs and other securities through our ATM network. DBS maintained its lead as the top mortgage loan lender in Singapore for both the private and public housing market with a market share of approximately 26%. In Hong Kong, we are the fifth largest home loan provider with about 7% market share.

We continue to focus our efforts on building a leading credit card franchise. DBS has one of the largest merchant networks in Singapore with about 8,000 merchants. We are one of the top card issuers in Singapore, commanding a 20% market share, and in Hong Kong, we are ranked fourth with a 10% market share.



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Toasting the success of E50 award winners
 DBS is principal banker to over two-thirds of the recipients of Singapore's Enterprise 50 awards.

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Realising our client's aspirations
 DBS was joint lead manager for Olam's \$267.4 million IPO in Singapore which attracted an overwhelming demand of over \$3 billion.

Championing SMEs in Hong Kong
 DBS is proud to have helped Parsons Music School grow into one of Hong Kong's largest music store chains with a presence in mainland China.

In wealth management, we are the largest distributor of investment products to the mass market. Our success in wealth management stems from our ability to combine internal product structuring expertise with strong marketing and distribution capabilities. Importantly, we are able to address and reverse-engineer investor-specific needs with a full range of equity-linked and interest rate-linked structured deposits, unit trusts and insurance products. Fees from wealth management product sales were up 9% to \$130 million last year. We sold a larger volume of higher-margin wealth management products, more than making up for a decline in overall sales.

Our DBS Treasures priority banking service caters to an increasing number of affluent customers in Singapore, Hong Kong and the region. In August, we extended our priority banking footprint by launching DBS Treasures priority banking for the mass affluent in Indonesia, including foreign and local residents.

During the year, we introduced consumer banking and DBS Treasures priority banking services in China at our Shenzhen branch by offering RMB and foreign currency savings, time deposits, mortgage loans, remittances and foreign exchange services.

HELPING SMES PROSPER

Small and medium-sized enterprises (SMEs) account for a large proportion of Asia's GDP, fuelling much of the region's strong economic growth. Many banking organisations, however, sidestep this underserved market in favour of larger corporate clients or the high-end private banking business. While the proof will be in our track record, DBS aims to bring to bear its capital markets, treasury, cash management and credit risk management expertise and balance sheet capacity to serve the mid-cap and SME segment across the region.

In Singapore, we experienced double-digit loan growth despite stagnant loan growth conditions locally. We expanded our product offerings to include treasury, investment, trade finance and cash management products as well as higher-value structuring and financial markets advisory services tailored specifically for the SME market. DBS is the principal banker to over two-thirds of the recipients of Singapore's Enterprise 50 awards, one of the most prestigious accolades for entrepreneurship in Singapore.

In Hong Kong, we support SMEs by being one of the top commercial lenders and ranking second in trade finance. Our 15% SME loan growth in Hong Kong in 2005 compared to an industry average of 11.5%.

Elsewhere in the region, we introduced SME banking at our Shanghai branch, and focused our SME business in India and Indonesia on trade finance, treasury and cash management services for our onshore clientele.

MANAGING RISK

DBS is committed to being at the forefront of risk management practices and standards among banks in Asia. We believe that our best-practice international risk and credit management standards and integrity of operations will differentiate our banking franchise.

We welcome the introduction of Basel II standards that will further upgrade risk management and better align capital requirements to economic risk. Our risk management framework already closely tracks Basel II principles.

We remain on schedule to meet home and host regulators' Basel II qualification timelines.



*Picture courtesy of Olam International Limited



BECOMING WIDELY-RESPECTED IN ASIA

For centuries, Singapore and Southeast Asia have been at the crossroads of East-West and North-South trade routes, enjoying racial diversity, a cosmopolitan outlook, and strong networking ties throughout the region. DBS is also well-positioned at the crossroads, ready to serve our clients in a growing Asia.

Today, DBS is guided by a Board of 12, only six of whom are Singapore citizens. Management consists of a diverse team of Asia banking specialists, with deep experience in the financial markets across the globe. DBS managing directors hail from around the world. Approximately 51% of our managing directors carry Singapore passports, 17% carry Hong Kong or China passports, 9% UK, 8% Malaysia, 5% US, and 4% Canada. The remaining 6% hold passports from the rest of the world.

We aim to extend that diversity through our entry-level recruitment. Our recent Management Associates Programme, for example, brought together fresh graduates from Singapore, Hong Kong, mainland China, India, Vietnam and Thailand for intensive classroom training and rotated assignments over two years. We believe in staff training and development and will invest even more over the years to ensure that we grow a strong team of Asia banking specialists with the right principles and values.

We have much more to do to become a widely-respected bank, anchored in Asia. But we made progress over the past several years to grow our higher-return consumer and SME banking franchise, to develop and expand our fee-based and recurring income streams and to expand geographically into high-growth markets in Asia. We built

strong treasury and wealth management capabilities, which are now on par with international banks. We extended our banking franchise to Hong Kong and are now leveraging our strengths to penetrate our other markets in Asia.

Our 14.8% total capital adequacy ratio and 10.6% tier-1 ratio are each comfortably above minimum regulatory requirements.

At the end of fourth quarter 2005, we wrote down \$1.13 billion of the carrying value of goodwill associated with the purchase of DBS Hong Kong Ltd in 2001, all in accordance with Singapore Financial Reporting Standards. The write down incorporates long-term assumptions for future cash flows, higher market rates and cost of equity. This review of goodwill impairment is conducted at least annually. The goodwill impairment has no impact on DBS Group's business operations, our capital ratios and our ability to pay dividends. Our regulatory capital, for example, is unaffected, since goodwill was deducted from capital at the closing of the acquisition in 2001. Moreover, our ability to pay dividends is unaffected, as reflected in the Board of Directors' recommendation to raise the quarterly dividend to 17 cents a share, bringing the total payout in 2005 to 58 cents.

In December, Fitch Ratings upgraded the long-term foreign currency rating of DBS Hong Kong to "AA-" from "A+" to reflect its wholly-owned status and core role within the operations of the Group, which is rated "AA-" by Fitch. Our Standard & Poor's "AA-" and Moody's "Aa2" credit ratings are among the highest for Asian banks.



Strengthening our credit card franchise in Hong Kong
Following its successful launch in Singapore, DBS Hong Kong launched the DBS Black Card last year.

We are encouraged that our progress has been recognised by the market. During the year, we were acknowledged by *FinanceAsia* as the best Asian bank, the top three retail banks in Asia Pacific by *The Asian Banker*, and the best bank in Singapore by *Euromoney* and *The Asset*. The latter also named DBS the best investment bank in Singapore while *Private Banker International* voted DBS as outstanding private bank in the Asia Pacific. DBS was also recognised by *Global Investor* as the best sub-custody provider in Asia.

These awards and accolades inspire us to work even harder to expand our regional franchise to better serve our customers, who are at the forefront of all that we do.

ACKNOWLEDGEMENTS

I take this opportunity to thank my DBS colleagues for their dedication and hard work. Without their effort and personal sacrifice, DBS would not have achieved so much.

I also thank Dhana, who retired as our Chairman at the end of 2005.

Dhana was one of the founding fathers of DBS in 1968. After a decade of guiding the start-up of the then Development Bank of Singapore, Dhana left in 1978 to enter Singapore's public service. He served the government in several key roles, including Foreign Minister.

We were fortunate that Dhana returned as Chairman in 1998. In his last eight years with us, we benefited from his visionary insight and leadership. He provided stability and reminded us of our heritage and mission, especially in uncertain times. We miss his presence and penetrating questions, but his strong sense of integrity, compassion and fairness lives on at DBS.

We welcome Boon Hwee who takes over as Chairman. Boon Hwee is well-known throughout the region for his entrepreneurial successes, as well as for his drive for productivity improvement and insistence on service quality. His commercial and industrial background will bring a new dimension to DBS.

I also thank our customers, business partners and shareholders for their continued support.

A handwritten signature in black ink, appearing to read 'Jackson Tai'.

Jackson Tai

*Vice Chairman and Chief Executive Officer
DBS Group Holdings*