

## LETTER FROM THE CHAIRMAN AND CEO

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– Chairman Peter Seah and CEO Piyush Gupta

2013 was a challenging year for the global economy. Growth in the developing world slowed. The US economy continued to grind along at a tepid growth rate of 1.9%. Europe continued to be a drag, with GDP falling by 0.4%.

In China, the world's second-largest economy, growth held steady at 7.7%, but its leadership has signalled plans to

pursue a more sustainable growth target of 7.5% per year.

Despite these external headwinds, Singapore, our home market, made a solid recovery, with growth of 4.1% compared to 1.9% the previous year. Hong Kong, our second-largest market, also fared better, with resilient private consumption more than offsetting the impact of weaker external demand

arising from the slowdown in China. In 2013, Hong Kong's GDP growth rose to 2.8%, from 1.5% in 2012.

Growth in India and Indonesia, two of our other key markets, slowed down with GDP growth of 4.8% and 5.8% in 2013.

Financial market activities were also hit by volatility that arose from expectations that the US would roll back its accommodative monetary policy of recent years.

### EARNINGS AND INCOME AT RECORD HIGHS

For DBS too, the year was not without its challenges. While we started 2013 on a very solid note with strong business momentum and broad-based growth, as the year progressed, we had to grapple with periodic bouts of market volatility.

Notwithstanding this, we saw our top-line grow by 11% to SGD 8.93 billion, an all-time high. Our growth was high-quality, propelled by multiple engines, and fuelled by key businesses we have been emphasising in recent years. We also continued to move the agenda on areas such as innovation and customer experience, which will be key drivers of our future success.

During the year, we saw credit costs rise from 10 basis points to 18 basis points of loans, due principally to pressures in some portions of our India book.

Full-year earnings hit a record SGD 3.50 billion. Including one-time items, net profit was SGD 3.67 billion. Our balance sheet is healthy, with capital, liquidity and asset quality remaining strong. To reward shareholders, we have proposed raising our full-year dividends.

### RESHAPING OUR FRANCHISE

Our record performance in a climate of continuing low interest rates is testament to the soundness of our strategy.

Since 2010, we have progressively entrenched our leadership in Singapore, repositioned Hong Kong and diversified our earnings base. We have also built leading regional customer franchises in wealth management, SME banking, transaction banking and treasury activities, all of which showed record income.

In 2013, we strengthened our wealth proposition further by being the first Singapore bank to create a "one-stop shop", offering banking and brokerage products under one roof. We believe the holistic bank brokerage model is integral to the future of banking. With this initiative, our customers can now trade shares without the need to maintain separate relationships with us and a broking firm.

We also continued to carve a niche for ourselves as a leading player in the Asian fixed income and offshore RMB space.

Despite the property cooling measures and other business pressures, including the low interest rate environment, our Singapore franchise saw income rise to an all-time high of SGD 5.42 billion. This is significant given the maturity of the market. Excluding our regional trading book, our core Singapore franchise recorded double-digit growth in its top and bottom lines. We are deeply honoured that for the first time, DBS was ranked by Brand Finance, a leading brand consultancy, as the most valuable brand in Singapore. Our overall brand value has more than doubled in the past four years, rising from USD 1.36 billion in 2009 to USD 3.47 billion in 2013.

Hong Kong, which anchors our Greater China presence, is also a much stronger entity; our focus on the affluent segment and our ability to leverage the China connectivity continue to pay off. This helped drive 2013 income to a record SGD 1.86 billion, up 22%, outpacing the market. Full-year earnings reached SGD 851 million, an all-time high.

We also continued to strengthen our franchise in our other key markets, China, Taiwan, India and Indonesia.

For example, in China, we were one of the first two foreign banks to be given a licence to set up a sub-branch in the newly established Shanghai Free Trade Zone. This is an important milestone as we employ our insights to help clients capture new growth opportunities.

In Taiwan, we continued to strengthen our wealth management proposition, as well as our position as a leading SME partner. In 2013, we became the second-largest SME lender among foreign banks in Taiwan.

In India, we are the fourth-largest foreign bank, and will continue to build on our solid platform while being watchful of the economic cycle. We are cautiously optimistic about the prospects for expansion under the wholly-owned subsidiary framework, and are studying the conditions carefully.

In Indonesia, the agreement to acquire a majority stake in Bank Danamon lapsed 16 months following the announcement of the transaction. We remain positive about Indonesia's prospects and are committed to the market. DBS is already widely known as one of the top three wealth management banks, and we intend to accelerate our organic growth plans in the country.



*DBS' presence in the Shanghai Free Trade Zone*



*Income contribution from our key growth markets accounts for 14% of Group income*

In line with our focus on our core markets, we divested our remaining 9.9% stake in the Bank of the Philippine Islands for a total consideration of SGD 850 million.

Hwang-DBS (Malaysia) (HDBS), in which we hold a 27.7% stake, is in the process of selling several of its key operating businesses. We are supportive of this decision by HDBS' Board.

As we continue to execute on strategy, the fundamental construct of the bank has changed.

Income contribution from our key growth markets of China, Taiwan, India and Indonesia has increased, accounting for 14% of Group income, up from 11% in 2009.

We have also shifted the composition of our business, and income from higher-return annuity businesses has grown substantially. For example, wealth management, transaction banking and treasury customer business today account for 58% of the Group's non-interest income, compared to 44% in 2009.

Our achievements are being recognised. In 2013, DBS was recognised as the "Best Managed Bank in Asia-Pacific" by The Asian Banker magazine. We also continue to be named the "Safest Bank in Asia" by Global Finance magazine for the fifth straight year.

## PUTTING THE CUSTOMER AT THE HEART OF THE BANKING EXPERIENCE

At DBS, we are committed to putting the customer at the heart of the banking experience. Over the past four years, our efforts have been primarily centred on improving our service delivery by enhancing our processes. Through these efforts, more than 240 million hours of customer waiting time have been eliminated. While we continue to work on improving our processes, a key focus in 2013 was on customer journey projects. We introduced the concept of Human-Centred Design (HCD) thinking in

DBS to enhance the management, design and delivery of customer journeys.

The idea is to put ourselves in the shoes of our customers, and think through the way they would prefer to interact with us from start to finish so as to enhance the customer experience.

To this end, we also established our first Customer Journey Design Lab in DBS to foster HCD thinking and innovation. The lab is a facility where staff can spend time with coaches, who will help them design, prototype and test their customer-centred concepts before roll-out.

## SHAPING THE FUTURE OF BANKING

Recognising that new technologies have revolutionised the way people bank, we continued to innovate new ways of banking. Much progress has been made on this front.

In Singapore, we launched DBS Home Connect, an app designed to make the home-buying process easier for our customers by providing them with all the essential information they require 24 x 7 via their mobile devices. In the corporate banking



*DBS is establishing a SGD 50 million foundation to strengthen our CSR efforts in Singapore and across Asia*

space, we pioneered the launch of a fully automated online account opening service for companies. In 2014, we announced an agreement with IBM in which we will deploy its Watson cognitive computing innovation to deliver a next-generation customer experience. We are also collaborating with research agency A\*STAR to set up a joint lab to research emerging technologies for the benefit of customers.

Our efforts to be at the forefront of banking innovation have been recognised. In 2013, our mobile banking apps strategy was ranked #1 in the world by Swiss research firm MyPrivateBanking. We were named “Most Innovative Transaction Bank in Asia-Pacific” by The Banker magazine, and “Trailblazer of the Year in Asia-Pacific” by Banking & Payments Asia.

To step up our game in the innovation space, we recently announced plans to invest SGD 200 million over the next three years to better harness digital technologies. This will enable us to access large retail banking markets and better integrate banking into our customers’ lifestyle. A new digital banking organisation has been created to spearhead this transformation.

### ENGAGING EMPLOYEES AND GIVING BACK TO SOCIETY

DBS is committed to our employees. Over the past four years, we have invested in our people, creating a sense of purpose and pride, and a high degree of engagement. Our people are among the most engaged globally, ranking among the top 10% of all companies surveyed by Gallup, a leading management consultant. In 2013, DBS was one of just three Asian firms to win the Gallup Great Workplace Award.

We also recognise that the future of business is to be a force for good. Underlining our commitment to giving back to society in a sustained manner, in February 2014, we announced the establishment of a SGD 50 million

foundation. This initiative will strengthen our corporate social responsibility (CSR) efforts in Singapore and across Asia.

In our home market Singapore, we are privileged to play a significant role in banking the heartlands and serving every level of society. At POSB, we are “Neighbours first and Bankers second” and will continue to recognise and uphold the responsibility we have as custodian of the nation’s oldest and most loved bank. To bring value to customers, we launched the POSB HDB Loan, a first-of-its-kind Housing & Development Board (HDB) loan. This was the first floating rate programme in Singapore to provide HDB homebuyers with the security of having their interest capped below HDB concessionary rates for 10 years while benefiting from the present low interest rates.

In 2012, DBS was the first Singapore member of a pilot programme set up by the International Integrated Reporting Council (IIRC), which is focused on enhancing the way companies communicate their strategies and values to stakeholders. Our belief that we need to deliver value to all our stakeholders underlines our continued commitment to using the integrated reporting format for our annual reports. Following IIRC’s newly issued framework, we have made further enhancements to our 2013 annual report, which we believe will help our stakeholders better understand the bank’s integrated approach to doing business.

### DIVIDENDS

The Board has proposed a final dividend of 30 cents per share for approval at the forthcoming annual general meeting. This compares to a final dividend of 28 cents per share in 2012, and raises the full-year payout from 56 cents per share to 58 cents per share. The increase is in line with DBS’ dividend policy of paying sustainable dividends commensurate with our capital management objectives and long-term growth prospects.

### FORGING AHEAD IN DYNAMIC ASIA

Despite the slowing growth in some Asian markets, we believe that in the medium term, Asia’s structural growth prospects are intact and the region is powering its own growth.

As an Asian bank, DBS is well-placed to capture the opportunities before us. We have invested in our franchise – in our people, platform and products – and continue to be well-positioned to intermediate the growing capital and trade flows in Asia and beyond.

At the same time, as the banking landscape continues to change and customer behaviours rapidly evolve, we are well aware of the need to remain nimble and agile. We thank our customers and shareholders for their continued support. With the passion and commitment of our 19,000 colleagues around the region, we will continue to forge ahead in a dynamic Asia.



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Chairman, DBS Group Holdings



**Piyush Gupta**  
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