

Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2010)

The purpose of this disclosure is to provide the information in accordance with Pillar 3 directives under MAS Notice 637. This supplements the disclosure in the Risk Management and Capital Management Chapters as well as related information in the Notes to the Financial Statements and Management Discussion and Analysis.

The Group successfully migrated the Singapore small business and commercial property lending to individuals portfolios under our emerging business segment to the internal ratings-based (“IRB”) approach in 2010. These portfolios are reflected in this disclosure as Small Business exposures. With effect from 1 January 2011, the equity portfolio will also be migrating to the IRB approach. Exposures in the newly acquired private banking subsidiary, Bank of Singapore Limited, are included under the Standardised Approach.

The Group’s overall credit quality remained healthy, benefiting from the strong economic recovery in our key markets, continued vigilance in problem detection and proactive portfolio profiling. While total risk weighted assets have increased in tandem with the growth in the Group’s portfolios, average risk weights for exposures on the IRB approaches were lower compared to 2009, driven by the improving credit profile of the corporate and consumer portfolios, as well as the enhancements in modeling methodologies.

The operational and market risk weighted assets were higher than 2009 due to the increase in the Group’s gross income and increased market activities in the trading book respectively.

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

	EAD S\$ million	RWA S\$ million
Credit Risk		
Standardised Approach		
Corporate	4,978	4,956
Sovereign	24,755	57
Bank	621	153
Retail	4,836	3,672
Residential Mortgage	949	445
Equity & PE/VC	1,619	1,619
Others	6,937	6,299
Total Standardised	44,695	17,201
Internal Ratings-Based (IRB) Approach		
Foundation IRB		
Corporate	49,936	35,947
Bank	29,066	6,920
Advanced IRB		
Residential Mortgage	31,400	3,829
Qualifying Revolving Retail	3,691	1,064
Small Business	3,134	1,438
Other Retail	1,462	277
Specialised Lending under Supervisory		
Slotting Criteria	17,501	17,320
Securitisation	255	37
Total IRB	136,445	66,832
Total Credit Risk	181,140	84,033
Market Risk		
Standardised Approach		13,595
Operational Risk		
Standardised Approach		6,868
Basic Indicator Approach		566
Total Operational Risk		7,434
Total RWA		105,062

Capital Adequacy Ratio (“CAR”) for Significant Banking Subsidiaries

Subsidiary	Tier 1 CAR	Total CAR
Bank of Singapore Limited	31.3%	31.3%
Singapore Island Bank Limited	41.8%	41.8%
OCBC Bank (Malaysia) Berhad	13.6%	16.1%
OCBC Al-Amin Bank Berhad	10.0%	15.6%
OCBC Bank (China) Limited	25.0%	25.0%
P.T. Bank OCBC NISP Tbk	12.2%	16.0%
P.T. Bank OCBC Indonesia	29.6%	30.4%

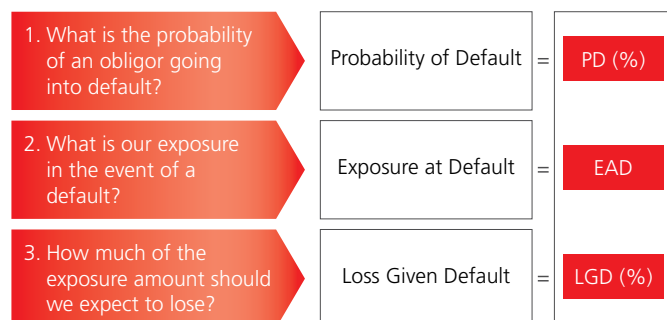
Note: The capital adequacy ratios of Bank of Singapore Limited and Singapore Island Bank Limited are computed based on the standardised approach under the Basel II framework. Capital adequacy ratio computations of OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad are based on the IRB approach. The computations at the other overseas banking subsidiaries are currently based on Basel I requirements.

Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2010)

CREDIT RISK

With Basel II implementation, OCBC Group has adopted the Internal Ratings-Based (IRB) Approach for major credit portfolios, where 3 key parameters – Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) are used to quantify credit risk.



Credit Exposures under Standardised Approach

Credit exposures under standardised approach comprise mainly exposures to sovereigns, Malaysia small businesses including commercial property lending to individuals, private banking customers in Bank of Singapore and other assets. Rated exposures relate mainly to debt securities and sovereign portfolios while unrated exposures relate mainly to small businesses and other assets.

Risk Weight	EAD S\$ million
0%	25,347
20% - 35%	1,232
50% - 75%	5,116
100%	11,263
>100%	118
Total	43,076

Rated exposures	29,273
Unrated exposures	13,803

Equity and PE/VC Exposures under Standardised Approach

Equities for regulatory capital computation were taken at cost and risk weighted and/or deducted from capital in accordance with MAS Notice 637 under the standardised approach. Equity exposure of S\$28 million has been deducted from regulatory capital.

Risk Weight	EAD S\$ million
100%	1,619
200%	–
Total	1,619

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	5,809	58%
Good	1,191	82%
Satisfactory	10,289	122%
Weak	158	265%
Default	54	NA
Total	17,501	99%

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%	7,445	17%
> 0.05 to 0.5%	14,889	41%
> 0.5 to 2.5%	18,858	85%
> 2.5 to 9%	5,677	134%
> 9%	2,500	195%
Default	567	NA
Total	49,936	72%

Bank Exposures

PD Range	EAD S\$ million	Average Risk Weight
up to 0.05%	17,162	10%
> 0.05 to 0.5%	7,685	25%
> 0.5 to 2.5%	3,452	67%
> 2.5 to 9%	708	119%
> 9%	59	203%
Default	#	NA
Total	29,066	24%

represents amounts less than \$0.5 million

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 card lending. Small Business exposures include lending to small businesses and commercial property loans to individuals in Singapore. 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%	20,537	2,510	11%	5%
> 0.5 to 3%	7,399	739	11%	18%
> 3 to 10%	2,861	186	11%	35%
> 10%	387	9	12%	63%
100%	216	–	17%	69%
Total	31,400	3,444	11%	12%

Qualifying Revolving Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	2,735	2,107	90%	8%
> 0.5 to 3%	492	208	86%	44%
> 3 to 10%	335	109	91%	108%
> 10%	111	26	91%	245%
100%	18	–	90%	0%
Total	3,691	2,450	89%	29%

Small Business Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	1,369	241	24%	18%
> 0.5 to 3%	1,150	134	36%	54%
> 3 to 10%	383	49	41%	77%
> 10%	204	40	48%	121%
100%	28	7	55%	91%
Total	3,134	471	32%	46%

Other Retail Exposures

PD Range	EAD S\$ million	Undrawn Commitment S\$ million	EAD Weighted Average	
			LGD	Risk Weight
up to 0.5%	952	3	27%	10%
> 0.5 to 3%	368	1	27%	30%
> 3 to 10%	98	1	26%	41%
> 10%	42	#	27%	61%
100%	2	–	29%	55%
Total	1,462	5	27%	19%

represents amounts less than \$0.5 million

Actual Loss and Expected Loss for Exposures under Foundation and Advanced IRB Approaches

Actual loss refers to 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 year ended 31 December 2010 S\$ million	Regulatory Expected Loss (Non-defaulted) as at 31 December 2009 S\$ million
Corporate	(23)	450
Bank	–	38
Small Business	2	–
Retail	23	123
Total	2	611

Note: The Singapore small business portfolio was migrated to the IRB approach with effect from 2010. There was hence no Regulatory EL as at end 2009.

Exposures Covered by Credit Risk Mitigation

	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	69	–	#
Sovereign and Bank	618	–	–
Retail and Residential Mortgage	165	–	–
Others	3,054	–	–
Total	3,906	–	#

Foundation IRB Approach

Corporate	2,343	7,656	139
Bank	340	–	–
Total	2,683	7,656	139

represents amounts less than \$0.5 million

Note:

1. Not all forms of collateral or credit risk mitigation are included for regulatory capital calculations.
2. Does not include collateral for exposures under Advanced IRB Approach and Specialised Lending.

Basel II Pillar 3 Market Disclosure

(OCBC Group – For the financial year ended 31 December 2010)

Counterparty Credit Risk Exposures

	S\$ million
Replacement Cost	5,098
Potential Future Exposure	2,458
Less: Effects of Netting	3,604
EAD under Current Exposure Method	3,952
Analysed by type:	
Foreign Exchange Contracts and Gold	2,035
Interest Rate Contracts	1,515
Equity Contracts	73
Precious Metals Contracts	#
Other Commodities Contracts	9
Credit Derivative Contracts	320
Less: Eligible Financial Collateral	438
Other Eligible Collateral	–
Net Derivatives Credit Exposure	3,514

represents amounts less than \$0.5 million

Credit Derivatives

	S\$ million Notional Amount	
	Bought	Sold
Credit Default Swaps		
for own credit portfolio	2,916	2,806
for intermediation activities	5	–
Total	2,921	2,806

Note: Credit derivatives for own credit portfolio include trading portfolio and hedges, if any.

Securitisation Exposures Purchased

	S\$ million	
Risk Weight	EAD	RWA
up to 20%	147	26
> 20% to 50%	26	11
> 50% to 100%	–	–
> 100% to 500%	–	–
> 500%	–	–
Deductions from Tier 1 and Tier 2 Capital	82	–
Total	255	37

MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S\$ million
Interest rate risk	511
Equity position risk	13
Foreign exchange risk	564
Commodity risk	#
Total	1,088

represents amounts less than \$0.5 million

EQUITY EXPOSURES

Disclosures on valuation and accounting treatment of equity holdings can be found in Notes to the Financial Statements 2.2.3, 2.6.2 and 2.23.3.

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 the 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	2,815
Unquoted equity exposure - AFS	342
Quoted equity exposure - Associates	–
Unquoted equity exposure - Associates	253
Total	3,410

Realised and Unrealised Gains and Losses

	S\$ million
Gains/(losses) from disposal of AFS equities	53
Unrealised gains included in fair value reserve	1,197
Total	1,250