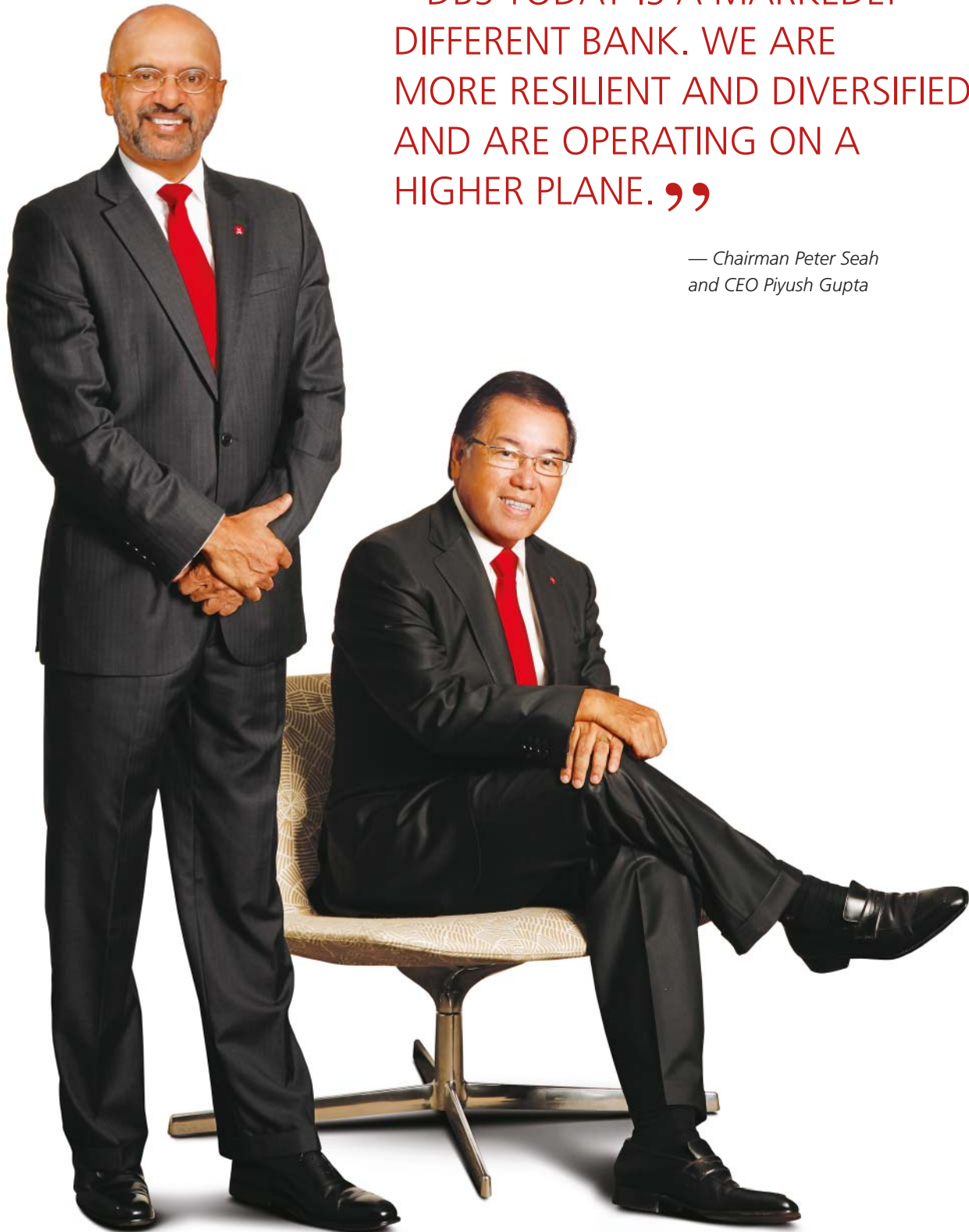


# LETTER TO SHAREHOLDERS



“ DBS TODAY IS A MARKEDLY  
DIFFERENT BANK. WE ARE  
MORE RESILIENT AND DIVERSIFIED,  
AND ARE OPERATING ON A  
HIGHER PLANE. ”

— Chairman Peter Seah  
and CEO Piyush Gupta

2012 was a challenging year for the global economy.

While active monetary easing from the European Central Bank and US Federal Reserve prevented an international financial crisis, global growth was uninspiring. The US economy continued to grind along at a sub-par growth rate of 2% while Europe fell into recession.

This was compounded by sluggish growth in China, the world's second-largest economy. Investment growth in China slowed down, resulting in its economy growing by 7.8% from 9.3% in 2011.

These external headwinds had a ripple effect on the markets we operate in. Singapore, our home market, grew just 1.3% from 5.2% the previous year, weighed down by weaker demand for exports. Hong Kong, our second-largest market, grew 1.4% from 4.9% the previous year.

General concerns about the macroeconomic situation in Europe in the second half put a dampener on capital markets activities and amid an uncertain environment and flush liquidity conditions, net interest margins continued to be squeezed.

### **EARNINGS AT RECORD SGD 3.81 BILLION, RETURN ON EQUITY AT FIVE-YEAR HIGH**

Despite the challenging operating environment, focused implementation of our strategy, prudent risk management and a strong balance sheet enabled DBS to capture opportunities across the region.

Full-year earnings reached a record SGD 3.81 billion. Excluding a SGD 450 million divestment gain, net profit rose 11% to SGD 3.36 billion. Return on equity before the divestment gain rose to 11.2%, the best in five years. Our balance sheet is healthy, with capital, liquidity and asset quality remaining strong.

### **RESHAPING OUR FRANCHISE**

Our record performance represents the third consecutive year of solid results, and is testament to the soundness of our business strategy and disciplined execution.

Since 2010, we have consistently executed on our strategic priorities. We have entrenched our leadership in Singapore, repositioned Hong Kong and diversified our earnings base to other Asian markets. We have also built leading regional customer franchises in wealth management, SME banking, transaction banking and treasury activities.



Scan here for CEO Piyush Gupta's video on DBS' progress.

domestic loan market share grew to 24% from 23% in the previous year. We continued to achieve strong growth in consumer and institutional banking. In capital markets, we remained a leading player in equities, fixed income, real estate investment trusts and business trusts. Hong Kong, which anchors our Greater China presence, is also a much stronger entity; 2012 earnings at SGD 716 million are a record in local-currency terms.

At the same time, we have shifted the composition of our business. Income from higher-return annuity businesses has grown substantially. For example, cash management, trade finance and treasury



Over the course of the past three years, the fundamental construct of the bank has changed. Our business profile and earnings drivers have improved and the bank today is more resilient and better diversified.

Singapore now contributes 58% of the Group's income compared to 65% three years ago, based on internal measurements. This is due to an increase in customer acquisition and a deepening of customer relationships in the region. Even as the income contribution from our markets outside Singapore has increased, our leading market share in Singapore continues to grow – not an easy feat given our size and the maturity of our home market. In 2012, our Singapore

customer income today account for 28% of the Group's income, compared to 17% in 2009. Our SME and wealth businesses now account for 25% of Group income.

We have also reshaped our balance sheet. With a loan-deposit ratio of 87%, we are now utilising our balance sheet more effectively to achieve growth and stability. Over the past two years, we have also diversified our funding sources to include wholesale funding. With our reputation as the Safest Bank in Asia, an accolade conferred to us by Global Finance magazine since 2009, and credit ratings that are among the highest in the world, we are able to secure attractive pricing when we tap the debt markets for funding.



*The DBS Treasures Private Client lounge at DBS Asia Central serves high net worth individuals.*

Our achievements are being recognised. In 2012, DBS was named “Bank of the Year, Asia” by the industry’s authoritative trade publication *The Banker*, a subsidiary of the *Financial Times*, based in London. This is a coveted award that has typically been the stranglehold of global banks.

During the year, we entered into an agreement to acquire a stake in Bank Danamon in Indonesia. We hope to become a meaningful player in Indonesia and are awaiting regulatory approvals for the proposed transaction.

#### **WELL-POSITIONED FOR GROWTH**

The Board recently reviewed and validated our strategy to become a leading Asia-centric commercial bank, present in Asia’s three key axes of growth. We articulated our strategic priorities three years ago and will continue to execute on them. In the coming years, we will also give added focus to an additional two areas:

- Innovation and technology, especially in the SME and wealth management customer segments, and across all our customer channels and touchpoints. One specific area of focus will be electronic payments. New technologies, coupled with the high penetration rates of mobile and Internet banking, have revolutionised the way people bank, and we want to lead the industry in this space.
- Fixed income business. Debt markets complement bank financing, and are becoming more important for funding infrastructure investments, which are expected to reach USD 8 trillion over the next decade in Asia.

#### **DELIVERING VALUE TO OUR STAKEHOLDERS**

In 2012, we continued to add value to our customers. Underscoring our commitment to Taiwan, we set up a

local subsidiary, DBS Bank (Taiwan). In China, we continued to expand our branch network. We also continued to provide new product opportunities, including offshore RMB activities, and strengthened our customer proposition in wealth management, SME and transaction banking activities. Our initiative to enhance customers’ banking experience has resulted in the completion of 184 service improvement projects in the past three years, saving 237 million customer hours over the same period.

DBS is also committed to our employees. Over the past three years, we have been strengthening our DBS culture to one that is more defined by teamwork, individual accountability and empowerment. We have worked hard on instilling a sense of purpose and pride within the DBS family.

“ DESPITE THE CHALLENGING OPERATING ENVIRONMENT, DBS’ FOCUSED EXECUTION OF OUR STRATEGY, PRUDENT RISK MANAGEMENT AND A STRONG BALANCE SHEET ENABLED US TO CAPTURE OPPORTUNITIES ACROSS THE REGION.”



In addition, DBS has created more conducive working spaces for our people. In Singapore, the bank's new headquarters DBS Asia Central at Marina Bay Financial Centre Tower 3 (MBFC T3) epitomises the future of work. DBS Asia Central at MBFC T3 also raises the bar in workplace design in Asia. By coupling spatial design with effective change management, the bank has established a living, collaborative workplace that fosters ideation among our employees.

Today, DBS employees are among the most engaged globally, according to an independent employee engagement survey conducted by Gallup, an international research firm. In 2012, DBS' overall employee engagement scores put the bank at the top 10% of all companies surveyed by Gallup globally, and in the top 10% of all financial and insurance companies as well.

*DBS Chairman Peter Seah (left) and Chongqing Yuzhong District Party Secretary Liu Qiang celebrating the opening of DBS' Chongqing branch, our first in Western China.*



At DBS, we also recognise that the future of business is to be a force for good.

In our home market Singapore, we are privileged to play a significant role in banking the heartlands and serving every level of society. POSB has been around since 1877 and plays an important part in defining who we are. At POSB, we are “Neighbours first and Bankers second” and we will continue to recognise and uphold the responsibility we have as the nation’s oldest and most loved bank.

DBS has also been active in engaging and supporting social enterprises in the region. We are committed to promoting the development of the sector, supporting social enterprises through funding, expertise and volunteerism, and procuring their goods and services where possible.

Finally, the symbiosis that exists between stakeholders means that we need to deliver value to all of them at the same time. We have to meet or exceed

the expectations of our customers, employees, regulators and communities. Reflecting this approach, we are adopting an integrated reporting format for our annual report from this year. We have become the first Singapore member of a pilot programme set up by the International Integrated Reporting Council, which comprises a growing number of multinational companies – often industry leaders in their field – focusing on how best to communicate their strategies and values to stakeholders. Our engagement in this programme will help guide our approach to stakeholder communication.

#### DIVIDENDS

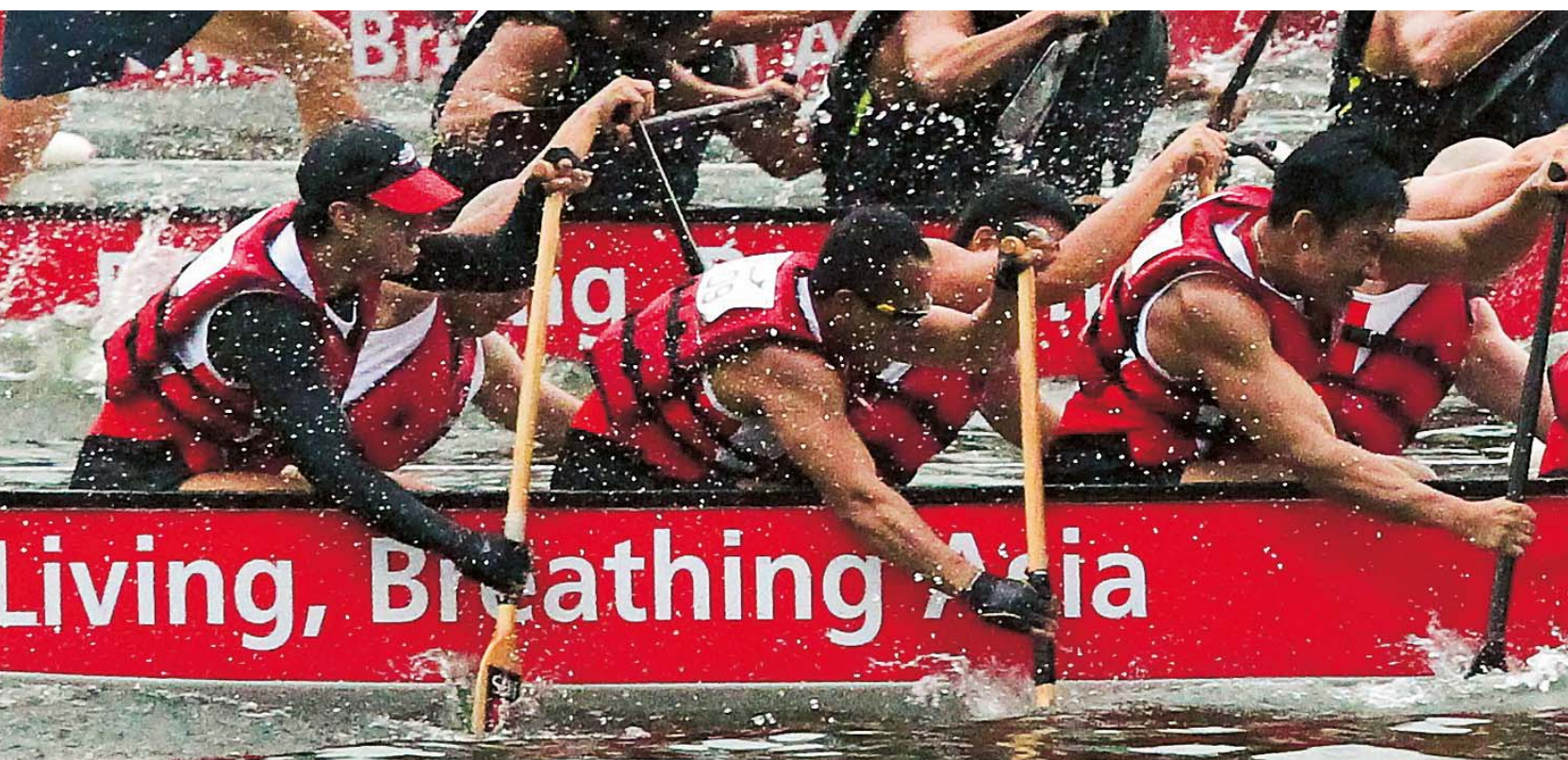
The Board proposed a final dividend of 28 cents per share, which will bring the full-year payout to 56 cents per share. The scrip dividend scheme will be applicable to the final dividend. Scrip dividends will be issued at the average of the last-dealt share price on each of 13, 14 and 15 May 2013.

#### ACKNOWLEDGEMENTS

During the year, two industry veterans Andre Sekulic and Ow Foong Pheng joined DBS as board members. Andre has 35 years of experience in banking and financial services in the Asia Pacific, Africa, Middle East and the US. Foong Pheng has held many senior positions in various government ministries, including her present role as Permanent Secretary of the Ministry of Trade and Industry in Singapore.

With their distinguished careers, both individuals complement and strengthen the overall composition of the DBS Boards. We would also like to express our gratitude to Christopher Cheng, who is stepping down as board member in April 2013. Christopher has been a DBS board member since June 2007 and we have benefited from his wise counsel and invaluable contributions over the years.

*DBS' dragon boating team paddling to victory at the inaugural DBS Marina Regatta, which saw participation from close to 100 local and international teams.*



“ IN 2012, DBS WAS NAMED  
BANK OF THE YEAR, ASIA  
BY *THE BANKER*, A SUBSIDIARY  
OF THE FINANCIAL TIMES. ”

**WELL-POSITIONED TO DEFINE  
THE FUTURE OF BANKING**

DBS today is a markedly different bank. We are more resilient and diversified, and are operating on a higher plane.

Looking forward, we are aware that there is much more to be done. The problems in the Eurozone remain difficult and the outlook in the US is uncertain. Asia is not immune to the global malaise, though we are fairly optimistic that its long-term growth is still well on track.

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 have embarked on a journey, are making good progress, and will keep pressing ahead. Given the passion and commitment of our people, we are optimistic about the future. Together with our 18,000 colleagues around the region, we will continue to deliver banking the Asian way and entrench our position as a bank of choice in Asia.



**Peter Seah Lim Huat**  
Chairman,  
DBS Group Holdings



**Piyush Gupta**  
Chief Executive Officer,  
DBS Group Holdings

