DBS Group Holdings Ltd

Co. Reg. no.: 199901152M

RESPONSES TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTOR ASSOCIATION (SINGAPORE) IN RELATION TO DBSH'S 24th ANNUAL GENERAL MEETING

28 March 2023 – DBS Group Holdings Ltd ("**DBSH**") would like to thank the Securities Investors Association (Singapore) ("**SIAS**") for submitting their questions in advance of DBSH's 24th Annual General Meeting, which will be convened and held, in a wholly physically format, at Marina Bay Sands Expo and Convention Centre, Level 4, Roselle and Simpor Ballrooms, 10 Bayfront Avenue, Singapore 018956 on Friday, 31 March 2023 at 2:00 pm.

Please refer to the **Appendix** for our responses to the questions raised by SIAS in relation to our strategy, financial statements, corporate governance practices and sustainability report.

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List of Questions from SIAS for AGM 2023
(Received on 17 March 2023)

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1	For the financial year ended 31 December 2022, the group reported a total income of $16.5 billion, crossing the $16 billion mark for the first time, and achieved an all-time high net profit of $8.19 billion, which is an increase of 20%. The return on equity for FY2022 was also notably high, at 15%, compared to previous highs of around 12-13%. Although the global economy is currently experiencing a slowdown, the management team has noted some positive signs, such as the moderating of inflation, the reopening of China, and the easing of geopolitical tensions. Furthermore, the bank's ongoing stress tests suggest that asset quality will remain stable in the coming year, barring any idiosyncratic risks. Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:	
(i)	**Outlook: How has management's outlook changed following the collapse of Silicon Valley Bank in the US?**	Recent events, including the collapse of SVB and Credit Suisse, have not affected our financial position as we have either no or insignificant exposure to them. At the same time, the causes of their collapse are idiosyncratic and do not apply to us. As is our usual practice, we will provide an update to our performance outlook at the forthcoming quarterly results briefing, which will be on 2 May 2023, taking into account financial market and macroeconomic developments.
(ii)	**Profitability:** In the section titled "CEO reflections", Mr Piyush Gupta stated that the bank expects to continue benefitting from its digital transformation and a return on equity (ROE) of 15% is sustainable "if interest rates do not return to the unusually low levels seen during most of the past decade" (page 19). **What is the bank doing differently to maintain and increase its lead in the digital transformation space when all the major banks (including digital banks) are aggressively embarking on their own digitalisation efforts?**	We had a head start on digital transformation, and having built up our tech infrastructure and expertise, we are now using data and machine learning throughout the organisation, for example, to deepen customer relationships. Our digital capabilities have also enabled us to establish meaningful ecosystem partnerships and extend our reach to new customer groups. At the same time, we are changing our default way of working into cross-functional teams in what we call "managing through journeys". The aim is to create a horizontal organisation that makes data-driven decisions and leverages machine learning to learn and scale quickly. The results are clear. In the consumer and SME businesses in Singapore and Hong Kong, the proportion of digitally-engaged customers, who bring in more than twice the income of non-digital customers, have risen from 42% in 2017 to 60% today. Hyper-personalised services have resulted in greater transactions in private banking. The integration of our services directly into corporate customers' supply chains and

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		networks using application programming interface software (or APIs) have resulted in higher volumes at lower costs. In Treasury Markets, the digitalisation of the full business process – from distribution to structuring to risk warehousing – has enabled us to handle higher volumes with greater speed. We will be providing more information on our digital transformation efforts at our upcoming investor day.
(iii)	**Aside from interest rate changes, what are the major risks that could potentially hinder the group from achieving this ROE target?**	Besides interest rates, the short-term performance of banks, including DBS, will be affected by macroeconomic conditions as they could affect business volumes and asset quality. In the longer term, the ROE of a bank will depend on its strategy and how it is executed. For DBS, our longstanding and ongoing digital transformation will continue to progressively improve our structural ROE over time.
(iv)	**Cost-income ratio:** As shown on page 27 (Our 2022 priorities), the cost-income ratio declined from 46% to 43% in 2022. The ratio was 41% in the second half of the year. **Given the benefits of the bank's digitalisation efforts and its larger scale of operations, would the bank be in a position to finetune its long-term cost-income target downwards from the current levels of "around 40%"?**	Digitalisation will structurally improve the cost-income ratio over time. However, the cost-income ratio will also depend on where interest rates settle at in the medium term. We will keep for now the guidance for the cost-income ratio to be “below 40%” for full-year 2023.
(v)	**Non-performing loan:** The non-performing loan (NPL) ratio declined to 1.1%from 1.3% and the bank also conducted stress tests under “conservative assumptions” (which included stress-testing oil at US$200 per barrel, interest rates at 6-7% for the SME portfolio and a deep recession impacting the cash flow of customers by 30%). Management is confident that asset quality is robust. **Has the bank also conducted stress tests using more aggressive assumptions or scenarios involving high-impact, low-probability events? If so, what were the findings of these stress test?**	A range of other tail-risk scenarios were considered. None of these scenarios created a situation of unmanageable stress for the bank. We remain vigilant and continue to assess potential impact to our portfolios in this rapidly evolving macro-economic and geopolitical environment.
(vi)	**Cybersecurity:** As the bank continues to digitally transform its business, the cybersecurity threat has become a more significant concern. **How prepared is the bank at dealing with cybersecurity events if and when it happens?**	DBS continually invests in cyber-security to thwart evolving threats. We have a defence-in-depth strategy that encompasses a whole range of established as well as state-of-the-art cyber-security controls. At the same time, we provide our staff with regular advisories and best-practice training to ensure that they are constantly vigilant against cyber threats. We also regularly engage external expertise, which includes simulation exercises, to assess the efficacy of our controls and our responses to cyber incidents. We have

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		attained the Singapore Cybersecurity Agency Trustmark certifying that our practices are in line with requisite standards. We will continue to invest and remain ahead of evolving cyber threats.
2	The amalgamation of Lakshmi Vilas Bank (LVB) with DBS India was completed in late 2020. The group now has an enlarged presence of over 520 branches across 350 locations, 2.5 million retail customers and 15,000 corporate customers in India.	
(i)	**Has this expansion met management's expectations in terms of profitability, and what are the future growth prospects for the Indian market?**	The impact of LVB has met our expectations, and in particular, portfolio quality has outperformed. We expect to scale up the India business considerably this year. The strategy in India is grow the SME and consumer banking businesses so that the mix between large and mid-sized corporates, SMEs and consumers is more balanced. The conversion to a wholly-owned subsidiary in 2019 and the amalgamation of LVB in 2020 accelerated the strategy of growing higher-margin SME and consumer loans as well retail deposits. The bigger footprint across 350 locations has enabled the DBS franchise in India to grow as follows: • SME lending has now expanded to more than 100 hubs across 220 branches. • Personal loans and gold loans are offered nationwide. • A complete product range, including a robust supply chain financing platform, has now been made available to large corporate and institutional customers. With India continuing to be a fast-growing large economy, the bank is well positioned to build a meaningful business in the country.
(ii)	**For the benefit of shareholders, will management be able to share the lessons learned in the past 2-3 years, both positive and negative, and how will the group apply these lessons going forward to ensure the continued success of its operations in India?**	We learnt that a pure digital strategy has limitations in a market like India. A phygital strategy, combining digital with a physical branch network, better enables us to acquire high-quality customers, scale deposit volumes and cross-sell products. This results in a larger and better-quality customer base as well as increased wallet share. The integration of LVB to a common platform has enabled DBS to offer the full range of products

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		and services to consumer, SME, and large corporate customers. With the larger footprint, customer base and API capabilities, DBS has become more attractive for ecosystem partnerships, enabling the bank to grow new customer segments at scale. Several partnerships have already added meaningful customer numbers.
	Separately, the group agreed to acquire Citibank's consumer banking business in Taiwan. DBS Taiwan will become the largest foreign bank in Taiwan when fully integrated with the consumer banking business of Citibank Taiwan by August 2023. The acquisition will enable the group to offer full-service commercial bank capabilities and accelerate growth with enlarged customer base and potential cross-sell opportunities.	
(iii)	**Is the group still anticipating a reduction of 70 basis points in its common equity Tier 1 (CET1) due to the acquisition of Citibank's consumer banking business in Taiwan?**	The Group is anticipating a reduction of 60-70 bps in its CET1 capital ratio. The actual impact is subject to the size of Citi's balance sheet relative to the Group's capital position on integration, which is expected to take place in third-quarter 2023.
(iv)	**Since the announcement of the deal in January 2022, has Citi's consumer business in Taiwan been significantly impacted, particularly with the current heightened cross-straits tension?**	Citi's consumer business in Taiwan is performing strongly. We are not seeing any impact from cross-straits tensions.
(v)	**In light of the current geopolitical climate, what steps are the group taking to reduce potential risks related to the acquisition?**	We debated the geopolitical risks extensively and concluded that geopolitical tensions were unlikely to affect the economics of the deal. As a major Asian bank, we have made large commitments not just to Taiwan, but to Hong Kong and China as well. If a major geopolitical event were to happen, DBS's entire North Asian business, if not all our businesses in Asia, would be adversely affected, not just Taiwan's alone.
	The group's focus is mainly on Asia, and in the long term, it intends to deepen its presence in one or more of its four markets outside of Singapore and Hong Kong - namely China, India, Indonesia, and Taiwan.	
(vi)	**For the benefit of shareholders, could the board provide more details on how and when this decision will be made? Would this necessarily involve acquisition(s) or are there other options being considered?**	The deepening of our presence in the four growth markets is ongoing. It will continue to be through organic growth as well as opportunistic bolt-on acquisitions to expand our branch network, deposit and loan volumes, wealth management AUM, and retail and SME customer base.

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	As at 31 December 2022, the group's CET1 capital adequacy ratio (CAR) is 14.6%, surpassing the target ratio of 13.0% ± 0.5%. The group's CET1 CAR, Tier 1 and Total CARs are all above the minimum CAR requirements under MAS Notice 637, as noted on page 101. The announced increase in quarterly dividend payout to 42 cents per share and special dividend of 50 cents per share are part of management's ongoing efforts to bring the CET1 ratio closer to the target.	
(vii)	**How is the group balancing investing into one or more new key market(s) and returning excess capital to shareholders via special dividends?**	We will only consider new investments when they can deliver an ROE above the cost of capital in the medium term. Surplus capital will be distributed through ordinary dividends that grow progressively with earnings and are sustainable, and supplemented with special dividends when appropriate, taking into account the need to maintain a strong capital position.
(viii)	Separately, the MAS has imposed an additional capital requirement of 1.5 times the bank's risk-weighted assets for operational risk given the widespread unavailability of DBS Bank's digital banking services during 23 to 25 November 2021. **As an update to shareholders, has the independent review been completed? How long will it take the bank to address the shortcomings identified by the independent expert?**	The Monetary Authority of Singapore (MAS) has instructed our Group Audit function to validate our remedial actions by July 2023. MAS will then review the adequacy of our remediation after this validation is completed.
3	On the sustainability front, the group unveiled one of the most comprehensive net-zero commitments in the global banking industry, with interim decarbonisation targets set for seven sectors by 2030. The solutions span products and services, from loans, trade financing, capital markets to strategic advisory. The science-informed decarbonisation glidepaths for power, oil and gas, automotive, aviation, shipping, steel and real estate, along with food and agribusiness, and chemicals, represent the most carbon-intensive institutional banking segments financed by the bank. As part of the implementation roadmap, the bank will proactively partner customers with advisory and financial solutions to accelerate their transition to a lower-carbon future. As at end-2022, the sustainable finance portfolio was $61 billion, exceeding the bank's target of $50 billion well ahead of 2024.	
(i)	It is noted that the common practice in the market allows companies to refinance their current loans with green loans, and even to finance general working capital. **How does the bank track and measure the decarbonisation progress of its**	We track and measure the decarbonisation progress of our customers in three ways: (1) Rely on customers' own GHG emission disclosures

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	customers? Is the progress professionally and/or externally certified?	This is the most transparent and direct measure of the decarbonisation progress of our customers. However, while some customers publish GHG emission data annually in their sustainability reports, most do not, due to factors such as complex supply chains leading to data inconsistencies, lack of standardisation, resource constraints, among others. (2) Supplement with third-party databases on emission data As such, we also actively supplement with GHG emission data from various data sources, such as S&P Trucost, Marsoft, Bloomberg, XDI, Statistica, among others to build our databases bottom up and across our portfolio, to supplement with the direct inputs from customers. (3) Validate through independent professional certification, where appropriate Specifically for facilities that are ring-fenced to meet key decarbonisation goals, we will also reference the assessment done by independent professionals that are appointed by the customers to certify eligibility criteria and performance targets achieved. The field of GHG emissions data assurance is still evolving. Challenges such as insufficient high quality and consistent data, the lack of global standards for measuring and reporting carbon emissions, and the capacity of assurance providers still need to be addressed. However, we believe data challenges will become more manageable moving forward. This is in the wake of increasingly more mandatory sustainability reporting requirements (including the concerted effort to harmonise the reporting framework), and more efficient and effective digital tools to source, capture, and process said data.
(ii)	**Specifically, for the bank's $61 billion sustainable finance portfolio, what is the aggregate amount of emission reduction achieved?**	Our sustainable financing portfolio covers a large number of different types of financings such as green loans, renewables, sustainability-linked, transition, and other loans such as social and blue loans. Not all types of sustainable financings directly address emission reductions. Hence, in September 2022, we announced comprehensive and science-informed 2030 and 2050 decarbonisation targets for a large number of sectors. These sector specific targets would be

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		a more relevant set of metrics to track the aggregate amount of emission target achieved per unit of output.
(iii)	In its portfolio of products and services, the bank offers sustainable financing in the form of green loans, renewable energy loans, sustainability-linked loans, transition loans and other sustainable loans. **Can management help shareholders better understand the potential costs for a customer, if any, to take up sustainable financing compared to traditional bank loans?**	Sustainable financing is competitively priced. We regularly offer borrowers loan structures with lower interest rates as compared to conventional loans, e.g. when they meet pre-agreed sustainability-related key performance indicators. In addition, there are situations where borrowers can reduce the cost of borrowing by availing themselves of tax incentives, government grants and subsidies.
(iv)	**How does the bank guard against greenwashing?**	DBS is committed to transparent reporting, guided by clear frameworks and performance indicators. In our Group Responsible Financing Standard, we detailed our approach to responsible financing, which is applied to all lending and capital market products and services for our corporate customers. The overall governance structure, risk management, and our financing policies allow us to be transparent in articulating our approach and Standards to sustainable financing. Furthermore, similar to our response above to Question 3(i), we have put in place a robust process to track and measure the sustainability progress of our customersin three ways: (1) Rely on customers own sustainability-related disclosures (e.g., own sustainability reports); (2) Triangulate with third-party databases on sustainability-related information (e.g., MSCI ESG databases, CDP, S&P, etc.); and (3) Validate through independent professional certification, where appropriate We believe transparency is foundation to ensuring accountability and credibility, as well as building trust with our stakeholders.