

# Letter from the Chairman and CEO

**“We made good progress on our strategy, delivering strong operating performance and cost efficiencies, as well as solid returns.”**

**Chairman Peter Seah**



## An eventful year

In 2016, the global economy registered tepid growth for the sixth year. Markets were volatile, exacerbated by political shocks such as Brexit and the results of the US presidential elections. Across the globe, a rising tide of populism and discontent reared its head, adding to the uncertainty. Technology disruption also continued to force rapid change upon businesses and whole industries.

Against this backdrop, we made good progress on our strategy, delivering strong operating performance and cost efficiencies, as well as solid returns. These results are commendable given China headwinds which reduced customer activity, as well as the collapse of oil prices which caused stress in the offshore oil support services sector. We increased our credit allowances substantially, and our provision coverage ratios remain strong.

## A strong, resilient franchise

We delivered record total income of SGD 11.5 billion, while profit before allowances increased 10% to a new high of SGD 6.52 billion. Despite the higher allowances, net profit fell only marginally, down 2% to SGD 4.24 billion.

DBS' earnings resilience is the payoff from investments made in recent years to build multiple business engines and to digitalise the bank.

With China slowing, trade finance came under pressure. However, weakness in trade was offset by broad-based growth in consumer banking, investment banking, cash management and non-trade corporate loans.

Digitalisation also improved the efficiency of the bank, with our cost-income ratio falling two percentage points to 43%.

During the year, we completed two milestone transactions, which will further strengthen our franchise and cement our ambitions in the wealth and digital space:

- Acquired ANZ's wealth and consumer banking business in five markets – Singapore, Hong Kong, China, Taiwan and Indonesia. The transaction adds SGD 17 billion in deposits, SGD 11 billion in loans and 1.3 million customers, of which over 100,000 are in the affluent/private wealth segment, to our franchise. Not only does this solidify our position as Asia's fifth-largest private bank, it also enables rapid scale-up of our digital strategy in Indonesia and Taiwan. We expect the deal to be ROE and earnings accretive one year after completion.

- Officially launched a 15-year regional distribution agreement with Manulife covering Singapore, Hong Kong, China and Indonesia. The partnership combines DBS' Asian banking franchise with the insurance and wealth management expertise of Manulife.

## World's Best Digital Bank

Since 2009, DBS has executed well against strategy, doubling both top-line and bottom-line. Many of our regional priorities including becoming a leading regional wealth and transaction banking player, as well as growing outside Singapore, remain relevant and continue to have a lot of headroom. At the same time, we have also been making progress in driving a digital agenda.

Our vision in the next phase of growth is to “Make Banking Joyful”. We seek to act like a 22,000-person start-up, able to respond and innovate quickly to deliver simple, fast and contextual banking in the digital age.

Our three-pronged approach involves:

### Embracing digital

To be truly digital involves a complete transformation of the bank. This goes beyond customer interfaces, such as digital apps or mobile/ Internet banking on the front end.

Much of the heavy lifting is at the back end, where the bank has spent the past few years re-architecting our technology infrastructure. Today, we have a common platform of services and APIs which enables us to integrate best-in-breed technologies, allowing us to move faster on the front end. As we move forward, we aim to adopt the practices of global technology companies known for their ability to constantly experiment, automatically scale and rapidly bring new features to market. Like them, the bank is embracing microservices and cloud technology, which will enable us to be nimbler and more fintech-like.

### Embedding ourselves in the customer's journey

To become more customer-centric, we have made it a priority to embed ourselves in the customer's journey. This means thinking about banking not as a separate activity, but as one that should be seamlessly interwoven into a customer's everyday life. To do so, we need to have a relentless focus on customers' true “jobs-to-be-done”.

As an example, in the past, a home-buyer might have interacted with us only when he or she had identified a dream home, and was in need of a mortgage. Today, we seek to understand customers' needs from the start, beginning with the house-hunting process, identifying pain-points and addressing these long before any banking is done.

To be effective, journey thinking involves research and interviews, business case development, conducting experiments and prototyping, before a new product or process is rolled out.

Many of our employees have been trained in journey thinking and human-centred design. Today, over 300 journeys are being run across the bank. These journeys involve collaborations across business and support units, as well as across geographies, engaging a large part of the organisation.

### Creating a start-up mindset

Finally, we are re-wiring the organisation to have a “start-up” culture and mindset. In addition to being familiar with technology, every employee needs to embrace experimentation, entrepreneurship and innovation.

We encourage this by creating immersion programmes which involve experiential learning and experimentation, such as hackathons, where employees from across the bank work with start-ups to develop solutions to business challenges. Since 2015, we have also run over 1,000 experiments in the bank.

We also conduct our own incubator/ accelerator programmes, where digital start-ups turn their concepts into prototypes. Over 400 start-ups were engaged in 2016 as part of these programmes.

We have invested in creating the supporting infrastructure for a start-up culture. Many of our offices regionally have been designed to help foster innovation. This is done through an open office concept and dedicated spaces such as social hubs for networking as well as innovation and journey “laboratories”. In 2015, we established DBS Academy learning centres in Singapore, Indonesia and Taiwan to conduct immersive programmes. In 2016, we launched DBS Asia X – a 16,000 sq ft space at Fusionopolis in Singapore, dedicated to designing iconic customer experiences and fostering greater collaboration with the fintech ecosystem.

All these allow employees to be immersed in new technologies, a start-up culture, agile methodology and other digital working concepts.

### Producing results

Having invested time and resources in digitalising the bank, we have seen visible results in a number of areas:

- Expanded customer reach and acquisition. In 2016, 25% of wealth customers and more than 60% of Singapore SME customers were acquired via digital channels. In India, DBS launched digibank, the country's first mobile-only bank, a groundbreaking proposition, to penetrate the retail banking segment. The bank has acquired more than 840,000 digibank customers in just 10 months.
- Efficiency of the bank. Our cost-income ratio improved two percentage points to 43%, due in part to improved productivity arising from digitalisation initiatives. In particular, fewer manual processes have enabled the bank to support higher

# SGD 11.5 bn

### Total income

Our total income rose to a record on higher loan volumes, improved net interest margin and broad-based non-interest income growth.

# 43%

### Cost-income ratio

Our cost-income ratio fell from 45% to 43% as past investments to digitalise the bank together with cost management initiatives yielded faster productivity gains.

# 60 cents

### Dividends

We proposed full-year dividends of 60 cents per share, unchanged from 2015.



business volumes with the same level of resources. For example, digibank India uses one-fifth of the resources required in a traditional bank set-up.

- Harnessing the power of analytics. We have leveraged analytics for various purposes; for example, providing contextual offers and advice to customers, reducing ATM downtime, predicting and preventing trade fraud, and lowering employee attrition.

DBS' digital transformation has won us external validation not just in Asia but globally – DBS was named World's Best Digital Bank by Euromoney and recognised as being best in the world for digital distribution at the Ema Accenture Innovation Awards.

### Sustainability

Sustainability has always been at the core of our purpose-driven DNA. We recognise that not all returns can be found in financial statements and that our responsibility to shareholders is complemented by responsibility to society at large.

In serving our customers, we are committed to a culture that is sensitive to regulations and suitability of transactions, and we hold ourselves accountable at every level, starting at the very top.

Both DBS and POSB were established with strong social mandates – DBS was formed to finance Singapore's industrialisation, while POSB as the "People's Bank" had a mission

of promoting the nation's savings habit and facilitating home ownership. Today, DBS and POSB continue to uphold our responsibility to the communities we operate in across Asia, whether through providing inclusive and subsidised banking, supporting SMEs or championing social entrepreneurship.

We also recognise that our lending practices play an influential role in shaping the behaviours of our customers towards sustainable development, and are committed to supporting and implementing responsible banking in line with The Association of Banks in Singapore Guidelines on Responsible Financing. To this end, we have expanded our Core Credit Risk Policy to incorporate the principles and approach to managing environmental, social and governance (ESG) issues in our lending practices and capital market activities. We have also launched a new Responsible Financing Standard which sets out our overarching approach to responsible financing.

We are on a journey, and in the coming years, will continue to work on integrating ESG, including climate change considerations, into our business processes to more fully live our ethos of "Making Banking Joyful".

### 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, unchanged from the previous year.

**“We will further our digital agenda in the coming year by continuing to roll out digibank, pressing ahead with customer journeys and becoming more data-driven. These initiatives will enable us to forge ahead in our quest to reimagine banking.”**

**CEO Piyush Gupta**



### Going forward

We expect 2017 to continue to be challenging. Our base case is that the global economy will be somewhat better, backed by stronger growth in the US economy. However, there is tremendous geopolitical uncertainty, both in the US and Europe. There could also be continuing sectoral weaknesses, which will pose problems for our clients.

Nevertheless, our core business should be stable, helped by additional revenues from the ANZ deal, as well as a potential pickup in interest rates.

In awarding DBS the World's Best Digital Bank accolade, Euromoney had said this of the bank:

*“Leaders in digital banking talk about the difference between digitising aspects of a bank and creating a truly digital financial institution. DBS is doing this better than any other bank. It is demonstrably the case that digital innovation pervades every part of DBS, from consumer to corporate, SMEs to transaction banking and even the DBS Foundation.”*

We will further our digital agenda in the coming year by continuing to roll out digibank, pressing ahead with customer journeys and becoming more data-driven. These initiatives will enable us to forge ahead in our quest to reimagine banking.

**Peter Seah Lim Huat**  
Chairman  
DBS Group Holdings

**Piyush Gupta**  
CEO  
DBS Group Holdings

From left to right:

1. DBS Asia X, the bank's new innovation facility, is a space where employees come together to design iconic customer experiences as well as collaborate with fintechs.
2. DBS acquires ANZ's wealth and consumer banking business in five Asian markets.
3. Launch of digibank, India's first mobile-only bank.