

Letter to Shareholders

Chairman Koh Boon Hwee shares how DBS was a bank apart in 2009. In a challenging year for the global economy, DBS stood by its customers, and remained focused on growing its franchise in Asia.

2009 was a year of two halves. The start of the year was marked by imploding banks, rising bankruptcies, free-falling stock markets and a global economy teetering on the brink of an economic depression. Credit – so vital to commerce – was scarce; and global trade all but fell off the cliff.

Open, trade-oriented economies like Singapore and Hong Kong – DBS' two largest markets – were battered. In the first quarter, Singapore's economy shrank 9.4%, its biggest contraction in year-on-year terms since 1965.

Thanks to coordinated, global stimulus efforts, by the second half, the much talked-about 'green shoots' gave way to a more certain recovery. In particular, Asia bounced back in a V-shaped fashion. Stock markets also staged spectacular rallies. In the United States, the Dow Jones Industrial Index finished 2009 up 59.3% from its March low, the fastest climb since 1933.

While financial Armageddon was averted, 2009 was, nonetheless, a challenging year. Fiscal and debt burdens came to the fore in Dubai and Greece. Even with the rebound in world trade in the second half of the year, overall, the Singapore economy contracted 2%.

RESILIENT IN ASIA

DBS weathered the financial crisis relatively well. Reflecting the strength of DBS' customer franchise, revenues last year hit an all-time high. Revenue growth was broad-based, underpinned

by higher business volumes across consumer and corporate banking segments as DBS stood by customers in a fragile economic environment.

Profit before allowances also hit record levels at SGD 4 billion, up 17% from the previous year.

Net interest income increased 4% to a record SGD 4.46 billion, and DBS' share of Singapore-dollar loans grew for a second consecutive year to 20% while our share of loans in Hong Kong rose to 5.6%.

Non-interest income increased 24% to SGD 2.15 billion. Net fee income grew 9% to SGD 1.39 billion as higher investment banking, loan-related and trade finance fees more than offset weaker contributions from wealth management and fund management.

In a challenging year, full-year earnings remained steady at SGD 2.06 billion, as allowances doubled to SGD 1.53 billion due largely to borrowers outside Asia.

This was because DBS continued to maintain a prudent approach to recognising non-performing assets. Of the assets classified as non-performing, 43% are still current in interest and principal. On this prudent basis, the non-performing loan rate rose to 2.9%. Cumulative allowances stood at 83% of non-performing assets and at 108% if collateral was considered.



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STANDING BY OUR CUSTOMERS

In a year when credit markets were mostly shut for all but the most pristine borrowers, DBS was a bank apart. Armed with a strong balance sheet, fortified by our successful SGD 4 billion rights issue that was completed at the start of this year, DBS was able to stand by our customers. This enabled our clients to weather the downturn with greater confidence. DBS' willingness to step up our risk exposures where others shied away also helped us gain market share in such businesses as corporate lending, capital markets, treasury and markets, private banking and trade finance.

Small and medium-sized enterprises (SMEs) are the lifeblood of most economies. At the height of the crisis, many Asian governments introduced guaranteed lending programmes to provide financial liquidity to SMEs. DBS strongly supported these schemes. In Singapore, we were a leading provider of government loans; in particular, approving the most number of microloans, as we made a conscious decision to stand by

smaller businesses for whom credit can make a huge difference between success and failure. DBS extended credit to SMEs with whom we did not have a prior relationship. In fact, last year, more than half the government loans we approved were to new customers.

In Hong Kong, we disbursed over HKD 4 billion in loans to SMEs following the launch of the Hong Kong Special Loan Guarantee Scheme. In December, we also opened our fifth Enterprise Banking Centre in Kwai Chung, in order to offer greater banking convenience to SMEs. I am delighted therefore that DBS was recognised as the 'Best SME Partner' by the Hong Kong Chamber of Small and Medium Business.

In the capital markets space, our strength as a trusted adviser and our commitment to helping our clients navigate through the turbulent times saw us underwriting more than USD 2 billion of equity issuance.

Notably, DBS was instrumental in helping Singapore-listed companies recapitalise their balance sheets, being involved in 11 issues which accounted for about SGD 12 billion, or 76% of total funds, raised via rights issues last year. Significant transactions include:

- The SGD 1.84 billion fully-underwritten rights issue of CapitaLand, completed in March 2009, in which DBS acted as joint lead manager and underwriter;
- The SGD 1.5 billion fully-underwritten rights issue of Genting Singapore in October 2009. DBS was joint financial adviser, lead manager and underwriter;
- Neptune Orient Line's SGD 1.4 billion fully-underwritten rights issue, completed in July 2009, in which DBS acted as sole financial adviser and joint lead manager.



DBS also played a key role in the SGD 2.8 billion initial public offering (IPO) of CapitaMalls Asia in November 2009 as joint lead manager, bookrunner and underwriter. This was the largest IPO in Singapore since Singapore Telecommunications' IPO in 1993.

DBS' know-how in product structuring, and our track record of linking Asian and international investors with issuing clients, saw us topping the league table in S-REIT fund raising. We were the sole financial adviser for the milestone SGD 1.23 billion rights issue by CapitaMall Trust, the first recapitalisation in the S-REIT sector, in the post-Lehman world in February 2009. This is also the largest equity fund raising by an S-REIT to date. The success of the CapitaMall Trust rights issue in an uncertain market helped pave the way for subsequent rights issues and placements by Singapore REITs and business trusts in 2009. These include fund-raisings by CapitaCommercial Trust, Starhill Global REIT, Fortune REIT, Frasers Commercial Trust, CitySpring Infrastructure Trust and Ascendas REIT, all of which were lead-managed by DBS.

DBS retained our pole position in the Sing-dollar bond market, with more than 25% market share. In 2009, we were the sole lead manager and bookrunner for Temasek Holdings' inaugural SGD 600 million 20-year and 30-year bond issues; the 30-year bond is the longest-tenor SGD corporate bond to date. DBS was also joint bookrunner for Adaro Indonesia's USD 800 million 10-year guaranteed fixed rate senior bond issue. We were recognised for our role in this issue – which was named 'Best High-Yield Bond in Asia' by FinanceAsia and Asiamoney – being the largest 10-year USD corporate deal out of Indonesia.

In addition, DBS continued to lead in the Singapore syndicated loans space, with close to a 30% market share. In 2009, we were among the Top 5 mandated arrangers of Asia-Pacific syndicated loans (ex-Japan, ex-Australia), above many of our international competitors.



1. DBS remains resilient in Asia, weathering the financial crisis relatively well.
2. DBS Hong Kong opens its fifth Enterprise Banking Centre in Kwai Chung.
3. DBS stands by our customers and supports them during the financial crisis, as demonstrated through customers' testimonials.

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DBS was the only Singapore bank among a group of international banks, which was lead arranger and bookrunner for the award-winning global USD 2.4 billion syndicated revolving credit facilities for Noble Group. This deal was significant as it attracted the largest number of bank investors in a decade.

In 2009, DBS was also named 'Best Asian Bank' by FinanceAsia and acknowledged as the Safest Bank in Asia by Global Finance.

In Consumer Banking, we delivered the strongest year ever in loans growth. In 2009, we added SGD 4.6 billion in new loans, more than 13% over prior year levels. Not only is DBS the largest mortgage lender in Singapore, our mortgage business also enjoyed good growth in the region. Last year, we also added over SGD 11 billion in savings deposits, a 16% increase over the previous year. We continued to show market leadership in the consumer banking space. In October, we were the first bank to give customers 14 days to review their investment decisions, over and above the 7 day cooling-off period, which is the industry norm.

As the largest bank in Singapore and a leading bank in Asia, we are committed to becoming more open and transparent with our customers. We strengthened processes and training in



We are committed to becoming more open and transparent with our customers. We strengthened processes and training in our investment sales area and extended fair dealing principles to numerous initiatives last year.



4. DBS China's new headquarters, DBS Bank Tower, is located next to the Oriental Pearl TV Tower in the heart of Shanghai's financial district.
5. DBS introduces Singapore's first Internet banking guarantee, giving customers added protection and greater peace of mind.
6. POSB partners the Council for Third Age to launch the POSB Active Neighbours programme, underscoring the bank's commitment to the Singapore community.
7. DBS China launches its first RMB debit card, allowing customers to withdraw cash from DBS ATMs in China, Hong Kong and Singapore at no cost.



our investment sales area and extended fair dealing principles to numerous initiatives last year. For example, our unit trust advertising campaign broke out of the mould of conventional product advertising as it had no fine print. We have also reduced the sales charge of unit trusts to 1% – regardless of whether the purchase is made at the branch or online.

In January 2010, DBS introduced Singapore's first Internet banking guarantee, whereby customers who bank online will be reimbursed in the unlikely event of unauthorised transactions. In Hong Kong, we were the first bank to introduce a dual password authentication to the Internet banking login procedure by sending customers a one-time password via SMS.

POSB, fondly known as the People's Bank in Singapore, launched the POSB Active Neighbours programme under a strategic partnership with the Council for Third Age in June 2009. Under this programme, seniors were recruited to work up to two days a week at POSB. Within two weeks of its launch, POSB received close to 1,200 applications. Since July, 92 POSB Active Neighbours have completed a special three-day training programme and have been deployed to all POSB branches island-wide. Their tasks include assisting customers, especially their peers, with their banking transactions and encouraging the use of self-service banking facilities. POSB also continues to provide special products and services for seniors. Every Tuesday, POSB sets up dedicated counters to serve seniors during the first three opening hours. On what's dubbed as 'Special Tuesdays', seniors are served drinks and snacks while they wait their turn to perform banking transactions.



GROWING OUR ASIAN FOOTPRINT

As an Asian bank, DBS is committed to leveraging our extensive footprint to intermediate burgeoning intra-Asia trade and investment flows, as well as the growing regional connectivity, to serve our customers better.

China is an important market for DBS. In May 2007, we were the first Singapore bank to set up a locally-incorporated subsidiary in China. In a little less than three years, the bank has grown our customer base in China by over four times, and nearly doubled our staff strength to 1,000. Expansion of our China network continues apace, and today, we have eight branches and seven sub-branches across eight cities in China. This year also marks a new milestone, as our people moved into a new headquarters building, the DBS Bank Tower, located at the heart of Shanghai's financial district.

Underlining the Asia connectivity we bring to customers, last July, DBS China launched a debit card which allows card-holders to withdraw cash at over 100,000 ATMs in China, and more than 1,000 ATMs in Singapore and Hong Kong, without having to pay fees.

With the emergence of China as an economic powerhouse, many of our corporate customers are increasingly trading with it. Following China's decision last year to allow cross-border settlement of trades in yuan, DBS moved quickly to offer this pilot service to corporate clients in Singapore and Hong Kong.

Underscoring our conviction in the strength and potential of the Chinese economy, in February 2009, DBS Private Equity also set up a USD 100 million onshore RMB Fund that invests in promising unlisted companies in China.

In Taiwan, DBS turned in a profit last year, a year earlier than expected, following our acquisition of the 'good bank assets' of Bowa Commercial Bank in 2008. As China and Taiwan become more integrated economically, we expect opportunities in Taiwan to accelerate.

In India and Indonesia, DBS also continues to expand our footprint; and today, we have 10 and 40 branches, respectively, in these markets.



DBS has also made further inroads in Vietnam, where we received a licence to open our first branch in Ho Chi Minh City this year. This follows the establishment of a representative office in Hanoi in July 2008, and will enable us to support customers doing business in and with Vietnam. The new branch will also meet growing demand for Asia banking expertise by Vietnamese firms as they grow and expand overseas.

ACKNOWLEDGEMENTS

The Board is proposing a final dividend of 14 cents per share, which will bring the full-year payout to 56 cents per share. The DBS Scrip Dividend Scheme will be applicable to the final dividend. New shares will be issued, to shareholders who elect to receive the final dividend in scrip, at a price which is at a 5% discount to the average of the last dealt price for DBS shares on each of 20, 21 and 24 May 2010.

In April 2009, Richard Stanley, our former CEO, succumbed to infection after a 10-week battle with leukemia. All of us in the DBS family were saddened by his passing. Despite his short tenure with DBS, Richard helped to strengthen the bank's franchise during a challenging time for the industry.



After more than four years as Chairman of DBS, I will be stepping down this year. Our new CEO Piyush Gupta is on board and settling in very well, and with Peter Seah agreeing to be Chairman of the DBS Board, I am now able to move on, knowing that DBS is in good hands.

When I became Chairman in 2006, I said that to become a stronger organisation, DBS needed to embrace change, possess discipline and focus, and build sustainable competitive advantage. As such, the Bank's three priorities have been to build a strong DBS culture, manage our business in totality and become truly customer centric.

I am pleased to note the progress we have made in building a robust performance management system that better differentiates and rewards those who do well. We have stepped up the pace of communications with staff, encouraging feedback on our various strategic initiatives. As a result, across the ranks, there is now a strong sense of collective ownership and organisational pride. We have also put in place key performance indicators across the bank to instill greater discipline and focus on managing our business in totality. The measurement of all aspects of our business is key to superior long-term performance, and we now have a more robust and rigorous decision-making process hardwired into the bank. We are also making headway in fostering a culture in which everything we do is looked at from the customer's point of view.

While there is more to be done, we have certainly come a long way and the bank is today seen as a worthy competitor in Asian banking. I am confident that Piyush, who came on board in November 2009, will build on the strong foundations we have. He is committed to making DBS the Asian bank that customers choose to bank with.

- 8. DBS receives a licence to open its first branch in Ho Chi Minh City.
- 9. DBS Taiwan becomes profitable a year earlier than expected.
- 10. DBS India grows steadily in the course of the year, bringing its network in India to 10 branches across 10 cities.



My tenure as chairman of DBS has been challenging and rewarding. Over this period, I have benefited from the steady guidance and wise counsel of my fellow board members. I am grateful for their contributions and am confident they will continue to extend strong support to Peter as Chairman of this great bank. I also want to thank my colleagues in the bank, our customers, partners and shareholders for their unwavering support.

In the new financial landscape, there are exciting times ahead for Asia. This is especially true for financial institutions like DBS, born and bred in Asia, well placed to ride its growth. I am confident that DBS will rise to the occasion, embrace the opportunities and contribute to a rising Asia.

Koh Boon Hwee
Chairman, DBS Group Holdings