Capital management and planning

Objective

The Board is responsible for setting our capital management objective, which 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. The Board articulates this objective in the form of capital targets. 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, taking into consideration our strategic plans and risk appetite. Our dividend policy is to pay sustainable dividends over time, consistent with our capital management objective, long-term growth prospects and the need to maintain prudent capital levels in view of forthcoming regulatory changes. In line with our dividend policy, 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 0.60.

Process

Our capital management objective is implemented via a capital management and planning process that is overseen by the Capital Committee. The CFO chairs the Capital Committee. The Capital Committee receives regular updates on our current and projected capital position. A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP) through which we assess our forecast capital supply and demand relative to regulatory requirements and internal capital targets. The ICAAP has a three-year horizon and covers various scenarios, including stress scenarios of differing scope and severity.

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 strategy 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

We manage our capital structure in line with our capital management objective and 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 or retire capital.

During the year, 5,292,246 ordinary shares were issued pursuant to the Scrip Dividend Scheme. This added SGD 110 million to ordinary share capital. Refer to Note 31 to the Financial Statements for details on the movement of share capital and treasury shares during the year.

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.

On 28 April 2015, all 30,011,421 DBS Group Holdings Ltd non-voting redeemable convertible preference shares were converted into ordinary shares. This added SGD 163 million to ordinary share capital.

On 17 December 2015, DBS Bank (China) Limited issued CNY 2 billion of Fixed Rate Subordinated Notes due 2025 Callable in 2020. While these notes qualify as Tier 2 capital for DBS Bank (China) Limited, they do not qualify as Tier 2 capital for the Group as their non-viability loss-absorbency trigger is only with respect to DBS Bank (China) Limited at the determination of the China Banking Regulatory Commission.

On 11 January 2016, DBS Group Holdings Ltd purchased SGD 134.25 million of the SGD 1,000 million DBS Bank Ltd. 3.30% Subordinated Notes due 2022 Callable in 2017 and SGD 491.75 million of the SGD 1,000 million DBS Bank Ltd. 3.10% Subordinated Notes due 2023 Callable in 2018, each issued pursuant to the USD 30,000 million Global Medium Term Note Programme.

Refer to Notes 30, 31, 32 and 34 to the Financial Statements as well as the Pillar 3 Main Features of Capital Instruments disclosure (http://www.dbs.com/investor/capital-disclosures.html) 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 2015

	In SGD millions
Common Equity Tier 1 (CET1) Capital	
Opening amount	34,703
Conversion of non-voting redeemable convertible preference shares (CPS)	163
Issue of shares pursuant to Scrip Dividend Scheme	110
Issue of shares upon exercise of share options	4
Purchase of treasury shares	(258)
Profit for the year (attributable to shareholders)	4,454
Dividends paid	(1,542)
Cost of share-based payments	103
Movements in other comprehensive income, including available-for-sale revaluation reserves	(205)
Others, including regulatory adjustments and transitional arrangements	(464)
Closing Amount	37,068
CET1 Capital	37,068
Additional Tier 1 Capital	
Opening amount	–
Conversion of non-voting redeemable CPS (eligible under transitional arrangements) to ordinary shares	(130)
Movements in Additional Tier 1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(108)
Others, including regulatory adjustments and transitional arrangements	238
Closing Amount	–
Tier 1 Capital	37,068
Tier 2 Capital	
Opening amount	5,657
Movements in Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(665)
Movement in provisions eligible as Tier 2 capital	54
Others, including regulatory adjustments and transitional arrangements	(1)
Closing Amount	5,045
Total Capital	42,113

Capital Adequacy Ratios

Our consolidated Common Equity Tier 1 Capital Adequacy Ratio (CAR) as at 31 December 2015 was 13.5%. Our Basel III fully phased-in CET1 CAR, calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments applicable from 1 January 2018 by risk-weighted assets (RWA) as at the reporting date, was 12.4%, which comfortably exceeds the eventual effective minimum CET1 CAR requirement under MAS Notice 637 of 9.0% (inclusive of capital conservation buffer) effective on 1 January 2019. Our Common Equity Tier 1 CAR, Tier 1 CAR and Total CAR, were all well above the MAS' minimum requirements of 6.5%, 8.0% and 10.0% respectively. The table below sets out our capital resources and capital adequacy ratios. We are also well-positioned to comply with forthcoming leverage ratio requirements. At the end of the year the consolidated leverage ratio stood at 7.3%, well above the minimum 3% envisaged by the Basel Committee.

Refer to 'Five-Year Summary' for the historical trend of Tier 1 and Total CAR. Refer to http://www.dbs.com/investor/index.html for the Group's Pillar 3 Quantitative Disclosures which set out details on the Group's RWA.

In SGD millions, as at 31 December	2015	2014
Share capital	10,391	10,113
Disclosed reserves and others	29,269	26,814
Total regulatory adjustments to Common Equity Tier 1 capital	(2,219)	(1,080)
Regulatory adjustments due to insufficient Additional Tier 1 capital	(373)	(1,144)
Common Equity Tier 1 capital	37,068	34,703
Additional Tier 1 capital instruments[1]	2,941	3,179
Total regulatory adjustments to Additional Tier 1 capital	(2,941)	(3,179)
Tier 1 capital	37,068	34,703
Provisions eligible as Tier 2 capital	1,408	1,354
Tier 2 capital instruments[1]	3,639	4,304
Total regulatory adjustments to Tier 2 capital	(2)	(1)
Total capital	42,113	40,360
Risk-Weighted Assets (RWA)		
Credit RWA	216,380	206,423
Market RWA	40,212	41,813
Operational RWA	17,437	15,950
Total RWA	274,029	264,186
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	13.5	13.1
Tier 1	13.5	13.1
Total	15.4	15.3
Basel III fully phased-in Common Equity Tier 1[2]	12.4	11.9
Minimum CAR (%)		
Common Equity Tier 1	6.5	5.5
Tier 1	8.0	7.0
Total	10.0	10.0

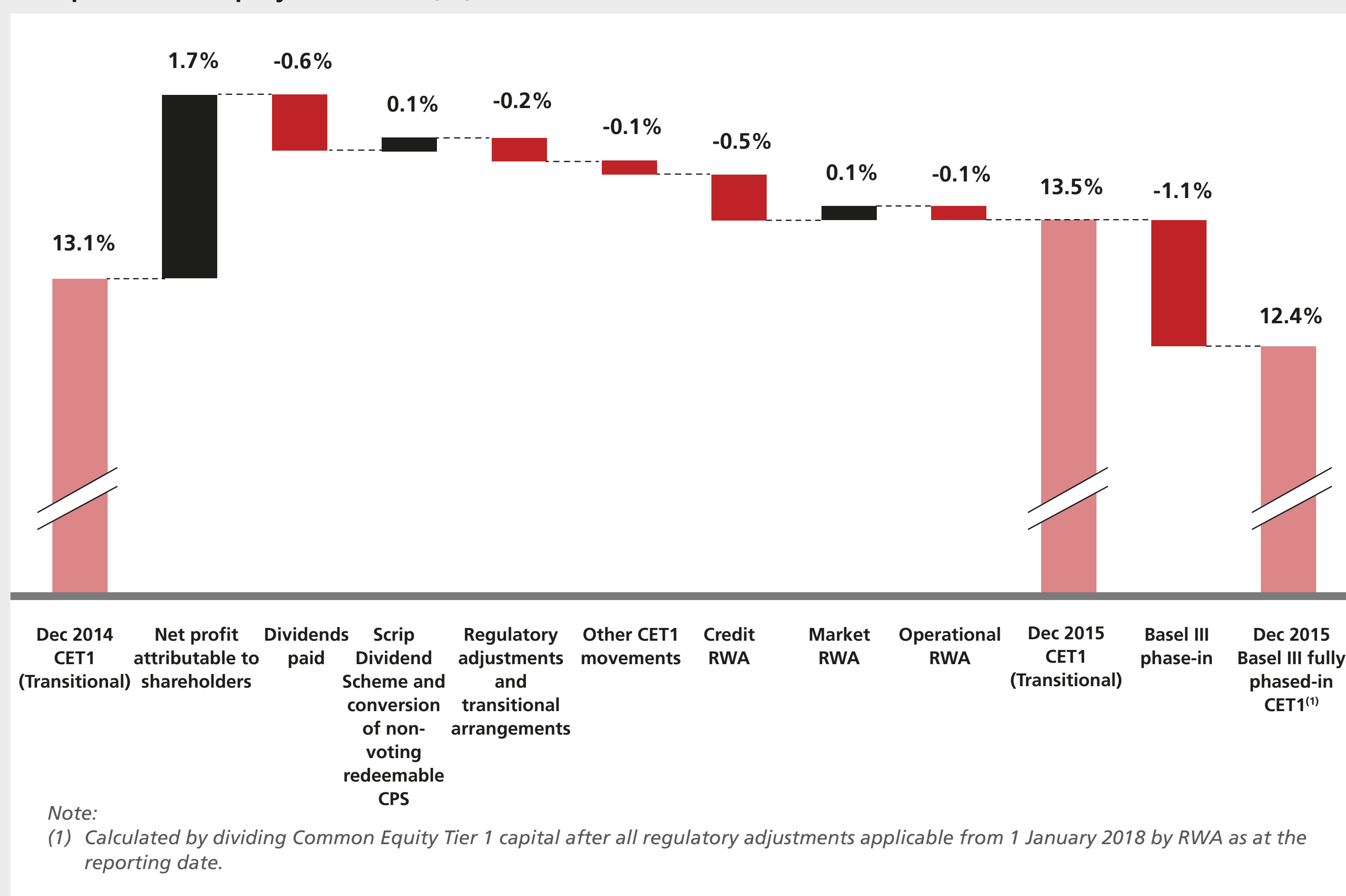
Notes:

(1) As part of the Basel III transitional 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 Jan 2013, the nominal amount serving as the base is not reduced.

(2) Calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments applicable from 1 January 2018 by RWA as at each reporting date.

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

Group Common Equity Tier 1 CAR (%)



Note:

(1) Calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments applicable from 1 January 2018 by RWA as at the reporting date.

The following table sets out the RWA and capital adequacy ratios as at 31 December 2015 of our significant banking subsidiaries calculated in accordance with the regulatory requirements applicable in the country of incorporation.

		CAR (%)		
As at 31 December 2015	Total RWA (SGD millions)	Common Equity Tier 1	Tier 1	Total
DBS Bank (Hong Kong) Limited	38,093	14.9	14.9	17.0
DBS Bank (China) Limited	16,706	11.3	11.3	14.4

Regulatory change

As of 1 January 2013, the MAS has incorporated Basel III provisions into Singapore prudential regulation. From 1 January 2015, banks incorporated in Singapore were required to comply with a minimum CET1 CAR of 6.5%, minimum Tier 1 CAR of 8.0%, and minimum Total CAR of 10%.

In April 2015, the MAS designated DBS Bank as a domestic systemically important bank ("D-SIB"). Under the MAS' framework for identifying and supervising D-SIBs, the higher loss absorbency requirement for locally-incorporated D-SIBs is met by the foregoing minimum ratios being two percentage points higher than those established by the Basel Committee.

In line with Basel III requirements, Singapore prudential regulation will require a Capital Conservation Buffer (CCB) of 2.5% and countercyclical buffer of up to 2.5% that are to be met fully with CET1 capital. These buffers will be phased in on 1 January each year from 2016 to 2019.

The countercyclical buffer is not an ongoing requirement, and is only applied as and when specified by the relevant banking supervisors. The applicable magnitude will be a weighted average of the country-specific countercyclical buffer requirements that are required by national authorities in jurisdictions to which a bank has private sector credit exposures. The Basel Committee expects jurisdictions to implement the

countercyclical buffer during periods of excessive credit growth. Of the jurisdictions where we have material private sector credit exposures, only Hong Kong has announced the activation of the countercyclical buffer requirement. The Hong Kong Monetary Authority announced on 27 January 2015 that the applicable jurisdictional countercyclical buffer for Hong Kong will be 0.625% from 1 January 2016. We are able to absorb this capital buffer requirement within our existing capital resources.

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

From 1 January	2015	2016	2017	2018	2019
Minimum CAR %					
CET1 (a)	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)	6.5	7.125	7.75	8.375	9.0
Effective Tier 1 including CCB	8.0	8.625	9.25	9.875	10.5
Effective Total including CCB	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 transitional 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 is not 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.

Changes to the rules for the computation of RWA for credit risk, counterparty credit risk, trading book market risk, interest rate risk in the banking book and operational risk as well as capital floors are at various degrees of finalisation by regulators and are expected to be effected in the coming years. As stated above, we continue to maintain our dividend policy which takes into consideration, inter alia, the uncertain impact of regulatory change.

In June 2015, the MAS published a consultation paper on proposed enhancements to the resolution regime for financial institutions in Singapore. The proposed enhancements include a statutory bail-in regime that is only applied to unsecured subordinated liabilities issued or contracted after the implementation of the statutory bail-in regime. This reflects, inter alia, that Singapore-incorporated banks are well-capitalised and already subject to capital standards that are stricter than Basel III standards.

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 (http://www.dbs.com/investor/index.html).