CAPITAL MANAGEMENT AND PLANNING

OBJECTIVE

The capital management and planning process is overseen by the Capital Committee which is chaired by the Chief Financial Officer. Quarterly updates on the Group's capital position are provided to the Board of Directors which is responsible for the Group's capital management objective and capital structure. The Group's capital management objective is to maintain a strong capital position consistent with regulatory requirements under the MAS' Notice to Banks No. 637 "Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore" (Notice 637) and the expectations of various stakeholders, i.e., customers, investors and rating agencies. This objective is pursued while delivering returns to shareholders and ensuring that adequate capital resources are available for business growth and investment opportunities as well as adverse situations. The Group seeks to pay sustainable dividends over time, in line with its capital management objective and long-term growth prospects. For the year ended 31 December 2013, the Board has recommended a final dividend of SGD 0.30 per ordinary share, to which the Scrip Dividend Scheme is being applied, bringing the total ordinary dividend for the year to SGD 0.58.

PROCESS

The Group's capital management objective is articulated concretely as capital targets that are consistent with the need to support organic and inorganic business growth in line with its strategic plans and risk appetite. A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP, the Group assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios, including stress scenarios of differing scope and severity, over a three-year horizon.

The Group allocates capital capacity on two dimensions: by business line and by entity. Capital allocations by business line are set as part of the budget process and monitored during the year. Return on regulatory capital is one of several metrics used to measure business performance. Capital allocations by entity seek to optimise the distribution of capital resources across the Group's various entities, taking into account the capital adequacy requirements imposed on each subsidiary in its respective jurisdiction. Capital is allocated to ensure that each subsidiary is able to comply with regulatory requirements as it executes its business strategies in line with the Group strategy. During the course of the year, these subsidiaries did not experience any impediments to the distribution of dividends.

CAPITAL STRUCTURE

The Group manages its capital structure within regulatory norms in order to optimise the cost and flexibility offered by various capital resources. In order to achieve this, the Group assesses the need and the opportunity to raise capital from the financial markets.

During the year, approximately six million ordinary shares were issued pursuant to the Scrip Dividend Scheme. This added SGD 103 million to share capital. Refer to Note 32 to the Financial Statements for details on the movement of the Group's share capital and treasury shares during the year ended 31 December 2013.

The Group enhanced its capital position through an issue of perpetual capital securities in December 2013. These were issued as consideration to holders of non-Basel III-compliant preference shares issued in October 2010 by DBS Bank who successfully tendered their preference shares. Through this capital management initiative, the Group has effectively retired, on a consolidated basis, SGD 805 million of capital instruments ineligible under Basel III rules. Refer to Notes 31, 33 and 35 to the Financial Statements as well as the Pillar 3 Main Features of Capital Instruments disclosure (http://www.dbs.com/investor/preferenceshares/default.aspx) for the terms of the capital instruments that are included in Eligible Total Capital.

The table below analyses the movement in Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital during the period.

	In SGD million
Common Equity Tier 1 (CET1) Capital	
Opening amount[1/]	30,598
Dividends paid	(1,376)
Issue of shares pursuant to Scrip Dividend Scheme	103
Issue of shares upon exercise of share options	18
Purchase of treasury shares	(28)
Cost of share-based payments	76
Profit for the year (attributable to shareholders)	3,672
Movements in other comprehensive income, including available-for-sale revaluation reserves	(772)
Other, including regulatory adjustments and transitional arrangements	357
Closing amount	32,648
Common Equity Tier 1	32,648
Additional Tier 1 (AT1) Capital	
Opening amount[1/]	–
Issuance of perpetual capital securities	803
Movement in AT1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(405)
Other, including regulatory adjustments and transitional arrangements	(398)
Closing amount	–
Tier 1 Capital	32,648
Tier 2 Capital	
Opening amount[1/]	6,151
Other, including regulatory adjustments and transitional arrangements	20
Closing amount	6,171
Total Capital	38,819

1/ Pro forma as at 31 December 2012, applying MAS Notice 637 effective 1 January 2013

CAPITAL ADEQUACY RATIOS

The Group's Common Equity Tier 1 Capital Adequacy Ratio (CAR), Tier 1 CAR and Total CAR as at 31 December 2013 were well above the MAS' minimum requirements of 4.5%, 6.0% and 10.0% respectively. The table below sets out the capital resources and capital adequacy ratios of the Group as at 31 December 2013. The Group's Tier 1 and Total capital adequacy ratios declined year-on-year due to the reduced eligibility of the Group's preference shares and subordinated term debts, higher risk-weights under Basel III rules for exposures to financial institutions and exposures to central counterparties, as well as new capital charges for over-the-counter derivatives. Refer to 'Five-Year Summary' for the historical trend of Tier 1 and Total CAR. Refer to http://www.dbs.com/investor/quarterlyresults/default.aspx for the Group's Pillar 3 Quantitative Disclosures which set out details on the Group's risk-weighted assets (RWA).

In SGD million	31 Dec 2013[1/]	31 Dec 2012[1/]
Share capital	9,607	
Disclosed reserves and others	23,917	
Regulatory adjustments due to insufficient Additional Tier 1 capital	(876)	
Common Equity Tier 1	32,648	
Additional Tier 1 capital instruments	4,144	
Total regulatory adjustments to Additional Tier 1 capital	(4,144)	
Tier 1 capital	32,648	30,196
Provisions eligible as Tier 2 capital	1,217	
Tier 2 capital instruments	4,955	
Total regulatory adjustments to Tier 2 capital	(1)	
Total capital	38,819	36,831
Credit RWA	188,124	173,969
Market RWA	35,092	27,827
Operational RWA	14,865	13,795
Total RWA	238,081	215,591
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	13.7	13.5[2/]
Tier 1	13.7	14.0
Total	16.3	17.1
Pro forma Common Equity Tier 1 under final rules effective 1 Jan 2018	11.9	11.8[3/]
Minimum CAR (%)		
Common Equity Tier 1	4.5	NA
Tier 1	6.0	6.0
Total	10.0	10.0

Note:

1/ With effect from 1 January 2013, Basel III capital adequacy requirements came into effect in Singapore. Changes due to Basel III affected both eligible capital and risk-weighted assets. Unless otherwise stated, capital adequacy disclosures relating to dates prior to 1 January 2013 are calculated in accordance with the then prevailing capital adequacy regulations and are thus not directly comparable to those pertaining to dates from 1 January 2013

2/ Definition of Common Equity Tier 1 as at 1 January 2013. Risk-weighted assets include Basel III changes introduced 1 January 2013

3/ Risk-weighted assets include Basel III changes introduced 1 January 2013

NA Not Applicable

REGULATORY CHANGE

The Group has been required to comply with the Basel Committee for Banking Supervision's Basel III capital adequacy framework since 1 January 2013, as implemented by MAS under Notice 637.

Notice 637 sets out a minimum Common Equity Tier 1 (CET1) CAR of 4.5% and a minimum Tier 1 CAR of 6.0% with effect from 1 January 2013. These will increase progressively to 6.5% and 8.0% respectively by 1 January 2015. The requirement for Total CAR remains unchanged at 10.0%. By 2015, the minimum capital requirements under Notice 637 are two percentage points higher than the Basel III minima specified by the Basel Committee of 4.5%, 6.0% and 8.0% for CET1, Tier 1 and Total CAR respectively.

In line with Basel III, Notice 637 also includes a capital conservation buffer (CCB) and a countercyclical buffer. The capital conservation buffer of 2.5% will be phased in from 1 January 2016 to 1 January 2019. The countercyclical buffer will be phased in from 1 January 2016 to 1 January 2019. The countercyclical buffer is not an ongoing requirement but only applied as and when specified by the relevant banking supervisors. These two buffers are to be maintained in the form of CET1 capital.

The table below summarises the minimum capital requirements under Notice 637.

From 1 January	2013	2014	2015	2016	2017	2018	2019
Minimum CAR %							
CET1 *(a)*	4.5	5.5	6.5	6.5	6.5	6.5	6.5
CCB *(b)*	–	–	–	0.625	1.25	1.875	2.5
CET1 including CCB *(a) + (b)*	4.5	5.5	6.5	7.125	7.75	8.375	9.0
Tier 1	6.0	7.0	8.0	8.625	9.25	9.875	10.5
Total	10.0	10.0	10.0	10.625	11.25	11.875	12.5
Countercyclical Buffer	–	–	–	0.625	1.25	1.875	2.5

In addition to changes in minimum capital requirements, Basel III also mandates various adjustments in the calculation of capital resources. These adjustments are being phased in from 1 January 2013 and are for items such as goodwill and investments exceeding certain thresholds. Basel III has also revised the criteria for the eligibility of capital instruments. The Group's existing preference shares and subordinated term debts are ineligible in the first instance as capital instruments under Basel III rules as they lack provisions for conversion to ordinary shares or write-down at the point of non-viability as determined by the MAS, but are accorded partial recognition under the Basel III transitional arrangements.

The Group's CET1 CAR as at 31 December 2013 was 13.7%. On a pro forma "look-through" basis, i.e., after all adjustments that will eventually be taken against CET1 by 1 January 2018, the Group's CET1 CAR was 11.9%. This comfortably exceeded the eventual minimum CET1 CAR requirement under Notice 637 of 9.0% effective on 1 January 2019. The Group is also well-positioned to comply with forthcoming leverage ratio requirements. As at 31 December 2013, the Group's leverage ratio stood at 7.2%, based on the Basel Committee's final rules issued in January 2014. This was well above the minimum 3% level being tested during the Basel Committee's 2013-2017 leverage ratio parallel run.

The Basel Committee has developed an indicator-based methodology for identifying global systemically important banks (G-SIBs) on which higher loss absorbency requirements will be imposed. While the Group is not a G-SIB, it is required to disclose the 12 indicators which are published on the Group website (http://www.dbs.com/investor/quarterlyresults/default.aspx).