Management Discussion and Analysis

OVERVIEW

	2006	2005	% chg
Selected income items ($m)			
Net interest income	**3,591**	2,943	22
Net fee and commission income	**1,155**	986	17
Net trading income[(1)]	**330**	207	59
Net income from financial investments	**171**	102	68
Other income	**97**	100	(3)
Total income	**5,344**	4,338	23
Less: Expenses	**2,369**	2,026	17
Profit before allowances	**2,975**	2,312	29
Less: Allowances for credit and other losses	**135**	203	(33)
Share of profits of associates	**70**	54	30
Profit before tax	**2,910**	2,163	35
Net profit	**2,175**	1,649	32
Add: One-time gains	**94**	303	(69)
Less: Goodwill charges	**0**	1,128	(100)
Net profit including one-time gains and goodwill charges	**2,269**	824	>100
Selected balance sheet items ($m)			
Customer loans[(2)]	**86,630**	79,462	9
Interbank assets[(2)]	**26,515**	23,816	11
Total assets	**197,372**	180,204	10
Customer deposits[(3)]	**131,373**	116,884	12
Total liabilities	**176,326**	161,014	10
Shareholders' funds	**18,675**	16,724	12
Key financial ratios (excluding one-time gains and goodwill charges) (%)			
Net interest margin	**2.20**	1.91	–
Non-interest/total income	**32.8**	32.2	–
Cost/income ratio	**44.3**	46.7	–
Return on assets	**1.15**	0.93	–
Return on equity	**12.33**	9.71	–
Loan/deposit ratio	**65.9**	68.0	–
NPL ratio	**1.7**	2.1	–
Specific allowances (loans) / average loans (bp)	**19**	26	–
Tier 1 capital adequacy ratio	**10.2**	10.6	–
Total capital adequacy ratio	**14.5**	14.8	–
Per share data ($)			
Per basic share			
– earnings excluding one-time gains and goodwill charges	**1.44**	1.10	–
– earnings	**1.50**	0.54	–
– net book value	**12.08**	10.87	–
Per diluted share			
– earnings excluding one-time gains and goodwill charges	**1.39**	1.06	–
– earnings	**1.45**	0.53	–
– net book value	**11.84**	10.69	–

(1) Includes net income from financial instruments designated at fair value
(2) Includes financial assets at fair value through profit or loss
(3) Includes financial liabilities at fair value through profit or loss

The Group's net profit excluding one-time items rose 32% to $2,175 million in 2006 from $1,649 million in 2005.

A one-time net gain of $94 million was recorded in 2006, compared to $303 million in 2005. In both years, the gains were due to the sale of buildings. In 2005, there had also been a $1,128 million accounting charge to impair a portion of unamortised goodwill arising from the purchase of DBS Hong Kong. Including these items, the Group's reported net profit amounted to $2,269 million in 2006 and $824 million in 2005. The commentary that follows excludes the effects of these non-operating items.

The better operating performance in 2006 was driven by a broad-based, 23% increase in total income to $5,344 million as DBS' expanding customer franchise captured the benefits of the region's strong economic fundamentals. Higher loan volumes and interest margins propelled interest income to a record $3,591 million, up 22% from 2005. Fee income increased 17% to $1,155 million for an eighth consecutive year of growth as both business and consumer activities rose. Trading income recovered from the subdued performance in 2005, rising 59% to $330 million. Cost pressures were felt during the year. Expenses rose 17% to $2,369 million, led by staff costs as labour markets tightened and computerisation expenses to support business expansion. But as costs rose less quickly than revenues, the cost-income ratio improved to 44% from 47% in 2005.

Asset quality remained healthy. The non-performing loan ratio fell to 1.7% from 2.1% in 2005. Total allowances amounted to $135 million from $203 million in 2005 as a decline in specific allowances was partially offset by an increase in general allowances.

The Group's return on assets improved to 1.15% compared to 0.93% in 2005, while return on equity rose to 12.3% from 9.7%.

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

	2006			2005		
Average balance sheet	**Average balance ($m)**	**Interest ($m)**	**Average rate (%)**	**Average balance ($m)**	**Interest ($m)**	**Average rate (%)**
Interest-bearing assets						
Customer loans	**82,561**	**4,559**	**5.52**	75,479	3,152	4.18
Interbank assets	**30,718**	**1,001**	**3.26**	29,072	656	2.26
Securities	**49,908**	**2,249**	**4.51**	49,307	1,734	3.52
Total	**163,187**	**7,809**	**4.79**	153,858	5,542	3.60
Interest-bearing liabilities						
Customer deposits	**123,779**	**2,746**	**2.22**	115,814	1,494	1.29
Other borrowings	**31,713**	**1,472**	**4.64**	31,748	1,105	3.48
Total	**155,492**	**4,218**	**2.71**	147,562	2,599	1.76
Net interest income/margin		**3,591**	**2.20**		2,943	1.91

Net interest income rose 22% to $3,591 million from higher asset volumes and interest spreads.

Average interest-earning assets grew 6% to $163,187 million. With most of the increase coming from customer loans, the asset mix also improved during the year.

Interest spreads were significantly higher as asset yields rose faster than funding costs.

In Singapore, corporate and SME customer loan yields increased in line with interbank rates, while board rates for housing loans were raised. Funding costs also rose with a larger proportion of fixed deposits in the funding mix, but by less than asset yields. In Hong Kong, interest margins benefitted from the full impact of a series of prime lending rate increases that had started in 2005.

The improved asset mix and higher interest spreads resulted in the Group's interest margins rising to 2.20% from 1.91% in 2005.

The following table indicates that higher interest margins had a greater impact on net interest income growth in 2006 than asset volumes.

Volume and rate analysis ($m) Increase/(decrease) due to change in	Volume	Rate	Net change
Interest income			
Customer loans	296	1,111	1,407
Interbank assets	37	308	345
Securities	21	494	515
Total	354	1,913	2,267
Interest expense			
Customer deposits	103	1,149	1,252
Other borrowings	(3)	370	367
Total	100	1,519	1,619
Net interest income	254	394	648

NET FEE AND COMMISSION INCOME

($m)	2006	2005	% chg
Stockbroking	**141**	106	33
Investment banking	**150**	134	12
Trade and remittances	**190**	172	10
Loan related	**166**	157	6
Guarantees	**30**	28	7
Deposit related	**79**	77	3
Credit card	**115**	90	28
Fund management	**62**	53	17
Wealth management	**170**	129	32
Others	**52**	40	30
Total	**1,155**	986	17

Net fee and commission income rose 17% to $1,155 million as contributions from a wide range of activities grew.

Buoyant equity markets boosted investor activity. Stockbroking commissions climbed 33%, while a 34% increase in unit trust sales contributed to a 32% rise in wealth management fees.

Increased consumer confidence contributed to a 28% rise in credit card fees, with much of the growth coming from Singapore, where the number of credit cards issued by DBS rose by 18% to 1,067 million.

Investment banking fees were 12% higher as capital market activities increased across the region. DBS continued to top various domestic league tables during the year, such as bookrunning Singapore dollar bonds, arranging syndicated loans and underwriting real estate investment trusts.

Fee income accounted for 22% of total operating income, slightly below the 23% in 2005 due to the strong interest income growth in 2006.

OTHER NON-INTEREST INCOME

($m)	2006	2005	% chg
Net trading income	**330**	207	59
From trading businesses	**340**	187	82
From other businesses	**(10)**	20	NM
Net income from financial investments	**171**	102	68
Net gain from fixed assets	**10**	11	(9)
Others (including dividend and rental income)	**87**	89	(2)
Total	**598**	409	46

Other non-interest income rose 46% to $598 million as net trading income increased from $207 million to $330 million. Included in net trading income was a $10 million loss in the fair value of market positions to manage the Group's structural risks.

Net trading income from trading businesses rose from $187 million to $340 million. The better performance was spread across foreign exchange, equity, credit and interest rate instruments, from both customer flows as well as trading activity.

Net income from investment securities rose 68% from the sale of several equity and debt investments during the year. Non-interest income from other sources (including dividends and rental income) was little changed at $87 million.

EXPENSES

($m)	2006	2005	% chg
Staff	**1,244**	1,052	18
Occupancy	**193**	186	4
Computerisation	**404**	308	31
Revenue-related	**105**	99	6
Others	**423**	381	11
Total	**2,369**	2,026	17

Expenses increased 17% to $2,369 million.

Staff costs rose 18%. With headcount growing 1% to 12,907, a large part of the staff cost increase was attributable to salary revisions due to competitive pressures for finance sector staff in Singapore and Hong Kong, and to higher bonus accruals in line with the Group's better performance.

Computerisation expenses were 31% higher due to depreciation for equipment and expenses for major ongoing projects such as Basel II implementation.

ALLOWANCES FOR CREDIT AND OTHER LOSSES

($m)	2006	2005	% chg
General allowances ("GP")	**88**	0	NM
Specific allowances ("SP") for loans	**159**	196	(19)
Singapore	**79**	114	(31)
Hong Kong	**78**	56	39
Other countries	**2**	26	(92)
Specific allowances ("SP") for securities, properties and other assets	**(112)**	7	NM
Total	**135**	203	(33)

Total allowances amounted to $135 million from $203 million in 2005.

General allowances of $88 million were made for loan growth during the year. No charges had been taken in 2005.

Specific allowances for loans fell to $159 million from $196 million in 2005 as economic conditions further strengthened during the year. The decline in charges was across corporate, SME and consumer loans. Specific allowances for loans amounted to 19 basis points of average loans, compared to 26 basis points in 2005.

A net write-back of $112 million in specific allowances for securities, properties and other assets was for the recovery of corporate debt securities and included a write-back of $69 million for buildings in Singapore as market valuations improved.

PERFORMANCE BY BUSINESS UNIT

($m)	CBG	EB	CIB	GFM	CTU	Central Ops
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)**
2005						
Net interest income	1,308	578	475	484	380	(282)
Non-interest income	483	227	462	111	(167)	279
Total income	1,791	805	937	595	213	(3)
Less: Expenses	926	291	319	364	31	95
Profit before allowances	865	514	618	231	182	(98)
Less: Allowances	77	145	144	0	6	(169)
Share of profits of associates	0	0	0	5	0	49
Profit before tax	788	369	474	236	176	120
Net profit	636	305	391	187	150	(20)

The financial data and commentary on the performance by business unit and geography are based on Singapore GAAP and in accordance with the Group's accounting policies. They include internal allocations of income and cost items and intra-Group eliminations.

A description of DBS' reported business unit segments can be found in Note 49.1 of the financial accounts on page 99.

Consumer Banking (CBG)

CBG's interest income rose 35% from wider deposit spreads in Singapore and loan spreads in Hong Kong, as well as higher deposit volumes in Singapore and Hong Kong. Non-interest income increased 6%, led by higher wealth management product sales revenue in Hong Kong.

Expenses grew 6% from higher staff and support costs in Singapore and Hong Kong.

Specific allowances were lower in Singapore as economic conditions improved. In Hong Kong, specific allowances rose due to lower write-backs for housing loans. General allowances were little changed.

Enterprise Banking (EB)

EB's net interest income increased 27% as loan and deposit volumes in Singapore and Hong Kong rose. Loan and deposit spreads were also higher in Hong Kong. Non-interest income climbed 45% led by higher sales of treasury products, such as foreign currency hedging instruments, in Hong Kong.

Expenses rose 16% due to higher bonus accruals and other costs.

Specific allowances declined 18% as a reduction in Singapore was partially offset by a rise in Hong Kong, which partly resulted from lower write-backs. General allowances were little changed.

Corporate and Investment Banking (CIB)

CIB's net interest income grew 25% from higher loan and deposit volumes. Non-interest income benefitted from higher investment banking and capital market activities across the region, as well as investment gains and higher dividend income.

Expenses rose 18% from higher bonus accruals and other costs.

Total allowances fell 47% as there was a net write-back of specific allowances. The effect of the write-back was partially offset by higher general allowances for loan growth.

Global Financial Markets (GFM)

GFM's total income rose 46%. Interest income benefitted from higher interest rates while non-interest income grew from higher trading gains and customer revenues across a wide range of products. Stockbroking commissions were also higher.
Expenses increased 13% from higher bonus accruals in line with the better performance.

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.

PERFORMANCE BY GEOGRAPHY

($m)	S'pore	Hong Kong	Rest of Greater China	South, S-east Asia	Rest of the world
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**
2005					
Net interest income	1,808	947	31	94	63
Non-interest income	926	319	61	47	42
Total income	2,734	1,266	92	141	105
Less: Expenses	1,199	653	54	68	52
Profit before allowances	1,535	613	38	73	53
Less: Allowances	83	44	30	4	42
Share of profits of associates	4	0	0	50	0
Profit before tax	1,456	569	8	119	11
Net profit	1,071	481	4	100	(7)

A description of DBS' reported geographic segments can be found in Note 49.2 of the financial accounts on page 101.

Singapore

Net interest income rose 25% from higher interest margins and loan growth. Corporate, SME and consumer loan yields were repriced upwards in line with interbank rates while funding costs rose less as a result of DBS' leading domestic savings deposits base. Loans rose 8% led by corporates and SMEs, with housing loans picking up towards the second half of the year. Surplus funds benefitted from higher interbank rates during the year.

Non-interest income rose 22% from a wide range of fee income activities as well as trading income, which recovered from a subdued performance in 2005.

Expenses increased 23% from higher wage costs and computerisation expenses. As part of ongoing efforts to improve productivity, headcount in Singapore fell 2% as more stringent hiring processes were put in place.

Specific allowances for loans declined, while general allowances increased.

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 8% in the balance sheet.

Net interest income rose 21% primarily from higher interest margins and deposit volumes. Prime lending rates were on average higher than the previous year. Deposit volumes grew as higher balances were received from priority consumer banking customers.

Non-interest income increased 18%, led by fee income. Higher contributions were recorded in all activities and were led by stockbroking, investment banking and unit trust sales. Trading income was also higher, although some of the gains were offset by lower marked-to-market values of structured products.

Expenses increased 2% with higher wage, computerisation and occupancy expenses being partially offset by lower advertising costs.

Specific allowances were higher as write-backs fell and charges for SME loans rose. General allowances were also higher.

Other regions

DBS' operations outside Singapore and Hong Kong are in their build-up phase. The largest earnings contribution is currently from Indonesia (through a 99%-owned subsidiary).

GROSS CUSTOMER LOANS[1]

($m)	2006	2005	% chg
By business unit			
Consumer Banking	**29,538**	29,686	(0)
Enterprise Banking	**20,101**	19,234	5
Corporate and Investment Banking	**33,764**	26,478	28
Others	**4,677**	5,551	(16)
By geography			
Singapore	**48,789**	45,280	8
Hong Kong	**27,216**	26,669	2
Rest of Greater China	**4,443**	2,953	50
South and Southeast Asia	**2,993**	2,287	31
Rest of the world	**4,639**	3,760	23

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

Gross loans increased 9% to $88,080 million.

Loans booked in Singapore, comprising both Singapore dollar and foreign currency loans, rose 8% to $48,789 million. Singapore dollar loans increased 6% to $35,708 million, giving DBS an 18% market share of Singapore dollar loans.

The growth in Singapore-booked loans was led by corporates and SMEs. Housing loans, which had declined in the first half of the year before recovering in the second half, rose 4% for the year.

In Hong Kong, loans grew 11% in local currency terms but only 2% in Singapore dollar terms to $27,216 million. All of the growth in Hong Kong was due to corporate and SME borrowing. Consumer loans, by contrast, were weak. Housing loans fell 5% in local currency terms, while credit card loans were flat. DBS' overall share of Hong Kong loans was 6%.

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 LOANS AND LOSS ALLOWANCE COVERAGE

	2006			2005		
	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA(%)	NPA ($m)	NPL (% of loans)	(GP+SP)/ NPA(%)
By geography						
Singapore	**811**	**1.8**	**99**	883	2.1	94
Hong Kong	**363**	**1.3**	**118**	395	1.5	109
Rest of Greater China	**68**	**1.3**	**112**	91	3.2	65
South and Southeast Asia	**112**	**2.5**	**119**	131	3.7	98
Rest of the world	**106**	**1.6**	**109**	191	3.7	65
Total non-performing loans	**1,460**	**1.7**	**106**	1,691	2.1	93
Debt securities	**36**	**–**	**223**	130	–	99
Contingent liabilities	**37**	**–**	**327**	44	–	227
Total non-performing assets	**1,533**	**–**	**115**	1,865	–	97
By business unit						
Consumer Banking	**307**	**1.0**	**127**	344	1.2	118
Enterprise Banking	**691**	**3.4**	**76**	691	3.6	68
Corporate and Investment Banking	**396**	**1.2**	**131**	573	2.2	92
Others	**66**	**1.4**	**185**	83	1.5	196
Total non-performing loans	**1,460**	**1.7**	**106**	1,691	2.1	93
Debt securities	**36**	**–**	**223**	130	–	99
Contingent liabilities	**37**	**–**	**327**	44	–	227
Total non-performing assets	**1,533**	**–**	**115**	1,865	–	97

Non-performing loans (NPLs) fell to $1,460 million from $1,691 million even as loan volumes expanded. As a percentage of loans, the NPL rate declined from 2.1% to 1.7%. NPL rates for all geographical and business segments improved.

Including debt securities and contingent liabilities, the amount of non-performing assets fell from $1,865 million to $1,533 million, 27% of which were still current and were classified for prudential reasons.

Overall loss allowance coverage increased from 97% to 115% of total non-performing assets. As a percentage of non-performing loans only, allowance coverage rose from 93% to 106%. Slightly more than half of all non-performing assets were secured against collateral.

($m)	2006	2005
Unsecured non-performing assets	**740**	911
Secured non-performing assets by collateral type		
Properties	**556**	675
Shares and debentures	**46**	68
Fixed deposits	**38**	36
Others	**153**	175
Total non-performing assets	**1,533**	1,865

FUNDING SOURCES

($m)	2006	2005	% chg
Customer deposits[1]	**131,373**	116,884	12
Interbank liabilities	**8,537**	8,959	(5)
Other borrowings and liabilities	**38,787**	37,637	3
Shareholders' funds	**18,675**	16,724	12
Total	**197,372**	180,204	10

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

Total funding rose 10% to $197,372 million. The increase was largely due to customer deposits, which grew 12%.

Singapore dollar deposits increased 11% to $71,242 million. DBS' market share for total Singapore dollar deposits was 26% compared to 29% in 2005. DBS retained its leadership in savings deposits. In line with industry trends, the proportion of fixed deposits increased and savings deposits declined as customers sought higher yields in a rising interest rate environment.

In Hong Kong, DBS' market share of total deposits was stable at 4%. The proportion of savings and fixed deposits was little changed.

CAPITAL ADEQUACY RATIOS

($m)	2006	2005
Tier 1		
Share capital	**4,042**	3,861
Disclosed reserves and others	**16,556**	15,080
Less: Goodwill	**(5,840)**	(5,823)
Total	**14,758**	13,118
Tier 2		
Cumulative general allowances	**1,033**	963
Subordinated debts	**5,038**	4,222
Others	**103**	13
Total	**6,174**	5,198
Total capital	**20,932**	18,316
Risk-weighted assets	**144,086**	123,847

Based on regulatory guidelines, the total capital adequacy ratio was little changed at 14.5%. The Tier 1 ratio declined from 10.6% to 10.2%.

During the year, the Group issued US$900 million and S$500 million of Tier 2 subordinated debt, which was partially offset by the amortisation of US$420 million of existing Tier 2 subordinated debt. The Tier 2 ratio rose slightly to 4.3%.

VALUATION SURPLUS

($m)	2006	2005
Properties	**371**	416
Financial investments	**11**	25
Total	**382**	441

The amount of unrealised valuation surpluses, which amounted to $382 million, fell as part of the valuation surplus for properties was written back to the balance sheet as market valuations improved.