

> Pillar 3 Disclosures

(OCBC Group – As at 31 December 2014)

1. INTRODUCTION

The purpose of this document is to provide the information in accordance with Pillar 3 directives under Monetary Authority of Singapore (“MAS”) Notice 637 on Risk Based Capital Adequacy Requirements for banks incorporated in Singapore. MAS Notice 637 mandates a minimum level of public disclosures to be made available to market participants to assist them in assessing the capital adequacy and risk profile of a bank.

Further disclosures on the Group’s capital and risk management objectives and policies are presented in the Notes to the Financial Statements, as well as in the Risk Management and Capital Management Chapters. Disclosures on Remuneration can be found in the Corporate Governance Chapter.

2. ACCOUNTING AND REGULATORY CONSOLIDATION

The consolidation basis used for regulatory capital computation is similar to that used for financial reporting except for the following:

- Subsidiaries that carry out insurance business are excluded from regulatory consolidation and are treated as investments in major stake companies. The regulatory adjustments applied to these investments are in accordance to MAS Notice 637 paragraphs 6.1.3(p), 6.2.3(e) and 6.3.3(e).
- As at 31 December 2014, the subsidiaries that carry out insurance business are as follows:
 - The Great Eastern Life Assurance Company Limited and its insurance entities
 - The Overseas Assurance Corporation Limited and its insurance entities
- As at 31 December 2014, the total equity of these insurance subsidiaries was S\$6 billion and total assets were S\$63 billion.

The basis of consolidation for financial reporting can be found in Note 2.2 in the Notes to the Financial Statements.

3. CAPITAL ADEQUACY

Disclosures on the Group’s capital adequacy ratios and the capital positions for the Group’s significant banking subsidiaries as at 31 December 2014 are presented in the Capital Management Chapter as well as the Bank’s investor relations website. (<http://www.ocbc.com/group/investors/index.html>)

The capital adequacy information of the Group’s significant banking subsidiaries as at 31 December 2014 were:

S\$ million	Total Risk Weighted Assets	Capital Adequacy Ratios		
		Common Equity Tier 1	Tier 1	Total
OCBC Wing Hang Bank Limited	18,477	11.5%	11.5%	14.7%
OCBC Bank (Malaysia) Berhad	13,316	14.2%	16.0%	17.6%
PT Bank OCBC NISP Tbk	8,689	NA	17.2%	18.7%

“NA” denotes not applicable.

The capital adequacy ratios of OCBC Wing Hang Bank Limited are computed in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority. The capital adequacy ratios of OCBC Bank (Malaysia) Berhad are computed in accordance with the Capital Adequacy Framework (Capital Components) issued by Bank Negara Malaysia. PT Bank OCBC NISP Tbk (“OCBC NISP”) computes their ratios based on the standardised approach under the Basel II framework. The computed Common Equity Tier 1 capital adequacy ratio as at 31 December 2014 for OCBC NISP based on Basel II rules would be 17.2%.

Disclosures on the composition of the Group’s regulatory capital, including reconciliation between balance sheet and regulatory capital elements, as well as terms and conditions and main features of capital instruments can be found under the Capital and Regulatory Disclosures sections of the Bank’s investor relations website. (http://www.ocbc.com/group/investors/Cap_and_Reg_Disclosures.html)

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4. CREDIT RISK

4.1 MAXIMUM EXPOSURE TO CREDIT RISK

S\$ million	Period End	Average ⁽³⁾
Credit risk exposure of on-balance sheet assets:		
Net loans and bills receivable	207,535 ⁽¹⁾	187,216
Placements with and loans to banks	41,220	40,144
Government treasury bills and securities	22,249	22,167
Debt securities	20,450	18,481
Assets pledged	1,536 ⁽²⁾	1,608
Others	9,337	7,725
	302,327	277,341
Credit risk exposure of off-balance sheet items:		
Credit commitments	98,972	86,968
Contingent liabilities	12,072	12,049
	111,044	99,017
Total maximum credit risk exposure	413,371	376,358

⁽¹⁾ Net of specific allowances of \$332 million and portfolio allowances of \$1,897 million.

⁽²⁾ Assets pledged comprise net loans and bills receivable of \$58 million, placements with and loans to banks of \$124 million, government treasury bills and securities of \$209 million and debt securities of \$1,145 million.

⁽³⁾ Computed on a monthly average basis.

4.2 GEOGRAPHIC/INDUSTRY DISTRIBUTION OF MAJOR TYPES OF CREDIT EXPOSURE

Gross Loans and Bills Receivable ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	86,700
Malaysia	28,909
Indonesia	13,982
Greater China	55,585
Other Asia Pacific	9,218
Rest of the World	15,428
Total	209,822

Distribution by geography is determined based on where the credit risk resides.

⁽¹⁾ Includes assets pledged of \$58 million.

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	8,750
Manufacturing	12,746
Building and construction	32,175
Housing	54,207
General commerce	30,218
Transport, storage and communication	12,365
Financial institutions, investment and holding companies	25,360
Professionals and individuals	22,511
Others	11,490
Total	209,822

⁽¹⁾ Includes assets pledged of \$58 million.

Placements with and Loans to Banks ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	443
Malaysia	4,453
Indonesia	658
Greater China	22,979
Other Asia Pacific	1,544
Rest of the World	10,640
Balances with banks	40,717
Bank balances of life assurance fund	627
Total	41,344

Distribution by geography is determined based on where the credit risk resides.

⁽¹⁾ Includes assets pledged of \$124 million.

Government Treasury Bills and Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	10,288
Malaysia	3,582
Indonesia	1,846
Greater China	2,438
Other Asia Pacific	3,088
Rest of the World	1,216
Total	22,458

Distribution by geography is determined based on country of the issuer.

⁽¹⁾ Includes assets pledged of \$209 million.

Debt Securities⁽¹⁾**Analysed by Geography**

	S\$ million
Singapore	3,516
Malaysia	1,728
Indonesia	839
Greater China	8,605
Other Asia Pacific	4,471
Rest of the World	2,436
Total	21,595

Distribution by geography is determined based on where the borrowers are incorporated.

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,119
Manufacturing	1,173
Building and construction	2,682
General commerce	1,266
Transport, storage and communication	1,282
Financial institutions, investment and holding companies	10,449
Others	3,624
Total	21,595

⁽¹⁾ Includes assets pledged of \$1,145 million.

Credit Commitments**Analysed by Geography**

	S\$ million
Singapore	70,094
Malaysia	7,687
Indonesia	2,986
Greater China	15,350
Other Asia Pacific	1,498
Rest of the World	1,357
Total	98,972

Distribution by geography is determined based on where the transactions are recorded.

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,708
Manufacturing	6,969
Building and construction	8,381
General commerce	19,949
Transport, storage and communication	3,119
Financial institutions, investment and holding companies	21,075
Professionals and individuals	30,562
Others	7,209
Total	98,972

4.3 RESIDUAL CONTRACTUAL MATURITY OF MAJOR TYPES OF CREDIT EXPOSURE**On-Balance Sheet Assets**

S\$ million	Within 1 week	1 week to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Net loans and bills receivable	13,631	18,886	21,842	25,574	32,387	95,273	207,593 ⁽¹⁾
Placements with and loans to banks	6,638	6,228	12,572	14,680	549	50	40,717 ⁽²⁾
Government treasury bills and securities	689	1,873	5,769	5,114	2,831	6,182	22,458 ⁽³⁾
Debt securities	21	853	1,286	4,012	6,927	8,496	21,595 ⁽⁴⁾

⁽¹⁾ Includes assets pledged of \$58 million.

⁽²⁾ Includes assets pledged of \$124 million and excludes bank balances of life assurance fund.

⁽³⁾ Includes assets pledged of \$209 million.

⁽⁴⁾ Includes assets pledged of \$1,145 million.

Credit Commitments

	S\$ million
Undrawn credit facilities:	
Term to maturity of one year or less	80,683
Term to maturity of more than one year	18,289
Total	98,972

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4.4 CREDIT QUALITY OF LOAN PORTFOLIO, NON-PERFORMING LOANS, PAST-DUE LOANS, IMPAIRMENT ALLOWANCES

Total Loans and Advances – Credit Quality

	S\$ million
Neither past due nor impaired	208,220
Not impaired	710
Impaired	586
Past due loans	1,296
Impaired but not past due	306
Gross loans	209,822
Specific allowances	(332)
Portfolio allowances	(1,897)
Net loans	207,593

Non-Performing Loans Analysed by Geography

S\$ million	Singapore	Malaysia	Rest of the World	Total
Substandard	72	362	330	764
Doubtful	116	110	46	272
Loss	86	35	122	243
Total	274	507	498	1,279

Distribution by geography is determined based on where the credit risk resides.

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	8
Manufacturing	302
Building and construction	173
Housing	274
General commerce	152
Transport, storage and communication	174
Financial institutions, investment and holding companies	24
Professionals and individuals	103
Others	69
Total	1,279

Analysed by Period Overdue

	S\$ million
Over 180 days	472
Over 90 days to 180 days	146
30 days to 90 days	122
Less than 30 days	22
Past due	762
No overdue	517
Total	1,279

Past-Due Loans Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	20
Manufacturing	253
Building and construction	78
General commerce	119
Transport, storage and communication	88
Financial institutions, investment and holding companies	30
Professionals and individuals (include housing)	661
Others	47
Total	1,296

Analysed by Geography

	S\$ million
Singapore	199
Malaysia	630
Rest of the World	467
Total	1,296

Distribution by geography is determined based on where the credit risk resides.

Loans Past Due but Not Impaired

Certain loans and advances are past due but not impaired as the collateral values of these loans are in excess of the principal and interest outstanding. Allowances for these loans may have been set aside on a portfolio basis.

Analysed by Period Overdue

	S\$ million
Past due	
Less than 30 days	242
30 to 90 days	332
Over 90 days	136
Past due but not impaired	710

Impairment Allowances for Loans and Bills Receivable Analysed by Geography

S\$ million	Specific allowances	Portfolio allowances
Singapore	73	676
Malaysia	133	399
Indonesia	40	167
Greater China	62	466
Other Asia Pacific	24	91
Rest of the World	–	98
Total	332	1,897

Distribution by geography is determined based on where the credit risk resides.

Analysed by Industry

S\$ million	Cumulative specific allowances	Net specific allowances charged to income statements
Agriculture, mining and quarrying	2	1
Manufacturing	85	54
Building and construction	29	2
Housing	32	5
General commerce	51	25
Transport, storage and communication	44	36
Financial institutions, investment and holding companies	4	#
Professionals and individuals	68	61
Others	17	12
Total	332	196

represents amounts less than \$0.5 million.

Reconciliation of Changes in Impairment Allowances

S\$ million	Specific Allowances
At 1 January 2014	230
Currency translation	2
Bad debts written off	(121)
Recovery of amounts previously provided for Allowances for loans	(51)
Net allowances charged to income statements	196
Arising from acquisition of subsidiaries	29
Interest recognition on impaired loans	(4)
Transfer to portfolio allowances	(#)
At 31 December 2014	332

represents amounts less than \$0.5 million.

S\$ million	Portfolio Allowances
At 1 January 2014	1,511
Currency translation	16
Allowances charged to income statements	163
Arising from acquisition of subsidiaries	207
Transfer from specific allowances	#
At 31 December 2014	1,897

represents amounts less than \$0.5 million.

Key Parameters used to Quantify Credit Risk

1. What is the probability of an obligor going into default?	Probability of Default	=	PD (%)
2. What is our exposure in the event of a default?	Exposure at Default	=	EAD
3. How much of the exposure amount should we expect to lose?	Loss Given Default	=	LGD (%)

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4.5 EXPOSURES AND RISK WEIGHTED ASSETS (“RWA”) BY PORTFOLIO

S\$ million	EAD	RWA
Credit Risk		
Standardised Approach		
Corporate	18,223	17,306
Sovereign	42,143	1,381
Bank	10,332	3,584
Retail	4,306	3,233
Residential Mortgage	11,485	5,079
Commercial Real Estate	3,303	3,309
Fixed Assets	3,924	3,924
Others	9,054	7,955
Total Standardised	102,770	45,771
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	78,591	45,389
Bank	62,968	13,486
Advanced IRB		
Residential Mortgage	54,059	5,780
Qualifying Revolving Retail	5,994	1,727
Small Business	8,796	3,505
Other Retail	1,026	215
Specialised Lending under Supervisory Slotting Criteria	26,152	23,165
Securitisation	#	5
Equity	1,942	6,619
Total IRB	239,528	99,891
Central Counterparties (CCP)	467	108 ⁽¹⁾
Credit Valuation Adjustments (CVA)		2,158 ⁽²⁾
Credit RWA pursuant to paragraph 6.1.3(p)(iii)		7,199 ⁽³⁾
Total Credit Risk	342,765	155,127
Market Risk		
Standardised Approach		20,954
Operational Risk		
Standardised Approach		9,833
Basic Indicator Approach		2,194
Total Operational Risk		12,027
Total RWA		188,108

⁽¹⁾ Refers to Credit RWA for exposures to central clearing houses that act as the intermediary for counterparties to contracts traded in financial markets.

⁽²⁾ Refers to Credit RWA for adjustments to the mark-to-market valuation of the Over-the-Counter (OTC) derivatives with a counterparty.

⁽³⁾ Refers to Credit RWA for Total Investment in Unconsolidated Major Stake Companies within the prescribed threshold amount in accordance with MAS Notice 637 paragraph 6.1.3 (p)(iii).

represents amounts less than \$0.5 million.

4.6 CREDIT EXPOSURES UNDER STANDARDISED APPROACH

Credit exposures under the standardised approach comprise mainly exposures to sovereigns, exposures from major subsidiaries such as OCBC Wing Hang, OCBC NISP and Bank of Singapore, as well as fixed assets. Rated exposures relate mainly to debt securities, corporate and sovereign portfolios while unrated exposures relate mainly to individuals and fixed assets.

Risk Weight	EAD S\$ million	RWA S\$ million
0%	40,802	–
10% - 40%	14,206	3,940
50% - 99%	14,451	8,493
100%	33,258	33,258
>100%	53	80
Total	102,770	45,771
Rated exposures	60,575	13,455
Unrated exposures	42,195	32,316

4.7 CREDIT EXPOSURES SUBJECT TO SUPERVISORY RISK WEIGHTS UNDER INTERNAL RATINGS-BASED APPROACH

Equity Exposures under IRB Approach

Equities for regulatory capital computation are risk weighted and/or deducted from capital in accordance with MAS Notice 637 under IRB Approach. Equity exposures of S\$7 million have been deducted from regulatory capital.

	IRB Approach			
	(SRW)		(PD/LGD)	
	EAD S\$ million	Average Risk Weight %	EAD S\$ million	Average Risk Weight %
Listed securities	1,532	318%	–	–
Other equity holdings	277	424%	133	432%
Total	1,809	334%	133	432%

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	6,856	60%
Good	12,070	84%
Satisfactory	6,706	122%
Weak	274	265%
Default	246	NA
Total	26,152	89%

4.8 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%	13,221	16%
> 0.05 to 0.5%	33,657	46%
> 0.5 to 2.5%	25,016	78%
> 2.5 to 9%	5,744	134%
> 9%	474	105%
Default	479	NA
Total	78,591	58%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	39,321	10%
> 0.05 to 0.5%	20,250	34%
> 0.5 to 2.5%	2,816	64%
> 2.5 to 9%	542	128%
> 9%	39	182%
Default	#	NA
Total	62,968	21%

represents amounts less than \$0.5 million.

4.9 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. Small Business exposures include lending to small businesses and commercial property loans to individuals in Singapore and Malaysia. Other Retail exposures are mainly auto loans in Singapore.

Residential Mortgages

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	40,448	5,872	11%	6%
> 0.5 to 3%	11,385	1,881	12%	19%
> 3 to 10%	1,247	80	11%	50%
> 10%	708	41	11%	63%
Default	271	34	14%	72%
Total	54,059	7,908	11%	11%

Qualifying Revolving Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	4,324	7,378	81%	7%
> 0.5 to 3%	929	806	82%	43%
> 3 to 10%	541	275	84%	113%
> 10%	175	86	87%	236%
Default	25	–	84%	0%
Total	5,994	8,545	82%	29%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	2,916	1,125	33%	15%
> 0.5 to 3%	3,528	531	36%	38%
> 3 to 10%	1,989	143	42%	67%
> 10%	234	10	42%	96%
Default	129	9	43%	142%
Total	8,796	1,818	37%	40%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	727	27	28%	12%
> 0.5 to 3%	207	7	31%	37%
> 3 to 10%	72	4	34%	52%
> 10%	18	–	32%	76%
Default	2	–	27%	68%
Total	1,026	38	29%	21%

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4.10 ACTUAL LOSS AND EXPECTED LOSS FOR EXPOSURES UNDER FOUNDATION AND ADVANCED IRB APPROACH

Actual loss refers to net 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 are based on LGD and EAD estimates that reflect downturn economic conditions and regulatory minimums, and PD estimates that reflect long run through-the-cycle approximation of default rates. Actual loss is based on accounting standards and represents the point-in-time impairment experience for the financial year.

	Actual Loss for the 12 months ended 31 December 2014 S\$ million	Regulatory Expected Loss (Non-defaulted) as at 31 December 2013 S\$ million
Corporate	34	258
Bank	–	55
Small Business	33	83
Retail	36	125
Total	103	521

4.11 EXPOSURES COVERED BY CREDIT RISK MITIGATION ⁽¹⁾

	Eligible Financial Collateral S\$ million	Other Eligible Collateral S\$ million	Amount by which exposures have been reduced by eligible credit protection S\$ million
Standardised Approach			
Corporate	4,199	–	1,295
Sovereign and Bank	2,815	–	78
Retail and Residential Mortgage	589	–	511
Others	5,325	–	–
Total	12,928	–	1,884
Foundation IRB Approach			
Corporate	3,430	14,451	1,603
Bank	536	1	–
Total	3,966	14,452	1,603

⁽¹⁾ Note:

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

4.12 COUNTERPARTY CREDIT RISK EXPOSURES

Net Derivatives Exposure

	S\$ million
Replacement Cost	5,367
Potential Future Exposure	5,842
Less: Effects of Netting	3,961
EAD under Current Exposure Method	7,248
Analysed by type:	
Foreign Exchange Contracts	4,503
Interest Rate Contracts	1,667
Equity Contracts	169
Gold and Precious Metals Contracts	#
Other Commodities Contracts	53
Credit Derivative Contracts	856
Less: Eligible Financial Collateral	591
Other Eligible Collateral	–
Net Derivatives Credit Exposure	6,657

represents amounts less than \$0.5 million.

Credit Derivatives Exposure

	S\$ million Notional Amount	
	Bought	Sold
Credit Default Swaps		
for own credit portfolio	11,013	9,847
for intermediation activities	71	71
Total	11,084	9,918

4.13 SECURITISATION EXPOSURES PURCHASED

All the securitisation exposures are in the banking book. There is no re-securitisation exposure as at 31 December 2014.

	S\$ million	
Risk Weight	EAD	Capital Charge
up to 20%	–	–
> 20% to 50%	–	–
> 50% to 100%	–	–
> 100% to 500%	–	–
> 500%	–	–
1250%	#	#
Total	#	#

represents amounts less than \$0.5 million.

5. MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S\$ million
Interest rate risk	870
Equity position risk	28
Foreign exchange risk	777
Commodity risk	1
Total	1,676

6. EQUITY EXPOSURES IN BANKING BOOK

Disclosures on valuation and accounting treatment of equity holdings can be found in Notes 2.2.3, 2.6.2 and 2.23.3 in the Notes to the Financial Statements for the year ended 31 December 2014.

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 in 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 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	2,003
Unquoted equity exposure - AFS	791
Quoted equity exposure - Associates	1,457
Unquoted equity exposure - Associates	471
Total	4,722

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	466
Unrealised gains/(losses) included in fair value reserve	345
Total	811

7. INTEREST RATE RISK IN THE BANKING BOOK

A description of the nature of interest rate risk in the banking book and key assumptions made by the Group can be found in Note 39.3 in the Notes to the Financial Statements for the year ended 31 December 2014.

Based on a 100 bp parallel rise in yield curves on the Group’s exposure to major currencies i.e. Singapore Dollar, US Dollar, Hong Kong Dollar and Malaysian Ringgit, net interest income is estimated to increase by \$542 million. The corresponding impact from a 100 bp decrease is an estimated reduction of \$281 million in net interest income. As a percentage of reported net interest income, the maximum exposure for the four major currencies is estimated to be approximately -5.9%.