# 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 lower its overall cost of capital. We evaluate and access local and international capital markets for different forms of additional capital if necessary. Over the years, OCBC had issued non-dilutive perpetual preference shares, tax deductible non-dilutive innovative Tier 1 capital securities and Tier 2 subordinated notes. A description of the key terms and conditions of all capital instruments included within eligible total capital can be found in Notes 13, 16 and 21 of the financial statements.

## 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 the 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 2010. 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 for goodwill, intangible assets, and capital investments in associates and insurance subsidiaries, as well as the methodologies available for computing risk-weighted assets. The approaches adopted by OCBC for the computation of risk-weighted assets can be found in the "Basel II Pillar 3 Market Disclosure" chapter.

| $ million | 2010 | 2009 |
|---|---|---|
| **Tier 1 Capital** | | |
| Ordinary shares | **6,315** | 5,480 |
| Preference shares | **1,896** | 1,896 |
| Innovative Tier 1 capital instruments | **2,065** | 2,062 |
| Disclosed reserves | **11,216** | 10,096 |
| Non-controlling interests | **776** | 735 |
| | **22,268** | 20,269 |
| Goodwill / others | **(4,044)** | (3,394) |
| Deductions from Tier 1 capital | **(1,076)** | (913) |
| **Eligible Tier 1 Capital** | **17,148** | 15,962 |
| **Tier 2 Capital** | | |
| Subordinated term notes / others | **3,637** | 3,300 |
| Deductions from Tier 2 capital | **(2,277)** | (2,770) |
| **Eligible Total Capital** | **18,508** | 16,492 |
| Credit | **84,033** | 81,730 |
| Market | **13,595** | 11,404 |
| Operational | **7,434** | 6,879 |
| **Risk Weighted Assets** | **105,062** | 100,013 |
| **Tier 1 capital adequacy ratio** | **16.3%** | 15.9% |
| **Total capital adequacy ratio** | **17.6%** | 16.4% |

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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 2010, the capital adequacy ratios for GEH's insurance subsidiaries in Singapore and Malaysia were 215% and 277% respectively. These ratios were well above the minimum regulatory ratios of 120% in Singapore and 130% in Malaysia.

## CAPITAL PLANNING AND MONITORING

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 key capital initiatives were undertaken by the Group during the financial year ended 31 December 2010:

**Tier 1 Capital**

- Issue of 50.6 million new ordinary shares by OCBC Bank on 1 November 2010, representing S$398 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 2010.
- Issue of 45.3 million new ordinary shares by OCBC Bank on 16 June 2010, representing S$359 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 2009.

**Tier 2 Capital**

- Issue of US$500 million subordinated notes by OCBC Bank on 15 November 2010.
- Issue of RM500 million subordinated notes by OCBC Malaysia on 4 November 2010.
- Issue of IDR880 billion subordinated bonds by Bank OCBC NISP on 30 June 2010.

## 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 2010, the Board of Directors has recommended a final one-tier tax exempt dividend of 15 cents per share, with a scrip dividend alternative. This brings the full year 2010 dividend to 30 cents per share, or an estimated total dividend payout of S$994 million, representing 44% of the Group's core net profit of S$2,253 million (2009: total dividend payout of S$898 million, representing 46% of the Group's core net profit of S$1,962 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 sold, cancelled, distributed as bonus shares, or used to meet delivery obligations under employee share programmes.

There were no share buyback in the financial years ended 31 December 2009 and 31 December 2008. During the financial year ended 31 December 2010, the Bank recommenced share buyback to meet delivery obligations under its employee share programmes, and purchased 4.4 million of its ordinary shares for S$42 million as part of its third share buyback programme. As of 31 December 2010, S$311 million of the S$500 million third share buyback programme has been utilised to purchase approximately 43.6 million shares under the programme which commenced in June 2006.