Capital management and planning

Objective

The Board of Directors (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 (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 including 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 and long-term growth prospects. In line with our dividend policy, the Board has recommended a final dividend of SGD 0.60 per ordinary share, bringing the total ordinary dividend for the year to SGD 0.93. The Board has also recommended a special dividend of SGD 0.50 per ordinary share, bringing the total dividend for the year to SGD 1.43. The Scrip Dividend Scheme will not be applied to the final nor special dividend. Barring unforeseen circumstances, we are also raising the ordinary dividend to SGD 1.20 per share in respect of the 2018 financial year.

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 projected 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 2017, issued 13,089,924 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the final dividend for the year ended 31 December 2016. This added SGD 267 million to ordinary share capital.
- DBS Group Holdings Ltd, on 27 September 2017, issued 1,884,425 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the interim dividend for the year ended 31 December 2017. This added SGD 39 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

- None

Tier 2 capital

- DBS Bank Ltd., on 21 February 2017, redeemed the outstanding SGD 1,000 million 3.3% Subordinated Notes due 2022 Callable with Step-up in 2017.
- DBS Bank Ltd., on 21 September 2017, redeemed the outstanding USD 750 million 3.625% Subordinated Notes due 2022 Callable with Step-up in 2017.
- Pursuant to a notice of redemption issued on 16 January 2018, DBS Bank Ltd. will on 14 February 2018 redeem the outstanding SGD 508 million 3.1% Subordinated Notes due 2023 Callable with Step-up in 2018.

Refer to Notes 31, 33 and 35 to the financial statements as well as the Pillar 3 disclosures (http://www.dbs.com/investor/index.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 2017

	SGD million
Common Equity Tier 1 capital	
Opening amount	39,416
Issue of shares pursuant to Scrip Dividend Scheme	306
Profit for the year (attributable to shareholders)	4,371
Dividends paid to shareholders[1]	(1,681)
Cost of share-based payments	110
Movements in other comprehensive income, including available-for-sale revaluation reserves	(257)
Transitional arrangements and others	(1,095)
Closing amount	41,170
Common Equity Tier 1 capital	41,170
Additional Tier 1 capital	
Opening amount	1,493
Movements in Additional Tier 1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(386)
Transitional arrangements and others	1,148
Closing amount	2,255
Tier 1 capital	43,425
Tier 2 capital	
Opening amount	4,118
Movements in Tier 2 capital instruments	(15)
Movements in Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(1,630)
Movement in provisions eligible as Tier 2 capital	(302)
Transitional arrangements and others	2
Closing amount	2,173
Total capital	45,598

Note:

(1) Includes distributions paid on capital securities classified as equity

Capital adequacy ratios

As at 31 December 2017, our Basel III fully phased-in Common Equity Tier 1 (CET1) capital adequacy ratio (CAR), calculated by dividing CET1 capital, after all regulatory adjustments, by the prevailing risk-weighted assets (RWA), was 13.9% which was above our target ratio of around 13.0%. The transition period for regulatory adjustments ended on 1 January 2018, which means the disclosed CET1 ratio will henceforth be the same as the fully phased-in ratios. As at 31 December 2017, our fully phased-in CET1 ratio, as well as our Tier 1 and Total CARs, comfortably exceeded the eventual minimum CAR requirements under MAS Notice 637, effective from 1 January 2019, of 9.0%, 10.5% and 12.5% respectively (this includes the capital conservation buffer but excludes the countercyclical capital buffer). Our ratios also exceeded the MAS transitional minimum requirements, as of 31 December 2017, for CET1, Tier 1 and Total CAR (including applicable capital conservation buffer and countercyclical buffer) of 8.0%, 9.5% and 11.5% respectively.

We are also well-positioned to comply with leverage ratio requirements. Our consolidated leverage ratio stood at 7.6%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

Refer to "Five-Year Summary" on page 200 for the historical trend of Tier 1 and Total CAR. Refer to http://www.dbs.com/investor/index.html for DBS' Pillar 3 disclosures which set out details on our RWA.

SGD million	**2017**	**2016**
Share capital	11,205	10,899
Disclosed reserves and others	34,455	31,930
Total regulatory adjustments to Common Equity Tier 1 capital	(4,490)	(3,413)
Common Equity Tier 1 capital	41,170	39,416
Additional Tier 1 capital instruments	3,375	3,761
Total regulatory adjustments to Additional Tier 1 capital	(1,120)	(2,268)
Tier 1 capital	43,425	40,909
Provisions eligible as Tier 2 capital	961	1,263
Tier 2 capital instruments	1,212	2,857
Total regulatory adjustments to Tier 2 capital	–	(2)
Total capital	45,598	45,027
Risk Weight Assets (RWA)		
Credit RWA	229,238	226,014
Market RWA	38,670	34,037
Operational RWA	19,681	18,567
Total RWA	287,589	278,618
Capital Adequacy Ratio (CAR) (%)		
Basel III fully phased-in Common Equity Tier 1[(1)]	13.9	13.3
Common Equity Tier 1	14.3	14.1
Tier 1	15.1	14.7
Total	15.9	16.2
Minimum CAR including Buffer Requirements (%)[(2)]		
Common Equity Tier 1	8.0	7.2
Effective Tier 1	9.5	8.7
Effective Total	11.5	10.7
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	1.25	0.625
Countercyclical Buffer[(3)]	0.2	0.1

Notes:

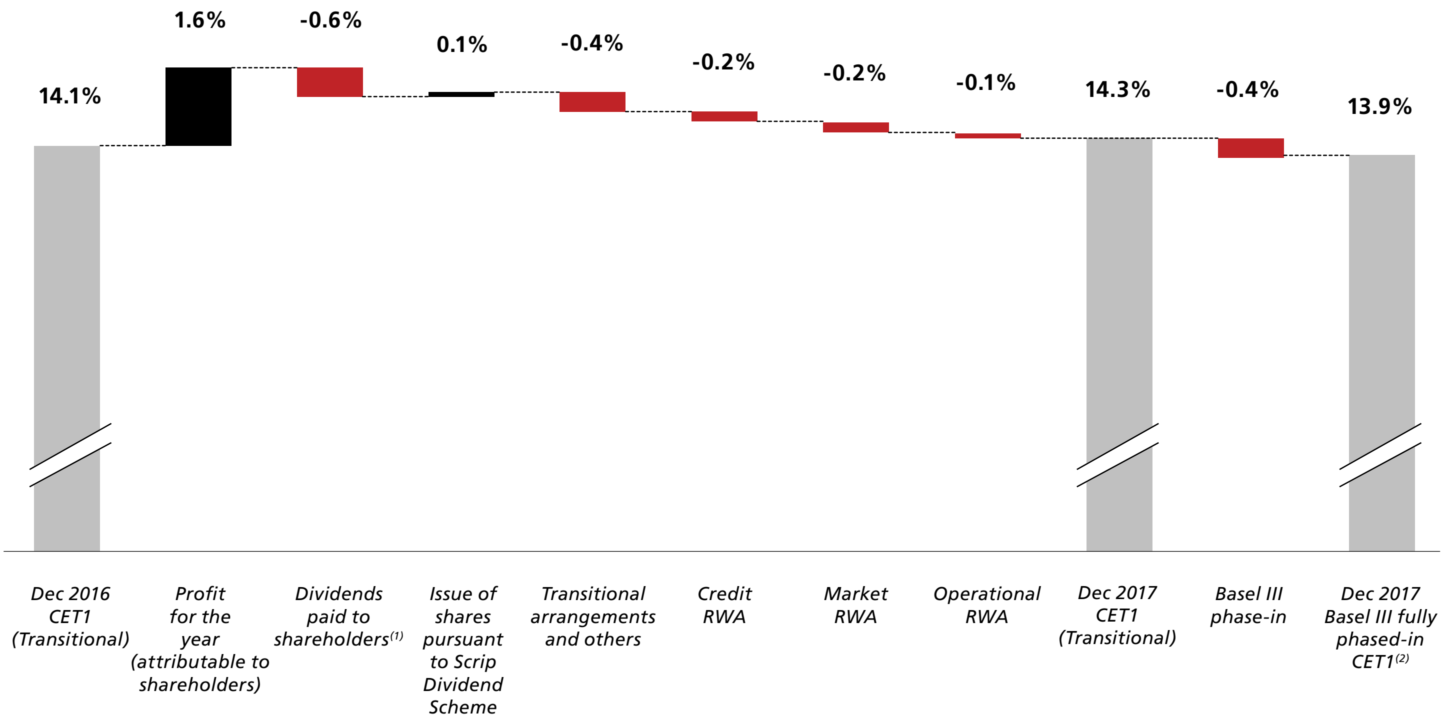
(1) Calculated by dividing Common Equity Tier 1 capital after all regulatory adjustments (e.g. for goodwill) applicable from 1 January 2018 by RWA as at each reporting date

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

(3) Refer to http://www.dbs.com/investor/index.html for DBS' Pillar 3 disclosures

The chart below analyses the drivers of the movement in Common Equity Tier 1 (CET1) CAR during the year.

Group Common Equity Tier 1 (CET1) CAR



Notes:

(1) Includes distributions paid on capital securities classified as equity

(2) Calculated by dividing CET1 capital after all regulatory adjustments (e.g. for goodwill) 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 2017 of our significant banking subsidiaries calculated in accordance with the regulatory requirements applicable in the country of incorporation.

		CAR (%)		
As at 31 December 2017	**Total RWA (SGD million)**	**Common Equity Tier 1**	**Tier 1**	**Total**
DBS Bank (Hong Kong) Limited	37,625	16.1	16.7	18.8
DBS Bank (China) Limited	16,907	12.8	12.8	15.7

Regulatory change

The MAS 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 CAR 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

Note:

(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 1.25% for 2017, which will increase to 1.875% from 1 January 2018

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

In August 2017, amendments to the MAS Act were gazetted, which when implemented will establish a legislative framework for the resolution and recovery of distressed financial institutions. The 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.

In September 2017, MAS Notice 637 was amended to remove the concept of Tier 1 Capital Resources Requirement from the calculation of capital floors and to introduce an alternative approach to the calculation of capital floors, based off the Basel III Standardised Approach rather than the Basel I Approach when calculating the RWA of the bank.

In November 2017, MAS Notice 637 was revised to strengthen the capital standards for securitisation exposures, while providing a preferential capital treatment for traditional securitisation that meet prescribed "simple, transparent and comparable" criteria.

In December 2017, MAS Notice 637 was amended to introduce the leverage ratio, with a minimum requirement of 3.0% effective 1 January 2018. Our consolidated leverage ratio was at 7.6% at the end of 2017.

In addition to the changes implemented in 2013, in December 2017, the Basel Committee finalised certain changes to the Basel III post-crisis regulatory reforms, including revisions to the standardised and internal-ratings based approaches to measuring credit risk and capital floors based on the standardised approaches. At the same time, the Committee also finalised the implementation dates of the various elements of the capital framework, including the revised market risk framework. They have a benign impact on DBS, enabling our capital levels to be rationalised.