

Oversea-Chinese Banking Corporation Limited

**Pillar 3 Mid-Year Disclosures
(OCBC Group – As at 30 June 2015)**



Incorporated in Singapore
Company Registration Number: 193200032W

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.

For qualitative descriptions of the Group’s capital and risk management objectives and policies, and disclosures on remuneration, please refer to the Capital Management, Risk Management and Corporate Governance sections of the 2014 Annual Report.

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 30 June 2015, 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 30 June 2015, the total equity of these insurance subsidiaries was S\$6b and total assets were S\$63b.

The basis of consolidation for financial reporting can be found in Note 2.2 in the Notes to the Financial Statements for the year ended 31 December 2014.

3. CAPITAL ADEQUACY

Disclosures on the Group’s capital adequacy ratios and the capital positions for the Group’s significant banking subsidiaries as at 30 June 2015 are presented in the Capital Adequacy Ratios section of the Second Quarter 2015 Financial Results. (<http://www.ocbc.com/group/investors/index.html>)

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)

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	207,828 ⁽¹⁾	206,248
Placements with and loans to banks	45,366	45,959
Government treasury bills and securities	21,728	21,415
Debt securities	21,399	21,197
Assets pledged	1,795 ⁽²⁾	1,641
Others	8,843	10,066
	306,959	306,526
Credit risk exposure of off-balance sheet items:		
Credit commitments	100,674	101,548
Contingent liabilities	10,302	11,179
	110,976	112,727
Total maximum credit risk exposure	417,935	419,253

⁽¹⁾ Net of specific allowances of \$342 million and portfolio allowances of \$1,934 million.

⁽²⁾ Assets pledged comprise net loans and bills receivable of \$42 million, government treasury bills and securities of \$122 million and debt securities of \$1,631 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	85,547
Malaysia	28,112
Indonesia	14,462
Greater China	57,624
Other Asia Pacific	9,189
Rest of the World	15,212
Total	210,146

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

⁽¹⁾ Includes assets pledged of \$42 million.

Gross Loans and Bills Receivable ⁽¹⁾ (continued)

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	8,074
Manufacturing	12,978
Building and construction	32,988
Housing	55,321
General commerce	29,237
Transport, storage and communication	11,741
Financial institutions, investment and holding companies	26,219
Professionals and individuals	22,746
Others	10,842
Total	210,146

⁽¹⁾ Includes assets pledged of \$42 million.

Placements with and Loans to Banks

Analysed by Geography

	S\$ million
Singapore	1,009
Malaysia	6,028
Indonesia	557
Greater China	27,320
Other Asia Pacific	1,669
Rest of the World	7,977
Balances with banks	44,560
Bank balances of life assurance fund	806
Total	45,366

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

Government Treasury Bills and Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	10,548
Malaysia	3,182
Indonesia	1,445
Greater China	2,007
Other Asia Pacific	3,667
Rest of the World	1,001
Total	21,850

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

⁽¹⁾ Includes assets pledged of \$122 million.

Debt Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	3,573
Malaysia	1,864
Indonesia	997
Greater China	9,884
Other Asia Pacific	4,385
Rest of the World	2,327
Total	23,030

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,439
Manufacturing	1,509
Building and construction	2,706
General commerce	1,074
Transport, storage and communication	1,428
Financial institutions, investment and holding companies	12,339
Others	2,535
Total	23,030

⁽¹⁾ Includes assets pledged of \$1,631 million.

Credit Commitments

Analysed by Geography

	S\$ million
Singapore	73,011
Malaysia	7,368
Indonesia	3,275
Greater China	14,311
Other Asia Pacific	1,400
Rest of the World	1,309
Total	100,674

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

Credit Commitments (continued)
Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,773
Manufacturing	7,236
Building and construction	8,225
General commerce	18,864
Transport, storage and communication	3,129
Financial institutions, investment and holding companies	21,924
Professionals and individuals	32,567
Others	6,956
Total	100,674

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	15,480	19,449	17,215	27,408	30,253	98,065	207,870 ⁽¹⁾
Placements with and loans to banks	6,634	5,330	10,374	21,837	335	50	44,560 ⁽²⁾
Government treasury bills and securities	1,711	1,633	4,917	4,172	4,757	4,660	21,850 ⁽³⁾
Debt securities	114	712	1,653	3,597	7,507	9,447	23,030 ⁽⁴⁾

⁽¹⁾ Includes assets pledged of \$42 million.

⁽²⁾ Excludes bank balances of life assurance fund.

⁽³⁾ Includes assets pledged of \$122 million.

⁽⁴⁾ Includes assets pledged of \$1,631 million.

Credit Commitments

	S\$ million
Undrawn credit facilities:	
Term to maturity of one year or less	83,157
Term to maturity of more than one year	17,517
Total	100,674

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	208,227
Not impaired	946
Impaired	670
Past due loans	1,616
Impaired but not past due	303
Gross loans	210,146
Specific allowances	(342)
Portfolio allowances	(1,934)
Net loans	207,870

Non-Performing Loans

Analysed by Geography

S\$ million	Singapore	Malaysia	Rest of the World	Total
Substandard	172	394	318	884
Doubtful	118	106	78	302
Loss	95	22	157	274
Total	385	522	553	1,460

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	75
Manufacturing	288
Building and construction	82
Housing	290
General commerce	162
Transport, storage and communication	273
Financial institutions, investment and holding companies	155
Professionals and individuals	114
Others	21
Total	1,460

Non-Performing Loans (continued)

Analysed by Period Overdue

	S\$ million
Over 180 days	573
Over 90 days to 180 days	171
30 days to 90 days	169
Less than 30 days	55
Past due	968
No overdue	492
Total	1,460

Past-Due Loans

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	87
Manufacturing	249
Building and construction	103
General commerce	150
Transport, storage and communication	203
Financial institutions, investment and holding companies	44
Professionals and individuals (include housing)	729
Others	51
Total	1,616

Analysed by Geography

	S\$ million
Singapore	315
Malaysia	680
Rest of the World	621
Total	1,616

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	341
30 to 90 days	346
Over 90 days	259
Past due but not impaired	946

Impairment Allowances for Loans and Bills Receivable

Analysed by Geography

S\$ million	Specific allowances	Portfolio allowances
Singapore	79	679
Malaysia	124	398
Indonesia	40	180
Greater China	67	498
Other Asia Pacific	23	94
Rest of the World	9	85
Total	342	1,934

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

Analysed by Industry

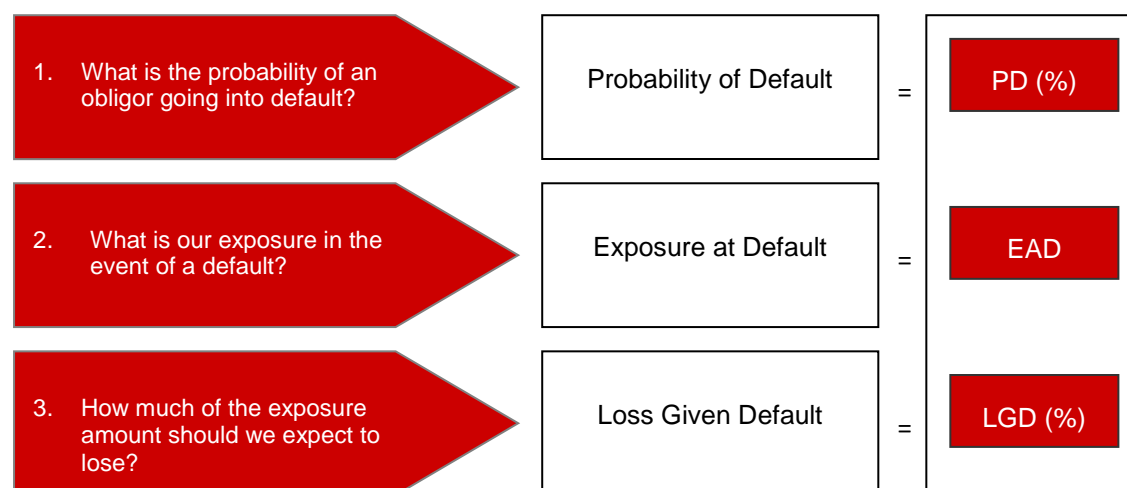
S\$ million	Cumulative specific allowances	Specific allowances charged/(write-back) to income statements
Agriculture, mining and quarrying	1	(#)
Manufacturing	93	9
Building and construction	30	3
Housing	34	4
General commerce	63	25
Transport, storage and communication	24	8
Financial institutions, investment and holding companies	5	#
Professionals and individuals	75	40
Others	17	3
Total	342	92

represents amounts less than \$0.5 million.

Impairment Allowances for Loans and Bills Receivable (continued)
Reconciliation of Changes in Impairment Allowances

S\$ million	Specific Allowances
At 1 January 2015	332
Currency translation	(9)
Bad debts written off	(69)
Recovery of amounts previously provided for Allowances for loans	(21)
Net allowances charged to income statements	113
Interest recognition on impaired loans	92
	(4)
At 30 June 2015	342

S\$ million	Portfolio Allowances
At 1 January 2015	1,897
Currency translation	(16)
Allowances charged to income statements	53
At 30 June 2015	1,934

KEY PARAMETERS USED TO QUANTIFY CREDIT RISK


4.5 Exposures and Risk Weighted Assets (“RWA”) by Portfolio

S\$ million	EAD	RWA
Credit Risk		
Standardised Approach		
Corporate	17,082	16,273
Sovereign	35,514	2,294
Bank	9,467	3,717
Retail	4,270	3,206
Residential Mortgage	12,148	4,889
Commercial Real Estate	8,882	8,886
Fixed Assets	3,909	3,909
Others	5,945	5,150
Total Standardised	97,217	48,324
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	79,106	44,904
Bank	63,708	13,939
Advanced IRB		
Residential Mortgage	54,136	5,941
Qualifying Revolving Retail	5,997	1,612
Small Business	8,498	3,451
Other Retail	1,021	165
Specialised Lending under Supervisory Slotting Criteria	25,496	22,651
Securitisation	#	4
Equity	1,672	5,801
Total IRB	239,634	98,468
Central Counterparties (CCP)	1,199	164 ⁽¹⁾
Credit Valuation Adjustments (CVA)		2,045 ⁽²⁾
Credit RWA pursuant to paragraph 6.1.3(p)(iii)		7,395 ⁽³⁾
Total Credit Risk	338,050	156,396
Market Risk		
Standardised Approach		22,853
Operational Risk		
Standardised Approach		10,060
Basic Indicator Approach		2,266
Total Operational Risk		12,326
Total RWA		191,575

⁽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%	33,414	-
10% - 40%	15,422	4,727
50% - 99%	12,053	7,232
100%	36,263	36,264
>100%	65	101
Total	97,217	48,324
Rated exposures	53,264	14,391
Unrated exposures	43,953	33,933

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\$6 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	1,220	318%	-	-
Other equity holdings	315	424%	137	430%
Total	1,535	340%	137	430%

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	6,190	62%
Good	13,092	84%
Satisfactory	5,724	122%
Weak	302	265%
Default	188	NA
Total	25,496	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%	13,440	17%
> 0.05 to 0.5%	32,332	44%
> 0.5 to 2.5%	25,945	77%
> 2.5 to 9%	5,807	126%
> 9%	895	145%
Default	687	NA
Total	79,106	57%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	39,584	11%
> 0.05 to 0.5%	19,672	34%
> 0.5 to 2.5%	4,169	63%
> 2.5 to 9%	245	114%
> 9%	38	184%
Default	#	NA
Total	63,708	22%

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%	40,822	5,461	11%	6%
> 0.5 to 3%	10,857	1,676	12%	18%
> 3 to 10%	1,204	81	11%	47%
> 10%	967	35	12%	67%
Default	286	8	14%	73%
Total	54,136	7,261	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%	4,459	7,676	80%	7%
> 0.5 to 3%	831	735	80%	43%
> 3 to 10%	512	249	83%	110%
> 10%	169	70	86%	233%
Default	26	-	82%	0%
Total	5,997	8,730	81%	27%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	2,752	1,067	32%	15%
> 0.5 to 3%	3,423	502	37%	39%
> 3 to 10%	1,945	136	42%	67%
> 10%	230	8	43%	97%
Default	148	5	43%	136%
Total	8,498	1,718	37%	41%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	886	26	22%	9%
> 0.5 to 3%	69	10	46%	56%
> 3 to 10%	49	3	41%	66%
> 10%	13	#	35%	80%
Default	4	-	39%	217%
Total	1,021	39	25%	16%

represents amounts less than \$0.5 million

4.10 Exposures Covered by Credit Risk Mitigation ⁽¹⁾

S\$ million	Eligible Financial Collateral	Other Eligible Collateral	Amount by which exposures have been reduced by eligible credit protection
Standardised Approach			
Corporate	4,945	-	480
Sovereign and Bank	1,565	-	15
Retail and Residential Mortgage	519	-	494
Others	5,085	-	4
Total	12,114	-	993
Foundation IRB Approach			
Corporate	3,523	14,710	2,387
Bank	1,394	-	-
Total	4,917	14,710	2,387

represents amounts less than \$0.5 million

⁽¹⁾ Note:

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

4.11 Counterparty Credit Risk Exposures

Net Derivatives Exposure

	S\$ million
Replacement Cost	4,342
Potential Future Exposure	5,487
Less: Effects of Netting	3,168
EAD under Current Exposure Method	6,661
Analysed by type:	
Foreign Exchange Contracts	4,422
Interest Rate Contracts	1,159
Equity Contracts	194
Gold and Precious Metals Contracts	#
Other Commodities Contracts	19
Credit Derivative Contracts	867
Less: Eligible Financial Collateral	760
Other Eligible Collateral	-
Net Derivatives Credit Exposure	5,901

represents amounts less than \$0.5 million

Credit Derivatives Exposure

	S\$ million	
	Notional Amount	
	<u>Bought</u>	<u>Sold</u>
Credit Default Swaps		
for own credit portfolio	10,912	9,958
for intermediation activities	66	66
Total	10,978	10,024

4.12 Securitisation Exposures Purchased

All the securitisation exposures are in the banking book. There is no re-securitisation exposure as at 30 June 2015.

Risk Weight	EAD	S\$ million
		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	997
Equity position risk	53
Foreign exchange risk	777
Commodity risk	1
Total	1,828

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 of the 2014 Annual Report.

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	1,745
Unquoted equity exposure - AFS	893
Quoted equity exposure - Associates	1,593
Unquoted equity exposure - Associates	504
Total	4,735

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	180
Unrealised gains included in fair value reserve	385
Total	565

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 of the 2014 Annual Report.

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 \$590 million. The corresponding impact from a 100 bp decrease is an estimated reduction of \$415 million in net interest income. As a percentage of reported net interest income (on an annualised basis), the maximum exposure for the four major currencies is estimated to be approximately -8.1%.