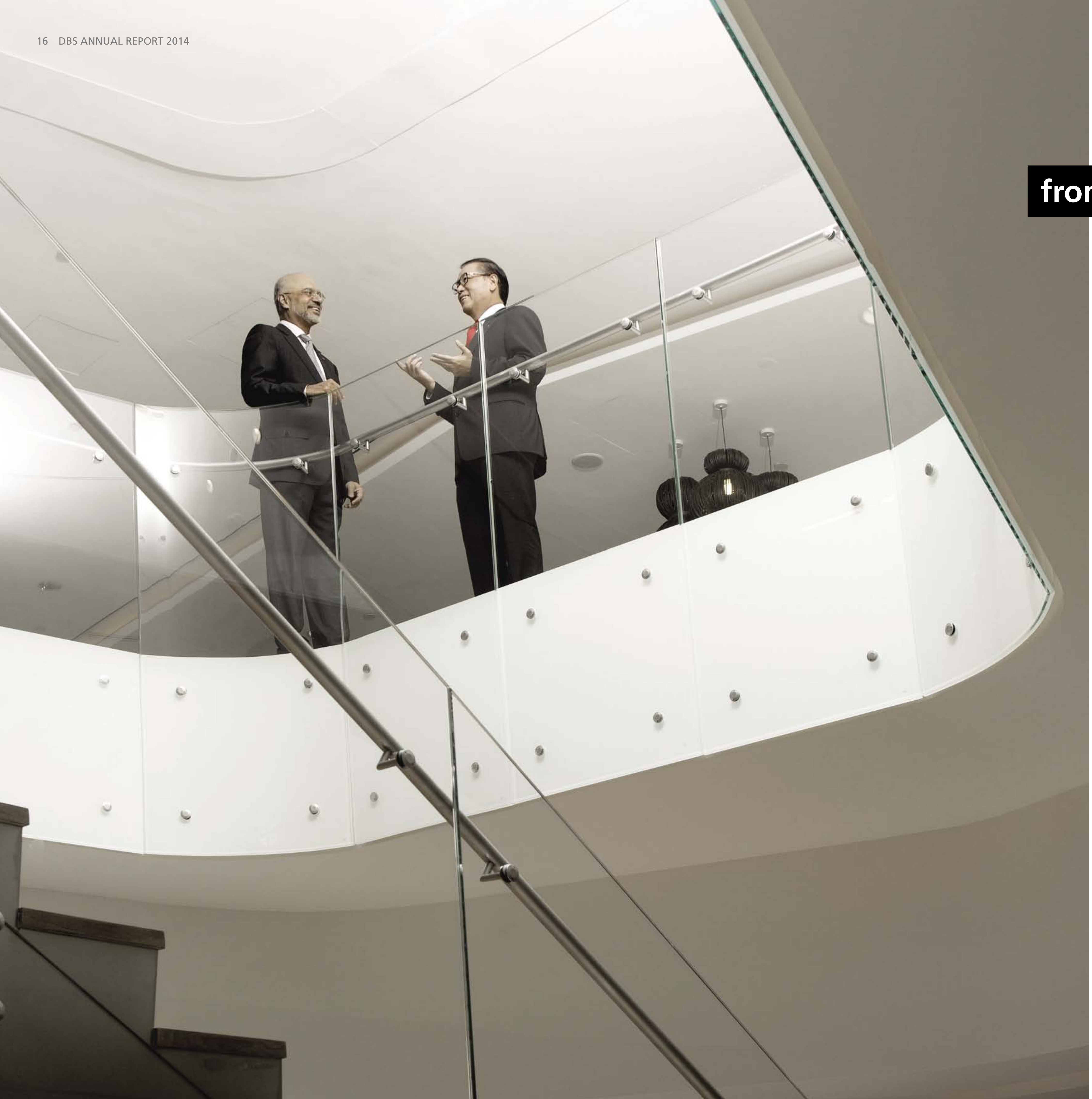


Letter from the Chairman and CEO

The global economy continued to run at a below-average pace in 2014. Five years since the launch of quantitative easing, the US economy finally showed some signs of life, though growth of 2.4% was still weak. Europe fared worse, with GDP growth of 0.9% amid fears that it might fall into recession for the third time since 2008.

China, which is in a structural downshift, saw growth easing to 7.4% from 7.7% previously. This had some spillover effect on the rest of Asia. Singapore's GDP growth eased to 2.9% from 4.4% in 2013, and Hong Kong's growth slipped to 2.3% from 2.9% the year before.

Commodity prices saw large swings, with oil prices collapsing to USD 50 per barrel towards the end of the year, the lowest since the 2009 global financial crisis. While lower oil prices are a boon for oil-importing countries including our two biggest markets, Singapore and Hong Kong, the sharpness of the drop created uncertainty in global markets.

EARNINGS AND INCOME AT RECORD HIGHS; MARKET CAPITALISATION HIT SGD 50 BILLION

Five years ago, we unveiled our strategic priorities, with the aim of becoming a leading Asian bank. Through disciplined execution of strategy, DBS is a markedly different bank today.

The bank continued to deliver record top- and bottom-lines. Notably, since 2009, DBS' full-year income has grown by some 50% while net profit has doubled to SGD 4.05 billion. The structural improvements we have made to our franchise over the past five years continue to pay off. We have entrenched our market leadership in Singapore, re-positioned ourselves in Hong Kong and extended our regional businesses. Our balance sheet is healthy, with capital, liquidity and asset quality remaining strong.

The market recognises that the bank is now operating on a higher plane, as evidenced by a steadily rising share price in the course of the year. In December, even amid concerns that free-falling oil prices might have a contagion effect in Asia, DBS' share price reached a seven-year high, and our market capitalisation crossed SGD 50 billion, making us the 44th largest bank in the world, up from 55th in 2008. DBS' total shareholder return over a three-year period was 94%.

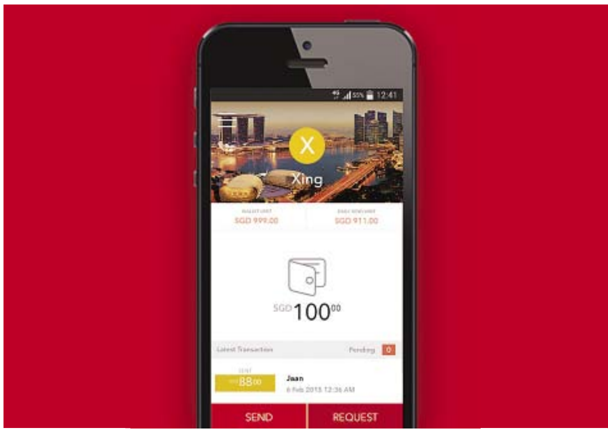
A STRONG, RESILIENT FRANCHISE

2014 was not an easy year with interest rates remaining low. In Singapore, housing has been hit by property cooling measures, and tighter system liquidity resulted in more intense competition for deposits. The regional slowdown also impacted loan growth. In addition, there was continued market volatility. Confidence in the integrity of commodity financing was shaken during the second quarter when fraudulent transactions were discovered at Qingdao port in China's Shandong province.

That DBS was able to navigate these challenges is testament to the resilience of the franchise, and the strong governance and risk management processes we have put in place to undergird our business. Despite slower loan growth – loans grew 9% in constant currency terms – we were able to grow net interest income by 14% as we improved margins. Our strong domestic deposit base, together with our growing cash management, Western MNC and institutional investor franchise, enabled us to attract funding in Singapore dollars, US dollars and other currencies. This proved to be a source of strength, providing us with a cost-effective funding base, and obviating the need to pay up for deposits.

Fee income rose 8% to SGD 2.03 billion as multiple engines of growth, including wealth management, investment banking and credit cards, were firing at the same time.

#customerfirst



#shapingthefuture

Over the course of the year, we successfully completed the acquisition of the Asian private banking business of Societe Generale in Singapore and Hong Kong, as well as selected parts of its trust business. This USD 220 million acquisition not only represents a good deal from a pricing point of view, it also brings accelerated growth opportunities, capacity and scale to our wealth management business. Our assets under management for all wealth customers now top SGD 134 billion, of which SGD 92 billion relate to high net worth customers. This further boosts our position among the top 10 private banks in Asia.

In addition, during the year, we managed to navigate RMB volatility and choppy markets, including the price swings in commodities, rates and credit markets. Despite the difficult market environment, DBS' Treasury franchise outperformed global banks', with income up 8% over the year.

While our India mid-cap book saw some challenges with the sub-par growth in the country, overall, the bank's asset portfolio remains healthy, and our non-performing loan (NPL) ratio is low at 0.9%. This is testament to our focus on managing risks. For example, we came out of the Qingdao port scandal unscathed as the bank had not provided any financing against physical collateral held there. Despite the slowdown in the Singapore property market, we also saw no housing NPL issues as the bulk of our housing loans are for owner occupation.

Our achievements have been recognised. In 2014, DBS was named "Best Bank in Asia-Pacific" by Global Finance, a New York-based magazine. This marked the first time an Asian bank has won this prestigious award since the inception of the accolade 21 years ago. We continued to be named "Safest Bank in Asia" by the same publication for the sixth straight year. In recognition of the bank's strong management, performance and high standards of corporate governance, DBS also picked up the Gold award for Best Managed Board for large-cap companies at the Singapore Corporate Awards 2014.

EMBRACING THE DIGITAL ECONOMY

DBS has been pursuing a strong innovation agenda, driven by a desire to shape the future of banking. We recognise that with changing customer behaviours, rising smart device and social media usage as well as the encroachment into the payments space by non-bank players, the way banking is done is fast changing.

In 2014, we announced plans to invest SGD 200 million over three years to better harness digital technologies. This is on top of the SGD 1 billion we have invested in strategic technology initiatives.

Among our cutting edge initiatives is a partnership with IBM that makes us among the first in the world to use artificial intelligence to provide contextualised and customised wealth advice to high net worth clients. This is currently being piloted in the bank for rollout in 2015. A partnership with Singapore research agency A*STAR to explore emerging technologies that will simplify the lives of customers is also progressing well.

In May 2014, we launched DBS PayLah!. This app allows our customers to transfer funds to others via their mobile phone with a few simple taps, just by knowing the payee's mobile number. Since its launch, we now have more than 200,000 registered users, helping to facilitate over 60,000 payment transactions every month.

To make it easy for owners of small and medium enterprises (SMEs) to open business accounts with the bank, we launched a first-of-its-kind capability that would allow them to do this online. This significantly cuts down the time needed to start a relationship with DBS. During the year, we also rolled out DBS BusinessClass, an app which offers start-ups and SMEs valuable resources, including a unique platform through which they can consult and connect with industry experts, investors and fellow entrepreneurs.

Our mobile banking apps strategy was ranked #1 in the world by Swiss research firm MyPrivateBanking for the second year running.

BUILDING A SUSTAINABLE ORGANISATION

To commemorate Singapore's 50th year in 2015, DBS has committed over SGD 100 million in recognition of our heritage and role in shaping the Singapore story. Reflecting our commitment to being a good corporate citizen, our initiatives will see us giving back to customers, employees and the community. They include the establishment of a SGD 50 million DBS Foundation to strengthen our corporate social responsibility efforts especially in the area of social entrepreneurship. We have gifted SGD 25 million to the National

"We want to be known for igniting possibilities, sparking joy, creating an impact beyond banking and changing lives for the better."
– Chairman Peter Seah

#recordhigh

Gallery Singapore, an institution dedicated to telling the history of Singapore and Southeast Asia through visual arts. In addition, DBS has committed SGD 3.5 million to sponsor the 28th Southeast Asian Games and its dragon boat and sailing races. As the largest bank in Singapore, DBS will help to boost community participation in the biennial Games, making it a truly inclusive event for all in Singapore. We also gave a one-time appreciation award to the majority of our employees in recognition of their hard work and commitment, which have transformed the bank.

DIVIDENDS

The Board has proposed a final dividend of SGD 30 cents per share for approval at the forthcoming annual general meeting. This is unchanged from 2013, and keeps the full-year payout at SGD 58 cents per share.

IGNITING POSSIBILITIES, SPARKING JOY

DBS has come a long way. A decade ago, we first laid claim on ambitions to become a leading Asian bank with our "Living, Breathing Asia" positioning. Since then, our growth and successes have won us numerous accolades, affirming us as a regional banking leader.

We want to be known for igniting possibilities, sparking joy, creating an impact beyond banking and changing lives for the better. As the bank continues to grow from strength to strength, we firmly believe that we have a responsibility to play a purposeful, positive role in the communities we are present in, and to shape the future of banking.

Peter Seah Lim Huat
Chairman
DBS Group Holdings

Piyush Gupta
CEO
DBS Group Holdings

Interview with CEO

Q1 ***With China facing its slowest growth in 25 years, the Singapore property market sputtering, and other emerging macro issues on the horizon, are you comfortable with the quality of your asset book?***

A Yes, we are. Our overall loan book continues to be clean, as demonstrated by our low non-performing loan rate of 0.9%. We have a system to monitor early signs of weakness in our portfolio and the number of such loans remains relatively small.

Having said that, we have been in a very benign part of the credit cycle and a slow reversion to norm is to be expected. While our specific allowances rose from 10 basis points (bp) of loans two years ago to 18bp in 2014, we are still well below the through-cycle average of around 25bp. While we do not expect specific allowances to be significantly higher in 2015, we will continue to be vigilant.

I am less concerned about systemic risks in China as I do not believe that its economy will have a hard landing. However, there could be idiosyncratic counterparty risks as the ongoing anti-corruption drive could create risks for companies related to the affected individuals. We have kept the majority of our China exposure in short-term trade loans; furthermore, most of our trade loan counterparties are the systemically-important China banks. Our non-trade loans are diversified. Our property loans have been made to leading local and international developers at conservative loan-to-value ratios. Overall, we are not seeing any unusual signs of stress at present across our China portfolio.

The Singapore housing market remains subdued after several rounds of cooling measures. We have stress tested our portfolio rigorously and assessed it to be resilient. Our typical Singapore housing loan is only 60% of the current market value of the property, and around 90% of our customers are servicing only one housing loan. We are therefore well-protected against downside risks.

We would not be surprised to find a few casualties in the commodities and energy sector given the sharp deterioration in prices. Again, we have stress tested our portfolio and have found only a handful of potentially weak cases, none of which is likely to be material.

We expect some upside in our India portfolio as the worst of the issues we faced in mid-cap segment are likely to be behind us. We have tightened our lending criteria and strengthened our early warning monitoring. We are encouraged by the government's decisive steps to improve India's economic framework. Together with declining inflation and falling oil prices, we expect the Indian economy to improve in the foreseeable future.

Q2 ***Some of your competitors are seeing funding pressures. Are you facing similar concerns?***

A Funding has never really been a challenge for us, given our very large corpus of SGD savings account balances, for which we have a 52% market share. This steady funding base has allowed us to comfortably grow our loan book. This remains the case even with the recent tightening of domestic liquidity: we continue to have a healthy surplus of SGD deposits, allowing us to remain above the fray in the competition for fixed deposits. Maintaining our deposit franchise leadership of course does not come by easily. We have been continually expanding our distribution channels and improving convenience for customers.

The real story, however, is the strides we have made over the past five years in growing diversified USD funding capabilities. We built out a leading cash management franchise as part of efforts to garner USD deposits. This strategy has proven to be extremely successful. We have made significant inroads with a diverse range of customers including Western MNCs, regional Asian corporates and institutional investors. Over the past five years, our USD deposits have tripled from around SGD 30 billion to SGD 90 billion.

We have also built up wholesale funding programmes, through commercial papers and medium-term notes, to access high-quality funding across a range of tenors. Our strong credit ratings allow us to command excellent pricing in wholesale markets.

Our overall loan-deposit ratio (LDR) of 87% remains very comfortable. The LDR is not necessarily the best way to measure liquidity (for example, a short-term trade asset funded by short-term wholesale funding poses no liquidity risk but has the effect of raising the LDR). That is why the focus has been shifting to alternative measures such as the liquidity coverage ratio. On this

"The Singapore housing market remains subdued after several rounds of cooling measures. We have stress tested the portfolio rigorously and assessed it to be resilient."
– Piyush Gupta, CEO, DBS

DBS has put in place a number of organisational safeguards which help to maintain a strong risk and governance culture in the bank.

measure we are well over 100%, which is the regulatory requirement in 2019.

Q3 ***How do you view the digital revolution? Is it a boon or bane for banks like yourselves?***

A The digital revolution will fundamentally redefine the banking industry in just a few short years. We are perhaps the most digitisable of all industries as we deal only in bits and bytes. It is only a matter of time before the disruption that the retail and telecom industries have experienced befalls banking. Monumental change is just around the corner and Bill Gates will be proven right when he said that people need banking, but not banks.

Three trends will be fundamental to the future of banking. The first is mobile computing, which allows banking to become integral to people's lives instead of a detached activity. The second is big data, which will enable banks to introduce products and services that could not be imagined before. The third is the network economy, which dramatically changes the way economic agents – whether individuals or merchants – interact.

These trends will create a massive discontinuity and threaten traditional banks' existence. An insidious consequence of the recent financial crisis is that our industry has been so preoccupied with the issues of capital, liquidity and ethical conduct that we have been unable to prepare adequately for the digital future. This has allowed non-bank competitors and internet companies to make some of the biggest inroads into financial services in recent times. The biggest payment company in the region today is Alipay, an online payment platform linked to Alibaba, and not a bank.

At the same time, however, the discontinuity will provide a huge opportunity for banks that can get it right. Banks have innate advantages that others don't, such as banking expertise, robust networks and infrastructure, and established risk management frameworks, to name a few. If we can marry these strengths with the agility of internet companies, there is no reason we cannot carve out a befitting space for ourselves in the new world order.

I believe we are nearing a defining moment for traditional banks; some will make the transition, but many may not.

Q4 ***We have seen phenomenal regulatory fines/ sanctions imposed following investigations into the conduct of business and financial crime activities. What safeguards are there within DBS to drive the right behaviour?***

A We believe that effective safeguards against undesired business conduct have to go beyond a "tick-the-box" mentality. We cannot place sole reliance on published codes of conduct. Instead we advocate six organisational safeguards to maintain a strong risk and governance culture:

- **Tone from the top:** The tone set by senior management is important; it is equivalent to the moral compass of the organisation. Beyond having comprehensive policies, we seek positive confirmation that these are being rigorously adhered to.
- **Aligning strategies and incentives via balanced scorecard:** We developed a balanced scorecard, which forms the basis for rewards, in 2009 to align organisational strategies and incentives. The scorecard ensures management delivers shared value to

DBS CEO Piyush Gupta and Bridget van Kralingen, Senior Vice President, IBM Global Business Services, at a DBS-IBM collaboration signing ceremony. DBS is deploying IBM's Watson cognitive computing innovation to deliver a next generation customer experience.

all stakeholders. In particular, business interests are balanced with a focus on risk management and internal controls, which account for one-third of the scorecard scores, reflecting their importance to us.

- **Respecting voice of control functions:** We believe that respect for the voice of the control functions is a key safeguard. Many case studies have shown that control functions that have been marginalised by dominant business units lead to organisational disasters. We ensure that control functions are well integrated into our organisational structure so that they can properly discharge their responsibilities.

- **Having established escalation protocols:** We designed a notification protocol that makes it mandatory for staff to report significant incidents. This means that the organisation is prepared to receive bad news and take necessary remedial actions without shooting the messengers.

- **Encouraging constructive challenges at all levels:** More fundamentally, we inculcate a culture that encourages constructive challenges and debate, where all views are evaluated for decision-making. We also operate a culture where we actively engage the Board of Directors for their views early.

- **Reinforcing cultural alignment:** Finally, we conscientiously reinforce our cultural norms by rewarding right behaviours and censuring wrong ones. It becomes apparent to staff that certain ways of doing things, such as disregarding different viewpoints or reacting with aggression, are not tolerated.

Q5 ***Despite the persistent low interest rate environment, DBS has had successive record earnings over the past five years. What have you done to re-invent yourself and what are the bank's prospects going forward?***

A Over the past five years we have doubled earnings and increased income by almost 50% despite low interest rates. I attribute our success to substantial progress in three broad areas.

First, we developed alignment across the organisation. We ensured everyone had a common understanding of our strategy and worked coherently to achieve objectives. This enabled us to build and transform business lines – such as transaction services, wealth management, small and medium enterprises and capital markets – that today operate on a vastly different scale, one that is truly regional. We re-directed our treasury business to supporting customers' needs. This, in turn, has ensured that our growth is underpinned by recurring income streams and is therefore sustainable.

Second, we made what I call the "plumbing" of the bank robust.

We improved our risk management by defining our risk appetite, drawing up regional frameworks and strengthening our credit risk architecture. We beefed up the resiliency of our technology platforms. We re-architected our management information systems to enable us to measure profitability at granular levels including branch, segment, product, industry and customer profitability, as well as risk-adjusted profitability at the customer level.

Five years ago, we set up a dedicated corporate treasury function that is focused on the stewardship of our capital and balance sheet. We developed various tools that help us steer the balance sheet to the desired asset and liability profile; we built new USD funding capabilities from new customer segments and supplemented this with cost-efficient wholesale funding; and we have a thoughtful approach to management of capital, liquidity and duration.

Third, and perhaps most fundamentally, we embarked on a journey to transform our culture into one that embraces innovation, decisiveness, entrepreneurship and nimbleness, one that places the customer's perspective at the centre.

Our financial success has been corroborated by the numerous awards we have been winning – we have moved beyond domestic awards to attaining regional and global recognition across a wide range of products and services. All these show that the overhaul we have made is deep and extensive. Investors too have recognised the progress we've made. DBS shares reached a multi-year high in 2014. We have seen an increasing number of high-quality, long-term institutional investors among our largest shareholders, which is an encouraging endorsement of our strategy and execution.

We are confident that the multiple business engines we have built are sustainable and scalable. We are convinced about Asia's potential and our ability to capitalise on it. The investments we are making in digital banking will enable us to accelerate our access to emerging markets and be a differentiating factor from competitors.

As we deliver earnings growth and better returns, higher interest rates will provide icing on the cake. We estimate that every 1% point change in interest rates affects the return on equity (ROE) we generate for shareholders by 1-2% points. Given that current interest rates are about 2% points below historical norms, we believe our ROE has meaningful upside.

Q6 ***So what's next for the regulatory reform agenda? Is Basel III fully bedded down? We've noticed that DBS is very comfortable with the new capital, liquidity and leverage requirements – can we expect more dividends in view of the strong profitability?***

A Broadly, I think the main pieces are done: higher capital requirements, better capital quality, clear focus on leverage and liquidity. Other reforms, such as central clearing of over-the-counter derivatives, margining requirements and the risk governance of central clearing counterparties, will take longer to work their way through the various jurisdictions, and this aspect of regulatory change is complicated by extra-territorial regulations that are not always aligned. In addition, the increased tendency by national regulators to ring-fence capital and liquidity remains on my radar screen.

On the capital aspects of Basel III, attention has shifted to risk-weighted assets (RWA) computation. The use of internal models has come under closer scrutiny as the outcome of internal modelling excesses becomes apparent. The RWA density (RWA to total assets) of banks can vary widely, and not all of this can be attributed to a difference in risk profile. Indeed, regulators have realised through quantitative studies that the extent of modelling latitude within banks often results in unwarranted variations in the RWA that they compute for similar exposures – and this has been observed for both credit and market risks.

The regulatory community has initiated consultations on how a more basic RWA computation framework (what the industry terms standardised approaches) could be put in place for credit, market and operational risks. More importantly, the output of these methodologies would be used to determine how much benefit banks should be given from using internal models. If you will, it looks like there is a Basel IV on the horizon that pays a fair degree of homage to Basel I. Based on current calibrations, an increase in RWA is a very likely outcome, although the anticipated impact for DBS would be more moderate in view of our high RWA density. Pending further clarity on these developments, while we are cognisant that higher dividends do improve shareholders' returns, I think a watch-and-see stance is appropriate for the moment.

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– Piyush Gupta, CEO, DBS