CFO statement

We turned in another set of record earnings despite challenging economic conditions in the second half. CFO Chng Sok Hui explains the salient aspects of the year's financial performance and the factors behind it.

Results demonstrate resilience of our franchise

Despite a tough operating environment in 2015, net profit rose to a record SGD 4.45 billion. Excluding one-time items, net profit rose 12% from the previous year to SGD 4.32 billion. Total income crossed the SGD 10 billion mark for the first time, growing 12% to SGD 10.8 billion with both net interest income and non-interest income reaching new highs. Return on equity improved from 10.9% to 11.2%.

The results underscored the breadth and resilience of our franchise as we successfully captured income opportunities and managed risks in a year marked by slower economic growth, weak commodity prices, financial market volatility and heightened asset quality concerns.

Macroeconomic factors had a material influence on our performance

A favourable operating environment – supported by quantitative easing from various central banks – in the first half of the year increasingly gave way to uncertainty emanating from China. The resultant movements in interest rates and currencies had a material influence on our performance. While some of their effects were beneficial, others created challenges that we were able to successfully manage.

At home, benchmark interest rates used for pricing SGD loans rose steadily on expectations of higher US rates and from the adoption of a modest exchange rate policy by the Monetary Authority of Singapore. Interbank rates increased from 0.5% at the beginning of the year to 1.2% while swap offer rates rose by a similar magnitude to 1.7%. At the same time, we took effective steps to contain deposit costs. As a result, net interest margin rose nine basis points to 1.77%, which was the highest since 2012.

A convergence and subsequent reversal of offshore and onshore RMB rates – a consequence of China's monetary easing and currency depreciation – together with falling commodity prices resulted in an underlying 25% or SGD 13 billion contraction in trade loans. We were able to offset the decline with a 5% or SGD 11 billion increase in non-trade loans. We grew Singapore housing loans by 13% as we gained share in a quiet market by offering customers a more stable pricing mechanism than most competitors could. We also supported institutional banking customers borrowing for corporate restructuring, loan refinancing and infrastructure projects. As a result, we were able to keep overall loans stable in constant-currency terms during the year.

Central banks' policy actions in the early months of the year, some of which were unexpected, boosted risk appetite and contributed to especially strong performances in wealth management and treasury activities in the first half. This reversed in the second half as overall confidence became fragile after sharp declines in China's stock markets and an unexpected depreciation in August of the RMB. Lingering uncertainty over the timing and pace of US Fed tightening exacerbated the volatility in financial markets. As a result, the strong first-half growth in non-interest income moderated in the second half.

The 7% depreciation of SGD against USD during the year benefited our performance, contributing 3% points to reported income and earnings growth. It accounted for all of the year's reported loan growth of 3%.

Balance sheet strength maintained

We took steps to ensure that the high quality of our balance sheet was maintained in a more challenging operating environment.

Asset quality continued to be resilient. Non-performing loan formation was offset by recoveries, upgrades and write-offs of existing NPLs. The non-performing loan ratio was unchanged at 0.9%. We took specific allowance charges of 19 basis points of loans during the year, little changed from the previous year. Our allowance coverage of 148% was higher than many of our peers', reflecting the prudent level of cumulative general allowances at SGD 3.2 billion. If collateral was considered, the coverage was 303%.

We kept ample liquidity to support growth and meet contingencies. The loan-deposit ratio was comfortable at 88% even as higher-cost deposits were managed out. Deposits were supplemented by wholesale funding across a range of tenors, and included USD 1 billion of inaugural issuances of covered bonds with triple-A ratings from Moody's and Fitch. The liquidity coverage ratio in the fourth quarter of the year was 122%, well above the final regulatory requirement of 100% effective 2019. We also met the requirement for net stable funding ratio effective 2018.

Despite having one of the highest risk densities in the world at 60%, our fully-phased in Common Equity Tier-1 ratio of 12.4% was well above regulatory requirements. After factoring in recently announced rule changes by the Basel Committee (the "Standardised Approach – Counterparty Credit Risk" to be implemented in 2017 and the "Fundamental Review of the Trading Book – Revised Standardised Approach" to be implemented in 2019), our capital ratios will continue to remain comfortably above requirements. Our leverage ratio was 7.3%, way above the minimum requirement of 3% envisaged by the Basel Committee. We will continue to assess the impact of regulatory reforms currently undergoing consultation.

Like other banks, we will manage our exposures to contain the impact of risk-weighted asset inflation. We intend to maintain our existing dividend policy, which is to pay sustainable dividends while maintaining capital ratios consistent with regulations and the expectations of rating agencies, investors and other stakeholders. Our payouts also take into account the long-term growth prospects of our businesses.

Net book value per diluted share increased 7% to SGD 15.82. The accretion in net book value was not reflected in the share price, which fell 19%, similar to domestic peers, as bank shares led a sell-down on the Singapore Exchange in the latter part of the year. DBS had a market capitalisation of SGD 42 billion at 31 December 2015.

Read more about asset quality on page 86, liquidity on page 96 and capital management on page 109.

Integrated and sustainability reporting

Our 2015 report is fully in line with the Integrated Reporting framework issued by the International Integrated Reporting Council in December 2014. The enhancements we made this year include improved disclosures for "material matters", "stakeholders outreach" and our management of resources.

Our Integrated Reporting reflects the integrated thinking behind our strategy and embedded into our business practices. We use a balanced scorecard with key performance indicators to drive alignment of strategy and priorities throughout the organisation.

Read more about our balanced scorecard on page 27.

This report also marks a milestone in our commitment towards sustainability reporting. It has been prepared to the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative or GRI. These efforts position us well for meeting the proposed requirements by the Singapore Exchange for sustainability reporting in 2017.

Refer to the GRI Index on page 196.

New impairment methodology

In 2018, International Financial Reporting Standard 9 will take effect. This new accounting standard will govern how reporting entities classify and measure financial instruments, take impairment (or allowance) charges and account for hedges.

At present, for impairment assessment, Singapore banks comply with the provisions of MAS Notice 612 where banks maintain, in addition to specific allowances, a prudent level of general allowances of at least 1% of uncollateralised exposures. This is an intended departure from the incurred loss provisioning approach prescribed under FRS 39, and possible changes to the current regulatory specifications will determine how IFRS 9's expected credit loss (ECL) model is eventually implemented. Any such changes are unlikely to result in additional allowance charges for DBS at the point of adoption. The Group has begun preparations in the meantime, leveraging existing credit rating systems, models, processes and tools.

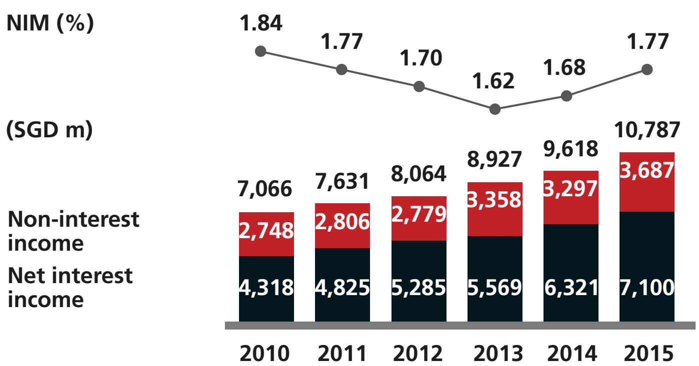
Read more about ECL in the Enhanced Disclosure Task Force disclosures on page 108.

Starting 2016 from a position of strength

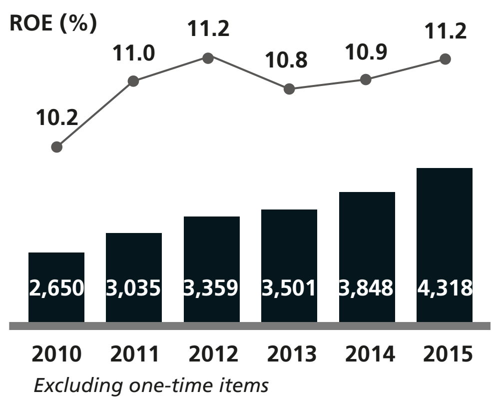
Our performance in 2015 was achieved in the midst of slower economic growth and financial market volatility. It attests to the resilience of our franchise, which is underpinned by multiple business engines, a solid balance sheet and prudent risk management. We will remain vigilant to risks while staying nimble across our businesses and regional network to capture the many opportunities that Asia continues to offer. The region's economic fundamentals are sound and its long-term growth potential remains undimmed. Our foundations are secure and we enter 2016 from a position of strength.

Financial performance summary

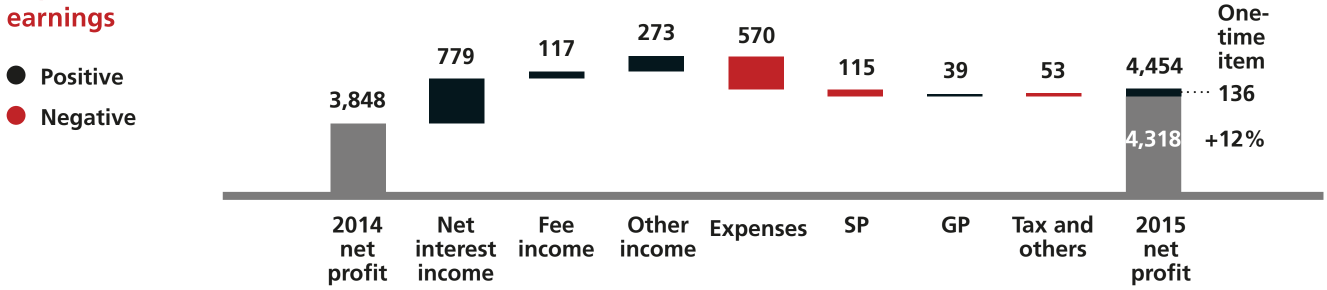
Total income



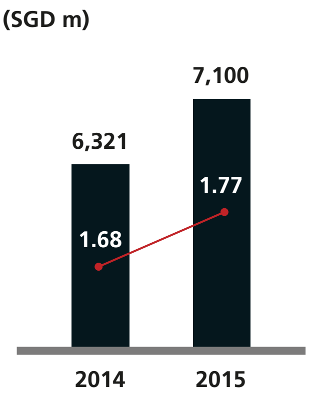
Net profit

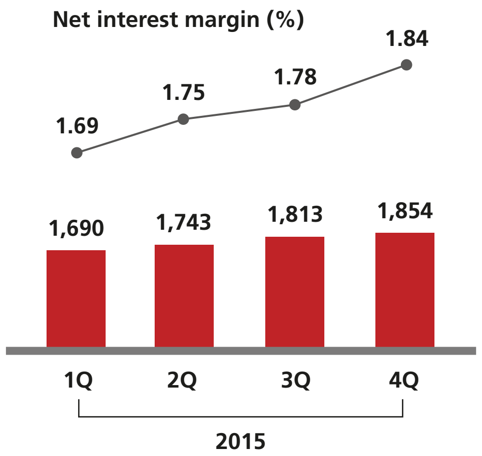


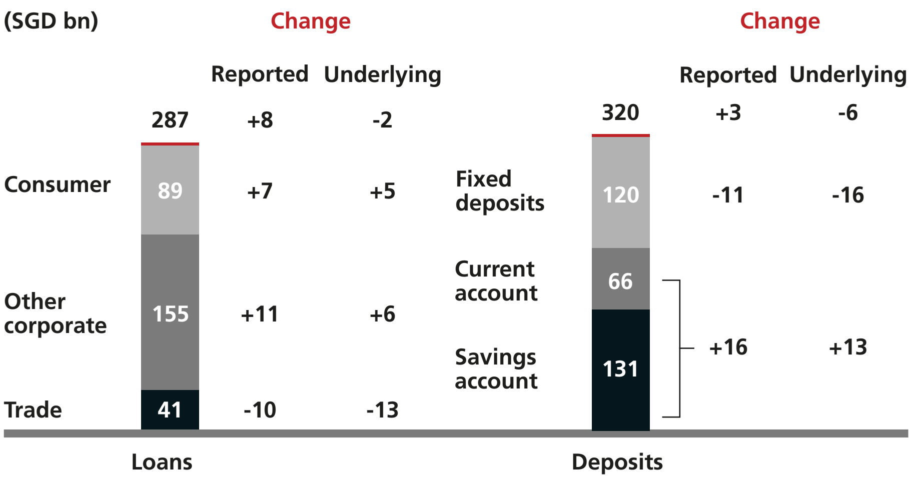
Impact on earnings



Net interest income







Net interest income increased 12% to SGD 7.10 billion as net interest margin for the full year rose nine basis points to 1.77%. We benefited from higher SGD loan yields as benchmark rates rose. We contained deposit costs by replacing higher-cost deposits with transactional accounts. Net interest margin rose progressively during the course of the year, from 1.69% in the first quarter to 1.84% in the fourth.

Gross loans rose by a reported 3% to SGD 287 billion but were little changed in constant-currency terms as a decline in trade loans was offset by higher consumer and corporate loans. Our market share of Singapore housing loans rose 2% points to 27% as customers refinanced loans from other banks with us due to our more stable pricing packages.

Deposits rose by a reported 1% to SGD 320 billion but declined 2% in constant-currency terms as fixed deposits were managed out. Savings and current accounts grew, reflecting the strength of our domestic savings deposit franchise as well as efforts to grow transactional accounts with corporate customers and institutional investors. Our market share of SGD savings deposits rose almost 1% point to 53%.

Non-interest income

Fee income

(SGD m)	2015	2014	% chg
Brokerage	**180**	173	4
Investment banking	**165**	219	(25)
Trade and transaction services	**556**	539	3
Loan-related	**442**	385	15
Cards	**434**	369	18
Wealth management	**599**	507	18
Others	**76**	83	(8)
Fee and commission income	**2,452**	2,275	8
Less: fee and commission expense	**308**	248	24
Total	**2,144**	2,027	6

Other non-interest income

(SGD m)	2015	2014	% chg
Net trading income	**1,204**	901	34
Net income from investment securities	**203**	274	(26)
Net gain on fixed assets	**90**	43	>100
Others	**46**	52	(12)
Total	**1,543**	1,270	21

Net fee income rose 6% to SGD 2.14 billion. The growth was broad-based. Wealth management fees increased 18% as a strong first half more than offset a slowdown in the second half when market volatility reduced investment appetite. Card fees also rose 18% from higher customer transactions in Singapore and Hong Kong, as well as from the consolidation of a credit card joint venture in Hong Kong. Loan-related fees increased 15% due to a larger number of sizeable transactions. Trade and transaction service fees grew 3% as growth in cash management was offset by lower income from trade. Investment banking fees fell 25% due to weaker second-half contributions as well as lumpy contributions in the previous year.

Other non-interest income grew 21% to SGD 1.54 billion. One-third of the increase was due to higher treasury customer flows. The remainder was mainly from surplus Singapore dollar deposits deployed into US dollar assets through funding swaps. Under accounting rules, interest income derived from funding swaps is accounted for under non-interest income.

Business unit and geography performance

Total income

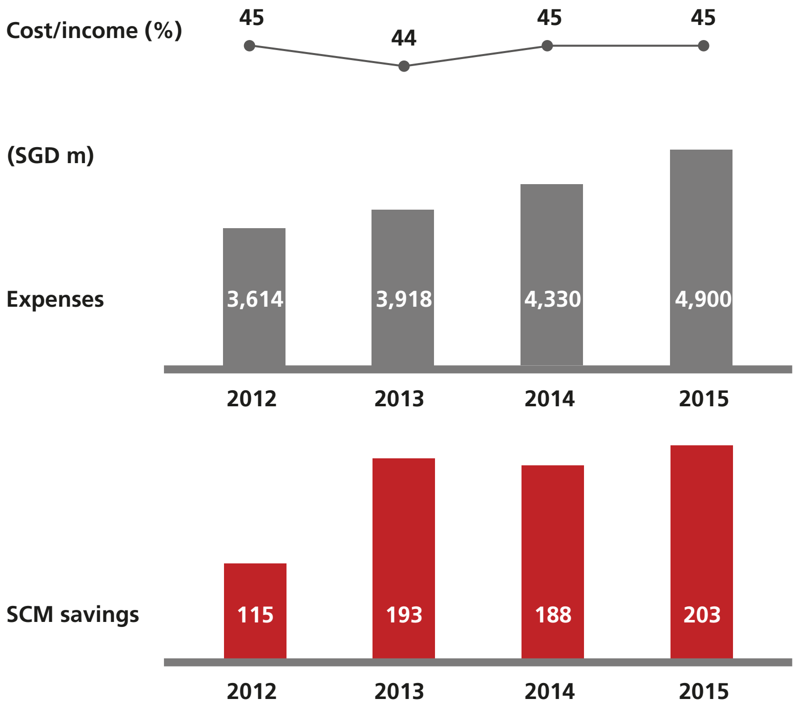
(SGD m)	2015	2014	% chg
By business unit			
Consumer Banking/ Wealth Management (CBG)	**3,547**	2,882	23
Institutional Banking (IBG)	**5,290**	4,967	7
Treasury	**1,140**	1,102	3
Others	**810**	667	21
Total	**10,787**	9,618	12
By country			
Singapore	**6,676**	5,950	12
Hong Kong	**2,289**	1,900	20
Rest of Greater China	**1,019**	950	7
South and South-east Asia	**557**	552	1
Rest of the World	**246**	266	(8)
Total	**10,787**	9,618	12

Read more about our business units' performance on page 30 and 33 and our countries' performance on page 38.

By business unit, total income for Consumer Banking / Wealth Management rose 23% to SGD 3.55 billion. Wealth Management segment income rose 29% to SGD 1.42 billion as assets under management grew 9% to SGD 146 billion. Income from the retail segment rose 20% to SGD 2.13 billion. Institutional Banking income increased 7% to SGD 5.29 billion despite a challenging environment in the second half. Higher income from lending activities and cash management was partially offset by lower trade finance income. Treasury income increased 3% to SGD 1.14 billion as a strong first half was offset by less favourable market conditions in the second half.

By geography, total income was led by double-digit percentage growth in Singapore and Hong Kong from higher net interest margin and a wide range of fee activities. Treasury customer activities and trading income in Singapore and property disposal gains in Hong Kong were also higher. Income in Rest of Greater China rose 7% as an increase in non-interest income activities more than offset the impact of lower net interest margin and trade loan volumes. South and South-east Asia income was little changed.

Expenses

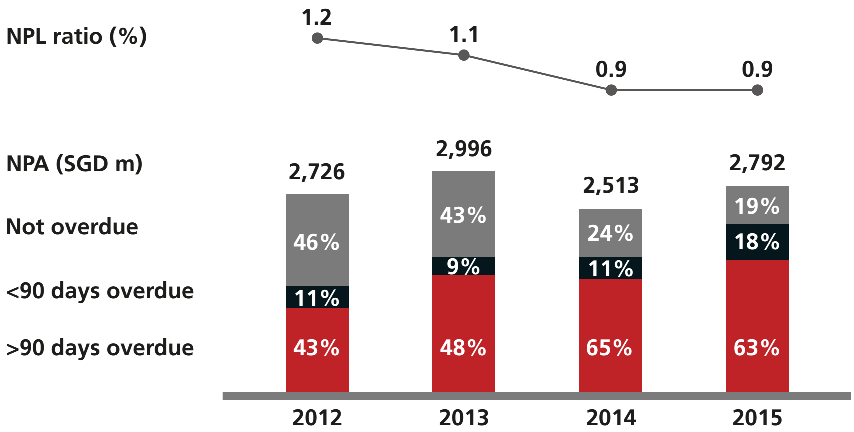


Expenses rose 13% to SGD 4.90 billion. The cost-income ratio was stable at 45%.

Three factors had a one-time impact on our expense (as well as income) growth: the acquisition of Soc-Gen private bank, which had been consolidated in October 2014; the consolidation of a credit joint venture in Hong Kong from 30 June 2014; and the 7% appreciation of the US dollar and Hong Kong dollar against the Singapore dollar. Adjusting for these effects, expenses would have risen 9%.

We had SGD 203 million of savings from a group-wide strategic cost management programme, which represented 4% of our cost base. The programme, which was initiated in 2012, aims to improve our operating efficiency by streamlining processes, managing sourcing costs and optimising our technology resources. These savings have created the capacity for us to invest in new areas, such as digital initiatives, while keeping the cost-income ratio at reasonable levels.

Allowances and asset quality



	2012	2013	2014	2015
SP/loans (bp)	10	18	18	19
Cumulative general and specific allowances as % of:				
NPA	142	135	163	148
Unsecured NPA	183	204	296	303

Non-performing assets rose 11% to SGD 2.8 billion. Most of the increase was accounted for by Singapore and Hong Kong.

Specific allowances for loans amounted to 19 basis points of loans, slightly higher than the previous year, when we had write-backs from significant loan resolutions. The allowance coverage of NPAs remained healthy at 148% and at 303% if collateral was considered.

Included in the calculation of allowance coverage are cumulative general allowances of SGD 3.2 billion, of which SGD 600 million are in excess of the amount that can be counted towards Tier-2 capital. This amount provides us with a strong cushion to offset against additional specific allowance charges without impacting our overall capital adequacy ratio.

We reviewed our commodities and China portfolios and were satisfied with their quality. We stress tested our oil and gas exposures at a price of USD 20 per barrel and found potential losses to be manageable.

Key performance indicators

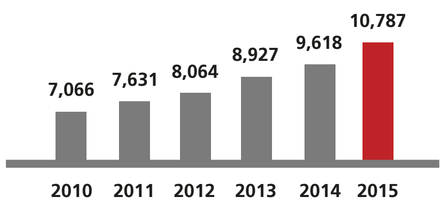
Shareholder KPIs

1. Grow income

Target: Deliver consistent income growth.

Outcome: 12% income growth to SGD 10.8 billion, exceeding SGD 10 billion for first time.

Income (SGD m)

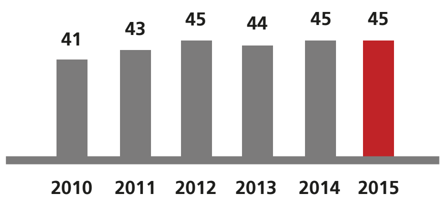


2. Manage expenses

Target: Be cost efficient while investing for growth, cost-income ratio target of 45% or better.

Outcome: Cost-income ratio in line with target of 45%. Continue to drive efficiency through strategic cost management efforts. Savings reinvested in headcount and new capabilities including digital initiatives.

Cost/income (%)

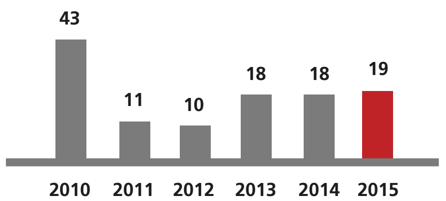


3. Manage portfolio risks

Target: Grow exposures prudently, aligned to risk appetite. Expect specific allowances to average 25 basis points (bp) of loans through the economic cycle.

Outcome: Specific allowances as a percentage of loans maintained at 19 bp.

Specific allowances/average loans (bp)



4. Improve returns

Target: Return on equity of 12% or better in a normalised interest rate environment.

Outcome: Return on equity rises to 11.2% in a challenging operating environment.

Return on equity (%)