

Letter to Shareholders



“The market landscape has changed drastically and we want to do our best to stand by our customers during this difficult period. DBS pledges to stand by our loyal customers, in particular, those who have used DBS as their primary banker, in good times and bad.”

2008 was a watershed year; one marked by unprecedented change which has altered the global financial and economic landscape. While markets showed resilience in the first half, by September, the credit market dislocations which emerged in 2007 had ballooned into Wall Street's biggest crisis since the Great Depression.

In the United States, the severity of the credit crunch led to the demise of once-venerable investment banks, all of which have either converted to bank holding companies or folded into commercial banks. The collapse of Lehman Brothers, a 158-year old blue chip firm, was the largest bankruptcy in US history. In 2008, the Dow Jones Industrial Index plunged 34%, its

steepest drop since 1931. In all, USD 7 trillion has been wiped off the world's stock markets.

The implosion of Wall Street had far-reaching effects; spreading slower growth to the rest of the developed world and all the way to Asia. From Britain to China, national governments are pump-priming their economies to jumpstart growth.

Singapore and Hong Kong – DBS' two largest markets – are in recession. In 2008, Singapore's benchmark Straits Times Index is down 49%, the biggest annual fall in its 42-year history. Hong Kong's Hang Seng Index also dropped 48% in 2008, its worst performance since 1974.

STRENGTH IN THE FACE OF ADVERSITY

In spite of the economic turbulence and record-setting market volatility, DBS achieved earnings of SGD 2.06 billion excluding one-time items, 17% below the previous year.

Full-year net interest income increased 5% to SGD 4.3 billion. Customer loans rose 17% to SGD 126.5 billion as DBS continued to be supportive of customers' financing needs during the year.

Net fee income declined primarily as a consequence of a slowdown in markets-related activities.

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1 CEO Richard Stanley addressing staff in DBS Hong Kong

The cost-to-income ratio was 43%, broadly in line with that in 2007. Costs continue to be closely managed.

While the ratio of non-performing loans rose from 1.1% in 2007 to 1.5%, allowance coverage remains high at 114%, putting DBS in a strong position to weather asset quality risks ahead.

Credit costs are expected to rise in 2009. DBS continues to vigilantly monitor credit trends in our loan portfolio. Careful management of credit, market and operational risks has maintained the strength of the balance sheet.

RESILIENT IN ASIA

While Asia is not immune from the financial crisis, the region remains resilient. In recent years, the centre of economic power has been shifting towards Asia, and market expectations are that economies in Asia ex-Japan will continue to outperform those in the rest of the world.

As a bank that lives and breathes Asia, DBS is committed to better serve our customers in this region. While some financial institutions are scaling back, DBS continues to invest in expanding our footprint across key markets in Asia.

- Greater China is an integral part of DBS' ambition to become a leading bank in Asia. Last year, we reinforced our Greater China strategy by strengthening our presence in Taiwan, the fourth-largest economy in Asia ex-Japan. With the acquisition of the "good bank assets" of Bowa Commercial Bank, completed in May, DBS now has 40 branches across Taiwan serving small medium enterprises (SMEs) and mass affluent customers. We intend to fully leverage our extensive footprint in Hong Kong, and our growing presence in China, to intermediate the trade and investment flows between Taiwan, Hong Kong and China.

- In China, where DBS has been operating for the last 15 years, we are committed to offering a comprehensive suite of services to better serve the needs of corporate and individual customers. In November, DBS Bank (China) officially opened a branch in Tianjin. In addition, we launched our first sub-branch, which includes a DBS Treasures priority banking centre, in Beijing. Today, DBS China has seven branches in Beijing, Shanghai, Guangzhou, Shenzhen, Suzhou, Tianjin and Nanning; and six sub-branches in Beijing, Shanghai, Suzhou and Guangzhou.
- DBS has been in a high-growth phase in Indonesia, and is investing in staff, branches and products to meet the needs of corporations and consumers. Today, DBS Indonesia has 37 branches and sub-branches in 11 major cities in Indonesia, half of them opened in 2008.



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- In addition to our two branches in Delhi and Mumbai, the Reserve Bank of India has given DBS Bank India approval to set up eight new branches in Bangalore, Chennai, Kolkata, Moradabad, Nasik, Pune, Salem and Surat. Six of these branches have been opened, and the remaining two are expected to be ready by March 2009. This will increase DBS India's presence to a total of 10 branches in key cities across the country.

- In March 2008, DBS received a licence from the State Bank of Vietnam to set up a representative office in Hanoi. This is the first of many steps towards building a business in Indo-China, an area of interest to our customers from Singapore, Hong Kong and elsewhere in Asia.

DBS' involvement in global Islamic finance, launched with the formation of The Islamic Bank of Asia (IB Asia), is progressing well.

IB Asia was set up in May 2007 to provide wholesale commercial banking, corporate finance and capital markets

- 2 *DBS China continues to expand its footprint in China, serving customers through its comprehensive suite of financial services*
- 3 *We strengthened our presence in Taiwan through the acquisition of the "good bank assets" of Bowa Commercial Bank*

services. IB Asia's combination of Shariah expertise, banking capabilities, and twin networks of clients in Asia and the Middle East, has enabled it to play a prominent role in the USD 400 billion Islamic banking market.

In its inaugural year of business, IB Asia closed over 20 significant cross-border capital markets transactions worth more than half a billion USD. It has also set up a representative office in Bahrain, and has turned profitable.

In November, DBS Asset Management (DBSAM) and Hwang-DBS Malaysia launched a global Islamic investment management entity called Asian Islamic Investment Management Sdn Bhd



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(AllMAN). AllMAN, which is 51% owned by DBSAM, will offer Shariah investment management activities at a time when the appeal of Islamic products has widened.

STANDING BY OUR CUSTOMERS

The market landscape has changed drastically and we want to do our best to stand by our customers during this difficult period. DBS pledges to stand by our loyal customers, in particular, those who have used DBS as their primary banker, in good times and bad.

In October, to thank customers for their loyalty and support through the years, POSB created "50+ Tuesdays" at all 49 POSB branches. This initiative celebrates



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4 DBS Indonesia opened a total of 18 branches and sub-branches in 2008

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5 The Islamic Bank of Asia progressed well in its first year of business, closing cross-border deals worth more than half a billion USD

6 DBS set up a representative office in Hanoi, Vietnam, the first of many steps towards building a business in Indo-China

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and rewards customers who are age 50 and above by offering them a unique banking experience and customised products.

DBS is also helping to ease the burden of cash-strapped home owners, by giving them the option of paying interest only on their mortgage for a period of up to 18 months.

In November, DBS launched the World Business Card, a premium credit card for SME owners and business leaders. DBS is also the first in the industry to offer a banking package specially tailored to social enterprises in Singapore.

Furthermore, we continue to stand by our large corporate customers, using our balance sheet to provide financing for key projects.

In 2008, despite the meltdown in financial markets, Singapore had a record year in syndicated loans, with volumes doubling from the previous year. DBS was involved in four out of five high-profile transactions, including financing Singapore's two integrated resorts and a gamut of real estate, power, technology and shipping deals. In naming DBS as "Singapore Loan House of the Year", IFR Asia said the bank "greatly contributed to the market's growth by attracting non-Singaporean entities such as Dubai

Drydocks, Khazanah and YTL to the Singapore dollar market...and instilled confidence in the highly volatile market".

While DBS has a robust balance sheet characterised by strong liquidity, capital adequacy ratios and asset quality, we embarked on two capital-raising exercises last year. As a result, DBS is able to further entrench our market position in key Asian markets, better support our customers, and confidently weather the economic uncertainties ahead.

Underlining the confidence investors have in DBS, our SGD 1.5 billion Hybrid Tier 1 issue launched in May, was

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oversubscribed within six hours and triple the original book size. Not only did the transaction set new benchmarks for the Singapore debt market, it also ushered in a slew of billion-dollar bank capital raisings. Recognising the significance of this transaction, IFR Asia named it “Singapore Capital Markets Deal of the Year”.

In December, DBS launched a SGD 4 billion one-for-two rights issue. The proactive capital-raising addresses market expectations for banks to have higher core capital levels. It also provides DBS with the flexibility to seize growth opportunities and strengthen our franchise. The rights issue was well-received by investors globally, and was 118.8% subscribed.

GIVING BACK TO THE COMMUNITY

DBS was formed in 1968 as a development bank, and over the years, we have grown into a full-fledged universal bank. We proudly celebrated our 40th anniversary last year by recognising our role in the community and supporting children and learning, as we believe they represent the future of Asia.

The bank actively encourages staff to give of their time and effort to make a difference in the lives of children in Asia. As a result, in 2008, DBS employees touched 20,000 young lives in Asia through our community efforts.

In October, POSB, together with the Singapore Sports Council, launched the POSB Everyday Champions Award. This award demonstrates how POSB,

fondly known as the “People’s Bank”, is part of the fabric of Singapore as it recognises everyday individuals and organisations that have consistently gone beyond the call of duty to help others enjoy a sporting lifestyle and grow through sports.

ACKNOWLEDGEMENTS

DBS indicated during the rights issue that we would pay the same absolute cash dividend for the fourth quarter as

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we would have done had there not been a rights issue. Accordingly, with the rights shares having been issued on 30 January 2009, the Board is recommending a one-tier tax-exempt dividend of 14 cents per share for the fourth quarter over the enlarged share base.

I would like to express my gratitude to my fellow board members for their wise counsel and invaluable contributions throughout the year. Special thanks goes to Goh Geok Ling, N R Narayana Murthy, Frank Wong and Peter Ong, who stepped down as board directors last year. We are grateful for their insights and contributions to the bank.

I also welcome Bart Broadman and Euleen Goh, who joined the DBS Boards, in December. Both Bart and Euleen are highly respected for their financial acumen and experience, and we will greatly benefit from their advice as the bank navigates through these challenging times.

Crises can make or break organisations. I am proud to say that under the leadership of Richard Stanley, who joined DBS as Chief Executive Officer in May, the bank stepped up to the plate and faced the many challenges of 2008.

In January 2009, we were all saddened and shocked when Richard was diagnosed with leukemia. His form of leukemia is treatable and Richard

has to take a leave of absence from the bank to undergo treatment. While he is away, I will take on a more active management oversight role, and my colleagues and I look forward to his recovery and return to work.

2009 will be a difficult year, but I am quietly confident about the future in spite of the problems plaguing the financial sector worldwide. Banks in Asia are not affected to the same extent and I believe that there will be opportunities in adversity.

DBS is well-placed to face the challenges ahead; our balance sheet is strong and given the can-do spirit of our people, I know that we will stay the course in Asia and emerge from this economic crisis, fitter and stronger.



Koh Boon Hwee

Chairman, DBS Group Holdings



7 We celebrated our 40th anniversary across the region by saluting the passion and creativity of our staff