Capital Management

(This section forms an integral part of OCBC's audited financial statements)

CAPITAL POLICY

OCBC Group's capital management policy aims to maintain a strong capital position, to support business growth and strategic investments and to maintain investor, depositor, customer and market confidence. In line with this, OCBC aims to maintain a minimum credit rating of "A" and capital adequacy ratios that are comfortably above the regulatory minima, while balancing shareholders' desire for sustainable returns and high standards of prudence.

OCBC actively manages its capital composition to achieve an efficient mix of different capital instruments in order to lower its overall cost of capital. We evaluate and access local and international capital markets for different forms of additional capital if necessary. Over the years, OCBC's capital composition has been adjusted by issuing non-dilutive perpetual preference shares, tax deductible non-dilutive innovative Tier 1 preference shares, Upper Tier 2 subordinated notes and Lower Tier 2 subordinated notes. A description of the key terms and conditions of all capital instruments included within Eligible Total Capital can be found in Notes 13, 16 and 21 of the financial statements.

CAPITAL ADEQUACY RATIOS

OCBC is required to comply with Tier 1 capital adequacy ratio of 6% and total capital adequacy ratio of 10% prescribed by MAS at the Bank and the Group levels. In addition, our banking operations in jurisdictions outside Singapore are subject to local regulations. OCBC and each of its regulated banking entities were in compliance with all prescribed capital ratios throughout the period.

OCBC Group's capital adequacy ratios remain strong. The table below shows the composition of the Group's regulatory capital and capital adequacy ratios as of 31 December 2009, determined according to the requirements as per MAS Notice 637, which defines the regulatory capital and deductions required, including the cost of investment in subsidiaries, goodwill, intangibles and other capital investments. Disclosure on the approaches adopted under MAS Notice 637 for the computation of risk-weighted assets can be found in the Risk Management Chapter.

$ million	**2009**	**2008**
Tier 1 Capital		
Ordinary shares	**5,480**	4,741
Preference shares	**1,896**	1,896
Innovative Tier 1 capital instruments	**2,062**	1,900
Disclosed reserves	**10,096**	9,019
Minority interests	**735**	618
	20,269	18,174
Goodwill/others	**(3,394)**	(3,422)
Deductions from Tier 1 capital	**(913)**	(491)
Eligible Tier 1 Capital	**15,962**	14,261
Tier 2 Capital		
Subordinated term notes/others	**3,300**	2,844
Deductions from Tier 2 capital	**(2,770)**	(2,592)
Eligible Total Capital	**16,492**	14,513
Credit	**81,730**	80,281
Market	**11,404**	9,144
Operational	**6,879**	6,097
Risk Weighted Assets	**100,013**	95,522
Tier 1 capital adequacy ratio	**15.9%**	14.9%
Total capital adequacy ratio	**16.4%**	15.1%

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Insurance subsidiaries of Great Eastern Holdings ("GEH") are not consolidated for the computation of the above capital adequacy ratios, as per the requirements of MAS Notice 637. Capital investments in these insurance subsidiaries are deducted from OCBC's Tier 1 and Tier 2 capital, and their assets and liabilities are excluded from the computation of OCBC's risk-weighted assets. GEH's insurance subsidiaries are required to comply with the capital ratios prescribed in the Insurance Regulations of the jurisdiction in which they operate. As of 31 December 2009, the capital adequacy ratios for GEH's insurance subsidiaries in Singapore and Malaysia are 235% and 323% respectively. These ratios are well above the minimum regulatory ratios of 120% in Singapore and 130% in Malaysia.

CAPITAL PLANNING AND MONITORING

OCBC Group's capital is closely monitored and actively managed to ensure that there is sufficient capital to support business growth, and to pursue strategic businesses and investment opportunities that will create value for our stakeholders, while taking into consideration the Group's risk appetite. OCBC Group's internal capital adequacy assessment process ("ICAAP") involves a comprehensive assessment of all material risks that the Group is exposed to and an evaluation of the adequacy of the Group's capital in relation to its risks. On an annual basis and as part of ICAAP, a 3-year capital planning is performed to forecast capital demands and assess the Group's capital adequacy over a 3-year period. This process takes into consideration OCBC's business growth strategy, operating environment, desired capital target and composition, as well as expectations of its various stakeholders. In addition, capital stress tests are also conducted to understand the sensitivity of the key assumptions in the capital plan and evaluate how the Group can continue to maintain adequate capital under various stressed economic scenarios.

Within OCBC's banking group, excess capital will be centralised as far as possible in order that the Bank can hold all excess capital at parent level to ensure easy deployment across the Group. Whilst the transferability of funds within the banking group is generally subject to regulations in local jurisdictions, where applicable, OCBC has not faced significant impediments on the flow of capital within the Group.

CAPITAL INITIATIVES

The following key capital initiatives were undertaken during the financial year 2009:

Tier 1 Capital

- Issue of 51.2 million new ordinary shares on 22 October 2009, representing S$359 million in ordinary share capital, to shareholders who had elected to participate in the Scrip Dividend Scheme in respect of the interim dividend for the financial year ending 31 December 2009.
- Issue of 67.3 million new ordinary shares on 17 June 2009, representing S$325 million in ordinary share capital, to shareholders who had elected to participate in the Scrip Dividend Scheme in respect of the final dividend for the financial year ending 31 December 2008.

Tier 2 Capital

- Issue of US$500 million Lower Tier 2 subordinated notes on 18 November 2009.
- Issue of S$712 million Lower Tier 2 subordinated notes on 27 March 2009 under an exchange offer where S$710 million of outstanding Upper Tier 2 subordinated notes were accepted for exchange for the same principal amount and cancelled. The exchange offer increases the Group's Tier 2 capital as currently, only 20% of the outstanding Upper Tier 2 subordinated notes qualify as capital.

DIVIDEND

Our dividend policy aims to provide shareholders with a predictable and sustainable dividend return, payable on at least a half-yearly basis. For the year ended 31 December 2009, the Board of Directors has recommended a final one-tier tax exempt dividend of 14 cents per share, with a scrip dividend alternative, bringing the total net dividend for 2009 to 28 cents per share, or an estimated total net dividend payout of S$897 million, representing 46% of the Group's core net profit of S$1,962 million (2008: Total net dividend of S$869 million, or 58% of core net profit of S$1,486 million).

SHARE BUYBACK AND TREASURY SHARES

Shares purchased under the share buyback programme are held as treasury shares. These are recorded as a deduction against share capital, and may be subsequently sold, cancelled, distributed as bonus shares, or used to meet delivery obligations under various employee share incentive schemes. There was no share buyback in the financial year ended 31 December 2009.