Basel II Pillar 3 Risk Disclosure

(OCBC Group – As at 31 December 2011)

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 small business and commercial property lending to individuals portfolio in Malaysia to the Advanced Internal Ratings-Based ("A-IRB"), as well as the equity portfolio to the Internal Ratings-Based ("IRB") approach in 2011.

The Group's overall credit quality remained healthy against a backdrop of continuing economic uncertainty. Total risk weighted assets increased compared to 2010, driven by higher wholesale as well as retail credit exposures. The asset growth was proactively balanced with disciplined risk management, as reflected in the broadly stable average risk weights for the IRB portfolios.

Exposures and Risk Weighted Assets ("RWA") by Portfolio

	EAD S$ million	RWA S$ million
Credit Risk		
Standardised Approach		
Corporate	7,734	7,725
Sovereign	29,533	295
Bank	876	203
Retail	2,155	1,617
Residential Mortgage	1,741	730
Others	5,941	5,212
Total Standardised	47,980	15,782
Internal Ratings-Based ("IRB") Approach		
Foundation IRB		
Corporate	59,383	40,554
Bank	46,241	11,285
Advanced IRB		
Residential Mortgage	37,292	4,364
Qualifying Revolving Retail	4,318	1,121
Small Business	7,303	3,356
Other Retail	1,396	300
Specialised Lending under Supervisory Slotting Criteria	21,408	20,324
Securitisation	135	22
Equity	2,169	7,438
Total IRB	179,645	88,764
Total Credit Risk	227,625	104,546
Market Risk		
Standardised Approach		15,817
Operational Risk		
Standardised Approach		7,489
Basic Indicator Approach		655
Total Operational Risk		8,144
Total RWA		**128,507**

Capital Adequacy Ratio ("CAR") for Significant Banking Subsidiaries

Subsidiary	Tier 1 CAR	Total CAR
Bank of Singapore Limited	21.5%	21.6%
Singapore Island Bank Limited	429.8%	429.8%
OCBC Bank (Malaysia) Berhad	14.3%	16.0%
OCBC Al-Amin Bank Berhad	8.8%	13.5%
OCBC Bank (China) Limited	23.1%	23.6%
PT Bank OCBC NISP Tbk	11.0%	13.7%

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.

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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.

1. What is the probability of an obligor going into default?	Probability of Default	=	PD (%)
2. What is our exposure in the event of a default?	Exposure at Default	=	EAD
3. How much of the exposure amount should we expect to lose?	Loss Given Default	=	LGD (%)

Credit Exposures under Standardised Approach

Credit exposures under the standardised approach comprise mainly exposures to sovereigns, 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 other assets.

Risk Weight	EAD S$ million
0%	29,892
20% - 35%	2,357
50% - 75%	2,475
100%	13,226
>100%	30
Total	**47,980**
Rated exposures	37,800
Unrated exposures	10,180

Credit Exposures subject to Supervisory Risk Weights under Internal Ratings-Based Approach

Equity Exposures under Simple Risk Weight Method

Equities for regulatory capital computation are risk weighted and/or deducted from capital in accordance with MAS Notice 637 under the IRB Simple Risk Weight Method. Equity exposures of S$8 million have been deducted from regulatory capital.

	EAD S$ million	Average Risk Weight
Listed securities	1,658	318%
Other equity holdings	511	424%
Total	**2,169**	**343%**

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	7,841	62%
Good	4,051	81%
Satisfactory	8,787	122%
Weak	543	265%
Default	186	NA
Total	**21,408**	**95%**

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%	7,171	18%
> 0.05 to 0.5%	20,162	45%
> 0.5 to 2.5%	22,226	75%
> 2.5 to 9%	7,039	136%
> 9%	1,898	204%
Default	887	NA
Total	**59,383**	**68%**

Bank Exposures

PD Range	EAD S$ million	Average Risk Weight
up to 0.05%	27,335	8%
> 0.05 to 0.5%	12,147	35%
> 0.5 to 2.5%	5,275	59%
> 2.5 to 9%	1,478	116%
> 9%	6	196%
Default	–	NA
Total	**46,241**	**24%**

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. Other Retail exposures are mainly auto loans in Singapore. Small Business exposures include lending to small businesses and commercial property loans to individuals in Singapore and Malaysia.

Residential Mortgages

PD Range	EAD S$ million	Undrawn Commitment S$ million	EAD Weighted Average LGD	EAD Weighted Average Risk Weight
up to 0.5%	25,505	2,678	11%	5%
> 0.5 to 3%	7,296	694	11%	19%
> 3 to 10%	3,895	278	10%	34%
> 10%	396	8	11%	61%
100%	200	–	16%	87%
Total	**37,292**	**3,658**	**11%**	**12%**

Qualifying Revolving Retail Exposures

PD Range	EAD S$ million	Undrawn Commitment S$ million	EAD Weighted Average LGD	EAD Weighted Average Risk Weight
up to 0.5%	3,222	2,516	81%	7%
> 0.5 to 3%	544	234	79%	41%
> 3 to 10%	408	141	83%	97%
> 10%	124	32	84%	223%
100%	20	–	82%	0%
Total	**4,318**	**2,923**	**81%**	**26%**

Small Business Exposures

PD Range	EAD S$ million	Undrawn Commitment S$ million	EAD Weighted Average LGD	EAD Weighted Average Risk Weight
up to 0.5%	2,404	317	27%	17%
> 0.5 to 3%	2,945	244	35%	46%
> 3 to 10%	1,476	51	40%	68%
> 10%	329	32	46%	123%
100%	149	3	41%	129%
Total	**7,303**	**647**	**34%**	**46%**

Other Retail Exposures

PD Range	EAD S$ million	Undrawn Commitment S$ million	EAD Weighted Average LGD	EAD Weighted Average Risk Weight
up to 0.5%	880	242	30%	11%
> 0.5 to 3%	352	145	29%	34%
> 3 to 10%	118	99	27%	41%
> 10%	44	1	28%	61%
100%	2	#	34%	170%
Total	**1,396**	**488**	**30%**	**21%**

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 2011 S$ million	Regulatory Expected Loss (Non-defaulted) as at 31 December 2010 S$ million
Corporate	16	342
Bank	–	34
Small Business	15	26
Retail	25	96
Total	**56**	**498**

Note: The Malaysia small business portfolio was migrated to the IRB approach with effect from 2011. There was hence no Regulatory EL as at end 2010.

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	2,507	–	–
Sovereign and Bank	2,149	–	–
Retail and Residential Mortgage	316	–	–
Others	3,255	–	–
Total	**8,227**	**–**	**–**
Foundation IRB Approach			
Corporate	4,700	8,934	628
Bank	702	–	–
Total	**5,402**	**8,934**	**628**

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.

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Counterparty Credit Risk Exposures

	S$ million
Replacement Cost	5,539
Potential Future Exposure	4,353
Less: Effects of Netting	4,553
EAD under Current Exposure Method	**5,339**
Analysed by type:	
Foreign Exchange Contracts and Gold	3,176
Interest Rate Contracts	1,364
Equity Contracts	148
Precious Metals Contracts	#
Other Commodities Contracts	29
Credit Derivative Contracts	621
Less: Eligible Financial Collateral	451
Other Eligible Collateral	–
Net Derivatives Credit Exposure	**4,888**

represents amounts less than $0.5 million

Credit Derivatives

	S$ million Notional amount	
	Bought	**Sold**
Credit Default Swaps		
for own credit portfolio	5,853	5,818
for intermediation activities	5	–
Total	**5,858**	**5,818**

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

Securitisation Exposures Purchased

There are no re-securitisation exposures and all the securitisation exposures are in the banking book.

	S$ million	
Risk Weight	**EAD**	**Capital Charge**
up to 20%	85	1
> 20% to 50%	18	1
> 50% to 100%	–	–
>100% to 500%	–	–
>500%	–	–
Deductions from Tier 1 and Tier 2 Capital	32	–
Total	**135**	**2**

MARKET RISK

Capital Requirement by Market Risk Type under Standardised Approach

	S$ million
Interest rate risk	667
Equity position risk	21
Foreign exchange risk	576
Commodity risk	1
Total	**1,265**

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	2,878
Unquoted equity exposure - AFS	311
Quoted equity exposure - Associates	–
Unquoted equity exposure - Associates	360
Total	**3,549**

Realised and Unrealised Gains and Losses

	S$ million
Gains/(losses) from disposal of AFS equities	14
Unrealised gains included in fair value reserve	962
Total	**976**