

Oversea-Chinese Banking Corporation Limited

**Pillar 3 Mid-Year Disclosures
(OCBC Group – As at 30 June 2016)**



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 OCBC Group’s (“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 2015 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 2016, 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 2016, the total equity of these insurance subsidiaries was S\$7b and total assets were S\$65b.

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 2015.

3. CAPITAL ADEQUACY

Disclosure on the Group’s capital adequacy ratios and the capital positions for the Group’s significant banking subsidiaries as at 30 June 2016 are presented in the Capital Adequacy Ratios section of the Second Quarter 2016 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)

Disclosures on the Group’s leverage ratio are presented in the Leverage Ratio section of the Second Quarter 2016 Financial Results (<http://www.ocbc.com/group/investors/index.html>) and under the Capital and Regulatory Disclosures section 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	202,521 ⁽¹⁾	205,392
Placements with and loans to banks	43,663	38,917
Government treasury bills and securities	26,053	23,600
Debt securities	20,025	19,889
Assets pledged	1,974 ⁽²⁾	1,772
Others	9,743	9,532
	303,979	299,102
Credit risk exposure of off-balance sheet items:		
Credit commitments	106,761	110,035
Contingent liabilities	8,552	8,956
	115,313	118,991
Total maximum credit risk exposure	419,292	418,093

⁽¹⁾ Net of specific allowances of \$360 million and portfolio allowances of \$2,097 million.

⁽²⁾ Assets pledged comprise net loans and bills receivable of \$507 million, placements with and loans to banks of \$171 million, government treasury bills and securities of \$114 million and debt securities of \$1,182 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	88,698
Malaysia	28,580
Indonesia	16,830
Greater China	49,291
Other Asia Pacific	10,871
Rest of the World	11,215
Total	205,485

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

⁽¹⁾ Includes assets pledged of \$507 million.

Gross Loans and Bills Receivable ⁽¹⁾ (continued)

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	7,838
Manufacturing	11,434
Building and construction	34,090
Housing	58,356
General commerce	22,294
Transport, storage and communication	10,860
Financial institutions, investment and holding companies	26,856
Professionals and individuals	24,319
Others	9,438
Total	205,485

⁽¹⁾ Includes assets pledged of \$507 million.

Placements with and Loans to Banks ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	459
Malaysia	5,397
Indonesia	768
Greater China	25,185
Other Asia Pacific	3,877
Rest of the World	7,263
Balances with banks	42,949
Bank balances of life assurance fund	885
Total	43,834

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

⁽¹⁾ Includes assets pledged of \$171 million.

Government Treasury Bills and Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	9,165
Malaysia	2,746
Indonesia	2,675
Greater China	4,009
Other Asia Pacific	5,583
Rest of the World	1,989
Total	26,167

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

⁽¹⁾ Includes assets pledged of \$114 million.

Debt Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	3,310
Malaysia	2,033
Indonesia	1,188
Greater China	7,620
Other Asia Pacific	4,330
Rest of the World	2,726
Total	21,207

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,190
Manufacturing	1,461
Building and construction	2,261
General commerce	486
Transport, storage and communication	1,363
Financial institutions, investment and holding companies	11,912
Others	2,534
Total	21,207

⁽¹⁾ Includes assets pledged of \$1,182 million.

Credit Commitments

Analysed by Geography

	S\$ million
Singapore	81,263
Malaysia	7,484
Indonesia	3,652
Greater China	11,216
Other Asia Pacific	1,375
Rest of the World	1,771
Total	106,761

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

Credit Commitments (continued)
Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,180
Manufacturing	8,222
Building and construction	10,537
General commerce	18,246
Transport, storage and communication	3,706
Financial institutions, investment and holding companies	22,905
Professionals and individuals	35,513
Others	6,452
Total	106,761

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	16,021	23,565	12,210	20,935	36,361	93,936	203,028 ⁽¹⁾
Placements with and loans to banks	6,083	8,175	11,321	16,659	579	132	42,949 ⁽²⁾
Government treasury bills and securities	273	2,089	5,340	6,092	7,610	4,763	26,167 ⁽³⁾
Debt securities	109	255	1,153	4,236	6,882	8,572	21,207 ⁽⁴⁾

⁽¹⁾ Includes assets pledged of \$507 million.

⁽²⁾ Includes assets pledged of \$171 million and excludes bank balances of life assurance fund.

⁽³⁾ Includes assets pledged of \$114 million.

⁽⁴⁾ Includes assets pledged of \$1,182 million.

Credit Commitments

	S\$ million
Undrawn credit facilities:	
Term to maturity of one year or less	90,543
Term to maturity of more than one year	16,218
Total	106,761

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	202,429
Not impaired	1,859
Impaired	992
Past due loans	2,851
Impaired but not past due	205
Gross loans	205,485
Specific allowances	(360)
Portfolio allowances	(2,097)
Net loans	203,028

Non-Performing Loans

Analysed by Geography

S\$ million	Singapore	Malaysia	Indonesia	Greater China	Rest of the World	Total
Substandard	271	350	549	201	306	1,677
Doubtful	157	62	14	97	66	396
Loss	108	29	90	57	-	284
Total	536	441	653	355	372	2,357

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	189
Manufacturing	268
Building and construction	114
Housing	325
General commerce	322
Transport, storage and communication	342
Financial institutions, investment and holding companies	385
Professionals and individuals	150
Others	262
Total	2,357

Non-Performing Loans (continued)

Analysed by Period Overdue

	S\$ million
Over 180 days	826
Over 90 days to 180 days	411
30 days to 90 days	602
Less than 30 days	95
Past due	1,934
No overdue	423
Total	2,357

Past-Due Loans

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	107
Manufacturing	409
Building and construction	93
General commerce	435
Transport, storage and communication	283
Financial institutions, investment and holding companies	421
Professionals and individuals (include housing)	830
Others	273
Total	2,851

Analysed by Geography

	S\$ million
Singapore	553
Malaysia	644
Indonesia	749
Greater China	635
Rest of the World	270
Total	2,851

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.

Past-Due Loans (continued)
Analysed by Period Overdue

	S\$ million
Past due	
Less than 30 days	405
30 to 90 days	940
Over 90 days	514
Past due but not impaired	1,859

Impairment Allowances for Loans and Bills Receivable
Analysed by Geography

S\$ million	Specific allowances	Portfolio allowances
Singapore	128	795
Malaysia	87	390
Indonesia	67	239
Greater China	54	487
Other Asia Pacific	1	102
Rest of the World	23	84
Total	360	2,097

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

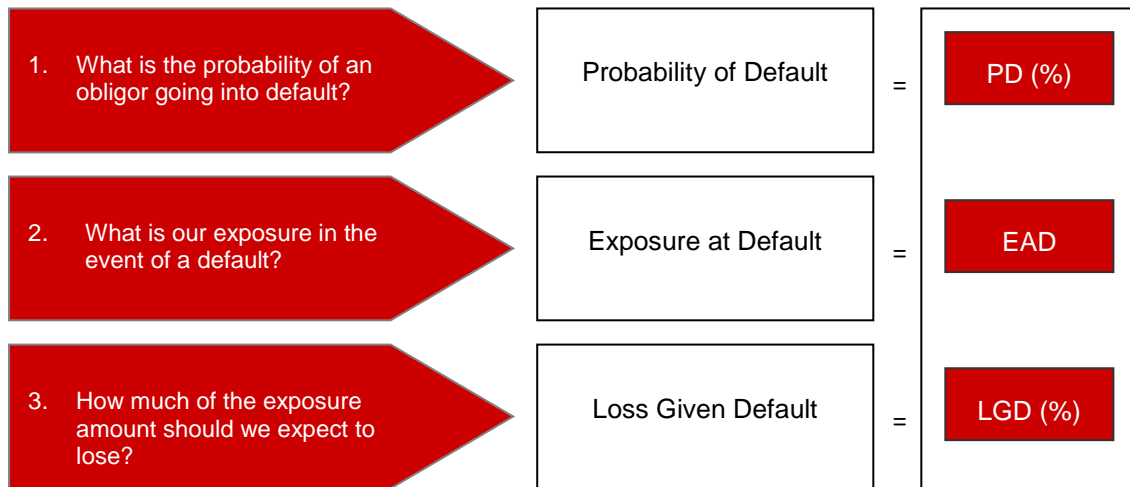
Analysed by Industry

S\$ million	Cumulative specific allowances	Specific allowances charged to income statements
Agriculture, mining and quarrying	27	15
Manufacturing	49	15
Building and construction	31	1
Housing	36	4
General commerce	63	29
Transport, storage and communication	47	33
Financial institutions, investment and holding companies	5	1
Professionals and individuals	85	38
Others	17	15
Total	360	151

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

S\$ million	Specific allowances
At 1 January 2016	360
Currency translation	(4)
Bad debts written off	(144)
Recovery of amounts previously provided for Allowances for loans	(23)
Net allowances charged to income statements	174
Interest recognition on impaired loans	151
Transfer from other assets	(7)
	4
At 30 June 2016	360

S\$ million	Portfolio allowances
At 1 January 2016	2,060
Currency translation	(26)
Allowances charged to income statements	63
At 30 June 2016	2,097

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	16,136	15,403
Sovereign	36,539	2,264
Bank	8,605	3,158
Retail	4,889	3,672
Residential Mortgage	12,184	4,670
Commercial Real Estate	10,037	10,070
Fixed Assets	3,887	3,887
Others	6,101	5,266
Total Standardised	98,378	48,390
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	103,916	70,120
Bank	53,416	9,057
Advanced IRB		
Residential Mortgage	54,340	6,152
Qualifying Revolving Retail	5,958	1,506
Small Business	7,642	3,254
Other Retail	1,143	133
Specialised Lending under Supervisory Slotting Criteria	1,771	2,153
Securitisation	-	-
Equity	1,553	5,375
Total IRB	229,739	97,750
Central Counterparties (CCP)	2,389	308 ⁽¹⁾
Credit Valuation Adjustments (CVA)		2,360 ⁽²⁾
Credit RWA pursuant to paragraph 6.1.3(p)(iii)		7,822 ⁽³⁾
Total Credit Risk	330,506	156,630
Market Risk		
Standardised Approach		20,177
Operational Risk		
Standardised Approach		10,553
Basic Indicator Approach		2,502
Total Operational Risk		13,055
Total RWA		189,862

⁽¹⁾ Refers to Credit RWA for exposures to central clearing houses that act as the intermediary for counterparties of 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 investments in the ordinary shares of 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, 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%	32,195	-
10% - 40%	19,208	5,552
50% - 99%	11,057	6,853
100%	35,786	35,786
>100%	132	199
Total	98,378	48,390
Rated exposures	54,518	14,751
Unrated exposures	43,860	33,639

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\$4 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	1,168	318%	-	-
Other equity holdings	278	424%	107	451%
Total	1,446	338%	107	451%

Specialised Lending Exposures under Supervisory Slotting Criteria

Specialised lending exposures include project, object and commodity financing.

	EAD S\$ million	Average Risk Weight
Strong	-	NA
Good	-	NA
Satisfactory	1,560	122%
Weak	95	265%
Default	116	NA
Total	1,771	122%

4.8 Credit Exposures under Foundation Internal Ratings-Based Approach (F-IRBA)

Corporate exposures are mainly exposures to corporate and institutional customers, major non-bank financial institutions, as well as financing of income-producing real estate. 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%	13,573	17%
> 0.05 to 0.5%	37,075	46%
> 0.5 to 2.5%	40,317	88%
> 2.5 to 9%	9,835	129%
> 9%	1,626	161%
Default	1,490	NA
Total	103,916	67%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	41,122	9%
> 0.05 to 0.5%	8,836	33%
> 0.5 to 2.5%	3,304	65%
> 2.5 to 9%	65	120%
> 9%	89	183%
Default	#	NA
Total	53,416	17%

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%	40,269	4,151	11%	6%
> 0.5 to 3%	11,365	1,249	11%	18%
> 3 to 10%	1,107	59	12%	48%
> 10%	1,246	27	12%	66%
Default	353	10	15%	79%
Total	54,340	5,496	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%	4,306	7,704	80%	6%
> 0.5 to 3%	1,041	1,052	80%	39%
> 3 to 10%	449	213	83%	113%
> 10%	136	54	85%	232%
Default	26	-	82%	0%
Total	5,958	9,023	81%	25%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	2,425	930	30%	14%
> 0.5 to 3%	3,053	372	37%	39%
> 3 to 10%	1,765	100	42%	67%
> 10%	231	10	46%	101%
Default	168	4	49%	185%
Total	7,642	1,416	37%	43%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	1,022	30	16%	6%
> 0.5 to 3%	51	9	50%	60%
> 3 to 10%	54	4	34%	54%
> 10%	12	1	43%	102%
Default	4	-	37%	54%
Total	1,143	44	19%	12%

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	5,416	-	334
Sovereign and Bank	1,436	-	42
Retail and Residential Mortgage	465	-	429
Others	6,715	-	1
Total	14,032	-	806
Foundation IRB Approach			
Corporate	3,473	14,507	1,853
Bank	4,987	-	-
Total	8,460	14,507	1,853

⁽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	5,068
Potential Future Exposure	5,577
Less: Effects of Netting	3,689
EAD under Current Exposure Method	6,956
Analysed by type:	
Foreign Exchange Contracts	4,668
Interest Rate Contracts	1,320
Equity Contracts	106
Gold and Precious Metals Contracts	1
Other Commodities Contracts	26
Credit Derivative Contracts	835
Less: Eligible Financial Collateral	827
Other Eligible Collateral	-
Net Derivatives Credit Exposure	6,129

Credit Derivatives Exposure

	S\$ million	
	Notional Amount	
	<u>Bought</u>	<u>Sold</u>
Credit Default Swaps		
for own credit portfolio	10,025	9,261
for intermediation activities	66	66
Total	10,091	9,327

4.12 Securitisation Exposures

There is no securitisation and re-securitisation exposure in the banking and trading books as at 30 June 2016.

5. MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S\$ million
Interest rate risk	799
Equity position risk	35
Foreign exchange risk	779
Commodity risk	1
Total	1,614

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 2015 Annual Report.

Equity exposures comprise equity securities categorised as “Available-for-sale” (AFS) and investments in associates. 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.

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	1,826
Unquoted equity exposure - AFS	661
Quoted equity exposure - Associates	1,727
Unquoted equity exposure - Associates	482
Total	4,696

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	7
Unrealised gains included in fair value reserve	184
Total	191

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 2015 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 \$550 million, or approximately +10.7% of reported net interest income (on an annualised basis). The corresponding impact from a 100 bp decrease is an estimated reduction of \$396 million in net interest income, or approximately -7.7% of reported net interest income (on an annualised basis).