

Capital Management

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

CAPITAL POLICY

The key objective of the Group's capital management policy is to maintain a strong capital position to support business growth and strategic investments, and to sustain investor, depositor, customer and market confidence. In line with this, OCBC targets a minimum credit rating of "A" and ensures that its capital adequacy ratios 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 optimise its overall cost of capital.

CAPITAL MONITORING AND PLANNING

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 business 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 those risks. This includes an annual capital planning exercise to forecast capital demands and assess the Group's capital adequacy over a 3-year period. This process takes into consideration OCBC's business strategy, operating environment, target capital ratios 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 to the effects of plausible stress scenarios and evaluate how the Group can continue to maintain adequate capital under such scenarios.

Within OCBC 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 transfer of capital resources within the 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 significant capital initiatives were undertaken by the Group during the financial year ended 31 December 2011:

Tier 1 Capital

- Issue of 50.7 million new ordinary shares by OCBC Bank on 7 October 2011, representing S\$409 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 ended 31 December 2011.
- Issue of 49.3 million new ordinary shares by OCBC Bank on 13 June 2011, representing S\$416 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 ended 31 December 2010.

Others

- Issue of S\$400 million subordinated notes by The Great Eastern Life Assurance Co Ltd on 19 January 2011.
- Reduction of capital of S\$364 million by Great Eastern Holdings Ltd on 13 June 2011.

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 financial year ended 31 December 2011, the Board of Directors has recommended a final tax exempt dividend of 15 cents per share. This brings the full year 2011 dividend to 30 cents per share, or an estimated total dividend payout of S\$1,024 million, representing 45% of the Group's core net profit of S\$2,280 million (2010: total dividend payout of S\$994 million, representing 44% of the Group's core net profit of S\$2,253 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 cancelled, sold or used to meet delivery obligations under employee share schemes. During the financial year ended 31 December 2011, the Bank purchased 10.1 million of its ordinary shares for S\$92 million as part of its third S\$500 million share buyback programme, while 9.4 million treasury shares were delivered to meet obligations under its employee share schemes.

CAPITAL ADEQUACY RATIOS

OCBC is required by MAS to maintain minimum Tier 1 and total capital adequacy ratios of 6% and 10%, respectively, at the Bank and 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 financial period.

The table below shows the composition of the Group's regulatory capital and capital adequacy ratios as of 31 December 2011. The capital adequacy ratios are determined in accordance with the requirements of MAS Notice 637, which include the definitions for Tier 1 and Tier 2 capital, the deductions required (mainly for goodwill, intangible assets, and capital investments in associates and insurance subsidiaries), as well as the methodologies available for computing risk-weighted assets. A description of the key terms and conditions of the capital instruments included within eligible total capital can be found in Notes 13, 16 and 21 of the financial statements, and the approaches adopted by OCBC for the computation of risk-weighted assets can be found in the "Basel II Pillar 3 Risk Disclosure" chapter.

Capital Management

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

\$ million	2011	2010
Tier 1 Capital		
Ordinary shares	7,127	6,315
Preference shares	1,896	1,896
Innovative Tier 1 capital instruments	2,062	2,065
Disclosed reserves	12,391	11,216
Non-controlling interests	749	776
	24,225	22,268
Goodwill / others	(4,009)	(4,044)
Deductions from Tier 1 capital	(1,604)	(1,076)
Eligible Tier 1 Capital	18,612	17,148
Tier 2 Capital		
Subordinated term notes	3,343	3,467
Revaluation surplus on available-for-sale equity securities	361	–
Others	140	170
Deductions from Tier 2 capital	(2,270)	(2,277)
Eligible Total Capital	20,186	18,508
Credit	104,546	84,033
Market	15,817	13,595
Operational	8,144	7,434
Risk Weighted Assets	128,507	105,062
Tier 1 capital adequacy ratio	14.4%	16.3%
Total capital adequacy ratio	15.7%	17.6%

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 2011, the capital adequacy ratios for GEH's insurance subsidiaries in Singapore and Malaysia were 218% and 279% respectively. These ratios were well above the minimum regulatory ratios of 120% in Singapore and 130% in Malaysia.

REGULATORY CHANGE

In December 2010, the Basel Committee published the Basel III framework to strengthen global capital standards, with the goal of promoting a more resilient banking sector. In response to the Basel Committee's framework, in December 2011, MAS released its consultation paper detailing the implementation of the Basel III capital standards in Singapore. The implementation of the Basel III capital standards will be phased in from 1 January 2013 to 1 January 2019.