

Oversea-Chinese Banking Corporation Limited

**Pillar 3 Mid-Year Quantitative Disclosures
(OCBC Group – As at 30 June 2014)**



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 the 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 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 30 June 2014, 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 2014, the total equity of these insurance subsidiaries was S\$6b and total assets were S\$61b.

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 30 June 2014 are presented in the Capital Adequacy Ratios section of the Second Quarter 2014 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	175,572 ⁽¹⁾	173,029
Placements with and loans to banks	37,672	38,516
Government treasury bills and securities	22,603	21,448
Debt securities	17,072	16,904
Assets pledged	1,589 ⁽²⁾	1,763
Others	7,054	7,485
	261,562	259,145
Credit risk exposure of off-balance sheet items:		
Credit commitments	83,486	80,316
Contingent liabilities	12,435	12,151
	95,921	92,467
Total maximum credit risk exposure	357,483	351,612

⁽¹⁾ Net of specific allowances of \$223 million and portfolio allowances of \$1,572 million.

⁽²⁾ Assets pledged comprise net loans and bills receivable of \$48 million, placements with and loans to banks of \$383 million, government treasury bills and securities of \$276 million and debt securities of \$882 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	84,546
Malaysia	28,066
Indonesia	13,062
Greater China	27,382
Other Asia Pacific	9,387
Rest of the World	14,972
Total	177,415

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

⁽¹⁾ Includes assets pledged of \$48 million.

Gross Loans and Bills Receivable ⁽¹⁾ (continued)

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	6,708
Manufacturing	10,184
Building and construction	25,077
Housing	43,719
General commerce	27,277
Transport, storage and communication	10,520
Financial institutions, investment and holding companies	25,034
Professionals and individuals	18,982
Others	9,914
Total	177,415

⁽¹⁾ Includes assets pledged of \$48 million.

Placements with and Loans to Banks ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	716
Malaysia	3,119
Indonesia	507
Greater China	22,937
Other Asia Pacific	1,292
Rest of the World	9,012
Balances with banks	37,583
Bank balances of life assurance fund	472
Total	38,055

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

⁽¹⁾ Includes assets pledged of \$383 million.

Government Treasury Bills and Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	11,789
Malaysia	2,795
Indonesia	1,890
Greater China	1,132
Other Asia Pacific	4,390
Rest of the World	883
Total	22,879

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

⁽¹⁾ Includes assets pledged of \$276 million.

Debt Securities ⁽¹⁾

Analysed by Geography

	S\$ million
Singapore	3,561
Malaysia	1,774
Indonesia	630
Greater China	5,781
Other Asia Pacific	3,639
Rest of the World	2,569
Total	17,954

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	641
Manufacturing	777
Building and construction	1,964
General commerce	1,378
Transport, storage and communication	1,131
Financial institutions, investment and holding companies	8,727
Others	3,336
Total	17,954

⁽¹⁾ Includes assets pledged of \$882 million.

Credit Commitments

Analysed by Geography

	S\$ million
Singapore	63,209
Malaysia	7,685
Indonesia	2,704
Greater China	7,347
Other Asia Pacific	1,816
Rest of the World	725
Total	83,486

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

Credit Commitments (continued)
Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	1,756
Manufacturing	6,305
Building and construction	7,873
General commerce	13,556
Transport, storage and communication	2,903
Financial institutions, investment and holding companies	17,445
Professionals and individuals	26,104
Others	7,544
Total	83,486

4.3 Residual Contractual Maturity of Major Types of Credit Exposure
On-Balance Sheet Assets

S\$ million	Within 1 week to 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	12,406	16,240	15,562	27,233	25,981	78,198	175,620 ⁽¹⁾
Placements with and loans to banks	6,630	4,824	12,474	12,828	795	32	37,583 ⁽²⁾
Government treasury bills and securities	1,165	2,120	3,341	5,274	4,520	6,459	22,879 ⁽³⁾
Debt securities	56	433	1,179	3,937	5,547	6,802	17,954 ⁽⁴⁾

⁽¹⁾ Includes assets pledged of \$48 million.

⁽²⁾ Includes assets pledged of \$383 million and excludes bank balances of life assurance fund.

⁽³⁾ Includes assets pledged of \$276 million.

⁽⁴⁾ Includes assets pledged of \$882 million.

Credit Commitments

	S\$ million
Undrawn credit facilities:	
Term to maturity of one year or less	66,251
Term to maturity of more than one year	17,235
Total	83,486

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	176,010
Not impaired	694
Impaired	450
Past due loans	1,144
Impaired but not past due	261
Gross loans	177,415
Specific allowances	(223)
Portfolio allowances	(1,572)
Net loans	175,620

Non-Performing Loans

Analysed by Geography

S\$ million	Singapore	Malaysia	Rest of the World	Total
Substandard	40	330	360	730
Doubtful	77	169	27	273
Loss	90	36	43	169
Total	207	535	430	1,172

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

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	9
Manufacturing	300
Building and construction	163
Housing	253
General commerce	146
Transport, storage and communication	113
Financial institutions, investment and holding companies	23
Professionals and individuals	93
Others	72
Total	1,172

Non-Performing Loans (continued)

Analysed by Period Overdue

	S\$ million
Over 180 days	394
Over 90 days to 180 days	152
30 days to 90 days	82
Less than 30 days	14
Past due	642
No overdue	530
Total	1,172

Past-Due Loans

Analysed by Industry

	S\$ million
Agriculture, mining and quarrying	15
Manufacturing	224
Building and construction	139
General commerce	132
Transport, storage and communication	70
Financial institutions, investment and holding companies	38
Professionals and individuals (include housing)	459
Others	67
Total	1,144

Analysed by Geography

	S\$ million
Singapore	302
Malaysia	638
Rest of the World	204
Total	1,144

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	127
30 to 90 days	408
Over 90 days	159
Past due but not impaired	694

Impairment Allowances for Loans and Bills Receivable

Analysed by Geography

S\$ million	Specific allowances	Portfolio allowances
Singapore	53	656
Malaysia	107	355
Indonesia	34	163
Greater China	1	203
Other Asia Pacific	24	95
Rest of the World	4	100
Total	223	1,572

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	1	#
Manufacturing	49	11
Building and construction	9	(1)
Housing	30	2
General commerce	41	13
Transport, storage and communication	8	2
Financial institutions, investment and holding companies	7	(#)
Professionals and individuals	61	26
Others	17	6
Total	223	59

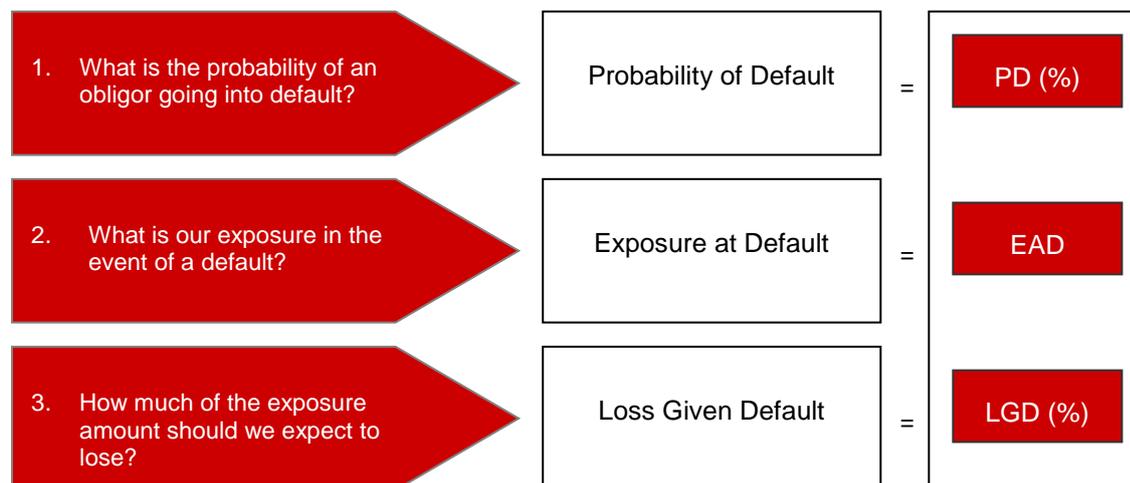
represents amounts less than \$0.5 million.

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

S\$ million	Specific Allowances
At 1 January 2014	230
Currency translation	#
Bad debts written off	(64)
Recovery of amounts previously provided for Allowances for loans	(24)
Net allowances charged to income statements	83
Interest recognition on impaired loans	59
	(2)
At 30 June 2014	223

represents amounts less than \$0.5 million.

S\$ million	Portfolio Allowances
At 1 January 2014	1,511
Currency translation	2
Allowances charged to income statements	59
At 30 June 2014	1,572

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	7,667	7,550
Sovereign	35,343	1,620
Bank	1,533	450
Retail	1,633	1,228
Residential Mortgage	1,271	522
Commercial Real Estate	3,225	3,227
Others	6,742	6,114
Total Standardised	57,414	20,711
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	74,313	45,177
Bank	63,826	14,064
Advanced IRB		
Residential Mortgage	51,988	5,702
Qualifying Revolving Retail	5,734	1,614
Small Business	8,831	3,479
Other Retail	1,092	225
Specialised Lending under Supervisory Slotting Criteria	25,642	22,901
Securitisation	#	5
Equity	1,857	6,289
Total IRB	233,283	99,456
Central Counterparties (CCP)	517	104 ⁽¹⁾
Credit Valuation Adjustments (CVA)		1,860 ⁽²⁾
Credit RWA pursuant to paragraph 6.1.3(p)(iii)		6,220 ⁽³⁾
Total Credit Risk	291,214	128,351
Market Risk		
Standardised Approach		20,514
Operational Risk		
Standardised Approach		9,411
Basic Indicator Approach		908
Total Operational Risk		10,319
Total RWA		159,184

⁽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)

represents amounts less than \$0.5 million.

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%	33,628	-
20% - 35%	2,495	670
50% - 75%	3,357	2,093
100%	17,907	17,907
>100%	27	41
Total	57,414	20,711
Rated exposures	46,843	12,060
Unrated exposures	10,571	8,651

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\$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	1,517	318%	-	-
Other equity holdings	280	424%	60	463%
Total	1,797	334%	60	463%

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	7,982	61%
Good	11,023	86%
Satisfactory	5,924	122%
Weak	509	265%
Default	204	NA
Total	25,642	89%

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%	11,740	18%
> 0.05 to 0.5%	32,455	48%
> 0.5 to 2.5%	23,066	77%
> 2.5 to 9%	5,931	152%
> 9%	553	169%
Default	568	NA
Total	74,313	61%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	38,903	10%
> 0.05 to 0.5%	20,418	34%
> 0.5 to 2.5%	4,133	66%
> 2.5 to 9%	346	122%
> 9%	26	187%
Default	-	NA
Total	63,826	22%

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%	37,664	5,399	11%	5%
> 0.5 to 3%	8,396	1,735	12%	19%
> 3 to 10%	4,998	217	10%	34%
> 10%	671	19	11%	60%
Default	259	-	14%	74%
Total	51,988	7,370	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%	4,158	7,128	81%	7%
> 0.5 to 3%	902	762	83%	43%
> 3 to 10%	489	221	84%	113%
> 10%	162	66	88%	238%
Default	23	-	83%	0%
Total	5,734	8,177	82%	28%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	3,009	963	32%	14%
> 0.5 to 3%	3,462	448	36%	37%
> 3 to 10%	1,965	154	42%	66%
> 10%	254	15	43%	95%
Default	141	31	44%	149%
Total	8,831	1,611	36%	39%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	779	245	28%	12%
> 0.5 to 3%	216	80	31%	37%
> 3 to 10%	72	12	32%	50%
> 10%	22	1	30%	70%
Default	3	-	23%	101%
Total	1,092	338	29%	21%

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	4,173	-	-
Sovereign and Bank	1,794	-	-
Retail and Residential Mortgage	312	-	-
Others	5,394	-	-
Total	11,673	-	-
Foundation IRB Approach			
Corporate	3,636	10,466	980
Bank	1,503	-	146
Total	5,139	10,466	1,126

⁽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	3,843
Potential Future Exposure	5,366
Less: Effects of Netting	2,983
EAD under Current Exposure Method	6,226
Analysed by type:	
Foreign Exchange Contracts	3,801
Interest Rate Contracts	1,462
Equity Contracts	120
Gold and Precious Metals Contracts	8
Other Commodities Contracts	44
Credit Derivative Contracts	791
Less: Eligible Financial Collateral	655
Other Eligible Collateral	-
Net Derivatives Credit Exposure	5,571

Credit Derivatives Exposure

	S\$ million	
	Notional Amount	
	<u>Bought</u>	<u>Sold</u>
Credit Default Swaps		
for own credit portfolio	10,979	9,345
for intermediation activities	77	77
Total	11,056	9,422

4.12 Securitisation Exposures Purchased

All the securitisation exposures are in the banking book. There are no re-securitisation exposures as at 30 June 2014.

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

represents amounts less than \$0.5 million.

5. MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S\$ million
Interest rate risk	858
Equity position risk	57
Foreign exchange risk	725
Commodity risk	1
Total	1,641

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 2013 Annual Report.

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	2,997
Unquoted equity exposure - AFS	591
Quoted equity exposure - Associates	–
Unquoted equity exposure - Associates	394
Total	3,982

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	48
Unrealised gains included in fair value reserve	462
Total	510

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 2013 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 and Malaysian Ringgit, net interest income is estimated to increase by \$490 million. The corresponding impact from a 100 bp decrease is an estimated reduction of \$169 million in net interest income. As a percentage of reported net interest income (on an annualised basis), the maximum exposure for the three major currencies is estimated to be approximately -3.8%.