# Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2009)

The purpose of this disclosure is to provide the information in accordance with Pillar 3 directives under MAS Notice 637. This supplements the disclosure in the Risk Management and Capital Management Chapters as well as related information in the Notes to the Financial Statements and Management Discussion and Analysis.

During the year, no new material portfolios were migrated to internal ratings-based ("IRB") approach. However, approval was obtained for the Singapore small and medium enterprise ("SME") portfolio to migrate to IRB approach with effect from 1 January 2010.

The overall quality of the Group's credit portfolio remained stable in the challenging economic environment that prevailed in 2009. With the broad outlook for a strengthening global economy, we expect the risk profiles to improve, allowing us to grow our business in specified target markets.

Average risk weights of exposures on the advanced internal ratings-based ("A-IRB") approach were broadly maintained, reflecting the resilience of the consumer portfolio. This was underpinned by proactive management measures, including the application of more stringent underwriting criteria, a focus on high quality secured assets and maintaining prudent loan-to-value ratios for the mortgage book.

Risk weighted assets for corporate and bank exposures on the foundation internal ratings-based ("F-IRB") approach were higher compared to end 2008, attributed to the strategic reshaping of the portfolio mix as well as to ratings migration reflecting stress from the economic recession. The portfolios continued to remain healthy as reflected in the manageable nonperforming loan ratio.

Risk weighted assets for operational risk were higher compared to end 2008, attributed to the increase in the Group's gross income as well as a change in the gross income distribution mix.

Risk weighted assets for market risk increased compared to end 2008, mainly due to increased trading activities in government bonds, interest rate derivatives and foreign exchange positions.

### Exposures and Risk Weighted Assets ("RWA") by Portfolio

| | EAD S$ million | RWA S$ million |
|---|---|---|
| **Credit Risk** | | |
| Standardised Approach | | |
| Corporate | 4,679 | 4,591 |
| Sovereign and Bank | 26,075 | 95 |
| Retail and Residential Mortgage | 6,833 | 5,206 |
| Equity and PE/VC | 1,197 | 1,215 |
| Others | 4,291 | 3,748 |
| Total Standardised | 43,075 | 14,855 |
| Internal Ratings-Based ("IRB") Approach | | |
| Foundation IRB | | |
| Corporate | 42,441 | 36,678 |
| Bank | 22,705 | 6,126 |
| Advanced IRB | | |
| Residential Mortgage | 25,306 | 4,430 |
| Qualifying Revolving Retail | 3,181 | 1,346 |
| Other Retail | 1,532 | 266 |
| Specialised Lending | 15,154 | 17,820 |
| Securitisation | 340 | 209 |
| Total IRB | 110,659 | 66,875 |
| Total Credit Risk | 153,734 | 81,730 |
| **Market Risk** | | |
| Standardised Approach | | 11,404 |
| **Operational Risk** | | |
| Standardised Approach | | 6,373 |
| Basic Indicator Approach | | 506 |
| Total Operational Risk | | 6,879 |
| **Total RWA** | | **100,013** |

### Capital Adequacy Ratio ("CAR") for Significant Banking Subsidiaries

| Subsidiary | Tier 1 CAR | Total CAR |
|---|---|---|
| Singapore Island Bank Limited (formerly known as Bank of Singapore Limited) | 41.2% | 41.2% |
| OCBC Bank (Malaysia) Berhad | 12.3% | 15.3% |
| OCBC Al-Amin Bank Berhad | 7.7% | 13.1% |
| OCBC Bank (China) Limited | 36.8% | 36.8% |
| P.T. Bank OCBC NISP Tbk | 15.3% | 18.0% |
| P.T. Bank OCBC Indonesia | 32.9% | 46.0% |

Note: The capital adequacy ratio of Singapore Island Bank Limited is computed based on the standardised approach under the Basel II framework. Capital adequacy ratio computations at the overseas banking subsidiaries are currently based on Basel I requirements.

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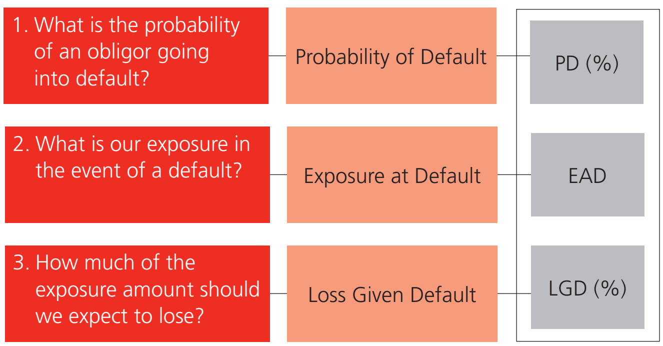
## CREDIT RISK

With Basel II implementation, OCBC Group has adopted the internal ratings – based ("IRB") approach for major credit portfolios, where 3 key parameters – Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are used to quantify credit risk.




### Credit Exposures under Standardised Approach

Credit exposures under standardised approach are mainly exposures to sovereign, debt securities, commercial property loans and lending to small businesses. Rated exposures relate mainly to debt securities and sovereign portfolios while unrated exposures relate mainly to small businesses and other assets.

| **Risk Weight** | **EAD S$ million** |
|---|---|
| 0% | 26,349 |
| 20% – 35% | 484 |
| 50% – 75% | 6,273 |
| 100% | 8,588 |
| >100% | 184 |
| **Total** | **41,878** |
| Rated exposures | 26,763 |
| Unrated exposures | 15,115 |

Note: Excludes Equity and PE/VC.

### Equity and PE/VC Exposures under Standardised Approach

Equities and private equity venture capital ("PE/VC") investments for regulatory capital computation were taken at cost and risk weighted and/or deducted from capital in accordance with MAS Notice 637 under the standardised approach. Equity exposure of S$33 million has been deducted from regulatory capital.

| **Risk Weight** | **EAD S$ million** |
|---|---|
| 100% | 1,179 |
| 200% | 18 |
| **Total** | **1,197** |

### Specialised Lending Exposures under Supervisory Slotting Criteria

Specialised lending exposures include financing of income-producing real estate as well as project, object and commodity finance.

| | **EAD S$ million** | **Average Risk Weight** |
|---|---|---|
| Strong | 3,763 | 58% |
| Good | 914 | 82% |
| Satisfactory | 8,713 | 122% |
| Weak | 1,613 | 265% |
| Default | 151 | NA |
| **Total** | **15,154** | **118%** |

### Credit Exposures under Foundation Internal Ratings-Based Approach ("F-IRBA")

Corporate exposures are mainly exposures to corporate and institutional customers as well as major non-bank financial institutions. Bank exposures are exposures to banks and eligible public sector entities.

*Corporate Exposures*

| **PD Range** | **EAD S$ million** | **Average Risk Weight** |
|---|---|---|
| up to 0.05% | 4,748 | 14% |
| > 0.05 to 0.5% | 9,220 | 45% |
| > 0.5 to 2.5% | 15,936 | 85% |
| > 2.5 to 9% | 8,147 | 141% |
| > 9% | 3,690 | 188% |
| Default | 700 | NA |
| **Total** | **42,441** | **86%** |

*Bank Exposures*

| **PD Range** | **EAD S$ million** | **Average Risk Weight** |
|---|---|---|
| up to 0.05% | 11,601 | 9% |
| > 0.05 to 0.5% | 8,014 | 25% |
| > 0.5 to 2.5% | 2,602 | 91% |
| > 2.5 to 9% | 408 | 130% |
| > 9% | 79 | 192% |
| Default | # | NA |
| **Total** | **22,705** | **27%** |

"#" represents amounts less than S$0.5 million.

# Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2009)

### Credit Exposures under Advanced Internal Ratings-Based Approach ("A-IRBA")

Residential Mortgages are loans to individuals secured by residential properties. Qualifying Revolving Retail exposures are revolving unsecured loans to individuals e.g. credit cards. Other Retail exposures are mainly auto loans in Singapore.

*Residential Mortgages*

| PD Range | EAD S$ million | Undrawn Commitment S$ million | EAD Weighted Average LGD | EAD Weighted Average Risk Weight |
|---|---|---|---|---|
| up to 0.5% | 13,177 | 1,862 | 11% | 5% |
| > 0.5 to 3% | 8,194 | 905 | 12% | 18% |
| > 3 to 10% | 3,125 | 254 | 17% | 58% |
| > 10% | 555 | 7 | 11% | 62% |
| 100% | 255 | – | 16% | 49% |
| **Total** | **25,306** | **3,028** | **12%** | **18%** |

*Qualifying Revolving Retail Exposures*

| PD Range | EAD S$ million | Undrawn Commitment S$ million | EAD Weighted Average LGD | EAD Weighted Average Risk Weight |
|---|---|---|---|---|
| up to 0.5% | 1,743 | 1,347 | 89% | 9% |
| > 0.5 to 3% | 877 | 484 | 87% | 45% |
| > 3 to 10% | 404 | 122 | 90% | 120% |
| > 10% | 130 | 31 | 91% | 237% |
| 100% | 27 | – | 85% | 0% |
| **Total** | **3,181** | **1,984** | **89%** | **42%** |

*Other Retail Exposures*

| PD Range | EAD S$ million | Undrawn Commitment S$ million | EAD Weighted Average LGD | EAD Weighted Average Risk Weight |
|---|---|---|---|---|
| up to 0.5% | 1,073 | # | 27% | 10% |
| > 0.5 to 3% | 377 | 1 | 27% | 30% |
| > 3 to 10% | 48 | # | 28% | 44% |
| > 10% | 32 | # | 28% | 66% |
| 100% | 2 | – | 28% | 1% |
| **Total** | **1,532** | **1** | **27%** | **17%** |

"#" represents amounts less than S$0.5 million.

### Actual Loss and Expected Loss for Exposures under Foundation and Advanced IRB Approaches

Actual loss refers to impairment loss allowance and direct write-off to the income statement during the year. Expected loss ("EL") represents model derived and/or regulatory prescribed estimates of future loss on potential defaults over a one-year time horizon. Comparison of the two measures has limitations because they are calculated using different methods. EL computations incorporate LGD and EAD estimates that reflect downturn economic conditions and regulatory minimums, while PD are long run through-the-cycle estimates. Actual loss is based on accounting standards and represents the point-in-time impairment experience for the financial year.

| | Actual Loss as at 31 December 2009 S$ million | Regulatory Expected Loss (Non-defaulted) as at 31 December 2008 S$ million |
|---|---|---|
| Corporate | 178 | 421 |
| Bank | # | 11 |
| Retail | 44 | 123 |
| **Total** | **222** | **555** |

"#" represents amounts less than S$0.5 million.

### Exposures Covered by Credit Risk Mitigation

*Standardised Approach*

| | Eligible Financial Collateral S$ million |
|---|---|
| Corporate | 156 |
| Sovereign and Bank | 6 |
| Retail and Residential Mortgage | 219 |
| Others | 67 |
| **Total** | **448** |

*Foundation IRB Approach*

| | Eligible Financial Collateral S$ million | Other Eligible IRB Collateral S$ million |
|---|---|---|
| Corporate | 1,744 | 5,790 |
| Bank | 361 | – |
| **Total** | **2,105** | **5,790** |

Note:
1. Not all forms of collateral or credit risk mitigation are included for regulatory capital calculations.
2. Does not include collateral for exposures under Advanced IRB Approach and Specialised Lending.

# Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2009)

### Counterparty Credit Risk Exposures

| | S$ million |
|---|---|
| Replacement Cost | 3,959 |
| Potential Future Exposure | 2,243 |
| Less: Effects of Netting | 2,932 |
| **EAD under Current Exposure Method** | **3,270** |
| Analysed by type: | |
| Foreign Exchange Contracts and Gold | 1,855 |
| Interest Rate Contracts | 1,067 |
| Equity Contracts | 43 |
| Precious Metals Contracts | – |
| Other Commodities Contracts | 7 |
| Credit Derivative Contracts | 298 |
| Less: Cash Collateral Held | 128 |
| **Net Derivatives Credit Exposure** | **3,142** |

Note: Not all forms of collateral or credit risk mitigation are included for regulatory capital calculations.

### Credit Derivatives

| | S$ million<br>Notional Amount | |
|---|---|---|
| | **Bought** | **Sold** |
| Credit Derivatives Swap | | |
| for own credit portfolio | 2,071 | 1,851 |
| for intermediation activities | 5 | 48 |
| **Total** | **2,076** | **1,899** |

Note: Credit derivatives for own credit portfolio include trading portfolio and hedges, if any.

### Securitisation Exposures Purchased

| Risk Weight | EAD<br>S$ million | RWA<br>S$ million |
|---|---|---|
| up to 20% | 157 | 28 |
| > 20% to 50% | 43 | 18 |
| > 50% to 100% | – | – |
| > 100% to 500% | 36 | 163 |
| > 500% | – | – |
| Deductions from Tier 1 and Tier 2 Capital | 104 | – |
| **Total** | **340** | **209** |

## MARKET RISK

### Capital Requirement by Market Risk Type under Standardised Approach

| | S$ million |
|---|---|
| Interest rate risk | 441 |
| Equity position risk | 12 |
| Foreign exchange risk | 459 |
| Commodity risk | # |
| **Total** | **912** |

"#" represents amounts less than S$0.5 million.

## EQUITY EXPOSURES

Disclosures on valuation and accounting treatment of equity holdings can be found in Notes to the Financial Statements 2.2.3, 2.6.2, 2.12.2 and 2.23.3.

Equity exposures comprise equity securities categorised as "Available-for-sale" ("AFS") and investments in associates and joint ventures. AFS securities are carried at fair value on the balance sheet of the Group while investments in associates and joint ventures are carried at cost and adjusted for post-acquisition changes of the Group's share of the net assets of the associates and joint ventures.

Equity exposures categorised and measured in accordance with the Singapore Financial Reporting Standards differ from the regulatory definition under MAS Notice 637 in the following key areas:

1. Equity investments held by insurance subsidiaries (included below) are not consolidated for regulatory computation.
2. Debt instruments approved for inclusion as Tier 1 capital are treated as equity exposures under MAS Notice 637.

### Carrying Value of Equity Exposures

| | S$ million |
|---|---|
| Quoted equity exposure – AFS | 2,308 |
| Unquoted equity exposure – AFS | 415 |
| Quoted equity exposure – Associates | 5 |
| Unquoted equity exposure – Associates | 216 |
| **Total** | **2,944** |

### Realised and Unrealised Gains and Losses

| | S$ million |
|---|---|
| Gains/(losses) from disposal of AFS equities | 13 |
| Unrealised gains included in fair value reserve | 1,312 |
| **Total** | **1,325** |