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 Monetary Authority of Singapore's 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 the uncertain impact of regulatory change. 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 will be applicable, 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 Chief Financial Officer 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 our 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 seek 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. The following capital transactions were undertaken during the year.

Common Equity Tier 1 capital

- DBS Group Holdings Ltd, on 20 June 2016, issued 16,700,472 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the final dividend for the year ended 31 December 2015. This added SGD 249 million to ordinary share capital.
- DBS Group Holdings Ltd, on 29 September 2016, issued 17,480,864 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the interim dividend for the year ended 31 December 2016. This added SGD 259 million to ordinary share capital.

Refer to Note 32 to the financial statements for details on the movement of share capital and treasury shares during the year.

Additional Tier 1 capital

- DBS Group Holdings Ltd, on 7 September 2016, issued USD 750 million 3.60% Non-Cumulative Non-Convertible Perpetual Capital Securities First Callable in 2021.

Tier 2 capital

- DBS Group Holdings Ltd, on 11 January 2016, purchased SGD 134.25 million of the SGD 1,000 million DBS Bank Ltd. 3.30% Subordinated Notes due 2022 Callable in 2017.
- DBS Group Holdings Ltd, on 11 January 2016, purchased SGD 491.75 million of the SGD 1,000 million DBS Bank Ltd. 3.10% Subordinated Notes due 2023 Callable in 2018.
- DBS Group Holdings Ltd, on 20 January 2016, issued SGD 250 million 3.80% Subordinated Notes due 2028 Callable in 2023.
- DBS Group Holdings Ltd, on 8 March 2016, issued JPY 10,000 million 0.918% Subordinated Notes due 2026.
- DBS Group Holdings Ltd, on 19 April 2016, issued HKD 1,500 million 3.24% Subordinated Notes due 2026 Callable in 2021.
- DBS Bank Ltd., on 15 July 2016, redeemed the outstanding SGD 500 million 4.47% Subordinated Notes due 2021 Callable with Step-up in 2016.
- DBS Bank Ltd., on 15 July 2016, redeemed the outstanding USD 900 million Floating Rate Subordinated Notes due 2021 Callable with Step-up in 2016.

Refer to Notes 31, 33 and 35 to the financial statements as well as the Pillar 3 Disclosures (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 2016

	In $ millions
Common Equity Tier 1 capital	
Opening amount	37,068
Issue of shares pursuant to Scrip Dividend Scheme	508
Purchase of treasury shares	(60)
Profit for the year (attributable to shareholders)	4,238
Dividends paid to shareholders[1]	(1,545)
Cost of share-based payments	109
Movements in other comprehensive income, including available-for-sale revaluation reserves	(24)
Transitional arrangements and others	(878)
Closing amount	39,416
Common Equity Tier 1 capital	39,416
Additional Tier 1 capital	
Opening amount	–
Issuance of Additional Tier 1 capital instruments	1,009
Movements in Additional Tier 1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(189)
Transitional arrangements and others	673
Closing amount	1,493
Tier 1 capital	40,909
Tier 2 capital	
Opening amount	5,045
Issuance of Tier 2 capital instruments	645
Movements in Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(1,427)
Movement in provisions eligible as Tier 2 capital	(145)
Closing amount	4,118
Total capital	45,027

Note:
(1) Includes distributions paid on captial securities classified as equity.

Capital adequacy ratios

As at 31 December 2016, our Basel III fully phased-in Common Equity Tier 1 capital adequacy ratio (CAR), calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments applicable from 1 January 2018 by the prevailing risk-weighted assets, was 13.3%. This ratio comfortably exceeds the eventual minimum CET1 CAR requirement under MAS Notice 637 of 9.0% (including capital conservation buffer but excluding countercyclical capital buffer) effective from 1 January 2019. On a transitional basis, our Common Equity Tier 1 CAR, Tier 1 CAR and Total CAR, were well above the Monetary Authority of Singapore's minimum requirements (including applicable capital conservation buffer and countercyclical capital buffer) of 7.2%, 8.7% and 10.7% 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. Our consolidated leverage ratio stood at 7.7%, well above the minimum 3.0% 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 Disclosures which set out details on the Group's risk-weighted assets.

In $ millions	2016	2015
Share capital	10,899	10,391
Disclosed reserves and others	31,930	29,269
Total regulatory adjustments to Common Equity Tier 1 capital	(3,413)	(2,219)
Regulatory adjustments due to insufficient Additional Tier 1 capital	–	(373)
Common Equity Tier 1 capital	39,416	37,068
Additional Tier 1 capital instruments[1]	3,761	2,941
Total regulatory adjustments to Additional Tier 1 capital	(2,268)	(2,941)
Tier 1 capital	40,909	37,068
Provisions eligible as Tier 2 capital	1,263	1,408
Tier 2 capital instruments[1]	2,857	3,639
Total regulatory adjustments to Tier 2 capital	(2)	(2)
Total capital	45,027	42,113
Risk-Weighted Assets (RWA)		
Credit RWA	226,014	216,380
Market RWA	34,037	40,212
Operational RWA	18,567	17,437
Total RWA	278,618	274,029
Capital Adequacy Ratio (CAR) (%)		
Basel III fully phased-in Common Equity Tier 1[2]	13.3	12.4
Common Equity Tier 1	14.1	13.5
Tier 1	14.7	13.5
Total	16.2	15.4
Minimum CAR including Buffer Requirements (%)[3]		
Common Equity Tier 1	7.2	6.5
Effective Tier 1	8.7	8.0
Effective Total	10.7	10.0
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	0.625	–
Countercyclical Buffer	0.1	–

Notes:

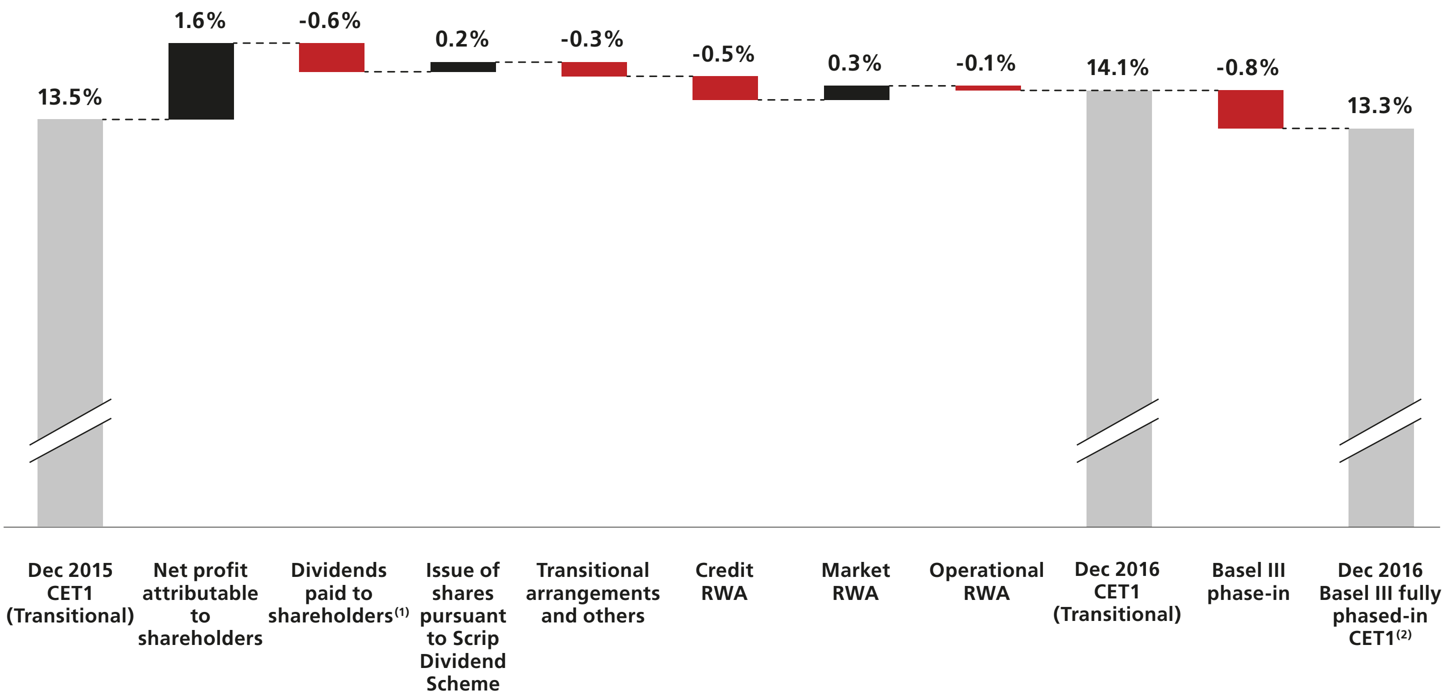
(1) As part of the Basel III transitional arrangements, regulatory capital recognition of outstanding Additional Tier 1 and Tier 2 capital instruments that no longer meet the minimum criteria is gradually being phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 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.

(2) Calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments (e.g., for goodwill and capital investments exceeding certain thresholds) applicable from 1 January 2018 by RWA as at each reporting date.

(3) Includes minimum Common Equity Tier 1, Tier 1 and Total CAR of 6.5%, 8.0% and 10.0% respectively.

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

Group Common Equity Tier 1 CAR



Notes:
(1) Includes distributions paid on captial securities classified as equity.
(2) Calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments (e.g., for goodwill and capital investments exceeding certain thresholds) applicable from 1 January 2018 by RWA as at each reporting date.

The following table sets out the RWA and capital adequacy ratios as at 31 December 2016 of our significant banking subsidiaries calculated in accordance with the regulatory requirements applicable in the country of incorporation.

		CAR (%)		
As at 31 December 2016	**Total RWA ($ m)**	**Common Equity Tier 1**	**Tier 1**	**Total**
DBS Bank (Hong Kong) Limited	38,107	15.6	16.2	18.3
DBS Bank (China) Limited	16,852	12.9	12.9	15.9

Regulatory change

The Monetary Authority of Singapore has revised MAS Notice 637 to incorporate the Basel III capital standards into Singapore regulations. These took effect from 1 January 2013 and are phased in over time. The transitional arrangements for minimum capital adequacy ratio requirements are summarised in the table below.

From 1 January	2016	2017	2018	2019
Minimum CAR %				
Common Equity Tier 1 (a)	6.5	6.5	6.5	6.5
Capital Conservation Buffer (CCB) (b)	0.625	1.25	1.875	2.5
Common Equity Tier 1 including CCB (a) + (b)	7.125	7.75	8.375	9.0
Tier 1 including CCB	8.625	9.25	9.875	10.5
Total including CCB	10.625	11.25	11.875	12.5
Maximum Countercyclical Buffer (1)	0.625	1.25	1.875	2.5

Notes:

(1) 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, Hong Kong has applied a countercyclical buffer of 0.625% for 2016, which will increase to 1.25% from 1 January 2017.

The MAS has 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. 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).

In addition to the changes implemented in 2013, there are changes to the regulatory capital adequacy framework that will be adopted in the near future. These are, inter alia, changes in the standardised approach for measuring counterparty credit risk exposures and the revised market risk framework, which are not expected to increase our risk-weighted assets significantly. The Basel Committee is considering further rule changes but these are yet to be finalised. We continue to assess the impact of the outstanding regulatory reforms and, if necessary, will manage exposures within our strategy, to help mitigate that impact.

The MAS has published a series of consultation papers 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 capital standards.