

# Leadership Viewpoint

## LETTER TO SHAREHOLDERS



“During the year, DBS’ strong operating performance and broad-based growth demonstrated that our competitive advantage as an Asia banking specialist continues to gain traction.”

Asia's economies surged ahead in 2007, showing resilience amid record oil prices and global credit market dislocations caused by the bursting of the US housing bubble.

The US sub-prime mortgage crisis which erupted in August hit financial institutions worldwide. Banks in Asia, while not immune to the contagion, were affected to a lesser extent than their Western counterparts.

Against this backdrop, DBS demonstrated that it was capable of delivering consistent performance even in challenging market conditions.

Group net profit rose 14% to SGD 2.49 billion excluding one-time items, bolstered by a strong showing across businesses and geographies.

### RECORD PERFORMANCE IN CORE BUSINESSES

Reflecting the strength of DBS' customer franchise in Asia, net earnings were lifted by strong revenue growth, even after taking provisions for our collateralised debt obligation (CDO) investments, particularly those with exposure to the US sub-prime market.

Having taken such provisions, we are comfortable with our exposure to CDOs in 2008. Our total exposure to CDOs is SGD 1.50 billion as at end January 2008. The size of our CDO exposure will not pose a strain to our strong balance sheet and capital positions.

During the year, DBS' strong operating performance and broad-based growth demonstrated that our



*Bridging capital flows between the Middle East and Asia: DBS launched The Islamic Bank of Asia in May, combining DBS' Asia banking expertise with the extensive network of the Middle Eastern investors.*

competitive advantage as an Asia banking specialist continues to gain traction.

Net interest income increased 14% to a record SGD 4.11 billion, as loan growth and a stronger focus on asset and liability management more than offset margin pressure. Our loan book expanded by 25% to SGD 108.4 billion, led by corporate and SME loans across the region as well as Singapore consumer loans.

Net fee income rose 27% to a record SGD 1.46 billion as a broad range of fee activities grew.

We are also heartened that in an uncertain environment, DBS' asset quality continues to be among the best for Asian banks. The ratio of non-performing loans improved from 1.7% in 2006 to 1.1% in 2007. Allowance coverage also increased to 135% from 115% the year before.

### MAKING OUR MARK AS AN ASIA BANKING SPECIALIST

As a bank that lives and breathes Asia, DBS takes pride in having deep insights and an intuitive understanding of how to do business in the region. The bank is also committed to strengthening our Asia franchise, to better serve our customers and meet their most important needs.

- POSB, which became part of the DBS family in 1998, celebrated its 130th anniversary with the completion of a two-year initiative to enhance the experience of branch banking customers. The rejuvenation of POSB's 49 branches underscores DBS' commitment to an iconic Singaporean brand that represents friendly neighbourhood banking with a heart. Following the revamp, POSB is able to serve customers with bigger, brighter branches;



*Celebrating the birth of DBS China Limited: DBS was one of the first foreign banks to incorporate locally in China, further reinforcing our commitment to the Chinese market.*

better-trained staff and innovative financial solutions. The initiative underscores DBS' belief that we need to be strong in our home market as we expand abroad.

- Islamic banking is a burgeoning USD 400 billion business, and as an Asia banking specialist, it is only natural for us to be at the forefront. To bridge growing capital flows between the Middle East and Asia, in May, DBS launched a new subsidiary, The Islamic Bank of Asia (IB Asia), in partnership with 34 investors from prominent families and industrial groups based in the Gulf Cooperation Council (GCC) countries. Since commencing business, IB Asia, whose initial focus is corporate finance, capital markets and private wealth management, has turned a profit. IB Asia has also set up its first representative office

in Bahrain, marking its first step into the GCC markets.

- In Indonesia, where we are one of the largest trade finance banks and the fifth-largest foreign bank in wealth management, 2007 was a year in which we aggressively grew our footprint. DBS has been in Indonesia for 10 years, and the market is an important one for us.

Last year, DBS Indonesia added 10 new branches and sub-branches to its network. Today, we are in 18 locations in 9 cities. Network expansion is central to DBS' efforts to grow our Enterprise Banking and DBS Treasures Priority Banking businesses in Indonesia, and will continue apace. Our aim is to have one of the largest foreign bank networks with a presence in all major cities.

- In Taiwan, DBS successfully bid for the "good bank assets" of Bowa Commercial Bank, giving us significant inroads into the fourth-largest economy and banking sector in Asia ex-Japan. Following the transaction, DBS will have a total of 43 distribution outlets across Taiwan, of which 20 are in the Taipei area. The investment reinforces our Greater China strategy, and enhances the bank's position as a leading provider of financial services in Asia, and a pioneer in wealth management.

DBS intends to leverage its extensive footprint in Hong Kong, and our growing presence in China, to intermediate the increasing trade and investment flows between Taiwan, Hong Kong and China.

## GAINING MOMENTUM IN CHINA AND INDIA

China and India are two of the fastest-growing economies in Asia, and will exert increasing influence on global economies. Better prospects are also swelling the ranks of the middle class in these two markets, creating new opportunities for DBS to offer financial advisory and solutions to retail clients. Over the year, DBS continued to position itself to take advantage of the vast opportunities that exist in these markets.

- In May, DBS set up a local banking subsidiary in China, making it one of the first few foreign banks, and the first Singapore bank, to incorporate in China.

Headquartered in Shanghai, DBS Bank China has a registered capital of RMB 4 billion (USD 523 million) and will focus on mid-caps and the affluent priority banking segment.

The bank started operations just a week after receiving approval from the China Banking Regulatory Commission. As a local subsidiary, it is able to offer a comprehensive suite of RMB products and services to local residents in China, subject to regulatory approval.

Leveraging this opportunity, in October, DBS launched a range of RMB deposit services, mortgage loans as well as general insurance products to local residents in Shanghai.

As part of its five-year growth plan, DBS China will strengthen its presence in the Beijing-Tianjin corridor, Yangtze River Delta, Fu-Xia Cluster and the Pearl River Delta. It will expand its existing branch

“Better prospects are swelling the ranks of the middle class in China and India, creating new opportunities for DBS to offer financial advisory and solutions to retail clients.”

network in Shanghai, Suzhou, Beijing, Shenzhen and Guangzhou into an integrated branch network offering consumer banking, corporate banking, enterprise banking and investment banking services.

- In 2007, DBS Asset Management (DBSAM) bought a 33% stake in Changsheng Fund Management Company, the first Asia-based asset management company to invest in a leading local fund management company in China. Our strategic investment and partnership with Changsheng combines DBSAM's expertise in investment management with Changsheng's local market knowledge and distribution capabilities.

Changsheng was granted the Qualified Domestic Institutional Investor (QDII) licence in October. With this approval, Changsheng, one of the first six Sino-foreign fund management companies to receive approval under the QDII scheme, will be able to help its clients invest their funds in overseas markets.

- In India, we are successfully rolling out a wholesale banking platform; adding factoring, SME liabilities, treasury and wealth management services to our suite of products offered to institutional and corporate clients in all major cities across India.

Our Cholamandalam DBS Finance partnership, in which we have a



*Expanding aggressively in Indonesia: With the opening of 10 new branches and sub-branches in Indonesia last year, DBS continues to grow its Enterprise Banking and DBS Treasures businesses.*

37.5% stake, has also grown substantially. The consumer finance venture has enabled us to penetrate a new customer segment with a wide range of products. In 2007, Chola DBS grew its network around the country to about 200 outlets.

### **CELEBRATING OUR 40-YEAR HISTORY AND GROWING OUR COMMITMENT TO ASIA**

The Board is recommending a one-tier tax-exempt dividend of 20 cents per share for the fourth quarter following a gross dividend payout of 20 cents for each of the first three quarters of 2007. In 2006, DBS had paid out 71 cents of gross ordinary dividends.

In September, DBS launched a share buyback programme of up to SGD 400 million for on-market purchases of its ordinary shares. DBS intends to hold the repurchased shares as treasury shares, which may be used for various corporate purposes including employee benefit plans. The programme enhances our ongoing capital management efforts

**“I am proud to say that we have made headway in instilling a stronger sense of organisational pride and ownership among our staff.”**

and reaffirms our commitment to improving shareholder returns. It also complements our existing policy of paying progressively rising ordinary dividends to shareholders.

Our good 2007 financial results, amid a volatile second half, would not have been possible without the concerted and collective efforts of all our 13,000 staff. I would like to thank our colleagues, customers, partners and shareholders for supporting us throughout the year.

I would also like to express my gratitude to my fellow board members for their wise counsel and invaluable contributions throughout the year. Special thanks goes to CY Leung (Leung Chun Ying), who

stepped down as a board director in May. CY has been a board member since July 2002, and we owe him a debt of gratitude for his valuable insights and perspective on doing business in Hong Kong and China.

I also welcome Christopher Cheng, who joined the DBS Boards in June. Christopher is the Chairman of USI Holdings Limited and Winsor Properties Holdings Limited, both part of the Wing Tai Group, a leading property and lifestyle group in the region. With Wing Tai Group's extensive business interests in Hong Kong and China, we will greatly benefit from his advice on the business and political environment in Greater China, where DBS is seeking to expand our franchise.

In addition, I would like to thank Jackson Tai, who stepped down in December after eight years with the bank, five of which as Vice-Chairman and CEO, to spend more time with his family in the United States. Jack has helped to transform DBS from a Singapore-centric bank into a leading regional bank. As CEO, he was instrumental in growing DBS' geographical reach and strengthening our Asian franchise.

After an extensive global search, we appointed veteran banker Richard Stanley as CEO in February 2008. With his broad-based banking experience in Asia, my fellow directors and I are confident that he will help



*Neighbours first, bankers second: POSB celebrated its 130th anniversary with the revitalization of its brand, bigger branches and better-trained staff.*



Anchoring Singapore's new financial hub: DBS will lease 700,000 square feet in the heart of the new Marina Bay Financial Centre from 2012 as part of its strategic occupancy programme.

DBS to grow its regional footprint, diversify its revenue base and focus on higher-return businesses.

DBS celebrates its 40th anniversary in 2008. DBS was set up in 1968 as a development bank to help fuel Singapore's industrialisation efforts. Today, we are not only Singapore's largest financial institution offering full banking services in Singapore and the region, we have built a second hub in Hong Kong and a growing presence in China, India and Indonesia.

Our unique heritage gives us a deep understanding of Asia, our customers in the region and the local communities in which we operate. This serves as a strong platform for our growing commitment to Asia.

What we want to nurture at DBS is a culture of collaboration that instinctively puts what's best for the customer first and then to work hard, as a team, to deliver that promise with a can-do attitude.

I am proud to say that we have made headway in instilling a stronger sense of organisational pride and ownership among our staff. Banking is ultimately a people-driven business, and greater employee engagement will translate into a stronger sense of empowerment and customer mindset. I am encouraged that we have made progress in this area as evidenced by improved employee engagement survey scores across the bank.

Over the past two years, we have made DBS staff the highlight of our regional brand campaigns. In 2006, we featured the face of DBS Bank through the energy, dynamism and vibrancy of our staff. Last year, we went beyond that to showcase the mettle, character and spirit of "can-do" of our employees.

To enable staff to give back to the community, and to foster a greater sense of teamwork among them, in November, about 200 staff took time off work to refurbish schools in Jakarta, Mumbai and Shanghai.

As a leading financial institution, we believe that DBS must not only distinguish itself in the marketplace through a relentless dedication to service excellence, but also make a positive difference in the communities we operate in.

We have good momentum going into 2008. In spite of the problems in the financial sector worldwide, banks in Asia are not affected to the same extent. DBS' balance sheet is strong and we are well-positioned to ride Asia's growth.

In order to build on our heritage and enhance DBS' stature in Asia's financial community, we must improve our efforts to manage our business in totality, build a strong DBS culture and centre all our efforts on our customers.

I am very proud of my colleagues at the Bank who have achieved much in 2007. I also believe that we can do more, with the depth and breadth of talent within the Bank. I remain confident that we will be able to further seize opportunities and transform DBS into one of the most respected and admired financial institutions anchored in Asia.

**Koh Boon Hwee**  
Chairman, DBS Group Holdings