9 Reputational risk

DBS views reputational risk as an outcome of any failure to manage risks in our day-to- day activities/ decisions, and from changes in the operating environment. These risks include:

- Financial risk (credit, market and liquidity risks)
- Inherent risk (operational and business/ strategic risks)

9.1 Reputational risk management at DBS

DBS' approach to reputational risk management comprises the following building blocks:

Policies
Risk methodologies
Processes, systems and reports

Policies
DBS adopts a four-step approach for reputational risk management, which is to prevent, detect, escalate and respond to reputational risk events.

As reputational risk is a consequence of the failure to manage other risk types, the definitions and principles for managing such risks are articulated in the respective risk policies. These are reinforced by sound corporate values that reflect ethical behaviours and practices throughout DBS.

At DBS, we have policies in place to protect the consistency of our brand and to safeguard our corporate identity and reputation.

Risk methodologies
Under the various risk policies, we have established a number of mechanisms for ongoing risk monitoring.

These mechanisms take the form of risk limits, key risk indicators and other operating metrics, and include the periodic risk and control self-assessment process. Apart from observations from internal sources, alerts from external parties/ stakeholders also serve as an important source to detect potential reputational risk events. In addition, there are policies relating to media communications, social media and corporate social responsibility to protect DBS' reputation. There are also escalation and response mechanisms in place for managing reputational risk.

While the respective risk policies address the individual risk types, the Reputational Risk Policy focuses specifically on our stakeholders' perception of how well DBS manages its reputational risks. Stakeholders include customers, government agencies and regulators, investors, rating agencies, business alliances, vendors, trade unions, the media, the general public, the Board and senior management, and DBS' employees.

We recognise that creating a sense of shared value through engagement with key stakeholder groups is imperative for our brand and reputation.

Read more about our stakeholder engagement on page 76.

Processes, systems and reports
Our units are responsible for the day-to- day management of reputational risk, and ensure that processes and procedures are in place to identify, assess and respond to this risk. This includes social media monitoring to pick up adverse comments on DBS. Events affecting DBS' reputational risk are also included in our reporting of risk profiles to senior management and Board-level committees.

9.2 Reputational risk in 2021

DBS' priority is to prevent the occurrence of a reputational risk event, instead of taking mitigating action when it occurs. In relation to the two-day digital disruption in November 2021 which impacted the Bank's reputation, concerted efforts were made to recover the banking services as soon as possible and to keep customers updated on the recovery progress via various communication channels. Following the incident, management has initiated remedial measures to improve the resilience of our services and incident response, with due consideration given to regulatory requirements and expectations.

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. With the lifting of regulatory restrictions on 28 July 2021, we reverted dividend to its pre-pandemic level of SGD 0.33 per ordinary share from the second quarter of FY2021. In line with our dividend policy, the Board has recommended a final dividend of SGD 0.36 per ordinary share, a 9% increase from the previous payout. This will bring the total ordinary dividend for the year to SGD 1.20 per share. Barring unforeseen circumstances, the annualised dividend going forward would be SGD 1.44 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 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 throughout 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 24 May 2021, issued 5,967,122 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the 2020 final dividend. This added SGD 171 million to ordinary share capital.
- DBS Group Holdings Ltd, on 25 June 2021, issued 5,786,801 ordinary shares pursuant to the Scrip Dividend Scheme in respect of the interim dividend for the first quarter of the year ended 31 December 2021. This added SGD 171 million to ordinary share capital.
- The Scrip Dividend Scheme was not applied to the interim dividend for the second and third quarters of the year ended 31 December 2021.
- As at 31 December 2021, the number of treasury shares held by the Group was 20,872,531 (2020: 25,874,461), which was 0.81% (2020: 1.01%) of the total number of issued shares net of treasury shares. In response to the MAS' direction on 28 July 2021 to exercise continued prudence in discretionary distributions, the Group has not resumed share buybacks since its suspension 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 7 September 2021, redeemed USD 750 million 3.60% Non-Cumulative, Non-Convertible Perpetual Capital Securities First Callable in 2021.

Tier 2 capital

- DBS Group Holdings Ltd, on 3 March 2021, issued RMB 1,600 million 3.70% Subordinated Notes due 2031 and Callable in 2026.
- DBS Group Holdings Ltd, on 10 March 2021, issued USD 500 million 1.822% Subordinated Notes due 2031 and Callable in 2026.
- DBS Group Holdings Ltd, on 19 April 2021, redeemed HKD 1,500 million 3.24% Subordinated Notes

Refer to Notes 31, 32 and 33 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 2021

	SGD million
Common Equity Tier 1 capital	
Opening amount	44,786
Issue of shares pursuant to Scrip Dividend Scheme	342
Profit for the year (attributable to shareholders)	6,805
Dividends paid to shareholders[1]	(2,734)
Cost of share-based payments	134
Purchase of treasury shares	(16)
Other CET1 movements, including other comprehensive income	(69)
Closing amount	49,248
Common Equity Tier 1 capital	49,248
Additional Tier 1 capital	
Opening amount	3,402
Redemption of Additional Tier 1 capital instruments and others	(1,010)
Closing amount	2,392
Tier 1 capital	51,640
Tier 2 capital	
Opening amount	5,749
Movements in Tier 2 capital instruments	666
Movement in allowances eligible as Tier 2 capital	152
Closing amount	6,567
Total capital	58,207

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

Capital adequacy ratios

As at 31 December 2021, our Common Equity Tier 1 (CET1) capital adequacy ratio (CAR) was 14.4% which was above our target ratio of around 13.0% ± 0.5%. Our CET1, Tier 1 and Total CAR comfortably exceeded the 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 2021, our consolidated leverage ratio stood at 6.7%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

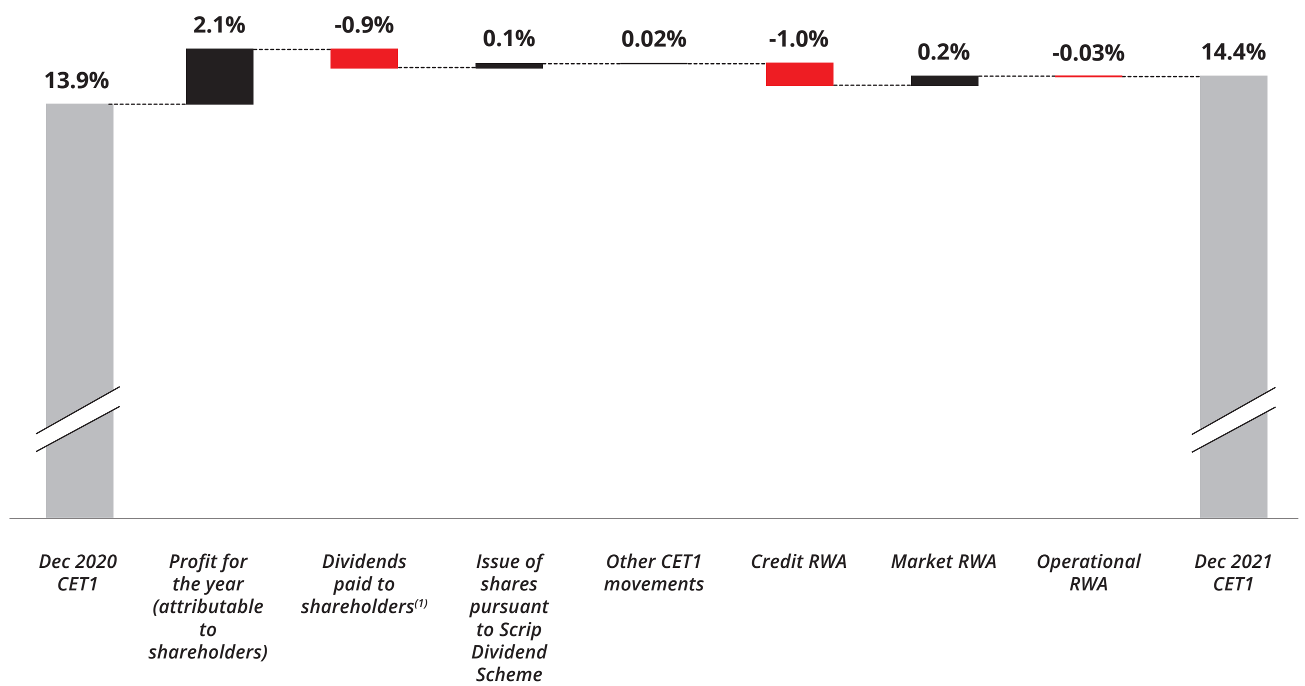
Refer to "Five-Year Summary" on page 190 for the historical trend of Tier 1 and Total CAR. Refer to the Group's Pillar 3 disclosures published on DBS website (https://www.dbs.com/investors/default.page) for details on our RWA.

SGD million	2021	2020
Common Equity Tier 1 capital	49,248	44,786
Tier 1 capital	51,640	48,188
Total capital	58,207	53,937
Risk-weighted assets (RWA)		
Credit RWA	294,665	269,249
Market RWA	23,448	27,932
Operational RWA	24,578	23,915
Total RWA	342,691	321,096
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	14.4	13.9
Tier 1	15.1	15.0
Total	17.0	16.8
Minimum CAR including Buffer Requirements (%)[1]		
Common Equity Tier 1	9.1	9.1
Effective Tier 1	10.6	10.6
Effective Total	12.6	12.6
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	2.5	2.5
Countercyclical Buffer	0.1	0.1

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 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, reducing to 2.0% from 14 October 2019 and 1.0% from 16 March 2020 and remained unchanged thereafter.

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 set of indicators which are included in the Group's Pillar 3 disclosures published on DBS website (https://www.dbs.com/investors/default.page).

On 7 May 2019, the MAS first released a consultation paper on "Proposed Implementation of the Final Basel III Reforms in Singapore", seeking feedback on proposed revisions to the capital requirements and leverage ratio requirements for Singapore-incorporated banks to align with the Basel III reforms. 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 in response to COVID-19. On 25 March 2021, the MAS released a consultation paper on "Draft Standards for Credit Risk Capital and Output Floor Requirements for Singapore-incorporated banks" to seek further feedback. The revised standards are expected to take effect from 1 January 2023, with transitional arrangements provided for implementation of the output floor till 1 January 2028. On 13 September 2021, the MAS released a consultation paper on "Draft Standards for Market Risk Capital and Capital Reporting Requirements for Singapore-Incorporated Banks", seeking feedback on the draft standards. The MAS intends to implement the revised standards for market risk capital for supervisory reporting purposes from 1 January 2023, and for the purposes of compliance with capital adequacy and disclosure requirements from 1 January 2023 or later.

With effect from 1 July 2021, MAS Notice 637 was amended to specify that the transitional arrangements for the adoption of the standardised approach for counterparty credit risk ("SA-CCR") and the revised capital requirements for bank exposures to central counterparties will cease on 31 December 2021. It also reflects amendments setting out an alternative treatment for the measurement of derivatives exposures for leverage ratio calculation, using a modified version of SA-CCR as well as other amendments to implement technical revisions to the credit risk framework. Further amendments to MAS Notice 637 were made with effect from 18 August 2021 to implement the framework for the treatment of major stake investments in financial institutions at the Solo level.

With effect from 31 December 2021, MAS Notice 637 was amended to incorporate edits in relation to the insertion of a new charge to be held by the Housing and Development Board under the Prime Location Public Housing model. Further amendments effective from 1 January 2022 were also made to MAS Notice 637 to: (a) incorporate clarifications to the SA-CCR framework and the revised capital requirements for bank exposures to central counterparties, (b) implement revisions to the internal ratings-based approach application process and (c) implement technical revisions to the disclosure framework.