CRO statement

Top and emerging risks

As part of our risk management process, we proactively identify and monitor top and emerging risks. Such risks can have a material impact on our business activities, financial results and reputation as well as affect our ability to deliver against our strategic priorities. Our identification process starts with a discussion among senior management about our key areas of focus and the risk outlook for the banking industry. It is further supplemented by discussions with the board and management risk committees. Periodic updates on action plans are provided to the relevant risk committees.

2015 FOCUS AREAS

1. **Credit risk and portfolio management**
2. **Regulatory compliance and engagement**
3. **Cyber security and digital banking**
4. **Risk and control construct – Cross border transactions and local practices**
5. **Technology risk – Onshoring of data centre and disaster recovery planning**
6. **Liquidity management**
7. **Outsourcing management – Data**
8. **Large programme initiatives**
9. **Risk appetite and capital management**
10. **Data management**

Credit risk

Credit risk remains our most material risk as it incurs the highest usage of capital. Changes in our credit risk profile are largely determined by the global economic environment, the economic situation of the countries we operate in, and the concentration risks of our portfolio. We continually monitor the environment to assess whether our positions remain in line with our risk appetite. In late 2013, we set up a dedicated team of practitioners and project managers to strengthen and standardise our credit process. We have made significant improvements across the areas of underwriting and risk monitoring. These included enhanced industry focus with more developed nuances, clearer Target Market and Risk Acceptance Criteria (TMRAC)[1], greater consistency in credit approvals across locations, earlier identification of problem accounts via objective and subjective criteria, and enhancements in portfolio oversight across countries and industries.

Commodity prices have been under pressure since 2014. Our exposure to the whole oil and gas complex – comprising not only producers and traders but also processors and support services in offshore marine transportation, oil field services and shipyards – was SGD 22 billion, of which SGD 17 billion was loans. Our exposure to the producer, trader and processor segments amounted to SGD 13 billion and was healthy – the majority was to global trading houses, international oil companies, state-owned enterprises (SOE), national oil companies and investment grade-equivalent borrowers. The exposure was also typically in short-term and trade-related facilities.

Our exposure to the support service segment comprising offshore marine transportation, oil field services and shipyards amounted to SGD 9 billion. The borrowers in oil field services and shipyard segment accounted for about 60% of our exposure and were mainly in the investment grade-equivalent range. The remaining exposure was to the offshore marine transportation companies. They have been faced with falling charter rates, shortened charter periods and declining fleet utilisation.

We conducted stress tests of our oil and gas portfolios at varying Brent crude prices, down to USD 20 per barrel to identify weak credits. The vulnerable names identified in the earlier stress tests, primarily from the offshore marine transportation segment, remain largely unchanged. This portfolio is largely collateralised with average loan-to-value in the 60% range. Where needed, we have been working with borrowers to better match their cash flows with loan repayment schedules.

Our exposure to commodities other than oil and gas was SGD 12 billion, of which SGD 10 billion was loans. This portfolio was spread over 400 clients and largely in short-term and trade-related facilities. We paid close attention to the structure and collateral of individual trades. We also conducted several portfolio reviews and remained generally comfortable with our exposure. The only segments that warranted some attention were the steel and coal exposures.

(1) We use Target Market (TM) to define industry and geographical target markets and identify acceptable business/industry segments. Risk Acceptance Criteria (RAC) is used as a client screening tool to guide credit extension and how much risk is acceptable or tolerable.

We see some stress in steel because of the chronic oversupply. In China, government-led reforms involving capacity reductions and mergers of SOE might result in credit impairments, but we do not expect the amounts to be large. Our exposure to coal was under SGD 1.5 billion and mainly to the larger established players. We see some stress in a few smaller Indonesian coal producers but the expected credit losses are manageable and within budget.

Our exposure to China fell from SGD 48 billion at end 2014 to SGD 37 billion as trade loans fell. Trade loans accounted for three-fifths of the exposure or SGD 21 billion and were mostly backed by letters of credit issued by systematically-important institutions. Of the remaining SGD 16 billion of non-trade exposure, large corporates accounted for the majority and remained healthy. Our exposure to SMEs was small but we further tightened lending criteria owing to the increasing number of delinquencies. In the property sector, our lending business targeted top local and international names.

Some customers in Greater China took positions against RMB appreciation, usually for hedging payables denominated in RMB. These positions began incurring losses since the RMB weakened in August 2015. While the size of these hedges generally matched the customers' business requirements and therefore should not have had significant detrimental effects, the speed and extent of the depreciation created cashflow problems for several customers. We worked with such customers to explore options to mitigate the impact of their exposures.

High debt levels and continued stresses in certain sectors slowed the pace of recovery of our India portfolio. Nevertheless, we were encouraged by the improving pace of reforms. Meanwhile, we continued to conduct stress tests and portfolio reviews, tighten our TMRAC and strengthen our early warning monitoring.

The residential housing market in Singapore remained subdued as property prices declined and low transaction volumes persisted. We stress tested our portfolio rigorously to ensure it continued to be resilient. We remain vigilant to early signs of weakness and continue to exercise prudence in underwriting new loans.

Country risk

Our operations are concentrated in a few countries. Instability in these markets, arising from political and economic developments, may give rise to country risk events. This risk is mitigated by setting limits for the maximum transfer and convertibility risk ("transfer risk") exposure to each country. Transfer risk is the risk that capital and foreign exchange controls may be imposed by authorities that would prevent or materially impede the conversion of local currency into foreign currency and/or transfer of funds to non-residents. A transfer risk could therefore lead to a default of an otherwise solvent borrower. The risk of each country is also evaluated against the tenor and type of exposure; shorter tenors and trade loans are deemed less risky. It also takes into account transfer wrong-way risk (in situations where transfer risk and credit exposure in forward and currency swaps are adversely correlated), as well as offshore funding of local currency assets.

The limits and exposures are adjusted to stay within DBS' risk appetite in response to macroeconomic outlook and country transfer risk. In addition, country risk is an important consideration in the credit approval process.

Regulatory trends

The global regulatory landscape continues to develop, posing risks and challenges to the banking industry. We continue to track international and domestic developments to ensure that we remain on top of trends and changes impacting our business.

New requirements are promptly analysed and disseminated to the respective action parties and, where applicable, embedded into our processes and systems. We participate in Quantitative Impact Studies (QIS), led by Basel Committee on Banking Supervision (BCBS), to assess the impact of the regulatory reforms.

One continually evolving international trend is financial market conduct. This has been influenced by enforcement actions in the United States and European markets as well as the work of global bodies such as the Bank of International Settlements Foreign Exchange Working Group. As a global market participant, DBS always seeks to align with best practices as consensus develops.

For a bank with operations in multiple countries, risk from cross-border transactions is to be expected as global regulatory reforms interact with a local policy and economic agenda. We have put substantial work into enhancing our approach to and

Regulatory trends (cont.)

controls of cross-border transactions to ensure that we are in line with regulatory requirements.

We recognise the importance of maintaining consistency in the adoption and rollout of policies across the Group. We have put in place a set of governance and operational standards in our overseas locations and will continue to maintain oversight in this area.

We have in place robust processes to identify, escalate and report on suspicious matters, to cooperate with all relevant authorities, to investigate each such incident and to ensure that it is duly and appropriately managed and resolved. As a matter of policy, all significant incidents are escalated to senior management and where appropriate, to the Board. This ensures that all such incidents are subjected to appropriate governance and reporting. Our overall approach to regulatory risk management is presented to the Board Audit Committee, refreshed on a quarterly basis and reviewed annually, to ensure we remain up to date.

As a regulated financial institution with licences to operate in multiple countries, we may from time to time be subject to various actions by country regulators. These vary considerably in scale and severity and are not uncommon in this industry, reflecting the growing intensity of regulatory scrutiny over time.

We have not incurred any material penalty in 2015 for a breach or non-compliance with the laws and regulations of any country in which we operate.

Cyber security and data governance

Cyber security continues to dominate the agenda of governments and regulators globally with the growth of cyber attacks against public and private infrastructure. With respect to financial institutions, there is an expectation from regulators that the Board and senior management are responsible for the protection of the bank's critical assets, including sensitive information of its customers, and they are expected to play a proactive role in ensuring effective cyber security risk management.

Traditionally, cyber security has been seen as a technology issue with the focus of protecting our systems and the various information held within. However, the threat to our information is broader than technology and the focus at DBS is to ensure our collective business teams understand their risk ownership and management accountability of the security agenda.

Throughout 2015 we continued to focus on cyber security. This included working with the government, regulators and industry to uplift sharing of threat intelligence to support prevention, detection and response to cyber events. This information is used in our 24/7 Security Operations Centre, and by our business and technology teams to understand and respond to threats against our customers, products and services. During the year, we continued to strengthen our online transaction authorisation controls and security for our ATM network. We have a structured staff awareness programme to support the understanding of cyber security risk.

We have, and continue to evolve, scenarios to ensure incident response readiness for cyber events. Our programme is continuously reviewed to respond to the changing threat environment. To further improve our governance of cyber security, we recently appointed a Chief Information Security Officer (CISO). The CISO supports our business and support functions to understand cyber security risk, and in the design of appropriate controls and processes to manage that risk.

We are not aware of any material data privacy enforcement action or significant data loss incidents in 2015 which has resulted or could result in material loss or material reputational damage.

Financial crime

Financial crime risk is a focus area for many banks. This has been a trend for a number of years and we expect this to continue. Heightened penalties are imposed by regulators for issues in sanctions, money laundering, tax evasion and bribery. Fraud ranks highly on financial crime risk mitigation agendas globally. The focus in 2015 was on trade finance and wealth management, particularly around tax evasion risk.

Our financial crime risk mitigation controls include policy framework, subject matter advisory capabilities on anti-money laundering/sanctions and anti-bribery/corruption matters, training, transaction screening and periodic testing. We enhanced our policies, systems and operations to address 2015 changes in the regulatory framework and to chart a holistic plan to address evolving risks. We also conducted a specific review of our sanctions risk and a benchmarking exercise to assess our systems capabilities. We will continue to focus on improving policies, systems and operations in 2016. Key projects include the upgrade of anti-money laundering platforms in overseas locations and continued enhancement of our processes and capability to manage current and future risk. These will ensure that we are closely tracking regulatory developments, and are benchmarked well against international standards.

2016
FOCUS AREAS

Our top focus areas in 2016 are similar to 2015 with heightened focus on digitalisation as we continue on our digital journey.

For more details on our principal risks and risk management approach, please refer to pages 81 to 108.