Letter from the Chairman and CEO

"Given the challenging operating environment, the Board and senior management are very pleased with how we were able to manage our risks and still grow the business sensibly."

Chairman Peter Seah

2015 was a year of two halves. Policy actions by various central banks bolstered markets and sentiment in the first half. However, investor and business confidence faltered in the second half on the back of growing uncertainty about the strength of the world economy.

SGD **10.8bn**

Record income

Our total income crossed SGD 10 billion for the first time.

11.2%

Higher return on equity

Despite headwinds, ROE improved, a testament to our commitment to customers, as well as strong brand and resilient franchise.

60 cents

Higher dividends

We proposed full-year dividends of 60 cents per share, up from 58 cents per share in 2014.

Global growth slowed in 2015, with the IMF revising GDP forecasts from 3.5% at the start of the year to 3.1%. Even growth in the US economy, thought to be a bright spot, remained unconvincing, with full-year growth stuck at around 2% per annum. US GDP decelerated in the fourth quarter, but the job market continued to improve, showing a mixed picture.

China, the world's second-largest economy, also slowed in 2015, registering growth of only 6.9% – its weakest in 25 years. This belies the country's two-speed economy. While the services industry is growing quite strongly, China's manufacturing and investment sectors are suffering from overcapacity with some sectors in recession. The manufacturing slowdown contributed to a collapse in commodity prices across the board. The impact on the oil and gas sector was exacerbated by a supply glut, which took crude prices to an 11-year low.

China's financial sector reforms further unsettled markets. Faster-than-expected market liberalisation created volatility across several asset classes, and this was amplified by policy actions that sometimes contradicted each other.

A strong, resilient franchise

Given the challenging operating environment, the Board and senior management are very pleased with how we were able to manage our risks and still grow the business sensibly.

For full-year 2015, income and earnings both rose 12%. Despite the headwinds, return on equity improved from 10.9% to 11.2%. Our commitment to customers, the strength of the DBS brand, and a capability and product set that increasingly rival the best in Asia and the world, have built resilience into the franchise. Strong governance and risk management processes also undergird our business.

The diversity of our franchise was best exemplified by our loan book. We were able to compensate for a decline in China trade loans by growing other forms of lending. We grew Singapore housing loans by gaining share in a competitive market. We also extended credit for regional clients' investments and corporate restructuring. With net interest margin at its highest since 2012, net interest income rose to a record.

Non-interest income benefitted from strong growth in wealth management, cash management and credit cards. Our bancassurance fees also grew strongly and we will continue to bolster this through a new 15-year, four-market partnership with Manulife Financial Asia.

Our core Singapore franchise had a stellar year, turning in record income and earnings. We gained market share in consumer and SME banking, and remained a leader in savings and current deposits, large corporate banking and capital markets.

Asset quality remained resilient. While non-performing loans and specific allowances inched up, these were in line with our expectations. We reviewed several portfolios, including China, commodities, oil and gas, and residential exposures. We are satisfied that potential losses, even under stressed conditions, are manageable.

We are pleased that we continue to receive recognition from the street: Asian Bank of the Year from IFR, Best Asia Commercial Bank, Best Asia Investment Bank, and Best Asian Private Bank from FinanceAsia to name a few of our accolades. We have also been named Safest Bank in Asia by Global Finance, a New York-based publication, for seven consecutive years.

Building a sustainable organisation

Customer experience

Since unveiling our strategy six years ago, we have been delivering consistently strong financial performance. The texture of our franchise has changed considerably. Wealth Management and SME Banking contribute 27% of Group income from 22% in 2010. Income from transaction services has doubled, while customer activities contributed half of Treasury income from 36% in 2010.

We have entrenched our position in Singapore, where in addition to market share gains, we are today widely acknowledged for our customer service and innovation.

We have repositioned our Hong Kong franchise for profitable growth. Income and earnings reached a record in 2015. We have expanded our franchises in China, Taiwan, India and Indonesia to improve our geographical mix and our ability to intermediate regional trade and capital flows. Income from these growth markets has risen 95% since 2009.

We have also strengthened the internal plumbing of the bank. Our risk architecture is more robust, the resiliency of our technology platforms has been strengthened and our systems are designed to "plug and play" new business applications. Our management information systems can measure profitability at granular levels. A dedicated corporate treasury now stewards our capital and liquidity.

Singapore's Deputy Prime Minister Tharman Shanmugaratnam, our guest of honour, at the opening of the new DBS Academy in December 2015

But taking DBS to the next level requires more than incremental steps in the same direction. Our industry, like several others, is being profoundly impacted by new technologies and changing customer expectations. Fintech start-ups are beginning to attack various parts of the financial services value chain. In such an environment, our future success depends on our ability to harness the digital revolution and completely re-imagine the banking experience. While this is a challenge, we believe it is also an opportunity to distinguish ourselves. By thinking deeply about customers' true needs and their real-jobs-to-be-done, we can make their banking truly simple and relevant, taking effort and anxiety out of their banking engagements.

"We capture our vision for our relationship with customers, employees and society at large under a simple agenda – 'Making Banking Joyful'."

CEO Piyush Gupta

Being socially and environmentally responsible

In addition to the customer experience, we have to be relentlessly focused on earning the trust and goodwill of society at large. This can only come from playing a relevant role in people's real needs – helping companies grow, helping individuals prosper.

One of the bank's organisational values is being purpose-driven. Since the time of their establishment, DBS and POSB have had a strong social mandate. DBS was formed to finance Singapore's industrialisation, while POSB as the "People's Bank" had a mission of promoting the savings habit and facilitating home ownership. Today, DBS and POSB continue to uphold our responsibility to the communities we operate in, whether through the provision of inclusive and subsidised banking, the support of SMEs or our corporate philanthropy initiatives. DBS is also committed to responsible financing. When making loans to companies, we conduct assessments on how they address environmental, social and other material risks.

Building a future-ready workforce

In an industry where people are the most important asset, equipping our 22,000 people to execute on strategy is key to success. We believe that we must have a work environment that is fun and empowering. At the same time, we need to be relentless about upskilling our people.

In 2015, we established DBS Academy learning centres in Singapore, Indonesia and Taiwan to build a strong talent pool able to shape the future of banking. Employees are encouraged to embrace a digital mindset through experiential learning and experimentation.

DBS was the first bank to incorporate hackathons into our talent development programme. At these hackathons, employees work with start-ups to create prototype mobile apps to address business problems. This enables them to gain exposure to the fintech culture, agile methodology and other digital working concepts. In all, the bank is running over 1,000 experiments, giving our people the exposure they need so we can innovate as a bank.

Making Banking Joyful

We capture our vision for our relationship with customers, employees and society at large under a simple agenda – "Making Banking Joyful". We recognise that Joyful Banking would traditionally be seen as a contradiction in terms, but we are convinced that the holistic embrace of this mission can produce path-breaking results.

Commemorating Singapore's Jubilee

2015 was a significant year for Singapore, being its 50th year of independence. As Singapore's largest bank, DBS and POSB spared no effort in giving back. After all, DBS' story has mirrored Singapore's, and we have played a key role in the nation's growth from early on, financing first the development of key industries post-independence, and later on, the regionalisation of Singapore Inc.

We established the SGD 50 million DBS Foundation in conjunction with the nation's Jubilee. The foundation actively nurtures and develops the social enterprise sector in a multitude of ways, including through the provision of loans, grants and mentoring. Singapore also has a rich heritage in the arts, and to make this more accessible to the public, we gifted SGD 25 million to the National Gallery Singapore.

Fifty years ago, Singapore differentiated itself by creating a first-world infrastructure (both hard and soft) in a third-world region. It can again set itself apart in the next 50 years by being the world's first truly digital city. DBS is well-placed to promote and facilitate Singapore's development into a Smart Nation, and the bank is committed to doing so.

Dividends

The Board has proposed a final dividend of 30 cents per share for approval at the forthcoming annual general meeting. This will bring the full-year dividend to 60 cents per share compared to 58 cents per share a year ago.

Going forward

2016 will not be easy. Global growth is likely to be slower, and we will have to stay focused and nimble. Nevertheless, we have demonstrated time and again an ability to navigate an uncertain environment. In all things, we are guided by our belief that we can create an impact beyond banking and change lives for the better. In particular, as a bank operating in an industry at the cusp of massive change, DBS will push forward to make banking simpler and more seamlessly integrated into customers' lives, so that they can "Live more, Bank less".

Peter Seah Lim Huat
Chairman
DBS Group Holdings

Piyush Gupta
CEO
DBS Group Holdings

DBS and Manulife officially launching a 15-year, four-market partnership covering Singapore, Hong Kong, China and Indonesia

1,000

Experiments and prototypes

To inculcate a digital mindset and spur innovation, the bank is running over 1,000 experiments.

Leading bank in Asia

DBS has been named Best Asia Commercial Bank, Asian Bank of the Year and Safest Bank in Asia, among our many accolades.