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 our capital management objective and capital structure. Our 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" (MAS Notice 637) and the expectations of various stakeholders, e.g., 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. We seek to pay sustainable dividends over time, in line with our capital management objective, long-term growth prospects and the need to maintain prudent capital levels in view of forthcoming regulatory changes. 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 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 our strategic plans and risk appetite. A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP, we assess our forecast capital supply and demand relative to regulatory and internal capital targets, under various scenarios, including stress scenarios of differing scope and severity, over a three-year horizon.

Capital capacity is allocated 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 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 our strategy. During the course of the year, these subsidiaries did not experience any impediments to the distribution of dividends.

CAPITAL STRUCTURE

The capital structure is managed within regulatory norms in order to optimise the cost and flexibility offered by various capital resources. In order to achieve this, we assess the need and the opportunity to raise capital from the financial markets.

During the year, approximately 28 million ordinary shares were issued pursuant to the Scrip Dividend Scheme. This added SGD 489 million to share capital. Refer to Note 32 to the Financial Statements for details on the movement of share capital and treasury shares during the year.

DBS Bank Ltd. on 21 March 2014 redeemed the SGD 1,700 million 4.70% Class N Preference Shares in accordance with its Articles of Association.

DBS Bank Ltd. on 15 November 2014 redeemed the USD 750 million 5.00% Subordinated Notes due 2019 Callable with Step-up in 2014 in accordance with the terms and conditions of the notes.

On 19 November 2014, DBS Bank Ltd. offered to purchase for cash up to USD 550 million of the USD 900 million Floating Rate Subordinated Notes due 2021 Callable with Step-up in 2016. The transaction was completed on 8 January 2015, when USD 550 million of the notes were purchased and subsequently cancelled. The remaining USD 350 million of notes that were not repurchased are subject to the original terms and conditions of the notes.

Refer to Notes 31, 32, 33 and 35 to the Financial Statements as well as the Pillar 3 Main Features of Capital Instruments disclosure (www.dbs.com/investor/capital-instruments/default.page) 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 year

STATEMENT OF CHANGES IN REGULATORY CAPITAL
FOR THE YEAR ENDED 31 DECEMBER 2014

	In $ millions
Common Equity Tier 1 (CET1) Capital	
Opening amount	32,648
Dividends paid	(1,468)
Issue of shares pursuant to Scrip Dividend Scheme	489
Issue of shares upon exercise of share options	13
Purchase of treasury shares	(79)
Cost of share-based payments	88
Profit for the year (attributable to shareholders)	4,046
Movements in other comprehensive income, including available-for-sale revaluation reserves	386
Others, including regulatory adjustments and transitional arrangements	(1,420)
Closing Amount	34,703
CET1 Capital	34,703
Additional Tier 1 Capital	
Opening amount	–
Movements in Additional Tier 1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(949)
Others, including regulatory adjustments and transitional arrangements	949
Closing amount	–
Tier 1 Capital	34,703
Tier 2 Capital	
Opening amount	6,171
Movements in Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(651)
Movements in provisions eligible as Tier 2 Capital	137
Closing amount	5,657
Total Capital	40,360

CAPITAL ADEQUACY RATIOS

The Group's Common Equity Tier 1 Capital Adequacy Ratio (CAR), Tier 1 CAR and Total CAR as at 31 December 2014, were well above the MAS' minimum requirements of 5.5%, 7.0% and 10.0% respectively. The table below sets out the capital resources and capital adequacy ratios as at 31 December 2014.

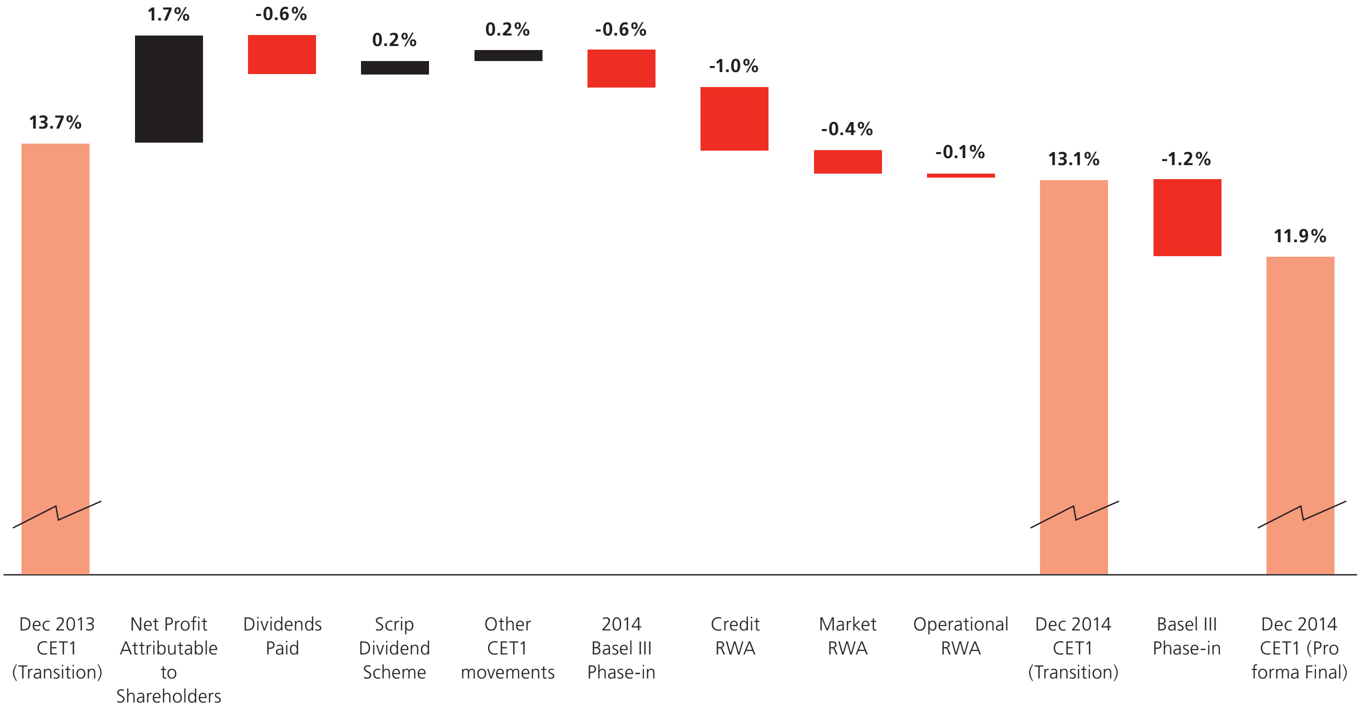
Refer to 'Five-Year Summary' for the historical trend of Tier 1 and Total CAR. Refer to www.dbs.com/investor/financial-performance/default.page for the Group's Pillar 3 Quantitative Disclosures which set out details on the Group's risk-weighted assets (RWA).

In $ millions, as at 31 December	2014	2013
Share capital	10,113	9,607
Disclosed reserves and others	26,814	23,918
Total regulatory adjustments to Common Equity Tier 1	(1,080)	(1)
Regulatory adjustments due to insufficient Additional Tier 1 capital	(1,144)	(876)
Common Equity Tier 1	34,703	32,648
Additional Tier 1 capital instruments(1)	3,179	4,144
Total regulatory adjustments to Additional Tier 1 capital	(3,179)	(4,144)
Tier 1 capital	34,703	32,648
Provisions eligible as Tier 2 capital	1,354	1,217
Tier 2 capital instruments(1)	4,304	4,955
Total regulatory adjustments to Tier 2 capital	(1)	(1)
Total capital	40,360	38,819
Risk-Weighted Assets (RWA)		
Credit RWA	206,423	188,124
Market RWA	41,813	35,092
Operational RWA	15,950	14,865
Total RWA	264,186	238,081
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	13.1	13.7
Tier 1	13.1	13.7
Total	15.3	16.3
Pro forma Common Equity Tier 1 under final rules effective 1 January 2018	11.9	11.9
Minimum CAR (%)		
Common Equity Tier 1	5.5	4.5
Tier 1	7.0	6.0
Total	10.0	10.0

Note:
(1) As part of the Basel III transition arrangements, regulatory capital recognition of outstanding Tier 1 and Tier 2 capital instruments that no longer meet the minimum criteria is gradually being phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition was capped at 90% in 2013, with this cap decreasing by 10 percentage points in each subsequent year. To the extent a capital instrument is redeemed or amortised after 1 January 2013, the nominal amount serving as the base will not be reduced

The chart below analyses the drivers of the movement in Common Equity Tier 1 CAR during the year

Group Common Equity Tier 1 CAR (%)



REGULATORY CHANGE

We have 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 MAS Notice 637.

MAS Notice 637 sets out a minimum Common Equity Tier 1 (CET1) CAR of 5.5% and a minimum Tier 1 CAR of 7.0% with effect from 1 January 2014, increasing to 6.5% and 8.0% respectively from 1 January 2015. The requirement for Total CAR remains unchanged at 10.0%. By 2015, the minimum capital requirements under MAS 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, MAS 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 MAS Notice 637.

From 1 January	2014	2015	2016	2017	2018	2019
Minimum CAR %						
CET1 (a)	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)	5.5	6.5	7.125	7.75	8.375	9.0
Tier 1	7.0	8.0	8.625	9.25	9.875	10.5
Total	10.0	10.0	10.625	11.25	11.875	12.5
Maximum 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 up to 1 January 2018 and are for items such as goodwill and investments exceeding certain thresholds.

As part of the Basel III transition arrangements, regulatory capital recognition of outstanding Tier 1 and Tier 2 capital instruments that no longer meet the minimum criteria is gradually being phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2013, their recognition was capped at 90% in 2013, with this cap decreasing by 10 percentage points in each subsequent year. To the extent a capital instrument is redeemed or amortised after 1 January 2013, the nominal amount serving as the base will not be reduced. Our preference shares and subordinated term debts issued prior to 1 January 2013 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.

Our consolidated CET1 CAR at the end of the year was 13.1%. On a pro forma "look-through" basis, i.e., after all adjustments that will eventually be taken against CET1 by 1 January 2018, the consolidated CET1 CAR was 11.9%. This comfortably exceeded the eventual effective minimum CET1 CAR requirement under MAS Notice 637 of 9.0% effective on 1 January 2019. We are also well-positioned to comply with forthcoming leverage ratio requirements. At the end of the year the consolidated leverage ratio stood at 7.0%. 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 we are not a G-SIB, we are required to disclose the 12 indicators which are published on the Group website (www.dbs.com/investor/financial-performance/default.page).