Capital Management

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

CAPITAL POLICY

OCBC Group's policy is to maintain a strong capital position, to enable the Bank to not only meet regulatory requirements, but also to seize opportunities for strategic investments and business growth and maintain investor, depositor, customer and market confidence at all times. In line with this, OCBC aims to maintain a minimum credit rating of "A" and ensure that its regulatory capital adequacy ratios are comfortably above 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 international and local 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 Total Eligible Capital can be found in Notes 13, 16 and 21 of the financial statements.

REGULATORY CAPITAL

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 are amongst the strongest within its peer group. The table below shows the composition of the Group's regulatory capital and capital adequacy ratios as of 31 December 2008, determined according to the requirements as per MAS Notice 637, which specifies the definition of 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	Basel II 2008	Basel I 2007
Tier 1 Capital		
Ordinary shares	**4,741**	4,624
Preference shares	**1,896**	896
Innovative Tier 1 capital instruments	**1,900**	400
Disclosed reserves	**9,019**	8,379
Minority interests	**618**	587
	18,174	14,886
Goodwill/others	**(3,422)**	(3,455)
Deductions from Tier 1 capital [1]	**(491)**	–
Eligible Tier 1 Capital	**14,261**	11,431
Tier 2 Capital		
Subordinated term notes/others	**2,844**	3,610
Deductions from Tier 2 capital [1]	**(2,592)**	–
Total Capital	**14,513**	15,041
Capital investments in insurance subsidiaries [1]	**–**	(2,506)
Others [1]	**–**	(124)
Eligible Total Capital	**14,513**	12,411
Credit	**80,281**	89,343
Market	**9,144**	10,038
Operational	**6,097**	–
Risk Weighted Assets	**95,522**	99,381
Tier 1 capital adequacy ratio	**14.9%**	11.5%
Total capital adequacy ratio	**15.1%**	12.4%

[1] In accordance with the revised MAS Notice 637, capital investments in insurance subsidiaries and other items are deducted against Tier 1 and Tier 2 capital under the Basel II framework. Under Basel I, these items were deducted against total capital.

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CAPITAL PLANNING AND MONITORING

OCBC Group's capital is closely monitored and actively managed to ensure that there is sufficient capital in place to support our business growth, as well as 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"), which is carried out at least annually, 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. As part of the annual ICAAP, a 3-year capital plan is prepared which takes into consideration the Group's business growth strategy, the market environment as well as the desired capital target and composition of the Group. Periodic capital stress tests are also conducted to evaluate how the Group can continue to meet its minimum capital requirements under severe economic stress.

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 Group has not faced significant impediments on the flow of capital within the Group.

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 2008, the Board of Directors is recommending a final one-tier tax exempt dividend of 14 cents per share, with a scrip dividend alternative, bringing the total net dividend for 2008 to 28 cents per share, or an estimated total net dividend of $868 million, representing 58% of the Group's core net profit of $1,486 million (2007: Total net dividend of $865 million, or 46% of core net profit of $1,878 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 2008.