

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 Notice to Designated Financial Holding Companies FHC-N637 on "Risk Based Capital Adequacy Requirements" (MAS Notice FHC-N637), 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. In line with this, the Board proposed a final dividend of 42 cents per share, an increase of six cents from the previous payout, and a special dividend of 50 cents per share. The combined payout of 92 cents per share reflects our robust earnings profile and strong capital position. Together with the ordinary dividends of 36 cents per share for each of the first three quarters, the total dividend payout for the financial year rose to SGD 2.00 per share, a 67% increase from the SGD 1.20

per share for financial year 2021. Barring unforeseen circumstances, the annualised dividend will rise to SGD 1.68 per share. The Scrip Dividend Scheme will not be applied to the final and special dividends, having been suspended since June 2021.

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. There were no Additional Tier 1 nor Tier 2 transactions during the year.

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

Refer to Notes 32 and 34 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 2022

	SGD million
Common Equity Tier 1 capital	
Opening amount	49,248
Profit for the year (attributable to shareholders)	8,193
Dividends paid to shareholders ⁽¹⁾	(3,789)
Cost of share-based payments	134
Purchase of treasury shares	(11)
Other CET1 movements, including other comprehensive income	(3,288)
Closing amount	50,487
Common Equity Tier 1 capital	50,487
Additional Tier 1 capital	
Opening amount	2,392
Other AT1 movements	1
Closing amount	2,393
Tier 1 capital	52,880
Tier 2 capital	
Opening amount	6,567
Movements in Tier 2 capital instruments	(244)
Movement in allowances eligible as Tier 2 capital	(158)
Closing amount	6,165
Total capital	59,045

Note:

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

Capital adequacy ratios

As at 31 December 2022, our Common Equity Tier 1 (CET1) capital adequacy ratio (CAR) was 14.6% which was above our target ratio of around 13.0% ± 0.5%. Our CET1 CAR, as well as 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 2022, our consolidated leverage ratio stood at 6.4%, well above the 3.0% minimum ratio set by the MAS effective 1 January 2018.

Refer to "Five-Year Summary" on page 189 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.

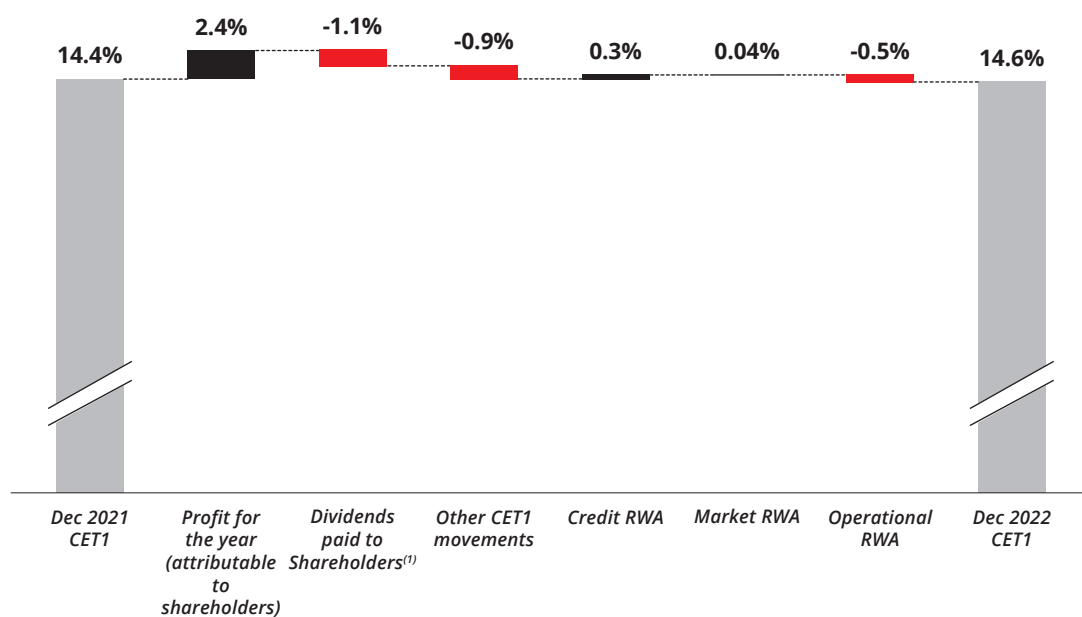
SGD million	2022	2021
Common Equity Tier 1 capital	50,487	49,248
Tier 1 capital	52,880	51,640
Total capital	59,045	58,207
Risk-weighted assets (RWA)		
Credit RWA	288,640	294,665
Market RWA	22,505	23,448
Operational RWA	35,750	24,578
Total RWA	346,895	342,691
Capital Adequacy Ratio (CAR) (%)		
Common Equity Tier 1	14.6	14.4
Tier 1	15.2	15.1
Total	17.0	17.0
Minimum CAR including Buffer Requirements (%)⁽¹⁾		
Common Equity Tier 1	9.2	9.1
Effective Tier 1	10.7	10.6
Effective Total	12.7	12.6
Of which: Buffer Requirements (%)		
Capital Conservation Buffer	2.5	2.5
Countercyclical Buffer	0.2	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 on Banking Supervision (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 19 December 2022, the MAS announced that the implementation of the final Basel III reforms in Singapore will be deferred to between 1 January 2024 and 1 January 2025. This move is to allow the industry sufficient time for proper implementation of systems needed to adopt the revised framework, and is aligned with the implementation timelines of other major jurisdictions. The MAS will finalise the implementation timeline for the final Basel III reforms (including the transitional arrangement for the output floor) by 1 July 2023.

On 7 February 2022, the MAS imposed on DBS Bank an additional capital requirement arising from the widespread unavailability of DBS Bank's digital banking services during 23 to 25 November 2021. Notwithstanding the multiplier of 1.5 times applied on DBS Bank's risk-weighted assets for operational risk, the Group's capital ratios remained robust. The additional capital requirement will be reviewed when MAS is satisfied that DBS Bank has addressed the shortcomings identified through an independent review of the incident.

With effect from 1 January 2023, MAS Notice 637 was amended to: (a) implement the revised Pillar 3 disclosure requirements for IRRBB published by the Basel Committee; (b) implement a -100bps interest rate floor on the post-shock interest rates under the standardised interest rate shock scenarios set out in Annex 10C of MAS Notice 637; (c) provide additional clarity on the application of interest rate floors, interest rate caps, and pass-through rates when computing IRRBB under the standardised interest rate shock scenarios; and (d) implement various other technical revisions.