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 1.20. The Scrip Dividend Scheme will not be applied to the final dividend.

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

- The Scrip Dividend Scheme was not applied to the 2017 final, 2017 special or 2018 interim dividends.
- As at 31 December 2018, the number of treasury shares held by the Group was 12,435,832 (2017: 6,868,515), which was 0.49% (2017: 0.27%) of the total number of issued shares net of treasury shares.

Refer to Note 33 to the financial statements for details on the movement of share capital during the year.

Additional Tier 1 capital

- DBS Capital Funding II Corporation, on 15 Jun 2018, redeemed the SGD 1,500 million 5.75% Non-Cumulative, Non-Convertible, Non-Voting Guaranteed Preference Shares Callable with Step-Up in 2018.
- DBS Group Holdings Ltd, on 12 September 2018, issued SGD 1,000 million 3.98% Non-Cumulative Non-Convertible Perpetual Capital Securities First Callable in 2025.

Tier 2 capital

- DBS Bank Ltd., on 14 February 2018 redeemed the outstanding SGD 508 million 3.1% Subordinated Notes due 2023 Callable with Step-up in 2018.
- DBS Group Holdings Ltd, on 16 March 2018, issued AUD 750 million Floating Rate Subordinated Notes due in 2028 and Callable in 2023.
- DBS Group Holdings Ltd, on 11 April 2018, issued EUR 600 million 1.5% Subordinated Notes due in 2028 and Callable in 2023.
- DBS Group Holdings Ltd, on 15 May 2018, issued RMB 950 million 5.25% Subordinated Notes due in 2028 and Callable in 2023.
- DBS Group Holdings Ltd, on 11 June 2018, issued USD 750 million 4.52% Subordinated Notes due in 2028 and Callable in 2023.
- DBS Group Holdings Ltd, on 25 June 2018, issued JPY 7,300 million 0.85% Subordinated Notes due in 2028 and Callable in 2023.

Refer to Notes 32, 34 and 36 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 2018

	SGD million
Common Equity Tier 1 capital	
Opening amount	41,170
Regulatory loss allowance reserves	(376)
Purchase of treasury shares	(303)
Profit for the year (attributable to shareholders)	5,577
Dividends paid to shareholders[1]	(4,432)
Cost of share-based payments	112
Other CET1 movements, including other comprehensive income	(375)
Transitional arrangements	(1,132)
Closing amount	40,241
Common Equity Tier 1 capital	40,241
Additional Tier 1 capital	
Opening amount	2,255
Issuance of Additional Tier 1 capital instruments	1,000
Movements in Additional Tier 1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(981)
Transitional arrangements and others	1,120
Closing amount	3,394
Tier 1 capital	43,635
Tier 2 capital	
Opening amount	2,173
Movements in Tier 2 capital instruments	2,969
Movements in Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	(553)
Movement in allowances eligible as Tier 2 capital	644
Closing amount	5,233
Total capital	48,868

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

Capital adequacy ratios

As of 1 January 2018, all Basel III deductions from Common Equity Tier 1 have been fully phased-in. As at 31 December 2018, our Common Equity Tier 1 (CET1) capital adequacy ratio (CAR) was 13.9% which was above our target ratio of around 13.0% ± 0.5%. Our 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).

As at 31 December 2018 our consolidated leverage ratio stood at 7.1%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

Refer to "Five-Year Summary" on page 195 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	2018	2017
Share capital	11,205	11,205
Disclosed reserves and others	34,658	34,455
Total regulatory adjustments to Common Equity Tier 1 capital	(5,622)	(4,490)
Common Equity Tier 1 capital	40,241	41,170
Additional Tier 1 capital instruments[1]	3,394	3,375
Total regulatory adjustments to Additional Tier 1 capital	–	(1,120)
Tier 1 capital	43,635	43,425
Total allowances eligible as Tier 2 capital	1,605	961
Tier 2 capital instruments[1]	3,628	1,212
Total capital	48,868	45,598
Risk-weighted assets (RWA)		
Credit RWA	242,526	229,238
Market RWA	26,170	38,670
Operational RWA	20,940	19,681
Total RWA	289,636	287,589
Capital Adequacy Ratio (CAR) (%)		
Basel III fully phased-in Common Equity Tier 1[2]	13.9	13.9
Common Equity Tier 1	13.9	14.3
Tier 1	15.1	15.1
Total	16.9	15.9
Minimum CAR including Buffer Requirements (%)[3]		
Common Equity Tier 1	8.7	8.0
Effective Tier 1	10.2	9.5
Effective Total	12.2	11.5
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	1.875	1.25
Countercyclical Buffer	0.3	0.2

Notes:

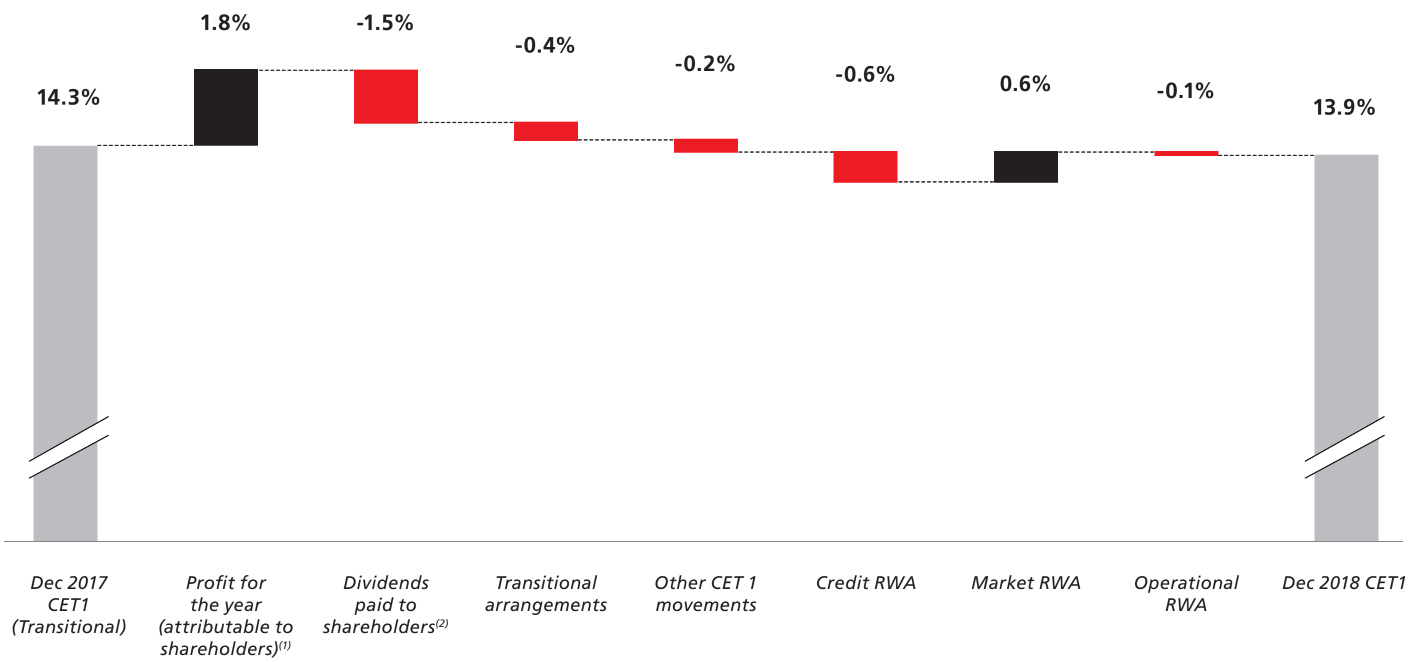
(1) As part of the Basel III transitional arrangements, regulatory capital recognition of outstanding Additional Tier 1 and Tier 2 capital instruments that no longer meet the minimum criteria is gradually being phased out. Fixing the base at the nominal amount of such instruments outstanding on 1 January 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) applicable from 1 January 2018 by RWA as at each reporting date. 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.

(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 (CET1) CAR during the year.

Group Common Equity Tier 1 (CET1) CAR



Notes:
(1) Net of regulatory loss allowance reserves
(2) Includes distributions paid on capital securities classified as equity

The following table sets out the RWA and capital adequacy ratios as at 31 December 2018 of our significant banking subsidiaries calculated in accordance with the locations' applicable regulatory requirements.

		CAR (%)		
As at 31 December 2018	**Total RWA (SGD million)**	**Common Equity Tier 1**	**Tier 1**	**Total**
DBS Bank (Hong Kong) Limited	40,757	15.1	15.7	17.7
DBS Bank (China) Limited	17,665	12.5	12.5	15.5

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	2017	2018	2019
Minimum CAR %			
Common Equity Tier 1 (a)	6.5	6.5	6.5
Capital Conservation Buffer (CCB) (b)	1.25	1.875	2.5
Common Equity Tier 1 including CCB (a) + (b)	7.75	8.375	9.0
Tier 1 including CCB	9.25	9.875	10.5
Total including CCB	11.25	11.875	12.5
Maximum Countercyclical Buffer (1)	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 jurisdiction-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 1.875% for 2018, increasing to 2.5% from 1 January 2019.

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 July 2018 the MAS published a consultation paper on Proposed Regulations to Enhance the Resolution Regime for Financial Institutions in Singapore. The MAS Amendment Act has partially come into operation, and most of the relevant amendments relating to the resolution framework came into force on 29 October 2018. Certain aspects of the framework are to be implemented by way of regulations which have not been issued. The MAS' resolution powers include, among other things, the introduction of statutory powers allowing the MAS to temporarily stay early termination rights (including set-off and netting rights) of counterparties to financial contracts entered into with a financial institution over which the MAS may exercise its resolution powers (which would include Singapore licensed banks), the introduction of a statutory bail-in regime, cross-border recognition of resolution action, creditor safeguards and resolution funding.

In October 2018, the MAS Notice 637 was amended to align definitions which cross-reference the Securities and Futures Act (Cap. 289).

The MAS has made further amendments to MAS Notice 637, with effect from 16 November 2018, 31 December 2018 and 1 January 2019 to, *inter alia*, implement the revised Basel Committee standards for Interest Rate Risk in the Banking Book (IRRBB) and Total Loss Absorbing Capacity (TLAC), widen the scope of certain eligible collateral, revise the risk weight for certain exposures and make technical amendments..

Impact of SFRS(I) 9 Implementation on Capital

DBS adopted the Singapore Financial Reporting Standards (International) 9 Financial Instruments (SFRS(I) 9) on 1 January 2018. Under SFRS(I) 9, impairment charges are determined using an Expected Credit Loss approach (ECL). Periodic changes in the balance of ECL are reflected as impairment charges and recorded in profit and loss and ultimately in Common Equity Tier 1 (CET1) capital. Banks are also required to maintain a minimum total allowance balance amounting to 1% of a defined list of non-credit impaired exposures, which has been termed the Minimum Regulatory Loss Allowance (MRLA). If the balance of Stage 1 & 2 ECL (which would equate to general allowances) is less than the MRLA, banks will have to appropriate the shortfall amount from retained earnings into a non-distributable reserve within equity, which is described as the Regulatory Loss Allowance Reserve (RLAR). The RLAR is excluded from CET1; instead it is recognised as part of the total allowances for Basel capital reporting and included as Tier 2 capital, subject to existing prescribed limits. As the Group has observed MAS Notice 612 requirements since 2005, the general allowances balance has remained prudent and SFRS(I) 9 adoption did not have a significant impact on the Group's capital position. Nonetheless, the Group will continue to take this into consideration in its capital planning.