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 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 to 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 at the parent (i.e. OCBC Bank) 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 2014:

TIER 2 CAPITAL

- Issuance of US$1 billion Tier 2 subordinated notes by OCBC Bank on 15 April 2014.
- Issuance of US$1 billion Tier 2 subordinated notes by OCBC Bank on 19 June 2014.
- Redemption of S$712 million Tier 2 subordinated notes by OCBC Bank on 27 March 2014.
- Redemption of US$500 million Tier 2 subordinated notes by OCBC Bank on 18 November 2014.

OTHERS

- Rights issue of S$3.3 billion completed by OCBC Bank on 15 September 2014.

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 2014, the Board of Directors has recommended a final dividend of 18 cents per share. This brings the full year 2014 dividend to 36 cents per share, or an estimated total dividend payout of S$1,345 million, representing 39% of the Group's core net profit of S$3,451 million (2013: total dividend payout of S$1,168 million, representing 42% of the Group's core net profit of S$2,768 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 2014, the Bank purchased 16.4 million of its ordinary shares for S$161 million as part of its fourth S$500 million share buyback programme, while 15.7 million treasury shares were delivered to meet obligations under its employee share schemes.

CAPITAL ADEQUACY RATIOS

On 14 September 2012, the Monetary Authority of Singapore ("MAS") revised the MAS Notice 637 to implement the Basel III capital adequacy framework for Singapore. The Basel III capital standards came into effect on 1 January 2013 and are being progressively phased in on 1 January each year, from 2013 to 2019. Singapore-incorporated banks are required to meet minimum Common Equity Tier 1 ("CET1"), Tier 1, and total capital adequacy ratios of 4.5%, 6.0%, and 10.0%, respectively, in 2013. The minimum CET1 and Tier 1 capital adequacy ratios will increase by 1.0 percentage point each year to 6.5% and 8.0%, respectively, in 2015. Total capital adequacy ratio ("CAR") will remain unchanged at 10.0%.

To ensure that banks build up adequate capital buffer outside periods of stress, a Capital Conservation Buffer of 2.5 percentage points above the minimum capital adequacy requirements will be introduced. To be met with CET1 capital, this requirement will begin at 0.625% on 1 January 2016, and increase by 0.625 percentage point on 1 January each year, to reach 2.5% on 1 January 2019. Including the Capital Conservation Buffer, Singapore-incorporated banks will be required to meet CET1 CAR, Tier 1 CAR and total CAR of 9.0%, 10.5% and 12.5%, respectively, from 1 January 2019.

In addition, OCBC will be subject to a Countercyclical Buffer requirement if this buffer is applied by regulators in countries which the Group has credit exposures to. Generally in the range of 0% to 2.5% of risk-weighted assets, the Countercyclical Buffer is not an ongoing requirement but it may be applied by regulators to limit excessive credit growth in their economy.

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The table below shows the composition of the Group's regulatory capital and its capital adequacy ratios as of 31 December 2014 based on MAS' transitional Basel III rules for 2014. The capital adequacy ratios were determined in accordance with the requirements of MAS Notice 637, which included the definitions for CET1, Tier 1 and Tier 2 capital, the required regulatory adjustments against capital (including goodwill, intangible assets, deferred tax assets and capital investments in unconsolidated major stake companies), and the methodologies available for computing risk-weighted assets. OCBC's existing Additional Tier 1 and Tier 2 capital instruments were issued under the Basel II capital adequacy framework. These capital instruments did not contain provisions to require them to be written off or converted into ordinary shares if the Bank was determined by the Monetary Authority of Singapore ("MAS") to be non-viable, and will be gradually phased out under MAS' Basel III transitional rules. As per the requirements of MAS Notice 637, OCBC's insurance subsidiaries were not consolidated for the computation of the capital adequacy ratios, i.e. capital investments in these insurance subsidiaries were deducted from OCBC's capital and their assets were excluded from the computation of OCBC's risk-weighted assets.

A description of the key terms and conditions of the regulatory capital instruments 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 III Pillar 3 Risk Disclosures" chapter.

The Group's CET1 CAR as of 31 December 2014, on a fully implemented basis, was 10.6%. In computing this ratio, the required regulatory adjustments made against CET1 capital and the recognition of non-controlling interests as CET1 capital were based on MAS' Basel III rules which will be effective from 1 January 2018.

OCBC's banking and insurance subsidiaries are subject to capital adequacy requirements of the jurisdiction in which they operate. As of 31 December 2014, the capital adequacy ratios of these subsidiaries were above their respective local requirements.

S$ million	Basel III 2014	Basel III 2013
Tier 1 Capital		
Ordinary shares	**12,356**	8,052
Disclosed reserves/others	**17,512**	15,838
Regulatory adjustments	**(3,889)**	(2,006)
Common Equity Tier 1 Capital	**25,979**	21,884
Additional Tier 1 capital	**3,438**	3,458
Regulatory adjustments	**(3,438)**	(3,458)
Tier 1 Capital	**25,979**	21,884
Tier 2 capital	**5,963**	4,191
Regulatory adjustments	**(2,015)**	(1,536)
Total Eligible Capital	**29,927**	24,539
Credit	**155,127**	124,648
Market	**20,954**	15,891
Operational	**12,027**	9,786
Risk Weighted Assets	**188,108**	150,325
Capital Adequacy Ratios		
Common Equity Tier 1	**13.8%**	14.5%
Tier 1	**13.8%**	14.5%
Total	**15.9%**	16.3%

DISCLOSURES REQUIRED UNDER PART XIA OF MAS NOTICE 637 'NOTICE OF RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR BANKS INCORPORATED IN SINGAPORE'

(This section does not form part of OCBC's audited financial statements)

The Basel Committee has developed an indicator-based measurement approach to identify Global Systemically Important Bank (G-SIB) and determine the higher loss absorbency requirements for banks classified as G-SIBs. While OCBC is not a G-SIB, it is required under MAS Notice 637 to disclose the indicators which can be found on the Bank's Investor Relations website. (http://www.ocbc.com/group/investors/Cap_and_Reg_Disclosures.html)