



REVIEW OF 2005

2005 yielded mixed results for DBS. Our group net profit fell by 15% to \$1.65 billion, excluding one-time gains and goodwill. While lending activity increased and margins were stable, non-interest income fell as a result of reduced treasury contributions.

The full year net profit was reduced to \$824 million compared to the corresponding figure for 2004 of \$1,995 million. This resulted from a goodwill impairment charge of \$1.13 billion for DBS Hong Kong which was partly offset by the gain of \$303 million from the sale of office buildings in Singapore. There is little impact on the Group's business operations from this impairment charge as the entire goodwill amount incurred in the acquisition of the Hong Kong businesses was deducted from our regulatory capital when it was incurred.

Loan growth was driven by regional lending, and corporate and SME loans in Singapore and Hong Kong. Overall loans totalled \$79.5 billion, up 14% from 2004. Net interest income grew to \$2.94 billion. The increase in business volume also led to higher fee income.

Our push into new markets in Asia is starting to bear fruit. Regional operations accounted for nearly 35% of Group income in 2005. This compares with 15% eight years ago when we embarked on our regionalisation drive. The DBS network now stretches across a total of 14 markets, 12 of which are in Asia.

Overall asset quality remains strong. Non-performing loan ratio stood at 2.1%, one of the best in Asia. Total capital adequacy ratio as of end 2005 was 14.8%.

The Group's credit rating was upgraded from "A+" to "AA-" by Standard & Poor's. This is an affirmation that our core business is solid and the bank's fundamentals are strong. Our ratings are among the highest in Asia, comparable to those of international banks operating in this region.

The Board is recommending a final dividend of 17 cents per share, making a full-year dividend of 58 cents per share. This is a 45% increase over 2004 and translates to a dividend payout ratio of 43% excluding one-time gains and goodwill charges for 2005.

ACKNOWLEDGEMENTS

I would like to thank our customers, partners and shareholders for their support, as well as my DBS colleagues and fellow Board members for their hard work. I would also like to welcome Ang Kong Hua back to the Board. Kong Hua returns to the Group he served so well from its inception in 1968 to his leaving in 1974. He brings with him a wealth of private sector experience. In April, we saw four directors retiring from the Board: Fock Siew Wah, Bernard Chen, Gail Fosler and LP Thean. I am grateful to all of them for their sterling contributions.

As I retire, I am pleased to hand over the reins to Koh Boon Hwee, who joined the Board in June 2005. Boon Hwee is highly respected as a corporate visionary and widely admired among business leaders in Singapore and the region. I'm confident that under his leadership, DBS will continue to grow and strengthen its position as a respected bank in Asia.

2005 was a challenging year for the bank. There is still much work to be done and there remains room for improvement. Many opportunities abound for DBS as markets prosper in the region. We are well-placed to tap into the region's rapid growth and we remain committed to becoming an Asia banking specialist.

S Dhanabalan
Chairman, DBS Group Holdings
(retired 31 December 2005)



In the last few years, we have seen the transformation of DBS – from a bank focused entirely on the Singapore market, to a bank that is increasingly regional in its outlook, and comprehensive in its range of products and services.

Today, DBS stands on the threshold of becoming a far more international bank, not only in terms of the talented people who form our staff, but also with the high governance and banking standards which we aspire to achieve. We aim to focus on Asia – our home and the market where we have a distinct advantage because we understand its business and cultural environments.

As we expand, our goal is to ensure that we leverage our people and our growing economies of scale. While it is not going to be easy, we will strive as "One Bank, One Team" in all the countries that we are moving into. In this process, we aim to recruit, develop and mentor our younger colleagues as we focus on deepening the bench strength of our management team.

Another priority is to ensure that DBS becomes increasingly "painless" for our customers to deal with. Customer satisfaction is essential in the service sector. Because of the advent of liberalisation and competition, even in a basic necessity like banking, customers now have more choices than ever. DBS needs to improve the way we service our customers so that we become their preferred bank. At many world-class companies, customer service metrics are systematically managed and relentlessly tracked. We will develop and do so at DBS.

Finally, it is our vision to build an agile, high performance, high accountability, metric-driven organisation. It is essential that we strive for world-class standards. We have already made tremendous strides, but these are only the first steps of a long marathon in an extremely intense competitive environment. The measurement of all aspects of our business is the key to superior long-term performance. By doing so, our people will take more pride in their work and know that they are making a difference.

I joined DBS as a Board member in June 2005 and succeeded former Chairman S Dhanabalan in January 2006. Over this period, I have personally benefited from the generous guidance and advice received from Dhana and the other Board members, and I am grateful for their counsel.

The journey ahead is not without challenges, but when I look around me and see the talent, passion and commitment of our staff, I am confident our overall strategy is sound, and that we will seize the many opportunities presented by a rapidly prospering Asia. What's more, with the support of my fellow Board members, I believe we can build on the tremendous heritage of DBS and strengthen the standing and stature of this great institution in an emerging new Asia.

Koh Boon Hwee
Chairman, DBS Group Holdings
(appointed 1 January 2006)