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 that grow progressively with earnings. The Board has decided that, from financial year 2019, dividends will be paid quarterly instead of semi-annually to provide shareholders with a more regular income stream. In line with our dividend policy, the Board has recommended a final dividend of 33 cents per ordinary share, bringing the total ordinary dividend for the year to SGD 1.23 per share. Barring unforeseen circumstances, the annualised dividend going forward would be SGD 1.32 per share. 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 2018 final or 2019 interim dividends.
- As at 31 December 2019, the number of treasury shares held by the Group was 10,330,656 (2018: 12,435,832), which was 0.40% (2018: 0.49%) of the total number of issued shares net of treasury shares.

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

Additional Tier 1 capital

- DBS Group Holdings Ltd, on 3 June 2019, redeemed the SGD 805 million 4.70% Non-Cumulative, Non-Convertible Perpetual Capital Securities.

Tier 2 capital

- None

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 2019

	SGD million
Common Equity Tier 1 capital	
Opening amount	40,241
Profit for the year (attributable to shareholders)	6,391
Dividends paid to shareholders[1]	(3,931)
Cost of share-based payments	120
Purchase of treasury shares	(114)
Other CET1 movements, including other comprehensive income	163
Closing amount	42,870
Common Equity Tier 1 capital	42,870
Additional Tier 1 capital	
Opening amount	3,394
Redemption of Additional Tier 1 capital instruments and others	(804)
Closing amount	2,590
Tier 1 capital	45,460
Tier 2 capital	
Opening amount	5,233
Movements in Tier 2 capital instruments	(57)
Movement in allowances eligible as Tier 2 Capital	57
Closing amount	5,233
Total capital	50,693

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 2019, our Common Equity Tier 1 (CET1) capital adequacy ratio (CAR) was 14.1% which was above our target ratio of around 13.0% ± 0.5%. Our CET1 CAR, as well as our Tier 1 and Total CARs, comfortably exceeded the 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 2019 our consolidated leverage ratio stood at 7.0%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

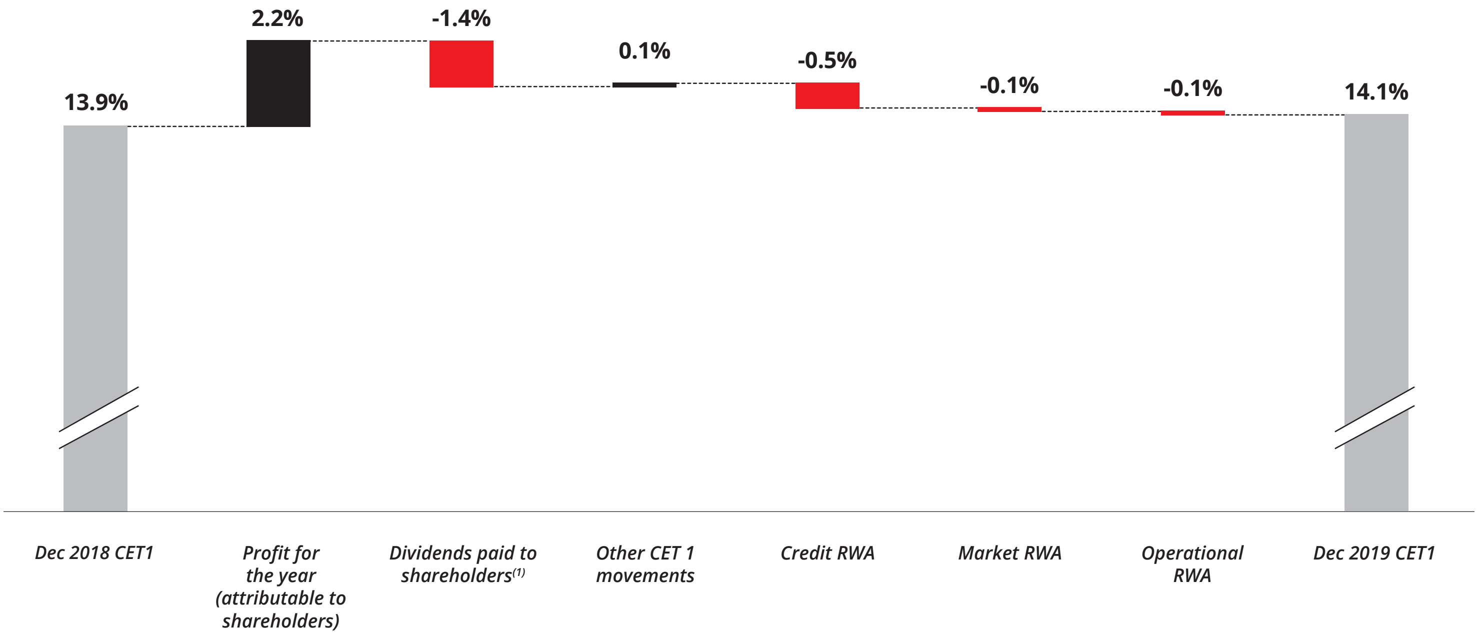
Refer to "Five-Year Summary" on page 189 for historical CAR trends. Refer to http://www.dbs.com/investor/index.html for DBS' Pillar 3 disclosures which set out details on our RWA.

SGD million	2019	2018
Share capital	11,205	11,205
Disclosed reserves and others	37,369	34,658
Total regulatory adjustments to Common Equity Tier 1 capital	(5,704)	(5,622)
Common Equity Tier 1 capital	42,870	40,241
Additional Tier 1 capital instruments	2,590	3,394
Tier 1 capital	45,460	43,635
Total allowances eligible as Tier 2 capital	1,662	1,605
Tier 2 capital instruments	3,571	3,628
Total capital	50,693	48,868
Risk-weighted assets (RWA)		
Credit RWA	252,402	242,526
Market RWA	28,696	26,170
Operational RWA	22,673	20,940
Total RWA	303,771	289,636
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	14.1	13.9
Tier 1	15.0	15.1
Total	16.7	16.9
Minimum CAR including Buffer Requirements (%)[(1)]		
Common Equity Tier 1	9.3	8.7
Effective Tier 1	10.8	10.2
Effective Total	12.8	12.2
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	2.5	1.875
Countercyclical Buffer	0.3	0.3

Note:
(1) 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



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

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 have been fully phased in from 1 January 2019. 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, which increased to 2.5% from 1 January 2019 and reduced to 2.0% from 14 October 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 included in the Group's Pillar 3 disclosures published on DBS' website (http://www.dbs.com/investor/index.html).

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.

The MAS has made 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) holdings, widen the scope of certain eligible collateral, revise the risk weight for certain exposures and make technical amendments.

On 7 May 2019, the MAS released a consultation paper on "Proposed Implementation of the Final Basel III Reforms in Singapore", seeking feedback on proposed revisions to the risk-based capital requirements and leverage ratio requirements for Singapore-incorporated banks to align with the Basel III reforms, and to implement these revisions from 1 January 2022. These proposals, if implemented can affect the way banks in Singapore calculate their exposures, which may in turn affect their capital requirements.

With effect from 30 June 2019, further amendments were made to MAS Notice 637 to: (a) allow the recognition of a qualifying on-balance sheet netting agreement for loans and deposits for credit risk mitigation purposes, (b) reduce disclosure requirements for non D-SIBs, (c) revise disclosure templates for disclosures, and (d) implement other technical revisions.