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. On 29 July 2020, the MAS called on locally-incorporated banks to cap their total dividends per share ("DPS") for FY2020 at 60% of FY2019's DPS, and offer shareholders the option of receiving the dividends to be paid for FY2020 in scrip in lieu of cash. While the MAS recognised that Singapore banks' capital positions are strong, the dividend restrictions were a pre-emptive measure to bolster the banks' resilience and capacity to support lending. In line with MAS' guidance, the Board has recommended a final dividend of SGD 0.18 per ordinary share, bringing the total ordinary dividend for the year to SGD 0.87 per share. The Scrip Dividend Scheme will 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 generally 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 2019 final or interim dividend for the first quarter of the year ended 31 December 2020.
- DBS Group Holdings Ltd, on 5 October 2020, issued 2,184,219 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the interim dividend for the second quarter of the year ended 31 December 2020. This added SGD 46 million to ordinary share capital.
- DBS Group Holdings Ltd, on 29 December 2020, issued 9,743,049 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the interim dividend for the third quarter of the year ended 31 December 2020. This added SGD 233 million to ordinary share capital.
- As at 31 December 2020, the number of treasury shares held by the Group was 25,874,461 (2019: 10,330,656), which was 1.01% (2019: 0.40%) of the total number of issued shares net of treasury shares. In response to the MAS' direction for the sustaining of lending activities to take priority over discretionary distributions, the Group halted share buybacks at the end of March 2020.

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 27 February 2020, issued USD 1,000 million 3.30% Non-Cumulative, Non-Convertible Perpetual Capital Securities First Callable in 2025.
- DBS Bank Ltd., on 23 November 2020 redeemed the SGD 800 million 4.70% Non-Cumulative, Non-Convertible, Non-Voting Preference Shares Callable in 2020.

Tier 2 capital

- DBS Group Holdings Ltd, on 8 October 2020, issued AUD 300 million Floating Rate Subordinated Notes due 2031 and Callable in 2026.

Refer to Notes 31, 33 and 35 to the financial statements as well as the Main Features of Capital Instruments document (https://www.dbs.com/investors/fixed-income/capital-instruments) 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 2020

	SGD million
Common Equity Tier 1 capital	
Opening amount	42,870
Issue of shares pursuant to Scrip Dividend Scheme	279
Profit for the year (attributable to shareholders)	4,721
Dividends paid to shareholders[1]	(2,411)
Cost of share-based payments	131
Purchase of treasury shares	(447)
Other CET1 movements, including other comprehensive income	(357)
Closing amount	44,786
Common Equity Tier 1 capital	44,786
Additional Tier 1 capital	
Opening amount	2,590
Issuance of Additional Tier 1 capital instruments	1,392
Redemption of Additional Tier 1 capital instruments and others	(580)
Closing amount	3,402
Tier 1 capital	48,188
Tier 2 capital	
Opening amount	5,233
Movements in Tier 2 capital instruments	399
Movement in allowances eligible as Tier 2 capital	117
Closing amount	5,749
Total capital	53,937

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

Capital adequacy ratios

As at 31 December 2020, 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 CAR, as well as our Tier 1 and Total CARs, comfortably exceeded the minimum CAR requirements under MAS Notice 637 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 2020, our consolidated leverage ratio stood at 6.8%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

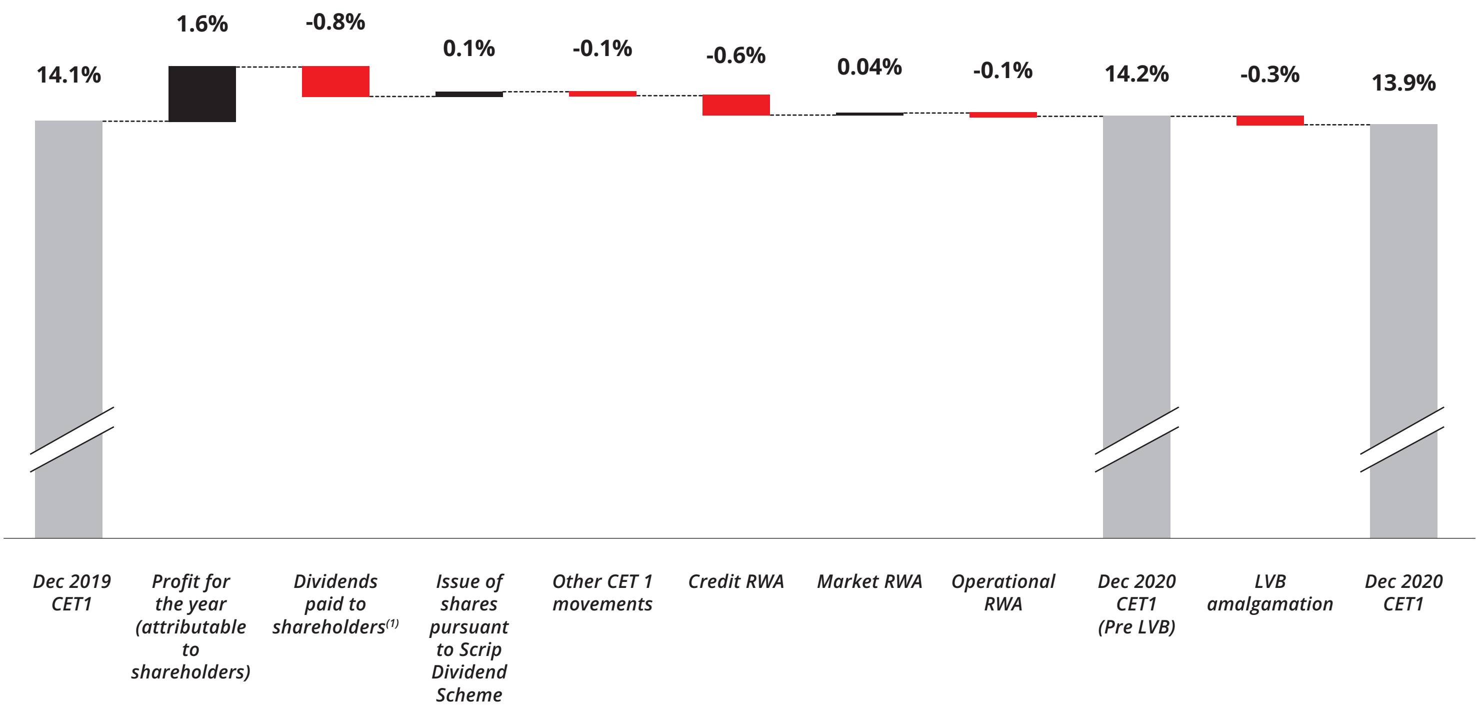
Refer to "Five-Year Summary" on page 188 for the historical trend of Tier 1 and Total CAR. Refer to DBS Group's Pillar 3 disclosures published on DBS' website (https://www.dbs.com/investors/default.page) for details on our RWA.

SGD million	**2020**	**2019**
Common Equity Tier 1 capital	44,786	42,870
Tier 1 capital	48,188	45,460
Total capital	53,937	50,693
Risk-weighted assets (RWA)		
Credit RWA	269,249	252,402
Market RWA	27,932	28,696
Operational RWA	23,915	22,673
Total RWA	321,096	303,771
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	13.9	14.1
Tier 1	15.0	15.0
Total	16.8	16.7
Minimum CAR including Buffer Requirements (%)[1]		
Common Equity Tier 1	9.1	9.3
Effective Tier 1	10.6	10.8
Effective Total	12.6	12.8
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	2.5	2.5
Countercyclical Buffer	0.1	0.3

Notes:
(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



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

Regulatory change

The minimum CAR requirements based on MAS Notice 637 have been fully phased in from 1 January 2019 and are summarised in the table below.

From 1 January	**2019 and beyond**
Minimum CAR %	
Common Equity Tier 1 (a)	6.5
Capital Conservation Buffer (CCB) (b)	2.5
Common Equity Tier 1 including CCB (a) + (b)	9.0
Tier 1 including CCB	10.5
Total including CCB	12.5
Maximum Countercyclical Buffer [1]	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 2.5% from 1 January 2019, and was reduced to 2.0% and 1.0% from 14 October 2019 and 16 March 2020 respectively.

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 DBS Group's Pillar 3 disclosures published on DBS' website (https://www.dbs.com/investors/default.page).

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. On 7 April 2020, the MAS announced that the implementation date of the Basel III reforms had been deferred by one year to 1 January 2023 to enable banks to prioritise their resources to respond to the impact of COVID-19.

On 31 March 2020, in light of the COVID-19 pandemic, MAS Notice 637 was amended to allow the full recognition of balances maintained in regulatory loss allowance reserve accounts as Tier 2 Capital between 31 March 2020 and 30 September 2021 (both dates inclusive). Further technical revisions to MAS Notice 637 were implemented with effect from 1 October 2020, including the capital treatment of public sector entities.