**DBS Group Holdings Ltd and its Subsidiaries**

# Independent auditor's report

## To the members of DBS Group Holdings Ltd (incorporated in Singapore)

## Report on the Audit of the Financial Statements

### Our opinion

In our opinion, the accompanying consolidated financial statements of DBS Group Holdings Ltd (the "Company") and its subsidiaries (the "Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs"), including the modification of the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore ("MAS 612") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

#### What we have audited

The financial statements of the Company and the Group, as set out on pages 127 to 182, comprise:

- the consolidated income statement of the Group for the year ended 31 December 2017;
- the consolidated statement of comprehensive income of the Group for the year then ended;
- the balance sheets of the Group and the Company as at 31 December 2017;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated cash flow statement of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

## Our audit approach

### Overview

| Materiality | Group scoping | Key audit matters |
|---|---|---|
| • We determined the overall Group materiality based on 5% of the Group's profit before tax. | • Audit procedures were performed over the Singapore Operations of DBS Bank Ltd. and DBS Group (HK) Limited.<br>• We identified DBS Bank Ltd. Hong Kong Branch, DBS Bank (China) Limited, PT Bank DBS Indonesia, DBS Bank (Taiwan) Ltd and DBS Bank Ltd. India Branch as component entities where certain account balances were considered to be significant in size in relation to the Group. Consequently, specific audit procedures for the significant account balances of these components were performed to obtain sufficient appropriate audit evidence. | • Specific and general allowances for loans and advances to customers<br>• Acquisition of the wealth management and retail banking businesses of Australia and New Zealand Banking Group Limited in Singapore, China, Hong Kong and Taiwan<br>• Goodwill and intangibles<br>• Valuation of complex or illiquid financial instruments |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

| | |
|---|---|
| **How we determined overall Group materiality** | 5% of the Group's profit before tax |
| **Rationale for benchmark applied** | • We chose 'profit before tax' as in our view, it is the benchmark against which performance of the Group is most commonly measured.<br>• We selected 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds. |

In performing our audit, we allocated materiality levels to the significant components of the Group. These are less than the overall Group materiality.

## How we developed the audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall Group audit approach, we determined the extent of audit procedures that are needed to be performed across the Group by us, or by other PwC network firms operating under our instruction who are familiar with the local laws and regulations in each of these territories (the "component auditors"). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the procedures to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

In addition, we visited several of the Group's key locations and held a Group audit planning meeting with the auditors of the significant components. We also held regular conference calls with all component auditors.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the financial year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole; and in forming our opinion thereon and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Specific and general allowances for loans and advances to customers**<br><br>At 31 December 2017, the specific allowances for loans and advances to customers of the Group was $2,276 million, the majority of which related to Institutional Banking Group ("IBG") customers. Apart from specific allowances, the Group also recognised general allowances for loans and advances to customers in accordance to the transitional provision set out in MAS 612 ("general provision") of $2,394 million at that date.<br><br>We focused on this area because of the subjective judgements by management in determining the necessity for, and then estimating the size of, allowances against loans and advances.<br><br>In particular, we focused on specific allowances for loans and advances to IBG customers because any assessment of impairment can be inherently subjective and involve significant judgement over both timing of recognition of any impairment and the estimation of the size of such impairment. This includes:<br><br>• the classification of loans and advances in line with MAS 612; and<br>• the principal assumptions underlying the calculation of specific allowances for loans and advances to IBG customers where there is evidence of impairment losses (including the future profitability of the borrowers and the expected realisable value of collateral held). | We assessed the design and evaluated the operating effectiveness of the controls over the specific allowances for loans and advances to IBG customers. These controls included:<br><br>• oversight of credit risk by the Credit Risk Committee;<br>• timely review of credit risk;<br>• the watchlist identification and monitoring process;<br>• timely identification of impairment events;<br>• classification of loans and advances in line with MAS 612; and<br>• the collateral valuation processes.<br><br>We determined that we could rely on these controls for the purposes of our audit.<br><br>We inspected a sample of loans and advances to IBG customers to assess whether we agreed with the classification of the loans and advances in line with MAS 612 and, where there was evidence of an impairment loss, whether it had been identified in a timely manner including, where relevant, how forbearance had been considered. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| We focused on borrowers incorporated in China, India and Indonesia, and with exposures to the oil and gas support services and other commodities sectors in view of continued heightened credit risks impacting some parts of the portfolio.<br><br>We also focused on the disclosure on transitional impact from the adoption of Singapore Financial Reporting Standards (International) (SFRS(I) 9) Financial Instruments on recognition of expected credit losses (ECL) of financial assets (i.e. impairment) which is effective from 1 January 2018. Management has estimated the transitional impact as a net decrease of approximately $95 million in the loan loss allowances for assets classified at amortised cost or fair value through other comprehensive income. Approximately $95 million is expected to be appropriated from revenue reserves to a non-distributable regulatory reserve prescribed by MAS 612 effective from 1 January 2018.<br><br>*(Refer also to Notes 2.4, 3 and 18 to the financial statements)* | Where impairment had been identified, for a sample of loans and advances, our work included:<br><br>• considering the latest developments in relation to the borrower;<br>• examining the forecasts of future cash flows prepared by management including key assumptions in relation to the amount and timing of recoveries;<br>• comparing the collateral valuation and other sources of repayment to support the calculation of the impairment against external evidence where available, including independent valuation reports;<br>• challenging management's assumptions; and<br>• testing the calculations.<br><br>For a sample of performing loans and advances to IBG customers which had not been identified by management as potentially impaired, considering the latest developments in relation to the borrower, we challenged management's assumptions on whether management's classification was appropriate, using external evidence where available in respect of the relevant borrower.<br><br>In addition to the controls detailed above on the specific allowances for loans and advances to IBG customers, we also tested the key reconciliations of the underlying data used for the general loan loss provisioning. We determined that we could rely on these controls for the purposes of our audit.<br><br>We reviewed management's calculation of the general provision as at 31 December 2017 in accordance with MAS 612. The amount of the general provision met the minimum MAS 612 requirements.<br><br>We obtained an understanding of how the Group has implemented SFRS(I) 9. Specialists in our team critically assessed the assumptions and methodologies used to estimate the ECL as at 1 January 2018 and found that the transitional impact estimated by management was within a reasonable range of outcomes. |
| **Acquisition of the wealth management and retail banking businesses of Australia and New Zealand Banking Group Limited ("ANZ business") in Singapore, China, Hong Kong and Taiwan**<br><br>As at 31 December 2017, the Group had completed the acquisition of the ANZ business in Singapore, China, Hong Kong and Taiwan. The purchase consideration for the acquisition was $110 million above the book value, of which estimated $53 million represented goodwill.<br><br>The Group received cash of $4,783 million, largely represented by the difference between the assets acquired (comprising mainly loans and advances to customers) of $8,573 million and the liabilities assumed (comprising mainly deposit and balances with customers) of $13,432 million.<br><br>We focused on this area because any assessment of the purchase price allocation, the fair valuation of assets and liabilities, and the identification and valuation of intangible assets can be inherently subjective and involve significant judgement.<br><br>*(Refer also to Note 25 to the financial statements)* | We assessed the competence, capabilities and objectivity of the external expert appointed by management and evaluated the reasonableness of their conclusions in relation to the key assumptions used. We assessed the Group's determination of the fair value of the remaining assets and liabilities having regard to the completeness of assets and liabilities identified and the reasonableness of underlying assumptions in their respective valuations. We also evaluated the reasonableness of the key assumptions and methodologies used in the valuation.<br><br>Based on the evidence obtained, we found that the key assumptions and methodologies used were within a reasonable range of expectations.<br><br>We read the sales and purchase agreement, confirmed that the accounting treatment was in accordance to FRS 103 Business Combinations, and reviewed the financial statements for appropriate disclosure. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Goodwill and intangibles**<br><br>As at 31 December 2017, the Group had $5,165 million of goodwill and intangibles as a result of acquisitions.<br><br>We focused on this area as management makes significant judgements when estimating future cash flows and growth rates in undertaking its annual goodwill impairment testing.<br><br>We specifically focused on the following key assumptions used in the discounted cash flow analyses:<br>• Cash flow forecasts;<br>• Discount rate; and<br>• Growth rate.<br><br>*(Refer also to Notes 3 and 27 to the financial statements)* | We assessed the appropriateness of management's identification of the Group's cash generating units and the process by which indicators of impairment were identified. There were no significant issues noted.<br><br>For DBS Bank (Hong Kong) Limited's franchise (goodwill of $4,631 million as at 31 December 2017), we evaluated management's cash flow forecasts and the process by which they were developed, including verifying the mathematical accuracy of the underlying calculations. Valuation specialists in our team critically assessed the assumptions and methodologies used to forecast the value-in-use and compared key inputs (such as the discount rates and long-term growth rates) to the Group's own historical data, performance and external available trend analysis, industry and economic indicators. Based on the evidence obtained, we found that the estimates used by management were within a reasonable range of expectations in the context of the value-in-use calculations.<br><br>We reviewed management's stress test over the key assumptions to determine whether any reasonably possible change in these assumptions would not cause an impairment.<br><br>Additionally, we considered whether the Group's disclosure of the application of judgement in estimating cash flow projections and the sensitivity of the results of those estimates adequately reflected the uncertainties and risks associated with goodwill impairment. |
| **Valuation of complex or illiquid financial instruments**<br><br>Financial instruments held by the Group at fair value include derivative assets and liabilities, trading securities, available-for-sale securities, certain debt instruments and other assets and liabilities designated at fair value.<br><br>The Group's financial instruments are predominantly valued using quoted market prices ('Level 1') or market observable prices ('Level 2'). The valuation of 'Level 3' instruments involves reliance on unobservable inputs.<br><br>We focused on the carrying value of the Level 3 instruments, as significant judgement and assumptions were involved in determining the value of these financial instruments given either the instrument's complex nature or limited market liquidity.<br><br>Significant judgement is also involved in determining derivative valuation adjustments, including those made to reflect the cost of funding of uncollateralised derivatives and counterparty credit risk. The methods for calculating some of these adjustments continue to evolve across the banking industry.<br><br>*(Refer also to Notes 3 and 40 to the financial statements)* | We assessed the design and tested the operating effectiveness of the controls over the Group's financial instruments valuation processes, including over Level 3 instruments. These included the controls over:<br>• the completeness and accuracy of the data feeds and other inputs into valuation models; and<br>• management's testing and approval of new models or revalidation of existing models<br><br>We determined that we could rely on the controls for the purposes of our audit.<br><br>We assessed the reasonableness of the methodologies used and the assumptions made for a sample of financial instrument valuations with significant unobservable valuation inputs. We also performed procedures on collateral disputes to identify possibly inappropriate valuations and assessed the appropriateness of the methodologies for the derivative valuation adjustments, in light of evolving industry practice.<br><br>Overall, the valuation of complex or illiquid financial instruments was within a reasonable range of outcomes. |

## Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement included in pages 189 to 192 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report ("the Other Sections") which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

## Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Karen Loon.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Public Accountants and Chartered Accountants

Singapore, 7 February 2018