Capital Management

Our capital management objective

Our capital management objectives are:

- to maintain an optimal level of capital to support our business growth strategies and investment opportunities, and to meet regulatory requirements;
- to maintain the strong credit ratings for which our stakeholders, including our depositors and investors, recognise us for; and
- to maintain an efficient capital structure, keeping our overall cost of capital low and to deliver sustainable dividend returns to our shareholders.

Our approach

We adopt a proactive approach in the management of our capital position over the medium term through the Group's Internal Capital Adequacy Assessment Process (ICAAP). This comprehensive assessment includes:

- setting capital targets for the Group, taking into account foreseeable regulatory changes and stakeholder expectations;
- forecasting capital consumption for material risks based on the Group's risk appetite. This forecast is evaluated across all business segments and banking entities against projected capital levels, taking into consideration the impact of mitigating actions under adverse economic conditions; and
- determining capital issuance requirements and reviewing the maturity profile of existing capital securities.

Our capital planning and assessment process is governed by two committees. Our Board Risk Management Committee (BRMC) assists our Board in the oversight of the management of risks arising from the businesses of our Group, while our Risk and Capital Committee (RCC), comprising senior management, manages our Group's ICAAP, overall risk profile and capital adequacy. Our BRMC and RCC are kept apprised of our Group's capital positions quarterly, while our capital management and contingency capital plans are reviewed annually. Material capital management decisions are also approved by our Board.

The Bank is the primary provider of capital to the Group's entities. Investments in the entities under our Group are substantially funded by our internally generated capital, comprising retained earnings, and externally-raised capital issuances. Our banking subsidiaries outside Singapore are expected to manage their own capital positions to support planned business growth and are also required to comply with their local regulatory requirements. Capital generated by our subsidiaries in excess of planned requirements is returned to us by way of dividends, subject to local regulations. There was no significant impediment to the payment of dividends by our subsidiaries during the year.

Regulatory requirements

We are one of the Domestic Systemically Important Banks (D-SIBs) in Singapore and are subject to stricter regulatory measures imposed by the Monetary Authority of Singapore (MAS).

As a D-SIB, we are required to maintain, at a minimum, Common Equity Tier 1 (CET1), Tier 1 and Total Capital Adequacy Ratio (CAR) of 6.5 per cent, 8 per cent and 10 per cent respectively at the Bank and Group levels.

The CAR requirements include the following capital-related buffers:

- Capital conservation buffer (CCB) of 2.5 per cent, to be maintained in the form of CET1 capital. This is to ensure adequate capital buffer is accumulated outside periods of stress. Taking into account the full CCB requirement, the regulatory CET1, Tier 1 and Total CAR will increase to 9 per cent, 10.5 per cent and 12.5 per cent respectively.
- Countercyclical buffer (CCyB) of up to 2.5 per cent, to be maintained in the form of CET1 capital. The CCyB is applied on a discretionary basis by banking regulators in the respective jurisdictions to limit excessive credit growth in their economies. Where we have credit exposures to the private sectors of these countries, we will be subjected to the CCyB requirements.

In 2020, the MAS announced that the implementation of the final reformed Basel III frameworks would be deferred by one year to 1 January 2023 for banks in Singapore, in line with the deferment announced by the Basel Committee. We will continue to monitor the development of the reformed Basel III requirements and its impact therefrom.

Capital transactions

- We redeemed the $500 million 3.50% Subordinated Notes in May 2020 and issued US$600 million 1.75% Subordinated Notes in September 2020.

The table below shows the consolidated capital positions of our Group as at 31 December 2020 and 31 December 2019.

	2020 $ million	2019 $ million
Common Equity Tier 1 Capital		
Share capital	5,043	4,949
Disclosed reserves/others	32,914	32,012
Regulatory adjustments	(4,726)	(4,595)
Common Equity Tier 1 Capital	33,231	32,366
Additional Tier 1 Capital		
Perpetual capital securities/others	2,379	2,379
Tier 1 Capital	35,610	34,745
Tier 2 Capital		
Subordinated notes	4,287	3,969
Provisions/others	1,493	638
Eligible Total Capital	41,390	39,352
Risk-weighted Assets (RWA)		
Credit risk	199,679	200,419
Market risk	9,426	9,959
Operational risk	16,336	15,940
Total RWA	225,441	226,318
Capital Adequacy Ratios (%)		
CET1	14.7	14.3
Tier 1	15.8	15.4
Total	18.4	17.4
Leverage exposure	478,233	452,859
Leverage Ratio (%)	7.4	7.7