

Oversea-Chinese Banking Corporation Limited

**Pillar 3 Disclosures
(OCBC Group – As at 31 December 2013)**



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.

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 sections of the Financial Statements for the year ended 31 December 2013. Disclosures on Remuneration will be provided in the Corporate Governance section of the 2013 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 31 December 2013, 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 2013, the total equity of these insurance subsidiaries was S\$5b and total assets were S\$59b.

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 2013.

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 2013 are presented in the Capital Adequacy Ratios section of the Fourth Quarter 2013 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	167,854 ⁽¹⁾	155,224
Placements with and loans to banks	39,573	33,737
Government treasury bills and securities	20,611	21,506
Debt securities	16,006	14,942
Assets pledged	2,110 ⁽²⁾	2,113
Others	7,960	7,991
	254,114	235,513
Credit risk exposure of off-balance sheet items:		
Credit commitments	76,199	72,390
Contingent liabilities	12,197	10,290
	88,396	82,680
Total maximum credit risk exposure	342,510	318,193

⁽¹⁾ Net of specific allowances of S\$230 million and portfolio allowances of S\$1,511 million.

⁽²⁾ Assets pledged comprise net loans and bills receivable of S\$25 million, placements with and loans to banks of S\$793 million, government treasury bills and securities of S\$250 million and debt securities of S\$1,042 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	83,920
Malaysia	25,257
Indonesia	11,890
Greater China	27,183
Other Asia Pacific	8,357
Rest of the World	13,013
	169,620

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

⁽¹⁾ Includes assets pledged of S\$25 million.

Gross Loans and Bills Receivable ⁽¹⁾ (continued)

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	6,279
Manufacturing	10,069
Building and construction	24,905
Housing	42,075
General commerce	27,893
Transport, storage and communication	10,989
Financial institutions, investment and holding companies	22,470
Professionals and individuals	16,208
Others	8,732
	169,620

⁽¹⁾ Includes assets pledged of S\$25 million.

Placements with and Loans to Banks ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	1,539
Malaysia	2,599
Indonesia	742
Greater China	24,575
Other Asia Pacific	2,052
Rest of the World	8,426
Balances with banks	39,933
Bank balances of life assurance fund	433
	40,366

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

⁽¹⁾ Includes assets pledged of S\$793 million.

Government Treasury Bills and Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	11,949
Malaysia	2,792
Indonesia	1,630
Greater China	1,128
Other Asia Pacific	2,857
Rest of the World	505
	20,861

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

⁽¹⁾ Includes assets pledged of S\$250 million.

Debt Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	3,597
Malaysia	1,749
Indonesia	531
Greater China	5,151
Other Asia Pacific	3,364
Rest of the World	2,656
	17,048

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	511
Manufacturing	756
Building and construction	1,839
General commerce	1,034
Transport, storage and communication	1,082
Financial institutions, investment and holding companies	8,921
Others	2,905
	17,048

⁽¹⁾ Includes assets pledged of S\$1,042 million.

Credit Commitments

Analysed by Geography

	S\$ million
Singapore	57,246
Malaysia	7,130
Indonesia	2,943
Greater China	6,257
Other Asia Pacific	1,700
Rest of the World	923
	76,199

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

Credit Commitments (continued)
Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,341
Manufacturing	6,001
Building and construction	6,709
General commerce	12,228
Transport, storage and communication	3,257
Financial institutions, investment and holding companies	15,884
Professionals and individuals	24,102
Others	6,677
	76,199

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	12,900	13,849	14,241	25,576	27,663	73,650	167,879 ⁽¹⁾
Placements with and loans to banks	6,164	6,880	12,958	12,942	989	–	39,933 ⁽²⁾
Government treasury bills and securities	137	1,833	4,059	4,527	4,583	5,722	20,861 ⁽³⁾
Debt securities	49	692	817	4,121	4,562	6,807	17,048 ⁽⁴⁾

⁽¹⁾ Includes assets pledged of S\$25 million.

⁽²⁾ Includes assets pledged of S\$793 million and excludes bank balances of life assurance fund.

⁽³⁾ Includes assets pledged of S\$250 million.

⁽⁴⁾ Includes assets pledged of S\$1,042 million.

Credit Commitments

	S\$ million
Undrawn credit facilities:	
Term to maturity of one year or less	59,946
Term to maturity of more than one year	16,253
	76,199

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	168,297
Not impaired	625
Impaired	433
Past due loans	1,058
Impaired but not past due	265
Gross loans	169,620
Specific allowances	(230)
Portfolio allowances	(1,511)
Net loans	167,879

Non-Performing Loans

Analysed by Geography

S\$ million	Singapore	Malaysia	Rest of the World	Total
Substandard	48	316	422	786
Doubtful	79	175	54	308
Loss	67	39	39	145
	194	530	515	1,239

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	10
Manufacturing	408
Building and construction	161
Housing	217
General commerce	126
Transport, storage and communication	100
Financial institutions, investment and holding companies	45
Professionals and individuals	91
Others	81
	1,239

Non-Performing Loans (continued)

Analysed by Period Overdue

\$ million	S\$ million
Over 180 days	281
Over 90 days to 180 days	155
30 days to 90 days	193
Less than 30 days	11
Past due	640
No overdue	599
Total	1,239

Past-Due Loans

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	19
Manufacturing	221
Building and construction	45
General commerce	159
Transport, storage and communication	53
Financial institutions, investment and holding companies	59
Professionals and individuals (include housing)	458
Others	44
	1,058

Analysed by Geography

	S\$ million
Singapore	173
Malaysia	591
Rest of the World	294
	1,058

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	186
30 to 90 days	326
Over 90 days	113
Past due but not impaired	625

Impairment Allowances for Loans and Bills Receivable

Analysed by Geography

S\$ million	Specific allowances	Portfolio allowances
Singapore	50	650
Malaysia	101	335
Indonesia	28	153
Greater China	1	200
Other Asia Pacific	46	86
Rest of the World	4	87
	230	1,511

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

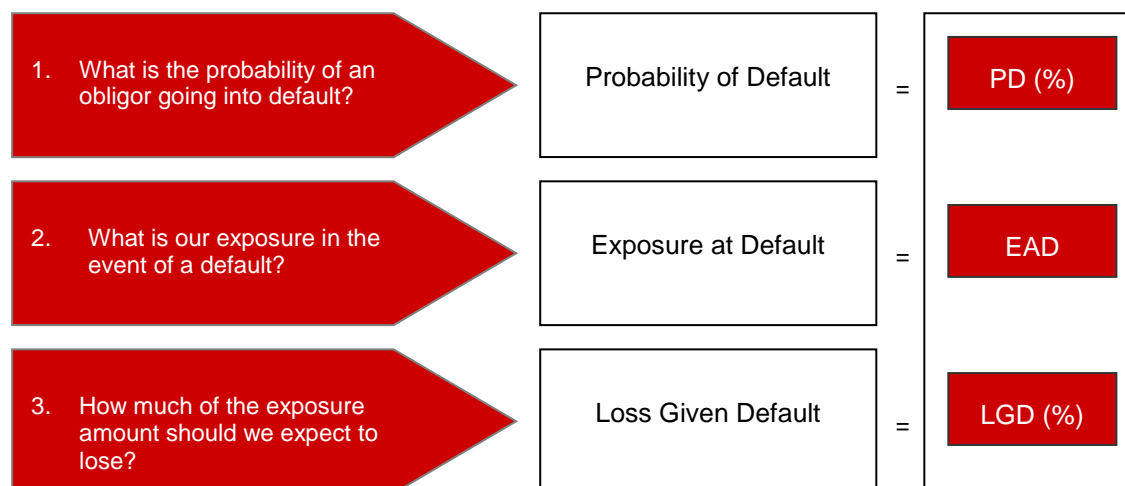
Analysed by Industry

S\$ million	Cumulative specific allowances	Specific allowances charged/(write-back) to income statements
Agriculture, mining and quarrying	2	#
Manufacturing	67	34
Building and construction	8	(17)
Housing	29	(2)
General commerce	33	18
Transport, storage and communication	6	(13)
Financial institutions, investment and holding companies	7	1
Professionals and individuals	60	54
Others	18	6
	230	81

represents amounts less than S\$0.5 million.

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

S\$ million	Specific Allowances
At 1 January 2013	303
Currency translation	(17)
Bad debts written off	(132)
Recovery of amounts previously provided for Allowances for loans	(55)
Net allowances charged to income statements	136
Interest recognition on impaired loans	81
At 31 December 2013	230
<hr/>	
S\$ million	Portfolio Allowances
At 1 January 2013	1,351
Currency translation	(23)
Allowances charged to income statements	183
At 31 December 2013	1,511

KEY PARAMETERS USED TO QUANTIFY CREDIT RISK


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

	EAD S\$ million	RWA S\$ million
Credit Risk		
Standardised Approach		
Corporate	6,932	6,914
Sovereign	35,268	1,271
Bank	1,455	472
Retail	1,512	1,138
Residential Mortgage	1,331	545
Others	9,378	8,765
Total Standardised	55,876	19,105
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	71,228	42,478
Bank	69,106	17,512
Advanced IRB		
Residential Mortgage	50,069	5,578
Qualifying Revolving Retail	5,443	1,297
Small Business	8,466	3,319
Other Retail	1,166	234
Specialised Lending under Supervisory Slotting Criteria	24,427	22,229
Securitisation	67	22
Equity	1,523	5,108
Total IRB	231,495	97,777
Central Counterparties (CCP)	428	90 ⁽¹⁾
Credit Valuation Adjustments (CVA)		1,708 ⁽²⁾
Credit RWA pursuant to paragraph 6.1.3(p)(iii)		5,969 ⁽³⁾
Total Credit Risk	287,798	124,648
Market Risk		
Standardised Approach		15,891
Operational Risk		
Standardised Approach		8,912
Basic Indicator Approach		874
Total Operational Risk		9,786
Total RWA		150,325

⁽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)

4.6 Credit Exposures under Standardised Approach

Credit exposures under the standardised approach comprise mainly exposures to sovereigns, private banking customers in Bank of Singapore and fixed assets. Rated exposures relate mainly to debt securities and sovereign portfolios while unrated exposures relate mainly to individuals and fixed assets.

Risk Weight	EAD S\$ million	RWA S\$ million
0%	34,055	-
20% - 35%	2,425	665
50% - 75%	2,705	1,737
100%	16,665	16,665
>100%	26	38
Total	55,876	19,105
Rated exposures	42,820	7,869
Unrated exposures	13,056	11,236

4.7 Credit Exposures subject to Supervisory Risk Weights under Internal Ratings-Based Approach

Equity Exposures under IRB Approach ⁽¹⁾

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	1,285	318%	-	-
Other equity holdings	194	424%	44	455%
Total	1,479	332%	44	455%

⁽¹⁾ As of 2013, Equity Exposures are reported under the IRB approach using Simple Risk Weight (SRW) and PD/LGD methods.

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	8,005	60%
Good	9,663	83%
Satisfactory	5,584	122%
Weak	972	265%
Default	203	NA
Total	24,427	91%

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%	11,816	19%
> 0.05 to 0.5%	31,129	47%
> 0.5 to 2.5%	21,579	79%
> 2.5 to 9%	5,420	141%
> 9%	568	144%
Default	716	NA
Total	71,228	60%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	40,559	10%
> 0.05 to 0.5%	20,764	35%
> 0.5 to 2.5%	7,461	74%
> 2.5 to 9%	290	124%
> 9%	32	243%
Default	-	NA
Total	69,106	25%

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%	35,365	5,081	11%	5%
> 0.5 to 3%	8,837	1,783	11%	19%
> 3 to 10%	5,058	205	10%	34%
> 10%	589	18	11%	62%
Default	220	-	14%	80%
Total	50,069	7,087	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%	4,181	6,880	81%	7%
> 0.5 to 3%	677	504	79%	43%
> 3 to 10%	429	196	82%	100%
> 10%	133	41	82%	224%
Default	23	-	81%	0%
Total	5,443	7,621	81%	24%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	2,889	957	32%	14%
> 0.5 to 3%	3,371	448	36%	38%
> 3 to 10%	1,757	156	42%	66%
> 10%	313	37	42%	90%
Default	136	50	46%	137%
Total	8,466	1,648	36%	39%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	835	241	30%	12%
> 0.5 to 3%	246	105	30%	36%
> 3 to 10%	59	10	29%	46%
> 10%	23	2	31%	71%
Default	3	-	26%	125%
Total	1,166	358	30%	20%

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 2013 S\$ million	Regulatory Expected Loss (Non-defaulted) as at 31 December 2012 S\$ million
Corporate	(25)	366
Bank	-	38
Small Business	26	74
Retail	32	112
Total	33	590

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	2,841	-	-
Sovereign and Bank	2,558	-	-
Retail and Residential Mortgage	304	-	-
Others	3,654	-	-
Total	9,357	-	-
Foundation IRB Approach			
Corporate	3,338	9,840	794
Bank	306	-	47
Total	3,644	9,840	841

⁽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.

4.12 Counterparty Credit Risk Exposures

Net Derivatives Exposure

	S\$ million
Replacement Cost	4,420
Potential Future Exposure	4,594
Less: Effects of Netting	3,563
EAD under Current Exposure Method	5,451
Analysed by type:	
Foreign Exchange Contracts	3,299
Interest Rate Contracts	1,204
Equity Contracts	110
Gold and Precious Metals Contracts	1
Other Commodities Contracts	41
Credit Derivative Contracts	796
Less: Eligible Financial Collateral	329
Other Eligible Collateral	-
Net Derivatives Credit Exposure	5,121

Credit Derivatives Exposure

	S\$ million	
	Notional Amount	
	<u>Bought</u>	<u>Sold</u>
Credit Default Swaps		
for own credit portfolio	10,914	9,345
for intermediation activities	106	106
Total	11,020	9,451

4.13 Securitisation Exposures Purchased

All the securitisation exposures are in the banking book. There are no re-securitisation exposures as at 31 December 2013.

Risk Weight	S\$ million	
	EAD	Capital Charge
up to 20%	50	1
> 20% to 50%	17	1
> 50% to 100%	-	-
> 100% to 500%	-	-
> 500%	-	-
1250%	-	-
Total	67	2

5. MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S\$ million
Interest rate risk	706
Equity position risk	41
Foreign exchange risk	523
Commodity risk	1
Total	1,271

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 2013.

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 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	2,862
Unquoted equity exposure - AFS	463
Quoted equity exposure - Associates	-
Unquoted equity exposure - Associates	380
Total	3,705

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	80
Unrealised gains included in fair value reserve	500
Total	580

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 2013.

Based on a 100 bp parallel rise in yield curves on the Group's exposure to major currencies i.e. Singapore Dollar, US Dollar and Malaysian Ringgit, net interest income is estimated to increase by S\$408 million. The corresponding impact from a 100 bp decrease is an estimated reduction of S\$153 million in net interest income. As a percentage of reported net interest income, the maximum exposure for the three major currencies is estimated to be approximately -3.9%.