Management Discussion and Analysis

OVERVIEW

	2009	2008	% chg
Selected income statement items ($m)			
Net interest income	**4,455**	4,301	4
Net fee and commission income	**1,394**	1,274	9
Net trading income	**700**	(187)	nm
Net income from financial instruments designated at fair value	**(267)**	210	nm
Net income from financial investments	**254**	367	(31)
Other income	**67**	66	2
Total income	**6,603**	6,031	9
Less: Expenses	**2,604**	2,610	(0)
Profit before allowances	**3,999**	3,421	17
Less: Allowances for credit and other losses	**1,529**	784	95
Share of profits of associates	**66**	75	(12)
Profit before tax	**2,536**	2,712	(6)
Net profit	**2,064**	2,056	0
Add: One-time items	**(23)**	(127)	82
Net profit including one-time items and goodwill charges	**2,041**	1,929	6
Selected balance sheet items ($m)			
Customer loans (1)	**130,583**	126,481	3
Interbank assets (1)	**24,189**	22,159	9
Total assets	**258,644**	256,718	1
Customer deposits (2)	**183,432**	169,858	8
Total liabilities	**229,145**	232,715	(2)
Shareholders' funds	**25,373**	19,819	28
Key financial ratios (excluding one-time gains and goodwill charges) (%)			
Net interest margin	**2.02**	2.04	–
Non-interest/total income	**32.5**	28.7	–
Cost/income ratio	**39.4**	43.3	–
Return on assets	**0.80**	0.84	–
Return on equity	**8.44**	10.12	–
Loan/deposit ratio	**71.2**	74.5	–
NPL ratio	**2.9**	1.5	–
Specific allowances (loans)/average loans (bp)	**85**	35	–
Tier-1 capital adequacy ratio	**13.1**	10.1	–
Total capital adequacy ratio	**16.7**	14.0	–
Per share data ($) (3)			
Per basic share			
– earnings excluding one-time items and goodwill charges	**0.91**	1.14	–
– earnings	**0.90**	1.07	–
– net book value	**10.85**	10.25	–
Per diluted share			
– earnings excluding one-time items and goodwill charges	**0.88**	1.10	–
– earnings	**0.87**	1.04	–
– net book value	**10.65**	10.14	–

(1) Includes financial assets at fair value through profit or loss
(2) Includes financial liabilities at fair value through profit or loss
(3) Adjusted for shares arising from the rights issue in January 2009

Management Discussion and Analysis

DBS Group Holdings recorded net earnings excluding one-time items of $2,064 million for 2009, unchanged from the previous year.

Profit before allowances rose 17% to a record $3,999 million as revenues reached a new high. Revenue growth of 9% was broad-based, underpinned by higher business volumes across consumer and corporate banking segments as DBS stood by customers in a fragile economic environment. Expenses were stable from the previous year.

The Group strengthened its balance sheet during the year and was well-positioned for the economic upturn. The capital base was boosted by a $4.0 billion equity rights issue that was completed at the start of the year, raising the tier-1 capital ratio to 13.1%. Liquidity remained strong throughout the year as customer deposits grew by a healthy 8%.

Net interest income grew 4% to a record $4,455 million. DBS continued to support customers' financing requirements throughout the year. Backed by a strong balance sheet, DBS stepped up efforts to grow loans in its core markets. DBS' share of Singapore-dollar loans grew for a second consecutive year to 20% while its share of loans in Hong Kong rose to 5.6%. Net interest margin was resilient at 2.02% as improved credit spreads and asset-liability management offset pressure from record low interest rates.

Non-interest income rose 24% to $2,148 million. Net fee income grew 9% to $1,394 million as higher investment banking, loan-related, stockbroking and trade finance fees more than offset weaker contributions from wealth management and fund management. Trading income recovered to $433 million from $23 million in 2008, benefiting from improved trading conditions.

Expenses remained stable at $2,604 million as DBS held a tight rein on expenses in the face of a challenging environment.

DBS maintained a prudent approach to recognising non-performing assets. Of the assets classified as non-performing, 43% were still current in interest and principal. On this prudent basis, the NPL ratio rose to 2.9%. The increase in non performing loans was largely due to borrowers outside Asia, which contributed to a doubling of allowances to $1,529 million for the year. Cumulative allowances stood at 83% of non-performing assets and at 108% if collateral was considered.

DBS also took the opportunity of better market conditions to divest most of its non-ABS CDO investments during the year at prices higher than their carrying values. The remaining $45 million of non-ABS CDO investments are scheduled to mature by 2011 while $150 million of ABS CDO investments have adequate allowance coverage exceeding 90%.

Return on equity fell to 8.4% from 10.1% while return on assets declined to 0.80% from 0.84%. The capital adequacy ratio at end-2009 was a strong 16.7%, with tier-1 at 13.1%.

A one-time charge of $23 million was recorded in 2009 on the impairment of the Group's investment in TMB Bank in Thailand. In comparison, a one-time net charge of $127 million was recorded for 2008, comprising a $45 million charge related to an organisation restructuring exercise, $104 million of impairment charges on the Group's investment in TMB Bank, offset by $22 million in gains from the sale of properties. Including these items, the Group's net profit amounted to $2,041 million, a 6% increase over the prior year.

There were no significant accounting changes for the year.

NET INTEREST INCOME

Average balance sheet	2009 Average balance ($m)	2009 Interest ($m)	2009 Average rate (%)	2008 Average balance ($m)	2008 Interest ($m)	2008 Average rate (%)
Interest-bearing assets						
Customer loans	**127,832**	**4,075**	**3.20**	118,614	5,051	4.25
Interbank assets	**41,782**	**378**	**0.91**	39,818	926	2.32
Securities	**51,031**	**1,661**	**3.26**	52,028	2,145	4.11
Total	**220,645**	**6,114**	**2.78**	210,460	8,122	3.86
Interest-bearing liabilities						
Customer deposits	**178,064**	**1,131**	**0.64**	161,379	2,395	1.48
Other borrowings	**26,272**	**528**	**2.02**	38,486	1,426	3.70
Total	**204,336**	**1,659**	**0.81**	199,865	3,821	1.91
Net interest income/margin		**4,455**	**2.02**		4,301	2.04

Net interest income for the year was $4,455 million. This amount represented 67% of the Group's total income in 2009, compared to 71% a year ago.

Net interest income rose 4% from a year ago primarily driven by higher customer loan balances. Net interest margin was stable as lower asset yields were offset by reductions in funding costs.

Overall asset yields fell by 108 basis points to 2.78%. The decrease was the result of the repricing and reinvestment of assets at lower interest rates. Yields on customer loans were partly mitigated by higher credit spreads.

Funding costs fell 110 basis points to 0.81% as market rates declined and from an improvement in the customer deposit mix towards savings and current accounts.

Volume and rate analysis ($m) Increase/(decrease) due to change in	Volume	Rate	Net change
Interest income			
Customer loans	**392**	**(1,357)**	**(965)**
Interbank assets	**46**	**(593)**	**(547)**
Securities	**(41)**	**(438)**	**(479)**
Total	**397**	**(2,388)**	**(1,991)**
Interest expense			
Customer deposits	**248**	**(1,510)**	**(1,262)**
Other borrowings	**(462)**	**(434)**	**(896)**
Total	**(214)**	**(1,944)**	**(2,158)**
Due to change in number of days			**(13)**
Net Interest Income			**154**

NET FEE AND COMMISSION INCOME

($m)	2009	2008	% chg
Stockbroking	**170**	152	12
Investment banking	**146**	90	62
Trade and remittances	**244**	225	8
Loan related	**375**	299	25
Guarantees	**57**	49	16
Deposit related	**84**	81	4
Credit card	**143**	143	0
Fund management	**20**	32	(38)
Wealth management	**101**	137	(26)
Others	**54**	66	(18)
Total	**1,394**	1,274	9

Net fee and commission income rose 9% from a year ago to $1,394 million. This amount accounted for 21% of total income, unchanged from a year ago.

The year-on-year increase of $120 million was attributable largely to investment banking and loan-related activities, as well as improvements in stockbroking and trade finance.

Investment banking fees rose 62%. With capital markets recovering from dislocations in 2008, DBS benefited from activities including REITs, equity offerings, Singapore-dollar bonds and mid-market M&A advisory, for which the Group continued to lead in Singapore.

Loan-related fees rose 25%, in part due to higher refinancing volumes. DBS also continued to rank highly in syndicated loan league tables in Asia ex-Japan.

Partly offsetting these positives were reduced fees from wealth management and fund management as appetite for offerings such as unit trusts, bancassurance and structured investment products remained muted.

Other fee activities such as deposit-related and credit cards were resilient.

OTHER NON-INTEREST INCOME

($m)	2009	2008	% chg
Net trading income	**700**	(187)	nm
Net income from financial instruments designated at fair value	**(267)**	210	nm
Net income from financial investments	**254**	367	(31)
Net gain from fixed assets	**13**	5	>100
Others	**54**	61	(11)
Total	**754**	456	65

Other non-interest income rose 65% to $754 million in 2009. This amount accounted for 11% of total income, compared to 8% in 2008.

The increase from the prior year was mainly from trading. Trading activities (including financial instruments designated at fair value) recorded a gain of $433 million in 2009, compared to $23 million in 2008, as trading conditions improved.

Contributions were led by interest rate and foreign exchange trading, supported by healthy customer flows.

Net income from financial investments declined from $367 million to $254 million on reduced profit-taking. Other operating income decreased from $61 million to $54 million due to lower contributions from The Islamic Bank of Asia.

EXPENSES

($m)	2009	2008	% chg
Staff	**1,292**	1,256	3
Occupancy	**265**	253	5
Computerisation	**473**	452	5
Revenue-related	**132**	147	(10)
Others	**442**	502	(12)
Total	**2,604**	2,610	(0)

Expenses were stable at $2,604 million as the Group held a tight rein on costs in face of a challenging environment.

Staff costs rose 3%, offsetting a 3% decline in non-staff expenses. While occupancy and computerisation expenses were higher, they were more than offset by declines in revenue-related and other expenses.

ALLOWANCES FOR CREDIT AND OTHER LOSSES

($m)	2009	2008	% chg
General allowances ('GP')	**154**	234	(34)
Specific allowances ('SP') for loans	**1,113**	419	>100
Singapore	**703**	130	>100
Hong Kong	**185**	221	(16)
Other countries	**225**	68	>100
Specific allowances ('SP') for securities, properties and other assets	**262**	131	100
Total	**1,529**	784	95

Total allowances amounted to $1,529 million, an increase of 95% from a year ago. The rise in allowances mirrored an increase in the level of non-performing loans. At the end of 2009, non-performing loans increased to 2.9% of total loans, compared to 1.5% a year ago.

The higher levels of specific allowances for loans were mainly due to corporate borrowers outside of Asia. Asset quality in the Group's main markets in Asia improved in the second half in line with economic conditions.

General allowances decreased while specific allowances for securities, properties and other assets rose. The disposal of most of the Group's non-ABS CDO investments resulted in a transfer of general allowances previously set aside for them to specific allowances.

The Group continued to set aside general allowances for loans to maintain prudent coverage for non-performing assets.

PERFORMANCE BY BUSINESS UNIT

($m)	CBG	IBG	GFM	CTU	Central Ops
2009					
Net interest income	**855**	**1,950**	**1,127**	**691**	**(168)**
Non-interest income	**515**	**1,069**	**355**	**(117)**	**326**
Total income	**1,370**	**3,019**	**1,482**	**574**	**158**
Less: Expenses	**1,100**	**791**	**441**	**33**	**239**
Profit before allowances	**270**	**2,228**	**1,041**	**541**	**(81)**
Less: Allowances	**74**	**986**	**15**	**8**	**446**
Share of profits of associates	**0**	**0**	**7**	**0**	**59**
Profit before tax	**196**	**1,242**	**1,033**	**533**	**(468)**
Net profit	**169**	**1,032**	**816**	**444**	**(397)**
2008					
Net interest income	1,130	1,707	1,190	648	(374)
Non-interest income	611	974	(159)	44	260
Total income	1,741	2,681	1,031	692	(114)
Less: Expenses	1,142	758	483	30	197
Profit before allowances	599	1,923	548	662	(311)
Less: Allowances	42	427	64	223	28
Share of profits of associates	0	0	3	0	72
Profit before tax	557	1,496	487	439	(267)
Net profit	464	1,207	347	363	(325)

A description of DBS' reported business unit segments can be found in Note 51.1 of the financial accounts on page 129.

Consumer Banking (CBG)
Net interest income fell 24% as deposit margins narrowed with lower interest rates. The lower deposit margin was partly offset by strong loan growth. Mortgage loans grew 13% as a result of strong disbursements in Singapore and Hong Kong. Housing loans also grew in China and Taiwan. In addition, deposits grew across most regions.

Non-interest income declined 16% as fees from wealth management product sales fell. Demand for wealth management products strengthened modestly in the second half of the year, but full-year sales volumes were lower than a year ago. Credit card fees were firm, supported by a larger card base.

Expenses fell 4% due to lower staff costs. Allowances rose slightly on higher credit card and unsecured loan charge-offs, but remained low.

Institutional Banking (IBG)
IBG delivered record profit before allowances of $2,228 million in 2009, up 16% from 2008.

Net interest income rose 14% due to improved loan margins. IBG's loan volumes were little changed but it gained market share in Singapore and Hong Kong.

Non-interest income rose 10%, boosted by stronger capital market activities, including REITs, equity offerings, Singapore-dollar bonds and mid-market M&A advisory. Loan-related fees also increased due to higher refinancing volumes.

Expenses rose 4%, less than revenue growth, as spending was managed in an uncertain environment.

Stronger profit before allowances was more than offset by higher allowances for non-performing loans outside of Asia.

Global Financial Markets (GFM)
Total income rose 44% as trading conditions improved. Contribution from DBS Vickers was also higher as fees from stockbroking and placements rose.

Expenses decreased 9% led by lower wage costs, as profit before allowances increased strongly to $1,041 million.

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. CTU's increase in profit was mainly due to lower allowances. Allowances in 2008 included charges for investment CDOs which were largely divested in 2009.

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.

PERFORMANCE BY GEOGRAPHY

($m)	S'pore	Hong Kong	Rest of Greater China	South & S-East Asia	Rest of world
2009					
Net interest income	**2,738**	**888**	**302**	**326**	**201**
Non-interest income	**1,253**	**478**	**107**	**175**	**135**
Total income	**3,991**	**1,366**	**409**	**501**	**336**
Less: Expenses	**1,512**	**600**	**270**	**172**	**50**
Profit before allowances	**2,479**	**766**	**139**	**329**	**286**
Less: Allowances	**1,034**	**210**	**74**	**69**	**142**
Share of profits of associates	**16**	**0**	**17**	**33**	**0**
Profit before tax	**1,461**	**556**	**82**	**293**	**144**
Net profit	**1,186**	**464**	**68**	**226**	**120**
2008					
Net interest income	2,869	873	264	164	131
Non-interest income	803	538	115	195	79
Total income	3,672	1,411	379	359	210
Less: Expenses	1,467	723	203	154	63
Profit before allowances	2,205	688	176	205	147
Less: Allowances	423	233	72	35	21
Share of profits of associates	21	0	14	40	0
Profit before tax	1,803	455	118	210	126
Net profit	1,344	390	104	152	66

A description of DBS' reported geographic segments can be found in Note 51.2 of the financial accounts on page 131.

Singapore
Net interest income fell 5% as low interest rates affected margins on surplus funds and floating rate loans. Lower margins were partly offset by higher customer balances, led by housing loans. Deposit growth was from savings and current accounts.

Non-interest income rose 56% as fee income and trading income improved.

Expenses rose 3%, less than revenue growth, due to a tight rein on costs.

Allowances of $1,034 million were largely for corporate loans made to borrowers outside of Asia but which were booked in Singapore.

Hong Kong
The results for Hong Kong incorporate the effects of a 3% appreciation of the Hong Kong dollar against the Singapore dollar in the profit and loss account, and a depreciation of 2% on the balance sheet.

Hong Kong's earnings rose 19% in Singapore-dollar terms to $464 million from lower costs and allowances.

Revenues fell 3% due to weaker contributions from unit trusts, insurance and trade finance activities, and lower gains from the sale of investments. Net interest income was stable and margins improved, underpinned by higher customer loan volumes.

Expenses declined 17% on lower staff and other operating costs. The previous year's expenses also included certain non-recurring expenses.

Allowances fell 10% as asset quality trends improved. The NPL ratio peaked at 2.6% in the first quarter and improved progressively to 1.7% at end-2009, unchanged from a year ago.

Other regions

Regions outside of Singapore and Hong Kong accounted for 20% of the Group's net profit in 2009, compared to 16% a year ago.

The Group continued to invest in China, Taiwan, Indonesia and India to tap into their long-term growth prospects. In Indonesia, India and China, the Group strengthened its network of branches and sub-branches. In Taiwan, the integration of Bowa Bank, which was acquired in 2008, progressed well, with Taiwan turning profitable a year ahead of schedule.

CUSTOMER LOANS (1)

($m)	2009	2008	% chg
By business unit			
Consumer Banking	**39,365**	34,758	13
Institutional Banking	**87,530**	87,415	0
Others	**6,525**	6,192	5
By geography			
Singapore	**75,117**	74,377	1
Hong Kong	**33,431**	32,085	4
Rest of Greater China	**10,252**	9,683	6
South & S-East Asia	**8,058**	5,557	45
Rest of world	**6,562**	6,663	(2)
Gross total	**133,420**	128,365	4

(1) Includes financial assets at fair value through profit or loss

Gross customer loans increased 4% to $133,420 million.

Growth was driven mainly by consumer loans. Housing loans in Singapore and Hong Kong grew 13% and 11% respectively supported by strong disbursements. China and Taiwan also contributed to the increase in housing loans.

Institutional banking loans were unchanged from the prior year's level. Business loans in Singapore and Hong Kong were stable during the year.

Loans outside of Singapore and Hong Kong grew faster due to a smaller base. Loans booked in China rose 6% driven by housing loans. Loans booked in South & S-East Asia grew 45%, supported by strong corporate and SME borrowing in India and Indonesia.

NON-PERFORMING ASSETS AND LOSS ALLOWANCE COVERAGE

	2009			2008		
	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA (%)	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA (%)
By geography						
Singapore	**731**	**1.2**	**104**	678	1.1	87
Hong Kong	**567**	**1.7**	**116**	587	1.7	112
Rest of Greater China	**352**	**3.1**	**95**	457	4.3	78
South & S-East Asia	**157**	**1.3**	**163**	133	1.2	164
Rest of world	**2,069**	**13.1**	**45**	103	0.7	114
Total non-performing loans	**3,876**	**2.9**	**76**	1,958	1.5	99
By business unit						
Consumer Banking	**294**	**0.7**	**157**	290	0.8	146
Institutional Banking	**3,114**	**3.6**	**69**	1,467	1.7	106
Others	**468**	**7.2**	**72**	201	3.3	(19)
Total non-performing loans	**3,876**	**2.9**	**76**	1,958	1.5	99
Debt securities	**160**	**–**	**124**	277	–	189
Contingent liabilities	**183**	**–**	**192**	157	–	173
Total non-performing assets	**4,219**	**–**	**83**	2,392	–	114

Non-performing loans (NPLs) doubled to $3,876 million, while the NPL rate rose from 1.5% a year ago to 2.9%.

Most of the increase in NPLs was due to corporate borrowers from outside of Asia. Asset quality in Asia was relatively stable. NPL rates in Singapore and South & S-East Asia were little changed from a year ago. Hong Kong and China experienced weakening in asset quality in the early part of the year in line with economic conditions but subsequently improved.

The amount of non-performing assets, including debt securities and contingent liabilities, stood at $4,219 million, 43% of which were still current and were classified for prudential reasons. Overall loss allowance coverage remained prudent at 83% of total non-performing assets, and 108% if collateral was considered.

($m)	2009	2008
Unsecured non-performing assets	**3,233**	1,554
Secured non-performing assets by collateral type		
Properties	**540**	556
Shares and debentures	**124**	43
Fixed deposits	**22**	16
Others	**300**	223
Total non-performing assets	**4,219**	2,392

FUNDING SOURCES

($m)	2009	2008	% chg
Customer deposits by currency and product [1]			
Singapore dollar	**103,842**	93,957	11
Fixed deposits	**20,617**	20,645	(0)
Savings accounts	**69,160**	62,068	11
Current accounts	**12,697**	10,359	23
Others	**1,368**	885	55
Hong Kong dollar	**23,625**	23,536	0
Fixed deposits	**12,285**	15,721	(22)
Savings accounts	**7,932**	5,030	58
Current accounts	**3,254**	2,211	47
Others	**154**	574	(73)
US dollar	**29,018**	28,247	3
Fixed deposits	**14,912**	19,365	(23)
Savings accounts	**3,468**	2,040	70
Current accounts	**8,846**	5,982	48
Others	**1,792**	860	>100
Others	**26,947**	24,118	12
Fixed deposits	**20,441**	20,043	2
Savings accounts	**2,191**	1,231	78
Current accounts	**2,908**	2,178	34
Others	**1,407**	666	>100
Total customer deposits	**183,432**	169,858	8
Interbank liabilities [1]	**9,320**	9,571	(3)
Other borrowings and liabilities	**40,519**	57,470	(29)
Shareholders' funds	**25,373**	19,819	28
Total	**258,644**	256,718	1

(1) Includes financial liabilities at fair value through profit or loss

Deposits grew 8% to $183,432 million. Growth was registered mostly in current and savings accounts and was broad-based across currencies.

The Group maintained its leadership position in Singapore-dollar deposits. Market share was little changed at 27% as Singapore-dollar deposits rose 11% to $103,842 million.

Hong Kong-dollar deposits were stable as increases in savings and current accounts were offset by a reduction in higher-cost fixed deposits. DBS' market share of Hong Kong-dollar deposits was little changed at 4%.

US dollar and other currency deposits rose 3% and 12% respectively, led by savings and current accounts.

CAPITAL ADEQUACY RATIOS

($m)	2009	2008
Tier 1		
Share capital	**8,435**	4,215
Disclosed reserves and others	**20,928**	20,180
Less: Tier 1 deductions	**(6,098)**	(6,022)
Total	**23,265**	18,373
Tier 2		
Loan allowances admitted as Tier 2	**434**	656
Subordinated debts	**5,970**	6,571
Revaluation surplus from equity securities	**87**	27
Less: Tier 2 deductions	**(128)**	(106)
Total	**6,363**	7,148
Total capital	**29,628**	25,521
Risk-weighted assets	**177,222**	182,685

The Group's tier-1 and total capital adequacy ratios were 13.1% and 16.7% respectively, up from 10.1% and 14.0% at end-2008.

During the year, the Group strengthened its capital base with a $4.0 billion rights issue. Offsetting this issuance was a decline of $601 million in tier-2 subordinated debt partly due to amortisation.

Details on the Group's application of Basel II can be found in the section on Basel II Pillar 3 disclosures on pages 136 to 146.

VALUATION SURPLUS

($m)	2009	2008
Properties	**511**	532
Financial investments	**106**	(246)
Total	**617**	286

The amount of unrealised valuation surpluses rose from $286 million to $617 million due to an increase in the market valuations of financial investments.