Management Discussion and Analysis

OVERVIEW

	2007	2006	% chg
Selected income statement items ($m)			
Net interest income	**4,108**	3,591	14
Net fee and commission income	**1,462**	1,155	27
Net trading income	**180**	522	(66)
Net income from financial instruments designated at fair value	**(86)**	(192)	55
Net income from financial investments	**450**	229	97
Other income	**49**	39	26
Total income	**6,163**	5,344	15
Less: Expenses	**2,618**	2,369	11
Profit before allowances	**3,545**	2,975	19
Less: Allowances for credit and other losses	**431**	135	>100
Share of profits of associates	**110**	70	57
Profit before tax	**3,224**	2,910	11
Net profit	**2,487**	2,175	14
Add: One-time items	**(209)**	94	nm
Net profit including one-time items and goodwill charges	**2,278**	2,269	0
Selected balance sheet items ($m)			
Customer loans[1]	**108,433**	86,630	25
Interbank assets[1]	**24,564**	26,515	(7)
Total assets	**233,591**	197,372	18
Customer deposits[2]	**153,572**	131,373	17
Total liabilities	**210,433**	176,326	19
Shareholders' funds	**20,481**	18,675	10
Key financial ratios (excluding one-time gains and goodwill charges) (%)			
Net interest margin	**2.17**	2.20	–
Non-interest/total income	**33.3**	32.8	–
Cost/income ratio	**42.5**	44.3	–
Return on assets	**1.15**	1.15	–
Return on equity	**12.66**	12.33	–
Loan/deposit ratio	**70.6**	65.9	–
NPL ratio	**1.1**	1.7	–
Specific allowances (loans)/average loans (bp)	**9**	19	–
Tier-1 capital adequacy ratio	**8.9**	10.2	–
Total capital adequacy ratio	**13.4**	14.5	–
Per share data ($)			
Per basic share			
– earnings excluding one-time items and goodwill charges	**1.64**	1.44	–
– earnings	**1.50**	1.50	–
– net book value	**13.20**	12.08	–
Per diluted share			
– earnings excluding one-time items and goodwill charges	**1.57**	1.39	–
– earnings	**1.44**	1.45	–
– net book value	**12.93**	11.84	–

1 *Includes financial assets at fair value through profit or loss*
2 *Includes financial liabilities at fair value through profit or loss*

The Group generated net profit of $2,487 million in 2007 excluding one-time items, a 14% increase over the prior year, and a 14% compounded annual growth over five years, as the Group capitalised on continued economic strength in the region to build its customer franchise.

A one-time net charge of $209 million was recorded in 2007, comprising $264 million of impairment charges on the Group's investment in TMB Bank in Thailand offset by a $55 million gain from an allowance write-back for a property in Singapore. In comparison, a one-time gain of $94 million from the sale of buildings was booked in 2006. Including these items, the Group's reported net profit amounted to $2,278 million in 2007 compared to $2,269 million in 2006. The following commentary excludes the effects of these non-operating items.

Total income reached $6,163 million in 2007, an increase of 15% compared to 2006. The rise was driven by higher net interest income and non-interest income. Net interest income grew 14% to $4,108 million in 2007, primarily due to higher loan volumes across most business and geographical segments. For the year, net customer loans expanded 25%, the fastest growth recorded since 2001.

Non-interest income rose 17% to $2,055 million, with higher net fee income and gains on sales of financial investments partially offset by lower trading income. Net fee income rose 27% to $1,462 million for a ninth consecutive year of growth as both corporate and consumer activities grew.

Net trading income, affected by US subprime mortgage concerns, declined from $522 million to $180 million. Wider spreads in the credit markets led to lower mark-to-market values of trading securities and credit-linked derivatives. The decline in net trading income included $136 million of mark-to-market losses for collateralised debt obligations (CDOs) in Red Orchid Secured Assets (Rosa), a fully-consolidated conduit. Subsequent to 31 December 2007, Rosa was liquidated, its CDOs dismantled and its component risks transferred to the trading book to be hedged and managed.

Gains on sales of financial investments were $450 million in 2007, up from $229 million a year ago, as the Group took profits on some equity positions.

The cost-income ratio improved to 42% from 44% a year ago through continued cost management. Expenses rose 11% to $2,618 million. Staff costs increased 11% to $1,384 million, reflecting tight labour markets and a 13% increase in headcount to support business expansion.

The credit environment remained benign. The non-performing loan ratio fell to 1.1% from 1.7% in 2006. Specific allowances for loans fell 42% to $92 million. Total allowances, however, increased due to allowances for investment CDOs which amounted to $270 million. At the end of 2007, the Group had set aside allowances amounting to 90% of its investment CDOs with exposure to US sub-prime mortgages.

The Group's return on assets was unchanged from a year ago at 1.15%, while return on equity improved to 12.7% from 12.3%.

There were no significant accounting changes for the year.

Goodwill was tested for impairment using the same methodology and key assumptions as the previous year. Goodwill for all entities tested was found to be intact.

NET INTEREST INCOME

	2007			2006		
Average balance sheet	Average balance ($m)	Interest ($m)	Average rate (%)	Average balance ($m)	Interest ($m)	Average rate (%)
Interest-bearing assets						
Customer loans	**97,423**	**5,405**	**5.55**	82,561	4,559	5.52
Interbank assets	**37,596**	**1,261**	**3.35**	30,718	1,001	3.26
Securities	**53,996**	**2,424**	**4.49**	49,908	2,249	4.51
Total	**189,015**	**9,090**	**4.81**	163,187	7,809	4.79
Interest-bearing liabilities						
Customer deposits	**141,232**	**3,079**	**2.18**	123,779	2,746	2.22
Other borrowings	**38,864**	**1,903**	**4.90**	31,713	1,472	4.64
Total	**180,096**	**4,982**	**2.77**	155,492	4,218	2.71
Net interest income/margin		**4,108**	**2.17**		3,591	2.20

Net interest income rose 14% to record $4,108 million in 2007. This amount represented 67% of the Group's total income in 2007, little changed from a year ago.

Average interest-earning assets expanded 16% to $189,015 million, with the asset mix improving as the proportion of customer loans increased.

Overall asset yields rose two basis points to 4.81%, slower than liability costs which rose by six basis points to 2.77%. As a result, the Group's net interest margin narrowed from 2.20% to 2.17%.

The table below indicates that higher volumes had a greater impact on net interest income growth in 2007 than interest margins.

Volume and rate analysis ($m)

Increase/(decrease) due to change in	**Volume**	**Rate**	**Net change**
Interest income			
Customer loans	**821**	**25**	**846**
Interbank assets	**224**	**36**	**260**
Securities	**184**	**(9)**	**175**
Total	**1,229**	**52**	**1,281**
Interest expense			
Customer deposits	**387**	**(54)**	**333**
Other borrowings	**329**	**102**	**431**
Total	**716**	**48**	**764**
Net interest income	**513**	**4**	**517**

NET FEE AND COMMISSION INCOME

($m)	**2007**	**2006**	**% chg**
Stockbroking	**250**	141	77
Investment banking	**171**	150	14
Trade and remittances	**206**	190	8
Loan related	**232**	166	40
Guarantees	**36**	30	20
Deposit related	**78**	79	(1)
Credit card	**132**	115	15
Fund management	**43**	62	(31)
Wealth management	**249**	170	46
Others	**65**	52	25
Total	**1,462**	1,155	27

Net fee and commission income grew 27% from a year ago to $1,462 million from a wide range of corporate and consumer activities. Net fee income accounted for 24% of total income, above the 22% in 2006.

Stockbroking commissions climbed 77% to $250 million from buoyant equity markets in Singapore and Hong Kong. The Group's growing customer franchise resulted in higher wealth management product sales and credit card transactions. Wealth management fees rose 46% to $249 million as unit trust sales grew 51% to $5,735 million, while credit card fees rose 15% to $132 million as average spend per card increased.

Investment banking and loan-related fees were 14% and 40% higher respectively as capital market activities increased across the region. DBS continued to do well in various domestic league tables during the year, such as bookrunning Singapore dollar bonds, arranging syndicated loans, advising on M&A deals and underwriting real estate investment trusts.

OTHER NON-INTEREST INCOME

($m)	2007	2006	% chg
Net trading income	**180**	522	(66)
From trading businesses	**196**	532	(63)
From other businesses	**(16)**	(10)	(60)
Net income from financial instruments designated at fair value	**(86)**	(192)	55
Net income from financial investments	**450**	229	97
Net gain from fixed assets	**6**	10	(40)
Others	**43**	29	48
Total	**593**	598	(1)

Other non-interest income fell 1% to $593 million as a decline in net trading income from $522 million to $180 million was offset by a net gain in financial investments.

Net trading income decreased as higher trading gains in equity, interest rate and foreign exchange markets were more than offset by mark-to-market losses on structured credit trading activities and CDOs held by Rosa.

Net income from financial investments rose from $229 million to $450 million as a result of profit-taking on some equity holdings.

EXPENSES

($m)	2007	2006	% chg
Staff	**1,384**	1,244	11
Occupancy	**216**	193	12
Computerisation	**428**	404	6
Revenue-related	**135**	105	29
Others	**455**	423	8
Total	**2,618**	2,369	11

Expenses increased 11% to $2,618 million.

Staff costs rose 11% as headcount grew 13% to 14,523. Headcount increased primarily in Singapore, Greater China and Indonesia to support business expansion.

Computerisation expenses were 6% higher due to expenses for major ongoing projects such as Basel II implementation and core banking.

ALLOWANCES FOR CREDIT AND OTHER LOSSES

($m)	2007	2006	% chg
General allowances (“GP”)	**202**	88	>100
Specific allowances (“SP”) for loans	**92**	159	(42)
Singapore	**(22)**	79	nm
Hong Kong	**69**	78	(12)
Other countries	**45**	2	>100
Specific allowances (“SP”) for securities, properties and other assets	**137**	(112)	nm
Total	**431**	135	>100

Total allowances increased to $431 million from $135 million in 2006.

Part of the increase was due to $243 million of allowances charged to the income statement for investment CDOs, comprising $93 million in general allowances and $150 million in specific allowances.

In addition, there was also an increase in general loan allowances due to the strong growth in loans and commitments during the year.

Specific allowances for loans declined to $92 million from $159 million in 2006 as credit conditions remained benign. There were write-backs in Singapore and lower charges in Hong Kong. By business unit, the decline was due to Consumer Banking and Enterprise Banking. Specific allowances for loans amounted to 9 basis points of average loans, compared to 19 basis points in 2006.

In 2006, there had been a net write-back of $112 million in specific allowances for the recovery of corporate debt securities and a write-back for buildings in Singapore as market valuations improved.

PERFORMANCE BY BUSINESS UNIT

($m)	CBG	EB	CIB	GFM	CTU	Central Ops
2007						
Net interest income	**1,718**	**792**	**736**	**946**	**349**	**(433)**
Non-interest income	**688**	**395**	**552**	**78**	**16**	**326**
Total income	**2,406**	**1,187**	**1,288**	**1,024**	**365**	**(107)**
Less: Expenses	**1,091**	**375**	**421**	**516**	**31**	**184**
Profit before allowances	**1,315**	**812**	**867**	**508**	**334**	**(291)**
Less: Allowances	**23**	**103**	**209**	**5**	**262**	**(171)**
Share of profits of associates	**0**	**0**	**0**	**13**	**0**	**97**
Profit before tax	**1,292**	**709**	**658**	**516**	**72**	**(23)**
Net profit	**1,060**	**583**	**510**	**420**	**51**	**(137)**
2006						
Net interest income	1,765	736	592	595	280	(377)
Non-interest income	514	330	585	274	(64)	114
Total income	2,279	1,066	1,177	869	216	(263)
Less: Expenses	985	338	376	411	31	228
Profit before allowances	1,294	728	801	458	185	(491)
Less: Allowances	52	119	77	(3)	(5)	(105)
Share of profits of associates	0	0	0	5	0	65
Profit before tax	1,242	609	724	466	190	(321)
Net profit	1,001	500	603	383	166	(478)

A description of DBS' reported business unit segments can be found in Note 52.1 of the financial accounts on page 107.

Consumer Banking (CBG)

CBG's total income rose 6% from a year ago as a 3% decline in net interest income was more than offset by a 34% rise in non-interest income. Interest income was lower despite increased loan and deposit volumes as deposit margins in Singapore and loan margins in Hong Kong narrowed. Non-interest income rose from higher wealth management product sales, as well as increased credit card fees.

Expenses grew 11% mainly from higher staff and operating costs in Singapore and Hong Kong. Expenses were also higher in Indonesia where 12 Treasures priority banking centres were opened during the year.

Total allowances fell as higher general allowances for loan growth were more than offset by lower specific allowances in Singapore and Hong Kong as credit quality improved.

Enterprise Banking (EB)
EB's net interest income increased 8% as the benefits of higher loan and deposit volumes in Singapore and Hong Kong more than offset the effects of lower interest margins in Hong Kong. Non-interest income rose 20% led by higher sales of treasury products, such as foreign currency hedging instruments, in Hong Kong.

Expenses grew 11% due to mainly higher wage and operating costs. Total allowances fell 13% as a decline in specific allowances more than offset an increase in general allowances.

Corporate and Investment Banking (CIB)
CIB's net interest income grew 24% from higher loan and deposit volumes, while non-interest income fell 6% as the benefits of higher investment banking and capital market activities across the region were more than offset by marked-to-market losses for Rosa's CDOs.

Compared to the previous year, expenses rose 12% from higher wage and operating costs.

Total allowances rose due to higher general allowances for loan growth.

Global Financial Markets (GFM)
GFM's total income rose 18%. Net interest income was higher from increased money market activity. Non-interest income declined as losses incurred from marked-to-market losses on credit-linked trading instruments were partially offset by higher stockbroking commissions.

Expenses increased 26% with both wage and non-wage costs contributing to the rise.

Central Treasury (CTU) and Central Operations
CTU manages the Group's asset and liability interest rate positions as well as investments arising from the Group's excess liquidity. Central Operations encompasses a wide range of activities from corporate decisions as well as income and expenses not attributable to other business segments. Asset management and private banking activities are also included in this segment.

CTU's total allowances in 2007 included the general and specific allowances set aside for investment CDOs.

PERFORMANCE BY GEOGRAPHY

($m)	S'pore	Hong Kong	Rest of Greater China	South, S-East Asia	Rest of world
2007					
Net interest income	**2,719**	**1,064**	**100**	**151**	**74**
Non-interest income	**1,223**	**554**	**106**	**118**	**54**
Total income	**3,942**	**1,618**	**206**	**269**	**128**
Less: Expenses	**1,611**	**698**	**109**	**141**	**59**
Profit before allowances	**2,331**	**920**	**97**	**128**	**69**
Less: Allowances	**186**	**96**	**40**	**77**	**32**
Share of profits of associates	**10**	**0**	**13**	**87**	**0**
Profit before tax	**2,155**	**824**	**70**	**138**	**37**
Net profit	**1,627**	**686**	**72**	**106**	**(4)**
2006					
Net interest income	2,255	1,145	47	90	54
Non-interest income	1,129	377	100	91	56
Total income	3,384	1,522	147	181	110
Less: Expenses	1,474	668	82	89	56
Profit before allowances	1,910	854	65	92	54
Less: Allowances	26	100	0	(6)	15
Share of profits of associates	10	0	0	60	0
Profit before tax	1,894	754	65	158	39
Net profit	1,345	626	55	127	22

A description of DBS' reported geographic segments can be found in Note 52.2 of the financial accounts on page 109.

Singapore
Net interest income rose 21% as consumer, corporate and SME loans, as well as savings deposits, grew. The benefits of higher volumes were partially offset by lower corporate loan yields and return on surplus funds in line with a decline in interbank rates.

Non-interest income rose 8% from a wide range of fee income activities and gains from the sale of investment securities. Trading income was weaker due to marked-to-market losses in trading securities and credit-linked derivatives.

Expenses increased 9% from higher wage costs, partly due to a larger headcount, as well as computerisation and revenue-related expenses.

Total allowances increased due to charges for CDOs. Allowances for loans decreased as a net write-back in specific allowances was greater than the increase in general allowances for loan growth. In the previous year, there had also been a write-back for properties and securities.

Hong Kong
The results for Hong Kong incorporate the effects of an appreciation of the Singapore dollar against the Hong Kong dollar by 5% in the profit and loss account and 6% in the balance sheet.

Net interest income declined 7% due to lower interest margins and exchange translation effects. The average spread between prime lending rates and cost of funds was lower than a year ago, and this offset the benefit of higher loan volumes.

Non-interest income increased 47%, led by fees from stockbroking as well as higher contributions from the sale of treasury and wealth management products.

Expenses rose 4% primarily due to higher wage and computerisation expenses. Allowances were lower as write-backs increased.

Other regions
The largest earnings contributors are Indonesia through a 99%-owned subsidiary, China through a 100%-owned subsidiary, and India where the Group has two branches and a 37.5% stake in Cholamandalam DBS, a non-bank finance company with about 200 branches.

CUSTOMER LOANS[1]

($m)	2007	2006	% chg
By business unit			
Consumer Banking	**31,213**	29,538	6
Enterprise Banking	**22,334**	20,101	11
Corporate and Investment Banking	**48,940**	33,764	45
Others	**7,287**	4,677	56
By geography			
Singapore	**62,019**	48,789	27
Hong Kong	**29,141**	27,216	7
Rest of Greater China	**6,371**	4,443	43
South and South-east Asia	**4,737**	2,993	58
Rest of the world	**7,506**	4,639	62
Gross total	**109,774**	88,080	25

1 *Includes financial assets at fair value through profit or loss*

Gross customer loans expanded 25% to $109,774 million.

Loans booked in Singapore, comprising both Singapore-dollar and foreign-currency loans, rose 27% to $62,019 million. Singapore-dollar loans increased 20% to $42,675 million, giving DBS an 18% market share of Singapore-dollar loans, unchanged from the prior year.

The growth in Singapore-booked loans was led by corporates and SMEs, and was broad-based across industries. Housing loans rose 10%.

In Hong Kong, loans grew 14% in local-currency terms and 7% in Singapore-dollar terms to $29,141 million. The growth in Hong Kong was largely due to corporate and SME borrowing. DBS' overall share of Hong Kong-dollar loans was 5%, little changed from a year ago.

With a smaller base, loans in other regions grew faster than in Singapore and Hong Kong as DBS expanded its banking franchise to other parts of Asia.

NON-PERFORMING ASSETS AND LOSS ALLOWANCE COVERAGE

	2007			2006		
	NPA ($m)	NPL (% of loans)	(GP+SP) /NPA (%)	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA (%)
By geography						
Singapore	**533**	**1.0**	**122**	811	1.8	99
Hong Kong	**418**	**1.5**	**109**	363	1.3	118
Rest of Greater China	**80**	**1.0**	**144**	68	1.3	112
South and South-east Asia	**71**	**0.9**	**221**	112	2.5	119
Rest of world	**66**	**0.5**	**137**	106	1.6	109
Total non-performing loans	**1,168**	**1.1**	**126**	1,460	1.7	106
By business unit						
Consumer Banking	**238**	**0.8**	**158**	307	1.0	127
Enterprise Banking	**690**	**3.1**	**82**	691	3.4	76
Corporate and Investment Banking	**178**	**0.4**	**302**	396	1.2	131
Others	**62**	**0.9**	**(10)**	66	1.4	185
Total non-performing loans	**1,168**	**1.1**	**126**	1,460	1.7	106
Debt securities	**160**	**–**	**215**	36	–	223
Contingent liabilities	**114**	**–**	**113**	37	–	327
Total non-performing assets	**1,442**	**–**	**135**	1,533	–	115

Non-performing loans (NPLs) fell from $1,460 million to $1,168 million on an enlarged loan base. As a percentage of loans, the NPL rate declined from 1.7% to 1.1%. NPL rates for most geographical and business segments improved.

Including debt securities and contingent liabilities, the amount of non-performing assets fell from $1,533 million to $1,442 million, 38% of which were still current and were classified for prudential reasons.

Overall loss allowance coverage increased from 115% to 135% of total non-performing assets. As a percentage of non-performing loans only, allowance coverage rose from 106% to 126%. 45% of all non-performing assets were secured against collateral.

($m)	2007	2006
Unsecured non-performing assets	**794**	740
Secured non-performing assets by collateral type		
Properties	**376**	556
Shares and debentures	**24**	46
Fixed deposits	**13**	38
Others	**235**	153
Total non-performing assets	**1,442**	1,533

FUNDING SOURCES

($m)	2007	2006	% chg
Customer deposits by currency and product[1]			
Singapore dollar	**84,099**	71,242	18
Fixed deposits	**27,708**	21,940	26
Savings accounts	**46,622**	40,838	14
Current accounts	**9,258**	8,030	15
Others	**511**	434	18
Hong Kong dollar	**24,775**	23,059	7
Fixed deposits	**17,302**	15,905	9
Savings accounts	**4,556**	4,472	2
Current accounts	**1,935**	2,024	(4)
Others	**982**	658	49
US dollar	**28,507**	24,758	15
Fixed deposits	**20,375**	18,061	13
Savings accounts	**1,849**	1,627	14
Current accounts	**3,976**	3,394	17
Others	**2,307**	1,676	38
Others	**16,191**	12,314	31
Fixed deposits	**13,152**	10,812	22
Savings accounts	**778**	554	40
Current accounts	**1,477**	661	>100
Others	**784**	287	>100
Total customer deposits	**153,572**	131,373	17
Interbank liabilities	**16,481**	8,537	93
Other borrowings and liabilities	**43,057**	38,787	11
Shareholders' funds	**20,481**	18,675	10
Total	**233,591**	197,372	18

1 *Includes financial liabilities at fair value through profit or loss*

Total funding increased 18% to $233,591 million. Customer deposits grew 17% to $153,572 million.

Singapore-dollar deposits rose 18% to $84,099 million, with savings and fixed deposits growing by similar amounts in dollar terms. DBS' market share for total Singapore-dollar deposits was 27%, little changed from a year ago. DBS also retained its leadership in savings deposits.

Hong Kong-dollar deposits rose 7% to $24,775 million, with fixed deposits leading the increase. DBS' market share of Hong Kong-dollar was stable at 4%.

CAPITAL ADEQUACY RATIOS

($m)	2007	2006
Tier 1		
Paid-up ordinary and preference shares	**4,164**	4,042
Disclosed reserves and others	**18,040**	16,556
Less: Goodwill	**(5,845)**	(5,840)
Total	**16,359**	14,758
Tier 2		
Cumulative general allowances	**1,210**	1,033
Subordinated debts	**7,087**	5,038
Others	**75**	103
Total	**8,372**	6,174
Total capital	**24,731**	20,932
Risk-weighted assets	**184,601**	144,086

Based on regulatory guidelines, the total capital adequacy ratio fell from 14.5% to 13.4% as the amount of risk-weighted assets increased with a higher customer loan base. The tier-1 ratio declined from 10.2% to 8.9%.

In May, the Group issued US$2,000 million of tier-2 subordinated debt, which was partially offset by the amortisation of existing tier-2 subordinated debt. The tier-2 ratio rose slightly from 4.3% to 4.5%.

UNREALISED VALUATION SURPLUS

($m)	2007	2006
Properties	**650**	371
Financial investments	**43**	11
Total	**693**	382

The amount of unrealised valuation surpluses increased from $382 million to $693 million, with most of the increase due to properties as market valuations improved.