CORPORATE GOVERNANCE REPORT

INTRODUCTION

As a financial institution, DBS Group Holdings Ltd ("Group" or "DBSH") is guided in its corporate governance practice and arrangements by the Code of Corporate Governance 2012 ("2012 Code" or "Code"); the Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are incorporated in Singapore issued in 2005 and amended in 2010 ("Guidelines"); and the Banking (Corporate Governance) Regulations 2005 as amended in 2007 and 2010 ("Banking Regulations").

The Group aspires to the highest standards of corporate governance and welcomed the introduction of the 2012 Code. In this report, our corporate governance practice and arrangements have been disclosed in accordance with the 2012 Code. For the financial year 2012, the Group complied in all material aspects with the principles laid down by the Code, the Guidelines and the Banking Regulations. Where there is any deviation, appropriate explanation has been provided within this report.

The Group believes that a strong culture of corporate governance will safeguard the interests of its stakeholders and contribute to the long term sustainability of the company. The promotion of corporate transparency, fairness and accountability is led by a qualified and independent Board aided by a seasoned and experienced management team.

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS PRINCIPLE 1

Board Responsibility

The Board directs the Group in the conduct of its affairs, exercising its fiduciary role at all times in the interests of the Group, to ensure that corporate responsibility and ethical standards are met. The Board is ultimately responsible for the activities of the Group, its strategy and governance, risk management and financial performance. The following matters are specifically reserved to the Board:

(i) Setting the strategic direction and long-term goals of the Group and ensuring that adequate resources are available to meet these objectives.
(ii) Approving and monitoring capital and financial plans to ensure that they are in line with the Group's strategic directions; the annual budget; the annual and interim financial statements; and capital expenditures and strategic acquisitions and divestments.
(iii) Establishing a risk strategy and a framework for risks to be assessed and managed.
(iv) Monitoring and reviewing management performance.
(v) Using its wide-ranging expertise to review corporate plans and policies.
(vi) Determining the Group's values and standards (including ethical standards) and ensuring that obligations to the stakeholders are understood and met.
(vii) Making succession plans for itself and for the chief executive officer (CEO) to ensure continuity of leadership.
(viii) Considering sustainability issues (including environmental and social factors) as part of the Group's strategy.

As part of its ethical responsibilities, the Board ensures that a culture of fair dealing is embedded across the Group and the values of being 'Respectful, Easy to deal with and Dependable' are entrenched across the Group's processes and business practices so as to place customers at the heart of the banking experience.

Delegation by the Board

The Board delegates authority and powers to Board committees to oversee specific responsibilities, such as executive leadership and strategy, financial reporting, audit, risk management, credit controls and approvals, and compensation and management development. These committees enable the Board to better carry out its stewardship and fiduciary responsibilities. As part of DBSH's corporate governance framework, the Executive, Nominating, Compensation and Management Development, Board Risk Management and Audit committees have long been established to assist the Board in the discharge of specific responsibilities. Please refer to Page 60 for the role of each Board committee.

The Board has established an internal framework called the Group Approving Authority (GAA) to ensure that guidelines for the delegation of authority at various levels are consistently applied throughout the Group. The material transactions that require Board approval under the GAA include:

- Group strategy.
- Group business plan.
- Capital expenditures and expenses exceeding certain material limits.
- Strategic investments and divestments.
- Capital-related matters including capital adequacy objectives, capital structure, capital issuance and redemption.
- Dividend policy.
- Risk strategy and risk appetite.

Board Meetings and Attendance

During the financial year, there were nine Board meetings. At those meetings, the Board reviewed the Group's financial performance, annual budget, corporate strategy, business plans, potential acquisitions and significant operational matters. At each Board meeting, the Chairman of each Board committee reported the updates from their respective Board committee meetings. In addition, the Board receives regular updates from the CEO on the Group's operations, reports from the Chief Financial Officer (CFO) on financial performance and where applicable, updates on developments in, and the Group's compliance with, corporate governance requirements and other regulations.

When exigencies prevent a member from attending a Board meeting in person, he or she can participate by telephone or video-conference. Board approvals for routine matters in the ordinary course of business are obtained through written resolutions approved by circulation. The Articles of Association of DBSH (Articles of Association) allow written resolutions that are signed by a quorum of members to be as effective as if they were passed at physical meetings.

During Board and Board committee meetings, management provides updates on impending changes in market conditions as well as corporate governance, capital, tax, accounting, listing and other regulations, which may have an impact on the Group's affairs.

Board Offsite

In addition to the scheduled Board meetings, members of the Board and key management met in a two-day closed door offsite meeting in Taiwan to deliberate on the Group's strategy and action plans for future growth. During the offsite, members of the Board had ample opportunity to interact with the Group's top executives from key Asian markets and to familiarise themselves with one of its key overseas operations.

The table below sets forth the number of meetings held and attended by Board members during the financial year.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS (1 JANUARY 2012 TO 31 DECEMBER 2012)

Name of Director	Board Meetings		EXCO Meetings		AC Meetings		BRMC Meetings		NC Meetings		CMDC Meetings	
	No. of Meetings		No. of Meetings		No. of Meetings		No. of Meetings		No. of Meetings		No. of Meetings	
	Held @	Attendance	Held @	Attendance	Held @	Attendance	Held @	Attendance	Held @	Attendance	Held @	Attendance
Peter Seah Lim Huat[1]	9	9	12	12	4	4	5	5	3	3	3	3
Piyush Gupta	9	9	12	12	4	4[5]	5	5[5]	–	–	3	3[5]
Bart Joseph Broadman	9	9	–	–	–	–	5	4	–	–	3	2
Christopher Cheng Wai Chee	9	9	–	–	4	4	–	–	–	–	3	3
Euleen Goh Yiu Kiang	9	9	12	10	–	–	5	5	3	3	3	2
Ho Tian Yee	9	9	–	–	–	–	5	5	3	3	–	–
Nihal Vijaya Devadas Kaviratne CBE	9	9	–	–	4	4	5	5	–	–	–	–
Kwa Chong Seng[2]	4	4	–	–	–	–	–	–	1	0	2	2
Andre Sekulic[3]	5	5	–	–	2	2	–	–	–	–	1	0
Danny Teoh Leong Kay	9	9	–	–	4	4	5	5	3	3	–	–
Woo Foong Pheng (Mrs Ow)[4]	5	5	–	–	2	2	–	–	2	2	–	–

@ the number of meetings held during the period of appointment

1 Appointed as Chairman of CMDC on 26 April 2012
2 Stepped down on 25 April 2012 as (i) Director of DBSH and DBS Bank, (ii) Chairman of CMDC and (iii) Member of NC
3 Appointed as (i) Director of DBSH and DBS Bank on 26 April 2012, (ii) Member of AC on 1 May 2012 and (iii) Member of CMDC on 1 May 2012
4 Appointed as (i) Director of DBSH and DBS Bank on 26 April 2012, (ii) Member of AC 1 May 2012 and (iii) Member of NC on 1 June 2012
5 By invitation

Board Induction
There is a comprehensive and tailored induction for incoming directors joining the Board on the discharge of their duties and to introduce the Group's business and governance practice and arrangements, amongst others. Please refer to Page 62 for details on the selection criteria and nomination process as well as the induction programme for new directors.

Continuous Development Programme (CDP)
The CDP was introduced in 2010 as an ongoing initiative to ensure that directors have the opportunity on a continuing basis to update themselves on legal, regulatory, economic and business matters relevant to the business and operations of the Group. The scope of the CDP is wide and flexible to ensure that the members of the Board benefit from both external expertise and tap on available resources internally. The NC which reviews the CDP schedule encourages management to conduct in-house sessions to brief the Board on business and industry updates or new growth areas.

The CDP has the following key objectives:

(i) Augmenting the knowledge of Board members so that they can contribute effectively.
(ii) Providing ongoing training conducted by external advisors, professional trainers and subject matter experts within the Group to ensure all directors receive the knowledge they need to effectively carry out their duties.
(ii) Ensuring that the Board is kept abreast of regulatory and legislative developments and changes across key markets.

The CDP schedule is reviewed by the NC regularly, so that the program remains timely and current. For example, after the issue of the 2012 Code, the Board received training on the changes that were made, and the implications to Group governance practice and arrangements. A gap analysis and action plan addressing the Group's response to the changes was presented to the Board as well. Noting the turbulent macro-economic environment in Europe and elsewhere, the NC arranged for regular updates to the Board on the Group's key markets, and also for a presentation on global political and macro-economic developments by a distinguished external speaker. Recognizing that the Board must have a good understanding of risk concepts, the Board also received training on market risks and a briefing on the operationalising of risk appetite, in the course of 2012.

BOARD COMPOSITION AND GUIDANCE PRINCIPLE 2

Independence of Judgement
The present Board comprises ten members, namely Mr Peter Seah Lim Huat (Chairman), Mr Piyush Gupta (CEO), Dr Bart Joseph Broadman, Dr Christopher Cheng Wai Chee, Ms Euleen Goh Yiu Kiang, Mr Ho Tian Yee, Mr Nihal Vijaya Devadas Kaviratne CBE, Mr Andre Sekulic, Mr Danny Teoh Leong Kay and Mrs Ow Foong Pheng. There is a strong and independent element on the DBSH Board; of the ten Board members, nine are non-executive, of which eight are independent. The number of non-executive and independent directors exceeds the requirements set out in the Code, Guidelines and Banking Regulations. This ensures that the Board is able to exercise objective judgment on corporate affairs independently. Please refer to the section on 'Board of Directors' in the Annual Report for key information on each director.

Annual Review of Director's Independence
The NC conducts a review and determines annually whether each director is independent. The eight directors considered independent by the NC are Dr Broadman, Dr Cheng, Ms Goh, Mr Ho, Mr Kaviratne, Mr Seah, Mr Sekulic and Mr Teoh. The independent non-executive directors provide the Board with objectivity and a balance of perspectives. They also ensure that the performance of executive directors and management is objectively measured against the key performance indicators established annually to measure and guide management performance. The attributes that an independent director should have include: not being a former executive with the Group, not being a significant customer or supplier, not being recommended or appointed on the basis of personal relationships, not being a close relative of an executive director, and not being related to any of the Group's external auditors, lawyers, consultants or service providers and not being linked to or associated with DBSH's substantial shareholder. Independence is assessed in compliance with the stringent standards required of financial institutions prescribed under the Banking Regulations.

None of the directors have served for a continuous period of nine years or more, and therefore all directors are independent based on length of service.

Dr Cheng, Ms Goh, Mr Ho, Mr Kaviratne, Mr Seah and Mr Teoh are on the boards of companies that have a banking relationship with DBS but the revenues arising from such relationships are not material. Hence the NC considers the above-named directors independent of business relationships.

Ms Goh, Mr Ho, Mr Kaviratne, Mr Seah and Mr Teoh are directors of companies linked to Temasek Holdings (Private) Limited ("Temasek Holdings"), DBSH's substantial shareholder. As their appointments are non-executive in nature and they are not involved in the day-to-day conduct of these companies' businesses, the NC has determined that they are independent of the substantial shareholder.

Mrs Ow who is a Permanent Secretary for the Ministry of Trade and Industry, Singapore, is considered not independent of the substantial shareholder as the Singapore government is the ultimate owner of Temasek Holdings. Mrs Ow is considered independent of management and business relationships with DBSH.

Robust procedures have been instituted to manage potential conflicts of interest between a director and the Group. Such conflicts could arise, for instance, when the Group extends credit facilities or provides products or services to a director's company. An appropriate account tagging mechanism has been put in place to monitor and control the occurrences of conflicts, any of which are then escalated for aggregation purposes under the SGX-ST Listing Manual (SGX Listing Rules). Exposures of DBS Bank Ltd (DBS Bank) to the individual directors and their respective related concerns are tabled at the quarterly Board meetings.

Board Composition

The Group is of the view that the size of the Board is appropriate, given the current size and geographic footprint of the Group's operations. The NC reviews the size and composition of the Board at least annually, taking into account the requirements of the business and the resourcing level required at Board committees.

The Board members, two of whom are women, collectively bring range and depth of experience and industry expertise to the table, representing diversity of age, gender, nationality, skills and knowledge.

Board Committees

The Board committees have been constituted in compliance with the Banking Regulations and areas delegated to each Board committee are set out in the table provided.

The terms of reference (TORs) for each Board committee are clearly defined. The TORs stipulate the responsibilities of the committee, quorum and voting requirements, as well as qualifications for Board committee membership. Each Board committee has direct access to management and the power to hire independent advisers as it deems necessary.

BOARD COMMITTEE	ROLE	COMPLIANCE WITH BANKING REGULATIONS
Executive Committee (Exco)	Reviews strategic matters such as country and business strategies, and strategic mergers and acquisitions. The Board has delegated to the Exco the authority to approve items exceeding the CEO's authorised limits (for example credit lines, non-strategic investments and capital expenditure items). The Exco also reviews the annual budget and weak credit cases.	• Comprises a majority of directors who are independent directors.
Nominating Committee (NC)	Identifies Board candidates and assesses their suitability and independence. The NC reviews whether Board members commit appropriate amounts of time to the discharge of their duties and performs an annual evaluation of the Board's effectiveness in performing its duties.	• Comprises at least 5 directors. • Comprises a majority of directors (including the chairman of the NC) who are independent directors.
Audit Committee (AC)	Supervises the Group's internal controls and oversees the adequacy of internal controls over financial, operational and compliance risks. The AC interacts with the external auditors to ensure compliance with regulations governing accounting standards and financial reporting.	• Comprises at least 3 directors who are independent from management and business relationships. • Comprises at least a majority of directors (including the chairman of the AC) who are independent directors.
Board Risk Management Committee (BRMC)	Provides oversight of risk governance, risk frameworks and limits as well as capital adequacy for the Group and reviews the effectiveness of risk management practices and policies.	• Comprises at least 3 directors. • Comprises at least a majority of directors (including the chairman of the BRMC) who are non-executive directors.
Compensation and Management Development Committee (CMDC)	Oversees compensation policies and management development and ensures that remuneration policies are in line with strategic objectives.	• Comprises at least 3 directors. • Comprises a majority of directors (including the chairman of the CMDC) who are independent directors.

Please refer to the respective sections for further information on the composition, responsibilities and activities of the following Board committees:

NC – Principles 1, 2, 4 and 5
AC – Principle 12
BRMC – Principle 11
CMDC – Principles 7, 8 and 9

Executive Committee
The Exco is chaired by Mr Seah and comprises Ms Goh and Mr Gupta. Please refer to the section on 'Board of Directors' in the Annual Report for key information on the Exco members, including their academic and professional qualifications.

The responsibilities of the Exco include:

(i) Reviewing the Group's strategy, business plans, annual budget and capital structure.
(ii) Reviewing strategic investments or divestments.
(iii) Reviewing the delegation of authority stipulated by the GAA.
(iv) Reviewing weak credit cases.
(v) Approving credit transactions, investments, capital expenditure and expenses that exceed the limits that can be authorised by the CEO.

In the course of the financial year, the Exco reviewed the potential impact on the Group's operations arising from changes in global market conditions to ensure that the Group's strategy remains relevant and responsive to changes in business conditions. It also reviewed several corporate actions, divestments and investments as well as capital expenditure, providing an initial review prior to discussion and approval by the Board.

Meeting of Directors without Management
At each Board meeting, there are formal sessions arranged for the non-executive directors to meet without the presence of management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER PRINCIPLE 3

Separation of the Role of Chairman and the CEO
Mr Seah is the non-executive and independent Chairman of the Boards of DBSH and DBS Bank. Mr Gupta is the CEO of DBSH and DBS Bank.

The Group's leadership model espouses a clear division of responsibilities between the Chairman and the CEO, which ensures independent oversight of the Board and management. This separation also ensures an appropriate balance of power, increased accountability and enhanced independence in decision-making.

The Chairman's duties include:

(i) Leading the Board to ensure its effectiveness.
(ii) Managing the Board's business, including supervising the work of the Board committees.
(iii) Overseeing the Board agenda and ensuring the information flow and timing are adequate to address all agenda items, in particular, strategic issues.
(iv) Setting the tone of Board discussions to promote open and frank debate and effective decision-making.
(v) Ensuring effective communication with shareholders and other stakeholders.
(vi) Encouraging constructive relations within the Board and between the Board and senior management.
(vii) Facilitating effective contribution from non-executive directors.
(viii) Maintaining and enhancing the Group's standards of corporate governance.

The Board is of the view that it is not necessary to appoint a lead independent director, given that the present Chairman is independent, non-executive and unrelated to the CEO. The Chairman provides clear and distinct leadership to the Board with respect to the Group's strategic growth. The Chairman maintains open lines of communication with senior management, and acts as a sounding board on strategic and operational matters.

The CEO heads the Group Management Committee and the Group Executive Committee, which are the highest management bodies. He oversees the execution of the Group's strategy and is responsible for managing its day-to-day operations.

BOARD MEMBERSHIP PRINCIPLE 4

The NC leads and has put in place a formal and transparent process for the appointment and re-appointment of directors to the Board.

Nominating Committee
The NC is chaired by Mr Seah and comprises Ms Goh, Mr Ho, Mrs Ow and Mr Teoh, all of whom are non-executive directors. The majority of NC members are independent directors, save for Mrs Ow who is considered not independent of DBSH's substantial shareholder. NC members are subject to an annual assessment of their independence as prescribed by the Code, the Guidelines and the Banking Regulations. This independence assessment takes into account the NC members' business relationships with the Group, relationship with members of management and relationship with the substantial shareholder of DBSH. Please refer to the section on 'Board of Directors' in the Annual Report for key information on the NC members, including their academic and professional qualifications.

The NC's responsibilities include:

(i) Reviewing regularly the composition of the Board and Board committees taking into account size and independence requirements, amongst others. Please refer to Principle 2 for details of the 'Annual Review of Director's Independence'.
(ii) Reviewing the Board's succession plans for directors, in particular, the Chairman and the CEO.
(iii) Identifying, reviewing and recommending Board appointments for approval by the Board, taking into account the experience, expertise, knowledge and skills of the candidate and the needs of the Board.
(iv) Reviewing and recommending to the Board the re-appointment of any non-executive director having regard to their performance, commitment and ability to contribute to the Board as well as his or her skillset.
(v) Conducting on an annual basis an evaluation of the performance of the Board, the Board committees and the directors, and analyzing whether each director is independent in accordance with regulatory guidelines.
(vi) Making an annual assessment of whether each director has sufficient time to discharge his or her responsibilities, taking into consideration multiple board representations and other principal commitments.
(vii) Exercising oversight of the CDP for training of Board members.

Selection Criteria and Nomination Process for New Directors

The NC recognizes the importance of an appropriate balance and diversity of industry knowledge, skills, backgrounds, experience, professional qualifications, gender and nationalities in building an effective Board. To achieve this, the NC reviews the Board's collective skills matrix regularly to ensure that the Board has the appropriate diversity to perform effectively. The matrix takes into account the dynamic changes occurring within the financial services industry and local, regional and global markets.

As part of the formal process for the appointment of new directors, the NC reviews the composition of the Board and identifies the skillsets which will enhance the Board's effectiveness. Thereafter, suitable candidates are identified from various sources. The NC conducts an initial assessment to review a candidate's qualifications, attributes and past experience. The NC then proceeds to interview short-listed candidates. The NC considers the proposed candidate's independence, expertise and background, and determines if he or she possesses the skills required and makes its recommendations to the Board accordingly. A candidate's capabilities are mapped against a detailed matrix which has been crafted and tailored to suit the Group's requirements.

Induction Programme

Upon appointment, a new director receives his or her letter of appointment, and is issued with a Directors' Handbook setting out a director's duties, responsibilities and disclosure obligations as a director of a financial institution. He or she is also briefed on key disclosure duties and statutory obligations. As part of the induction programme, the new director gains an understanding of the Group's management, business and governance practices through a series of detailed induction briefings by members of senior management on the Group's various businesses and support functions.

Mrs Ow and Mr Sekulic, who were appointed in 2012, completed the induction programme and in addition, attended external training courses for directors conducted in Singapore.

The NC believes that knowledge, regular training and development are essential to enhance the Board's effectiveness. Please refer to the section on CDP in Principle 1 for details of continuous training for directors.

Terms of Appointment

The Group has a standing policy that a non-executive director may serve up to a maximum of three three-year terms. The Group considers this tenure to be appropriate for members to gain an understanding of the Group and to make an effective contribution. None of the incumbent directors have served more than 6 years.

Prior to the end of each three-year term, there is a formal process in place for the NC to consider whether to extend the tenure of the non-executive director. If a non-executive director is a member of the NC, he or she will recuse himself from deliberations on his or her own re-appointment.

Rotation and Re-election of Directors

The Articles of Association require one-third of directors who are longest-serving to retire from office every year at the AGM. Based on such a rotation process, each director is required to submit himself or herself for re-election by shareholders at least once every three years.

Dr Cheng, Ms Goh and Mr Teoh shall be retiring by rotation at the 2013 AGM, pursuant to Article 95 of the Articles of Association of DBSH.

At the recommendation of the NC, Ms Goh and Mr Teoh will be seeking re-election at the AGM to be held on 29 April 2013 (2013 AGM). The NC believes Ms Goh and Mr Teoh will continue to contribute effectively as independent directors of the Board.

Dr Cheng, who has served on the Board for almost six years (as at the date of the 2013 AGM) is not seeking re-election and shall step down at the conclusion of the 2013 AGM.

Mrs Ow and Mr Sekulic both joined the Board on 26 April 2012. Key information on Mrs Ow and Mr Sekulic, who bring a wide range of experience and diverse backgrounds to the Board, can be found on Page 19 and 20 respectively. Since Mrs Ow and Mr Sekulic were appointed during the financial year, they will be seeking re-election at the 2013 AGM.

Key Information on Directors
The Notice of AGM sets out the directors proposed for re-election at the 2013 AGM. Key information on each director can be found in the 'Board of Directors' section of the Annual Report.

Directors' Time Commitment
As a director's ability to commit time to the Group's affairs is essential for performance, the NC has formulated guidelines to assess each director's ability to make such a commitment. The guidelines consider the number of other board and committee memberships a director holds, as well as size and complexity of the companies in which he or she is a board member. All directors are aware of his or her time commitment obligations and have met the requirements for time commitment under the guidelines. In addition, each director completed a self-assessment of his or her time commitment obligations in 2012. The NC conducts a review of the time commitment of each director on an ongoing basis. The Board believes that each director has to personally determine the demands of his or her competing directorships and obligations and assess how much time is available to serve on the Board effectively. Accordingly, the Board has not made a determination of the maximum number of board representations a director may hold.

BOARD PERFORMANCE
PRINCIPLE 5

The NC makes an assessment at least once a year to determine whether the Board and Board committees are performing effectively and identifies steps for improvement. The evaluation covers a range of issues including Board composition as well as the timeliness and quality of information provided to the Board.

In the course of the financial year, the Board underwent a board effectiveness evaluation. As part of the evaluation, each director completes a Board evaluation questionnaire and returns it to the Chairman. The evaluation results were discussed with the NC and the Board, and key action steps were mapped with the goal of enhancing the workings of the Board and the Board committees.

The Board considers the current arrangement useful as directors are given the opportunity to debate the Board's workings and processes collectively.

ACCESS TO INFORMATION
PRINCIPLE 6

The Board meetings agenda are set in advance with items proposed by the CEO and management. Directors have direct access to senior management and are provided with complete and relevant information in a timely manner. Directors are entitled to request from management such additional information as needed in order to make informed and timely decisions. Directors have the discretion to engage external advisers at the expense of the Group.

Group Secretary
The Group Secretary, Mr Goh Peng Fong, was appointed on 3 August 2012. The Group Secretary attends all Board meetings and ensures that applicable rules and regulations and Board procedures are complied with. The Group Secretary facilitates communication between the Board, its committees and Management, and the induction of new directors, and generally assists directors in the discharge of their duties.

Under the Articles of Association, the appointment and removal of the Group Secretary require the approval of the Board.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES
PRINCIPLE 7

The overall objective of the Group's remuneration policy is to establish a framework for attracting, retaining and motivating employees, and creating incentives for delivering long-term performance within established risk limits. The policy reinforces a culture that rewards for performance.

The Group's remuneration policy aims to be consistent with the principles and standards set out by the Financial Stability Board (FSB) and the relevant local regulators where it operates.

Governance
The governance of remuneration policies involves the design, implementation and ongoing review of remuneration practices.

Compensation and Management Development Committee
The CMDC is chaired by Mr Seah and comprises Dr Broadman, Dr Cheng, Ms Goh and Mr Sekulic, all of whom are non-executive and independent directors. In 2012, the composition of the CMDC was beefed up with the appointment of Mr Sekulic as a CMDC member. Mr Sekulic's background in economics and extensive experience in the Asia Pacific, Africa, Middle East and the United States markets complement the existing skillset of the CMDC. The number of independent directors exceeds the requirements of the Code, Guidelines and Banking Regulations.

Please refer to the section on 'Board of Directors' in the Annual Report for key information on the CMDC members, including their academic and professional qualifications.

The CMDC's responsibilities include:

(i) Overseeing the Group's principles and framework of compensation to ensure their alignment with prudent risk-taking to build a sustainable business in the long term.
(ii) Overseeing the remuneration of senior executives including reviewing and approving the remuneration of the executive director.
(iii) Approving employee incentive schemes and reviewing their effectiveness in employee retention and the creation of long-term value for the Group.
(iv) Overseeing management development and succession planning to ensure that the Group strengthens its core competencies, bench strength and leadership pipeline.

In fulfilling its responsibilities, the CMDC ensures that the Group complies with the corporate governance practices as stipulated under the Code and the Banking Regulations. Details of these are outlined under Principles 7, 8 and 9 of this report.

In 2012, the CMDC engaged an external consultant to provide an independent review of the bank's compensation system and processes to ensure compliance with the principles of Sound Compensation Practices by the FSB.

DBS also undertakes an annual comprehensive review of people plans for all its business and support units and DBS major markets. Reviews focused on succession, the talent pipeline, people development and readiness of the people plans to support business operations. Talent health of each business and support units / countries as well as the state of talent development activities in DBS were reviewed with the CMDC.

The CMDC reviews and approves the Group's remuneration policy and the annual variable remuneration pool which are also endorsed at the Board level. It provides oversight of the remuneration of executive directors, senior executives and control functions in line with FSB guidelines. The CMDC reviews cases where total remuneration exceeds a pre-defined threshold, or where a claw-back is implemented. Dr Broadman, Ms Goh and Mr Seah are also members of the BRMC while Dr Cheng, Mr Seah and Mr Sekulic are members of the AC. Their membership in other Board committees enables them to make remuneration decisions in a more informed, holistic and independent manner. The CMDC has direct access to senior management and works closely with the BRMC and the AC when performing its role.

Performance management

The Group uses a comprehensive performance methodology to determine the size and allocation of the variable remuneration. The assessment is based on a balanced scorecard agreed to with the Board at the beginning of each year. The scorecard comprises financial and non-financial metrics encompassing employees, customers, shareholders, and risk and compliance objectives. The financial metrics link the variable remuneration to the Group's and the individual business unit's financial results, while the non-financial metrics capture the performance of qualitative aspects such as adherence to risk policies and client satisfaction.

The balanced scorecard is cascaded throughout the Group to drive synergies across business units and strengthen the alignment between pay and performance.

The Group also ensures that sales staff are incentivised to promote the development of client relationships that are beneficial to the long term interests of the clients as well as the Group, rather than on short term volume growth. Non-financial metrics, such as customer satisfaction and compliance with the principles of fair dealing, are included in the assessment of sales staff.

The control functions, comprising Risk, Finance, Legal, Compliance and Audit, are measured independently from the business units that they support to prevent any conflicts of interest. An employee in a control function is assessed according to key performance indicators set by the control unit management, which are independent of the performance of the business units they support.

Remuneration structures

In line with these objectives, the Group's remuneration structure has four key features.

(i) *Focus on total compensation*: An employee's total compensation consists of fixed pay and discretionary variable remuneration. Total compensation is determined by the employee's roles and responsibilities, performance and contributions, and market dynamics. The Group benchmarks total remuneration against other organisations of similar size and standing with which it competes in its principal markets.

(ii) *Differentiation of variable and fixed remuneration across employee groups*: The Group aims to differentiate the ratio between variable and fixed remuneration according to performance, rank and function. This is done to ensure that employee incentives remain focused on prudent risk taking and effective control, depending on the employee's role.

(iii) *Payout structures focused on aligning incentive payment with appropriate risk taking behaviour*: The payout structure is designed to incentivise employees whose decisions can have a material impact on the Group to adopt appropriate risk behaviour. These employees include senior management, key personnel at business units, and senior control staff. The Group defines this group of staff based on their roles as well as the quantum of their variable remuneration and the ratio of their variable to fixed pay, where such employees may have an impact on the risk profile of the Group.

Variable remuneration for this group of employees is subject to a tiered deferral rate that ranges from 20%-60%. All deferred remuneration is paid in restricted shares that have a vesting period of four years and comprise two elements – a main award and a retention award. The retention award is designed to retain talent and compensate the staff for the time value of deferral. It vests at the end of four years from the grant date. Vesting of these awards is conditional on an eligible employee's continued employment with the Group at the respective vesting dates and subject to the terms and conditions of the awards, their applicable share plans and such other terms and conditions that may be implemented by the Group from time to time.

The Group also subjects deferred shares that are unvested to claw-backs. The claw-backs will be triggered by events such as a material violation of risk limits, material losses due to negligent risk taking or inappropriate individual behaviour, a material restatement of the Group's financials due to inaccurate performance measures, and misconduct or fraud.

The detailed variable remuneration pool allocation process is outlined below.

(iv) *No special payouts*: The Group does not practise accelerated payment of deferred remuneration for departing employees other than in exceptional cases, such as death in service. There is also no provision for special executive retirement plans, golden parachutes or special severance packages for executives. The Group also does not provide any guaranteed bonuses beyond one year.

Sizing and allocation of variable remuneration pool

In determining the variable remuneration pool, the Group's financial performance, its performance relative to peers, market benchmarks and market conditions are considered in light of agreed metrics contained in the balance scorecard. The pool is calibrated as a percentage of profit before tax, as well as economic profit. The latter is a measure that links financial performance with the risks assumed and capital utilized in the process, thereby allowing the CMDC to ensure that the level of risk undertaken by the various businesses to achieve the Group's financial results remains prudent and appropriate.

The Group's Finance and Risk functions are responsible for the accuracy of the financial results used in sizing and allocating the variable remuneration pool. The Human Resources, Finance and Group Planning functions are responsible for ensuring the accuracy of the Group's as well as individual business and support units' balanced scorecards.

After the amount of variable remuneration has been approved by the CMDC, management takes inputs from control functions such as Audit, Compliance and Risk to allocate the pool across the business and support units according to their individual scorecards. The various business and support unit heads then cascade their allocated bonus pools to their teams and individuals following a similar approach. Country heads are also consulted in the allocation process.

LEVEL AND MIX OF REMUNERATION
PRINCIPLE 8

Remuneration of Non-Executive Director

The remuneration for non-executive directors, including the Chairman, has been benchmarked to reflect trends in global, regional and local banking markets. Non-executive directors will receive 70% of their director's fees in cash and the remaining 30% in share awards. The share awards are not subject to a vesting period, but are subject to a selling moratorium whereby each non-executive director is required to hold the equivalent of one year's basic retainer for his or her tenure as a director and for one year after the date he or she steps down as a director. The fair value of share grants to the non-executive directors shall be based on the volume-weighted average price of DBSH shares over the 10 trading days immediately following the AGM. Shareholders are entitled to vote on non-executive directors' remuneration at the forthcoming AGM.

Remuneration of Executive Director

The remuneration for the executive director reflects the CMDC's assessment of the Group's achievements against the balanced scorecard framed by market or comparable remuneration data. The remuneration structure incentivises the executive director to achieve the Group's annual as well as long-term goals and ensure that they are aligned with shareholders' interests.

The CMDC's recommendation for the executive director's remuneration has to be endorsed by the Board.

Long-term share incentives – DBSH Share Plan, DBSH Employee Share Plan and Share Ownership Scheme

As the Group seeks to foster a culture that aligns employees' interests with shareholders' as well as to enable employees to share in the Group's success, it has put in place share-based plans. There are three plans – the DBSH Share Plan (Share Plan), the DBSH Employee Share Plan (ESP) and the DBSH Share Ownership Scheme (SOS).

Prior to 2009, a DBSH Share Option Plan (SOP) was also part of the long-term share incentives that had been put in place. The SOP expired on 19 June 2009 and it was not extended or replaced. The termination does not affect the rights of holders of outstanding existing options.

Employees holding the corporate rank of Managing Director, Senior Vice President and Vice President are eligible to participate in the Share Plan whilst ESP caters to employees who are Assistant Vice Presidents and below.

Awards made under both the Share Plan and ESP form part of the employee's annual deferred remuneration.

The grants operate like restricted share awards and comprise two elements – the main award and the retention award. The shares given in the retention award constitute 20% of the shares given in the main award. Awards made under the plans vest over a 4-year period. 33% of the shares in the main award will vest two years after the grant date, another 33% three years after and the remaining 34% four years after, when the shares in the retention award will also vest.

In addition, shares can also be awarded to Vice Presidents and below as part of talent retention. Shares awarded in such cases only comprise one element - the main award and have similar vesting arrangements as those awarded under the Share Plan and ESP.

Vesting of awards made under the Share Plan and ESP is conditional on eligible employee's continued employment with the Group at the respective vesting dates and is subject to the terms and conditions of the award, the Share Plan or ESP (where applicable) and such other terms and conditions that may be implemented by the Group from time to time.

The aggregate number of new DBSH ordinary shares that may be issued under the Share Plan together with the shares subject to the exercising of options under the former SOP may not at any time exceed 7.5% of the issued ordinary shares (excluding treasury shares) of the Group.

Details of the Share Plan and SOP appear on Pages 166 to 167 of the Directors' Report.

In addition, employees who are not eligible for the Share Plan are eligible to participate in the SOS. The SOS is a market purchase plan administered by DBS Trustee Ltd, a wholly-owned subsidiary of DBS Bank Ltd. All eligible confirmed employees with at least one year of service can participate in the scheme. Participants and the Group contribute up to 10% and 5% of monthly base salary respectively to buy units of DBSH ordinary shares.

DISCLOSURE ON REMUNERATION
PRINCIPLE 9

The annual fee structure for the Board in 2012, which is unchanged from last year, is as follows.

Annual Fees for the Board

Chairman:	$500,000
Director:	$ 80,000

Additional Fees for Memberships in Board Committees

Type of Committee	Chairman	Member
Executive Committee	$75,000	$45,000
Audit Committee	$75,000	$45,000
Board Risk Management Committee	$75,000	$45,000
Nominating Committee	$35,000	$20,000
Compensation and Management Development Committee	$65,000	$35,000

Breakdown of Directors' Remuneration

The following table shows the composition of directors' remuneration for 2012. Directors who were appointed or who resigned or retired during the year are included in the table.

BREAKDOWN OF DBS DIRECTORS' REMUNERATION FOR PERFORMANCE YEAR 2012 (1 JANUARY 2012 – 31 DECEMBER 2012)[1]

Name of Director	Salary Remuneration $	Cash Bonus[2] $	Share Plan $	Directors' Fees[3] $	Share-based Remuneration[4] $	Others[5] $	Total $
Peter Seah Lim Huat	–	–	–	662,544	283,948	52,792	999,284
Piyush Gupta	1,200,000	3,485,000	4,615,000[6]	–	–	31,249	9,331,249
Bart Joseph Broadman	–	–	–	153,300	65,700	–	219,000
Christopher Cheng Wai Chee[7]	–	–	–	227,600	–	–	227,600
Euleen Goh Yiu Kiang	–	–	–	245,700	105,300	–	351,000
Ho Tian Yee	–	–	–	140,000	60,000	–	200,000
Nihal Vijaya Devadas Kaviratne CBE	–	–	–	181,580	77,820	–	259,400
Kwa Chong Seng[8]	–	–	–	79,295	–	–	79,295
Andre Sekulic[9]	–	–	–	109,478	46,919	–	156,397
Danny Teoh Leong Kay	–	–	–	207,200	88,800	–	296,000
Woo Foong Pheng (Mrs Ow)[10]	–	–	–	135,462	–	–	135,462

1 Refers to 2012 performance remuneration – includes fixed pay in 2012, cash bonus received in 2013 and shares granted in 2013
2 The amount has been accrued in 2012 financial statements
3 Fees payable in cash, in 2013, for being a director in 2012. This is subject to shareholder approval at the 2013 AGM
4 This is to be granted in the form of DBSH shares, for being a director in 2012. This is subject to shareholder approval at the 2013 AGM
5 Represents non-cash component and comprises club, car and driver benefits and employer's contribution to CPF
6 For better comparability with other listed companies, these figures exclude the estimated value of retention shares amounting to $923,000 which will only vest in the 4th year if the incumbent is still in the employment of the Group
7 Dr Cheng, who shall step down at the conclusion of the 2013 AGM, will receive all of his director's remuneration in cash
8 Mr Kwa, who stepped down on 25 April 2012, will receive all of his director's remuneration in cash
9 Mr Sekulic was appointed as Director on 26 April 2012
10 Mrs Ow was appointed as Director on 26 April 2012. Director's remuneration payable to Mrs Ow will be paid fully in cash to a government agency, the Directorship & Consultancy Appointments Council

Notes:
- *Directors are also paid attendance fees for Board and Board Committee meetings, as well as for attending the AGM and the annual Board offsite*
- *Fees have been pro-rated according to the date of appointment or resignation. There were 366 days in calendar year 2012*

In 2012, none of the Group's employees were immediate family members of a director.

Senior Management and Material Risk Takers' Remuneration

The following tables show the breakdown of remuneration and long-term remuneration awards for senior management and key risk takers. Senior management (SM) is defined as the executive director and members of the Group Management Committee, who have authority and responsibility for planning the activities and the overall direction of the Group. Material risk takers (MRTs) are defined as individual employees whose duties require them to take on material risk on behalf of the Group. These could be either individual employees or a group of employees who may not pose a risk to the financial soundness of an institution on an individual basis, but may present a material risk on a collective basis.

TABLE 1: GUARANTEED BONUSES, SIGN-ON AWARDS AND SEVERANCE PAYMENTS

CATEGORY	SM	MRTs
Number of guaranteed bonuses	0	0
Number of sign-on awards	0	5
Number of severance payments	0	0
Total amounts of above payments made during the Financial Year ($'000)	0	989

TABLE 2: BREAKDOWN OF REMUNERATION AWARDED IN CURRENT FINANCIAL YEAR

CATEGORY		SM		MRTs	
		Unrestricted %	Deferred %	Unrestricted %	Deferred %
Fixed remuneration	Cash-based	20	–	38	–
	Shares and share-linked instruments	–	–	–	–
	Other forms of remuneration	–	–	–	–
Variable remuneration	Cash-based	37	–	41	–
	Shares and share-linked instruments	–	43	–	21
	Other forms of remuneration	–	–	–	–
	Total	**100**		**100**	

TABLE 3: BREAKDOWN OF LONG-TERM REMUNERATION AWARDS

CATEGORY	SM %	MRTs %
Change in deferred remuneration awarded in current financial year[1]	10 (9)[4]	4 (2)[4]
Change in amount of outstanding deferred remuneration from previous financial year[2]	66[3] (67)[4]	55[3] (54)[4]
Outstanding deferred remuneration (breakdown):		
Cash	0	0
Shares & share-linked instruments	100	100
Other forms of remuneration	0	0
Total	**100**	**100**
Outstanding deferred remuneration (performance adjustments):		
Of which exposed to ex-post adjustments	100	100
Reductions in current year due to ex-post adjustments (explicit)	–	–
Reductions in current year due to ex-post adjustments (implicit)[2]	–	–
Outstanding retained remuneration (performance adjustments):		
Of which exposed to ex-post adjustments	–	–
Reductions in current year due to ex-post adjustments (explicit)	–	–
Reductions in current year due-to ex-post adjustments (implicit)	–	–
Headcount	20	225

1 *Value of shares + retention shares accrued in 2012 vs. value of shares + retention shares accrued in 2011. Share price taken at date of grant*
2 *[No. of unvested shares as at 31 Dec 12 x share price as at 31 Dec 12] / [No. of unvested shares as at 31 Dec 11 x share price as at 30 Dec 11]*
3 *The increase is due to increase in both share price and number of shares granted in 2012. The change in vesting period of 3 years to 4 years for 2010 grant onwards also increases the number of unvested shares.*
4 *The figure in the parenthesis showed the change in deferred remuneration awarded if the same population of staff that fulfills the definition of SM and MRTs for both performance year 2011 and 2012 is used*

Examples of explicit ex-post adjustments include malus, clawbacks or similar reversal or downward revaluations of awards.

Examples of implicit ex-post adjustments include fluctuations in the value of shares or performance units.

KEY EXECUTIVES' REMUNERATION

Although the Code and the Guidelines recommend that at least the top five key executives' remuneration be disclosed within bands of $250,000 and in aggregate, the Board believes that such disclosure would be disadvantageous to the Group's business interests, given the highly competitive conditions in the banking industry where poaching of executives is commonplace.

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY
PRINCIPLE 10

The Board provides shareholders with quarterly and annual financial reports. In presenting these statements, the Board aims to give shareholders a balanced assessment of the Group's financial performance and position. The Board also ensures timely and full disclosure of material corporate developments to shareholders.

Management provides Board members with detailed reports on the Group's financial performance and related matters prior to the Board meetings every quarter. The CEO and CFO provide the AC and the external auditors with a letter of representation attesting to the integrity of the financial statements each quarter. In addition, management provides the Board with detailed financial performance reports each month.

RISK MANAGEMENT AND INTERNAL CONTROLS
PRINCIPLE 11

Board Risk Management Committee

The BRMC is chaired by Ms Goh and comprises Dr Broadman, Mr Ho, Mr Kaviratne, Mr Seah and Mr Teoh, all of whom are non-executive and independent directors. The BRMC members are appropriately qualified to discharge their responsibilities. The number of non-executive directors exceeds the composition requirements which are set out in the Guidelines and Banking Regulations. Please refer to the section on 'Board of Directors' in the Annual Report for key information on the BRMC members, including their academic and professional qualifications.

The BRMC's responsibilities include:

(i) Monitoring risk exposures and risk strategy in accordance with approved guidelines.
(ii) Approving the Group's overall and specific risk governance frameworks (including setting risk appetite and risk authority limits) and Basel II compliant risk models.
(iii) Overseeing an independent Group-wide risk management system and ensuring there are sufficient resources to monitor risks.
(iv) Exercising oversight of the Internal Capital Adequacy Assessment Process through stress scenario setting approval and other regular reporting.
(v) Approving the Recovery Plan.

In 2012, the BRMC continued to steer the development of the Risk Appetite Framework. This framework encompasses the Risk Appetite Statement and the allocation of risk limits and capital to the various risk types, geographies, industries and individual clients. The Risk Appetite statement has been approved by the Board in April 2012. During discussions of the risk dashboard (which was introduced in 2011), the BRMC closely monitored the Eurozone crisis and other significant macro-economic outlook; it reviewed the impact and actions taken by management which included various stress testing exercises on the various portfolios and country risk exposures. The BRMC was also kept apprised of the regulatory developments such as Basel III. In addition, the Committee reviewed and approved the Recovery Plan. The Recovery Plan sets out the framework and options that the Group can take to stabilise itself and restore the capital, liquidity and profitability it needs to continue as a going concern should it come under severe stress.

Internal Controls

The Group has instituted an internal controls framework covering financial, operational, compliance and technology controls, as well as risk management policies and systems. DBS' risk governance structure includes three lines of defence with clear roles and responsibilities. The business management, in partnership with support functions, is the first line of defence and is primarily responsible for identification, assessment and management of risk within approved risk appetite and policies. They are required to develop and maintain appropriate risk management controls including self-assurance processes. As the second line of defence, corporate oversight functions (such as Risk Management Group and Group Legal & Compliance) are responsible for establishment and maintenance of risk management frameworks as well as monitoring and reporting of key risk issues. Group Audit, as the third line of defence, provides assurance on the adequacy and effectiveness of the Group's risk management, governance and internal control systems.

Please refer to the section on 'Risk Management' in the Annual Report which sets out the overall risk governance and various risk management frameworks covering credit, market, liquidity and operational risks.

The Group has in place a risk management process that requires all units to perform a half-yearly Control Self Assessment (CSA) to assess the effectiveness of their internal controls. In addition, all units of the Group are required to submit quarterly attestations on their controls relating to the financial reporting process, and annual attestations on their compliance with the overall internal controls framework. Leveraging on the results of the CSA and the quarterly and annual attestations, the CEO and CFO would in turn provide an annual attestation to the AC relating to adequacy and effectiveness of the Group's risk management and internal control systems. Group Audit performs regular independent reviews to provide assurance on the adequacy and effectiveness of the Group's risk management, control and governance processes. The AC and BRMC review the overall adequacy and effectiveness of the Group's internal controls framework.

The Board has received assurance from the CEO and CFO that, as at 31 December 2012:

(a) the Group's financial records have been properly maintained, and the financial statements give a true and fair view of the Group's operations and finances; and
(b) the Group's risk management and internal control systems were adequate to address financial, operational, compliance and information technology risks which the Group considers relevant and material to its operations.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, reviews performed by management and various Board Committees and assurances received from the CEO and CFO, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls and risk management systems were adequate as at 31 December 2012 to address financial, operational, compliance and information technology risks which the Group considers relevant and material to its operations.

The Board notes that the internal controls and risk management systems provide reasonable, but not absolute, assurance that the Group will not be affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, the Board also notes that no system can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, fraud or other irregularities.

Whistle-blowing policy

The Group has established procedures on the escalation, investigation and follow up of any reported wrong-doing by a DBS employee, customer, vendor or third party. The procedure for escalation is in various Group policies but most predominantly in the DBS Code of Conduct (Code of Conduct). The Code of Conduct promotes employees to report their concerns to the Group's dedicated, independent investigation team within Group Legal, Compliance and Secretariat which handles whistle-blowing cases according to a well defined protocol. Alternatively, in case of actual or potential conflict of interest or fear of retribution, employees may write in confidence to Human Resources, Group Audit, or even the CEO or Chairman. Members of the public may access the Code of Conduct on the Group's website, as well as write in via the portal available.

Related Party Transactions

The Group has embedded procedures to comply with all regulations governing related party transactions, including those in the Banking Act, Chapter 19 (Banking Act), MAS directives and the SGX Listing Rules. The Banking Act and MAS directives impose limits on credit exposures by the Group to certain related entities and persons, while the SGX Listing Rules cover interested party transactions in general.

All new directors are briefed on all relevant provisions that affect them. If necessary, existing credit facilities to related parties are adjusted prior to a director's appointment, and all credit facilities to related parties are continually monitored. Checks are conducted before the Group enters into credit or other transactions with related parties to ensure compliance with regulations.

As required under the SGX Listing Rules, the following are details of interested person transactions in 2012:

Name of Interested Person	Aggregate value of all Interested Person Transactions during 2012 (excluding transactions less than $100,000)
CapitaLand Limited Group	167,403
Certis CISCO Security Pte Ltd Group	67,235,722
Fullerton Management Pte Ltd Group	28,793,700
Mapletree Investments Pte Ltd Group	12,000,937
MediaCorp Pte Ltd Group	127,600
Singapore Telecommunications Limited Group	83,991,021
Singapore Technologies Telemedia Pte Ltd Group	103,353
SMRT Corporation Ltd Group	2,096,252
StarHub Ltd Group	2,143,402
Total Interested Person Transactions ($)	**196,659,390**

Material Contracts

Since the end of the previous financial year, no material contracts involving the interest of any director or controlling shareholder of the Group has been entered into by the Group or any of its subsidiary companies, and no such contract subsisted as at 31 December 2012, save as disclosed via SGXNET.

Dealings in securities

In conformance with the "black-out" policies prescribed under SGX Listing Rules, DBSH directors and employees are prohibited from trading in DBSH securities one month before the release of the full-year results and two weeks before the release of the first, second and third quarter results. In addition, directors and officers are prohibited at all times from trading in DBSH securities if they are in possession of material non-public information.

Employees with access to price-sensitive information in the course of their duties are prohibited from trading in securities in which they possess such price-sensitive information. Such employees are also instructed to trade through the Group's stock broking subsidiaries for securities listed in Singapore and Hong Kong. In addition, business units and subsidiaries engaging in proprietary trading are restricted from trading in DBSH securities during the black-out period.

AUDIT COMMITTEE
PRINCIPLE 12

The AC is chaired by Mr Teoh and comprises Dr Cheng, Mr Kaviratne, Mr Seah, Mrs Ow and Mr Sekulic, all of whom are non-executive directors. In 2012, the composition of the AC was beefed up by the appointment of two new members, namely Mrs Ow and Mr Sekulic. Mr Teoh possesses an accounting qualification and was the managing partner of KPMG, Singapore. All members of the AC have recent and relevant accounting or related financial management expertise or experience.

In accordance with the requirements of the Code, Guidelines and Banking Regulations, a majority (five out of six members of the AC) including the AC Chairman are independent directors, with the exception of Mrs Ow. Mrs Ow, who is a non-independent director, is considered independent from business relationships and management. Please refer to the section on 'Board of Directors' in the Annual Report for key information on the AC members, including their academic and professional qualifications.

The AC's responsibilities include:

(i) Reviewing the adequacy of internal controls, such as financial, operational, compliance and information technology controls, as well as accounting policies and systems.
(ii) Monitoring the financial reporting process and ensuring the integrity of the Group's financial statements.
(iii) Reinforcing the effectiveness of internal and external audit processes.
(iv) Reviewing the internal auditor's plans, the scope and results of audits, and effectiveness of the internal audit function.
(v) Approving the hiring of Head of Group Audit, including appointment, removal, evaluation, annual compensation and salary adjustment.
(vi) Reviewing the arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that arrangements are also in place for independent investigation of such matters and for appropriate follow up action.
(vii) Maintaining effective communications between the Board, management and external auditors. The AC reviews external auditors' plans, the effectiveness of their audits, and the independence of the external auditors.

(viii) Making recommendations to the Board on the proposals to shareholders on the appointment, re-appointment and renewal of the external auditors and approving the remuneration and terms of engagement of the external auditors.

All AC meetings are also attended by the CEO, heads of Group Audit, Finance, and Legal, Compliance and Secretariat. The AC also has full discretion to invite any director and executive to attend its meetings. Separate sessions with the external auditors are held without the presence of management after each AC meeting to discuss matters that might have to be raised privately. In addition, there is at least one scheduled private session annually for the head of Group Audit to meet with the AC. The AC Chairman meets the internal auditors regularly to discuss the internal audit plan, current work, key findings and other significant matters. The AC has explicit authority to investigate any matter within its terms of reference, and has full access to and cooperation by management.

The AC has reviewed the Group's audited financial statements with management and the external auditors and is of the view that the Group's financial statements for 2012 are fairly presented in conformity with relevant Singapore Financial Reporting Standards in all material aspects.

During the financial year, the AC carried out an annual assessment of the effectiveness of the Group Audit function and believes that it has good standing within the Group and is adequately resourced to fulfil its mandate.

During the course of 2012, the AC's activities included:

- Quarterly reviews of the financial statements (audited and unaudited), and recommendation to the Board for approval.
- Quarterly reviews of reports from Group Audit and Group Legal and Compliance.
- Reviewing the Group's progress on the implementation of the Fair Dealing Outcomes across the Group, in line with the principles issued by MAS.
- Reviewing the annual audit plan and the legal and compliance plans, approving any changes as necessary, and
- Reviewing the annual re-appointment of the external auditors and determining their remuneration, and making a recommendation for Board approval.
- Reviewing the appointment of the independent external assessor to conduct an assessment of Group Audit's conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.

External Auditors

The AC makes recommendations to the Board for the appointment, re-appointment and dismissal of the external auditors including the remuneration and terms of engagement. The Group has complied with Rule 712 and Rule 715 of the SGX Listing Rules in relation to its external auditors.

INTERNAL AUDIT PRINCIPLE 13

Group Audit is a function that is independent of the activities it audits. The objective, scope of authority and responsibility of Group Audit are defined in the Group Audit charter, which is approved by the AC.

In DBSH, Group Audit reports functionally to the Chairman of the AC and administratively to the CEO.

Group Audit's responsibilities include:

(i) Evaluating the adequacy and effectiveness of the Group's risk management and internal control systems, including whether there is prompt and accurate recording of transactions and proper safeguarding of assets;
(ii) Providing an independent assessment of the Group's credit management processes, portfolio strategies and portfolio quality;
(iii) Reviewing whether the Group complies with laws and regulations and adheres to established policies; and
(iv) Reviewing whether management is taking appropriate steps to address control deficiencies.

Group Audit adopts a risk-based approach in its auditing activities. An annual audit plan is developed using a structured risk and control assessment framework, where Group Audit assesses the inherent risk and control effectiveness of each auditable entity in the Group. The assessment also covers risks arising from new lines of business or product. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas. Appropriate resources are deployed to complete the plan, which is reviewed and approved by the AC.

Group Audit has unfettered access to the AC, the Board and senior management, as well as the right to seek information and explanation. Group Audit staff are required to adhere to the Code of Conduct as well as the Code of Ethics established by the IIA, from which the principles of objectivity, competence, confidentiality and integrity are based.

Audit reports containing identified issues and corrective action plans are reported to the AC and senior management. The progress of the corrective action plans is monitored through a centralised issue management system. Information on outstanding issues is included in regular reports to the AC, the Chairman, senior management and business and support unit heads.

Group Audit apprises the regulators and external auditors of all relevant audit matters. It works closely with the external auditors to coordinate audit efforts.

In line with leading practices, Group Audit has established a quality assurance and improvement programme that covers all aspects of its audit activity and conforms to the International Standards for the Professional Practice of Internal Auditing. The programme includes periodic internal quality assurance reviews, self-assessments based on standards established by the IIA and internal audit methodologies, stakeholder surveys and industry benchmarking surveys. External quality assessments are also carried out at least once every five years by qualified professionals from an external organisation. The next one will be performed in 2013.

In response to the June 2012 supervisory guidance issued by the Basel Committee on Banking Supervision for "*The Internal Audit Function in Banks*" (Guidance), Group Audit conducted a self-assessment against the supervisory expectations relevant to the internal audit function specified in the Guidance. The Guidance takes into account developments in supervisory practices and banking organisations, and incorporates lessons drawn from the recent financial crisis. The self-assessment results have shown that Group Audit is compliant with the Guidance.

Group Audit achieved a significant milestone during its participation in the 2012 Securities Investors Association of Singapore (SIAS) Investors' Choice Awards, jointly organised by the SIAS, IIA Singapore and Singapore Management University. Group Audit emerged the winner for the Internal Audit Excellence Award and was recognised for its crucial role in the Group's corporate governance framework.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

SHAREHOLDER RIGHTS
PRINCIPLE 14

The Group's robust corporate governance culture and awareness promote fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Singapore Companies' Act and Articles of Association. All shareholders are treated fairly and equitably.

These rights include, amongst others, pecuniary rights, for example, the right to participate in profit distributions and membership rights such as the right to participate in general meetings and the right to exercise their voting rights. Under the Articles of Association, ordinary shareholders are entitled to attend and vote at the Annual General Meeting (AGM) by person or proxy. A shareholder may appoint up to the maximum of two proxies permitted by law, who need not be shareholders of DBSH.

The Group respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. All price-sensitive information is publicly released prior to any sessions with individual investors or analysts.

COMMUNICATION WITH SHAREHOLDERS
PRINCIPLE 15

The Group's investor relations activities promote regular, effective and fair communication with shareholders. Briefing sessions for the media and analysts are conducted when quarterly results are released. All press statements and quarterly financial statements are published on the DBSH and SGX websites. A dedicated investor relations team supports the CEO and the CFO in maintaining a close and active dialogue with institutional investors. The Group's website provides contact details for investors to submit their feedback and raise any questions.

During the year, management met more than 400 local and foreign investors at more than 370 meetings. It participated in eight local and foreign investor conferences and non-deal road shows. These meetings provide a forum for management to explain the Group's strategy and financial performance. Management also uses meetings with investors and analysts to solicit their perceptions of the Group.

The Group has a formal disclosure policy to ensure that all disclosures of material information are timely, complete and accurate. The policy also spells out how material information should be managed to prevent selective disclosure. In 2012, the Group Disclosure Committee (GDC) was formed to assist the CEO and CFO in implementing the Group's disclosure policy. The GDC comprises the CFO, members of the Group Executive Committee as well as various department heads. The GDC's objectives are to periodically review the Group's disclosure policy and update it as needed; ensure that all material disclosures are appropriate, complete and accurate; and ensure the avoidance of selective or inadvertent disclosure of material information.

CONDUCT OF SHAREHOLDER MEETINGS
PRINCIPLE 16

The AGM provides shareholders with the opportunity to share their views and to meet the Board of Directors, including the chairpersons of the Board committees and certain members of senior management. The Group's external auditors is available to answer shareholders' queries. At the AGM, the Group's financial performance for the preceding year is presented to shareholders.

At general meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders and the Board members. The Group encourages and values shareholder participation at its general meetings. To enhance shareholder participation, the Group puts all resolutions at general meetings to vote by electronic poll and announces the results by showing the number of votes cast for and against each resolution and the respective percentage.

In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the DBSH's general meetings unless they are closely related and are more appropriately tabled together.