

Committed to Strengthening our Franchise in Asia

Asia is on the rise. After several years of strong growth, the region's economies continued to surge ahead in 2006, propelled by stronger consumer confidence, rising asset prices and increased global trade.

The only speed bump in an otherwise benign landscape appeared in May, when regional stock markets suffered large sell-offs on fears of rising oil prices, slower growth and higher inflation. Market uncertainty and sharp volatility dampened capital market, trading and wealth management activities. But the disquiet soon receded. By December, most regional stock indices had rallied to new highs. Against this backdrop, Singapore's economy surpassed earlier forecasts with 7.9% growth, while Hong Kong, our second-largest market, is expected to have grown more than 6.5%.

DBS capitalised on overall favourable economic conditions and our competitive advantage as an Asia banking specialist to post the highest Group net profit in our 38-year history.

Our dogged pursuit of optimising our balance sheet, shifting our business mix toward higher risk-adjusted returns, and building recurring income has produced more consistent and sustainable earnings growth. In the process, we also extended our product capabilities in global transaction services, treasury, capital markets and wealth management. All these strategic initiatives contributed to better returns to our shareholders.

For 2006, Group net profit rose 32% to a record \$2.18 billion excluding

one-time gains and goodwill charges, bolstered by stronger performance across businesses and geographies. Earnings growth was broad-based, with increases in almost all key income groups.

Net interest income grew 22% to \$3.59 billion, reflecting another year of loan growth, better margins and a stronger focus on our asset and liability management capabilities.

Net interest margin, at 2.20%, was at a new record. Net fee income rose for the eighth consecutive year, up 17% to a record \$1.16 billion. Non-fee income increased 46% to \$598 million.

For the year, our loan book rose 9% to \$86.6 billion, led by corporate and SME loans, while consumer loans in Singapore picked up in the second half. DBS also increased corporate loans outside our core markets of Singapore and Hong Kong, such as in China, India and Indonesia. Overall, our loan book has grown steadily over the last eight consecutive semi-annual periods since December 2002, at a 10.5% compound annual growth rate.

Our asset quality continues to be among the best for Asian banks. The ratio of non-performing loans improved



from 2.1% in 2005 to 1.7% at year-end. Even though the credit cycle remained benign, DBS boosted provision coverage from 97% the year before to a record 115% – about two and a half times the 44% low point in 1998.

DBS has the capacity to support our customers' needs as they grow and expand their operations in Asia. Given our strong asset quality, we have the confidence to take on more thoughtful and demanding risks, and to drive aggressively for loan growth, without compromising our credit standards.

We are encouraged that the market recognises our stronger core earnings performance. DBS' share price rose 37% in 2006, outpacing the 27%

gain of the broader Straits Times Index and the 29% rise of the Singapore Finance Equities Index.

Strengthening our Asian franchise

We live and breathe Asia. Our competitive advantage lies in our understanding Asia's cultural nuances, and in our ability to capitalise on this insight to help our customers in Asia deal with their most important needs.

With foresight and determination, we built expertise over the years in capital markets, treasury and wealth management. Today, we are able to leverage these capabilities in connecting our clients in Asia with our extensive distribution to traditional as well as "New Asian" investors. Few firms can match our ability to reach highly-liquid SMEs or first-time high net-worth customers, or to sell securities through

* DBS was the regional arranger for the Asian Development Bank's (ADB) US\$10 billion Asian Currency Note Programme, the first multi-location, multi-currency financing since the 1997 regional economic crisis, and a new milestone for fragmented Asian currency markets. Instead of the usual sequential fund-raising approach, ADB is now able to simultaneously access several Asian financial markets under a single, unified framework. ADB's pioneering issue overcomes Asian market constraints that spring from differences in regulatory, tax, documentary and currency conventions in each jurisdiction. Going forward, other Asian issuers may use the same ADB financing format to bypass the long-standing practice of looking to the London or New York markets to raise

* DBS pioneered the booming REIT market in Singapore back in 2002. Since then, we have maintained our market leadership in the Singapore REIT market by underwriting 18 transactions with a total issuance of US\$1.49 billion. We successfully brought our REIT expertise to other markets. In Hong Kong, we launched the first REIT with mainland China assets. In Thailand, we led the first listed office property fund and the first listed retail property fund with an international offering. In Malaysia, we lead-managed the first Malaysian REIT with an international offering. In Singapore, DBS maintained our market-leading position in underwriting this asset class with 37% market share.

* We reinforced our leadership in the securitisation market by listing Singapore's first business trust on the Singapore Exchange in May. We were sole financial adviser, underwriter and bookrunner for the US\$100 million Pacific Shipping Trust, which attracted public subscription of about 10 times. DBS aims to replicate this flexible business trust structure for other issuers with stable cash flows, including those in the infrastructure and utilities sectors.

* In February, DBS was joint lead manager and joint bookrunner for Videocon's inaugural issue of US\$90 million of five-year foreign currency convertible bonds. DBS stayed the course for this Indian issuer even though two of the four joint leads pulled out at the last hour after failing to secure the underlying credit support for the transaction. DBS successfully priced the financing as the markets were closing on the eve of the Chinese New Year holidays. The issue was well received by investors and propelled DBS to the top 10 in the convertible league tables.

“DBS capitalised on overall favourable economic conditions and our competitive advantage as an Asia banking specialist to post the highest Group net profit in our 38-year history.”

our market-leading ATM network and highly-interactive e-banking services. DBS, we believe, is well-positioned to intermediate rapidly growing Asia capital flows in new and unconventional ways.

In 2006, we continued our leadership across regional debt and equity capital markets, syndicated finance, private equity as well as mergers and acquisitions. We were also at the forefront of a long list of ground-breaking capital markets transactions, a reflection of our established know-how in product structuring and our track record of linking Asian investors with issuing clients.

capital that all too often comes from Asia. In time, Asia should be able to set the tone and pace for how liquidity in the region is redistributed to worthy Asian issuers.

* DBS continued to be the leading intermediary for foreign issuers, including conglomerates and banks, in the Singapore dollar bond market. During the year, we extended our geographical reach to issuers beyond Asia, such as in assisting Emirates Airlines to be the first Middle Eastern non-bank issuer to raise \$400 million of five and 10-year notes in the Singapore dollar bond market.



Unleashing the spirit of New Asia: In line with imbuing staff with a greater sense of organisational pride, DBS staff were prominently featured as the face of the bank's inaugural regional brand campaign.

* In equity capital markets, Thai Beverage, Thailand's largest brewer and distiller, launched its \$1.37 billion initial public offering in May, amid the most volatile equity market conditions in a year. The IPO was the largest since DBS' \$4.2 billion flotation in 1993 for SingTel, Singapore's largest telecommunications company. DBS acted as the lead manager and coordinator for the Singapore portion of Thai Beverage's global offering. Despite weak market sentiment, the international and Singapore offerings were oversubscribed.

* In March, we were the sole arranger for a US\$265 million equivalent facility for Spice Communications of India – DBS India's first domestic loan syndication and loan/security agency mandate. The financing was put in place for Telekom Malaysia to complete its acquisition of a 49% stake in Spice.

Our capital market leadership continues to be recognised in numerous international and regional trade publications. In particular, *The Asset* named DBS the Best Domestic Bank, Best Domestic Investment Bank, Best Equity House and Best Debt House in Singapore in 2006. *FinanceAsia* singled out DBS as "Best Small-cap Equity House", saying that DBS "carved a strong niche in bringing small-cap companies to market in both Singapore and Hong Kong".

Standing by our customer

We take pride in being Asia banking specialists, and it is no surprise that all our key decision makers are located here in Asia. With Asia fast becoming the centre of economic activity and capital formation, we can meet most of our clients' needs right here in Asia, and increasingly on better terms than in North America or Europe. On the flip side, we cannot fold up our

tents when times are tough in Asia.

In 2006, we continued to reaffirm our commitment to our clients in Singapore and across the region, through challenging times.

In May, jitters over inflation and economic bubbles caused markets across emerging markets to nosedive. All high-beta stocks around the world were sold. Even Asia (ex-Japan and India), which was more resilient among emerging stock markets, was not spared. Stock indices in The Philippines, Thailand, Singapore and Hong Kong saw more than double-digit declines.

In the aftermath, capital market financings were pulled left and right. However, DBS stood steadfastly by our clients to help them through difficult markets.

* We successfully launched the \$369 million IPO for luxury resort operator Banyan Tree in May. The institutional

tranche received convincing interest from investors around the world, and the retail offering through our ATM network was fully subscribed.

- * In July, we successfully took public Frasers Centrepoint Trust and CDL Hospitality Trust, despite sagging equity market conditions, and even though three new property-related issuances and four IPO candidates were withdrawn from the Hong Kong and Singapore markets. Frasers Centrepoint Trust's \$270 million IPO attracted substantial institutional and retail investor interest.
- * DBS was joint financial advisor, joint lead underwriter and joint bookrunner for the \$352.8 million listing of CDL Hospitality Trust, the first hotel REIT in Asia ex-Japan with an innovative stapled structure. We stood firmly behind our commitment to CDL in the midst of volatile market conditions, even while well-known underwriters wavered. The issue was well received, with the placement

tranche 1.9 times and retail tranche 6.6 times subscribed. Although we were supported by our extensive distribution capabilities to traditional and new investors, DBS never felt we could side-step our commitment to our Asia-based clients.

Extending our regional presence

Our focus is Asia, where we understand the region's business and cultural idiosyncrasies, with Southeast Asia, South Asia and Greater China as our key markets.

- * In India, DBS entered into a retail finance partnership with the well-regarded Murugappa Group by taking a 37.5% equal ownership stake in a joint venture. Cholamandalam DBS Finance aspires to become a leading financial services franchise in mass retail finance. During the year, the partnership launched a range of new product offerings, including personal loans for prime and sub-prime customers, as well as insurance

products through Cholamandalam's more than 150 locations across India.

- * In China, DBS was among the first foreign banks to seek regulatory approval to set up a local banking subsidiary. We have since received the go-ahead to prepare for local incorporation, the only Singapore bank and one of the few Asia-based banks in the first batch of applicants. With the local banking subsidiary, DBS will be able to offer local Chinese residents a full suite of renminbi products. In December, we also received approval from the China Banking Regulatory Commission to accept time deposits of at least RMB 1 million from local Chinese residents at our Beijing, Shanghai and Shenzhen branches, strengthening our local wealth management offerings in these markets.

To tap the wealth of a rapidly growing Chinese middle class, we are acquiring a 33% stake in Changsheng Fund Management Company. The partnership combines Changsheng's local market knowledge and distribution with DBS Asset Management's expertise in investment and risk management to build a leading fund management company in China. Our partnership, subject to regulatory approvals, complements DBS Asset Management's regional growth footprint.

During the year, we also opened a branch in fast-growing Suzhou, the first for a Singapore-based bank. The expansion is part of our overall strategy to grow DBS' presence and business in the Yangtze Delta region, Pearl-River Delta and the Beijing-Tianjin region. We also established the Shanghai Luwan sub-branch to offer consumer banking and DBS Treasures Priority Banking.



Celebrating the opening of Shanghai Luwan sub-branch: DBS reaffirms its commitment to China with its new sub-branch. This branch offers consumer banking and DBS Treasures Priority Banking services.

* With two-way trade between the Middle East and Asia on the rise, DBS was among the first few Asia-based banks, and the first Singapore-based bank, to receive a banking licence in Dubai, through the Dubai International Financial Centre (DIFC). Although our DIFC branch operations are relatively new, we have already participated in several key financings, including as lead arranger for the US\$1 billion three-year Ijarah (Islamic-compliant leasing agreement) facility for Dubai Department of Civil Aviation. We also joined in the financing of Dubai Port World's acquisition of P&O, and two Murahabas (Islamic syndicated loans) for Kuwait Finance House of Kuwait, and Al Rajhi Banking and Investment Corporation of Saudi Arabia.

* Hwang-DBS Securities Berhad (HDBSS), a wholly-owned subsidiary of Hwang-DBS (Malaysia) Berhad, which is now 27.8% owned by DBS, received approval from Malaysian authorities to convert its operations to that of an investment bank. DBS is an active partner in HDBSS and this development allows HDBSS to expand its existing corporate finance advisory business to include a broader and more sophisticated range of wholesale banking services, including treasury products, to serve Malaysian customers.

We will continue to expand our banking franchise in the region through stepped-up organic growth, as well as thoughtful, disciplined strategic acquisitions and alliances, with the objective of adding value to the DBS pan-Asian franchise and maximising long-term shareholder value.

Managing Asia's rising wealth

Asia is now the fastest-growing region in the world based on GDP growth rates. Its strong economic



DBS memahami betul bahwa pada saat anda mengumpulkan kekayaan, anda ju untuk generasi-generasi selanjutnya. Dengan pemahaman kami tentang Asia da berada di tangan yang tepat. Untuk mengetahui lebih banyak tentang kami, hub 845 5008, Surabaya (031) 531 9661, Medan (061) 457 7336 atau kunjungi w

PT Bank DBS Indonesia merupakan anak perusahaan dari DBS Bank Ltd, bank te

**“AYAHKU BEKERJA KERAS UNTUK
MEMASTIKAN IMPIANKU MENJADI
PILOT JADI KENYATAAN.**

**KINI GILIRANKU MEMBANTU ANAKKU
MEWUJUDKAN IMPIANNYA.”**

Setiap generasi memiliki impiannya masing-masing.
DBS hadir untuk membantu mewujudkan impian anda menjadi
kenyataan.

DBS. Hidup bernafaskan Asia.



ga mengamankan sebuah masa depan. Bukan hanya bagi keluarga anda, tapi juga
n standar perbankan internasional, kekayaan serta masa depan keluarga anda
ungi: Jakarta (021) 265 85 255, Bandung (022) 427 1100, Semarang (024)
www.dbs.com hari ini juga.

rbesar di Asia Tenggara.



Sustaining business momentum in Hong Kong: DBS is No. 2 in trade finance and the third-largest banker for manufacturers.

fundamentals have significantly improved the prospects for Asians across every social stratum. Material wealth has been enhanced by the rise in asset prices, supported by large capital inflows.

Not surprisingly, these better prospects are swelling the ranks of Asia's wealthy, particularly in China and India. Asian wealth will grow ahead of the global average, creating new opportunities for DBS to offer financial advisory and solutions. Our edge lies in our end-to-end origination-to-structuring-to-sales. DBS capitalises on our extensive distribution channels in Singapore and Hong Kong to reverse engineer just-in-time products that suit our identified customer needs.

We have also continued to leverage our derivatives prowess and risk management expertise to structure products for our retail clientele – products previously available only to

sophisticated institutional investors.

During the year, DBS launched funds that allow investors to buy mainland A-shares indirectly. Changsheng, our asset management partner in China, is the appointed investment advisor for the newly established DBS China Advantage A-share Fund. This product is structured to meet the investment needs of foreign individual investors, who are otherwise not allowed to tap the A-share market.

DBS Indonesia is a market leader in foreign exchange structured deposits.

To better serve our high net-worth customers on the ground, DBS Indonesia launched three DBS Treasures Centres in 2006, taking the total to five. We plan to open nine more DBS Treasures branches in Indonesia in 2007.

In India, we launched DBS Treasures Priority Banking to serve high net-worth clients through our Mumbai and New Delhi branches. We are also awaiting the Reserve Bank of India's approval for new branch licences under CECA, the Singapore – India free trade agreement.

In Singapore, we have the largest network of 865 ATMs and 81 branches, including POSB-branded ATMs and branches. Our ATM network handles about 50% of all transactions; and we have the largest internet banking customer base in Singapore, capturing half of the online banking business. We are also among the top credit card issuers in Singapore with about 20% share.

We further strengthened our payments and collections business with the acquisition of a majority stake in AXS InfoComm, which develops and operates an island-wide network of 390 web-enabled transactional terminals known as "AXS Stations". The AXS Stations complement our internet banking platform and ATM network, serving both retail and corporate customers.

To better serve our retail customers, we embarked on a programme to revitalise POSB and turn it into a full-service mass market bank. The initiative involved a physical renovation of the branches, as well as holistic "service-to-sales" transformation. A total of 36 branches were transformed last year, with the remaining 15 to be completed this year.

DBS is one of the leading providers of custody services in Singapore. We are the only institution to be appointed the Common Depository in Singapore by the world's two leading International Central Securities Depositories, EuroClear Bank and Clearstream Banking. Over the past few years, we expanded our



Raising transparency levels: POSB, part of the DBS Group, launched a home loan pegged to CPF rates.



Replicating our success in other markets: DBS remained the leader in the Singapore REIT market, having underwritten 18 deals worth US\$1.5 billion since 2002. In Hong Kong, we launched the first REIT with mainland China assets.

footprint to Hong Kong and Thailand. Last year, we also secured the necessary licences to expand our custody offering into China, India and Indonesia.

Helping SMEs prosper

Small and medium-sized enterprises are the lifeblood of most economies. In Singapore, they account for 99% of enterprises, about 43% of gross domestic product, and employ more than half the workforce. In Hong Kong, SMEs make up about 98% of all business enterprises.

Through an integrated business model, DBS' Enterprise Banking business now extends from Singapore and Hong Kong to mainland China, Macau, India and Indonesia. During the year, we strengthened our ability to serve SME and mid-cap customers with confidence. We used our balance sheet capacity to support continued loan expansion and emphasised fee-based activities and services, such as DBS' leading capital markets, treasury, cash management and credit risk management expertise.

In Hong Kong, DBS is No. 2 in trade finance and the third-largest banker for manufacturers. We aim to continue to differentiate ourselves by focussing on China and distinctive product offerings such as trade finance, equipment finance and factoring. DBS' Trade Regional Processing Centre in

Hong Kong, with a 170-strong team, supports seven other regional locations on top of Singapore and Hong Kong, and handles an estimated 500,000 import and export transactions a year.

In April, DBS completed the first rated SME loan securitisation scheme in Southeast Asia. Known as the SME Access Loan scheme, this pioneering effort was initiated by the Singapore government to help SMEs with little collateral or no track record to obtain

“Our 2006 results reflect several years of unwavering dedication and hard work by my DBS colleagues to extend and deepen our customer franchise in Singapore, Hong Kong and throughout Asia.”

financing, with DBS appointed as programme manager. The scheme securitised a portfolio of \$100 million of financing to more than 400 SMEs.

The SME Access Loan scheme is an extension of our deep-seated commitment to the SME market, where we are a market leader in another Singapore government-led scheme. DBS

has a 22% market share in the Local Enterprise Financing Scheme and is also the top factoring house in Singapore, with about 30% market share.

Capital position and credit ratings

In June, DBS successfully raised US\$900 million in a subordinated notes issue of Tier 2 capital. This transaction was the first floating-rate subordinated note issue by an Asian ex-Japan bank with a maturity of at

least 10 years. Following investors' strong reverse enquiries on this transaction, DBS successfully priced another S\$500 million offering of subordinated notes in July. Both financings supplement maturing subordinated notes, and position us to pursue business and strategic initiatives as they arise.



Setting a milestone: DBS structured the first regional platform for Asian currency bond issues since the financial crisis with the launch of the Asian Development Bank's US\$10 billion note programme.

Our balance sheet remains strong, with our total capital adequacy ratio of 14.5% and Tier 1 ratio of 10.2% comfortably above the regulatory minimum. Our credit ratings are among the highest for banks competing in Asia: "Aa2" by Moody's, "AA-" by Standard & Poor's, and "AA-" by Fitch Ratings. In December, we were also assigned an "AAA" rating by Rating Agency Malaysia (RAM), only the fourth foreign bank in Malaysia to receive such a ringing endorsement. RAM pointed to our solid domestic franchise, superior asset quality, healthy performance indicators, sound funding and liquidity positions, and robust capitalisation, as the basis for awarding DBS the highest possible rating.

Our current risk management framework closely tracks Basel II

principles. We are on schedule to meet Basel II qualification timelines of home and host regulators.

Commitment to Asia

The IMF / World Bank meetings held in Singapore in September drew an unprecedented 20,000 participants from around the world, and reinforced Singapore's standing as a key financial centre. We timed our first pan-Asian brand campaign to coincide with the annual meetings, and reaffirmed our commitment as a bank that specialises in Asia.

We are gratified by DBS' progress in 2006. We broke records and posted the highest Group net profit in DBS' 38-year history. I offer my heartfelt thanks to the Chairman and members of the Board for their guidance and counsel, and to our shareholders, customers and business partners for their invaluable

support throughout the year.

Our 2006 results reflect several years of unwavering dedication and hard work by my DBS colleagues to extend and deepen our customer franchise in Singapore, Hong Kong and throughout Asia. To my DBS colleagues and their families, I offer my sincere thanks for their commitment and sacrifices. There is more to do, but the broad-based and disciplined results delivered better returns to our shareholders, and point to sustainable growth for DBS as an Asia banking specialist.

JACKSON TAI

*Vice Chairman & Chief Executive Officer,
DBS Group Holdings*