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 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 optimise its overall cost of capital.

CAPITAL MONITORING AND PLANNING

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 significant capital initiatives were undertaken by the Group during the financial year ended 31 December 2012:

Tier 1 Capital

- Issue of S$1 billion non-cumulative non-convertible Class M preference shares by OCBC Bank on 17 July 2012.

Tier 2 Capital

- Redemption of S$225 million subordinated notes by OCBC Bank on 28 November 2012.
- Issue of US$1 billion subordinated notes by OCBC Bank on 11 September 2012.
- Redemption of MYR400 million subordinated bonds by OCBC Malaysia on 30 November 2012.
- Issue of MYR600 million subordinated bonds by OCBC Malaysia on 15 August 2012.

Others

- Rights issue of IDR1.5 trillion completed by OCBC NISP on 15 June 2012.

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 2012, the Board of Directors has recommended a final dividend of 17 cents per share. This brings the full year 2012 dividend to 33 cents per share, or an estimated total dividend payout of S$1,133 million, representing 40% of the Group's core net profit of S$2,825 million (2011: total dividend payout of S$1,024 million, representing 45% of the Group's core net profit of S$2,280 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 cancelled, sold or used to meet delivery obligations under employee share schemes. We commenced our fourth S$500 million share buyback programme in July 2012. During the financial year ended 31 December 2012, the Bank purchased 18.2 million of its ordinary shares for S$162 million, while 12.0 million treasury shares were delivered to meet obligations under its employee share schemes.

CAPITAL ADEQUACY RATIOS

Under the Basel II capital standards, OCBC was required by MAS to maintain minimum Tier 1 and total capital adequacy ratios of 6% and 10%, respectively, at the Bank and Group levels. In addition, our banking operations in jurisdictions outside Singapore are subject to local requirements. OCBC and each of its regulated banking entities were in compliance with the minimum capital requirements throughout the financial period.

The table below shows the composition of the Group's regulatory capital and its capital adequacy ratios as of 31 December 2012 on a Basel II basis. The capital adequacy ratios were determined in accordance with the requirements of the MAS Notice 637 dated 14 December 2007, which included the definitions for Tier 1 and Tier 2 capital, the deductions required (mainly for goodwill, intangible assets, and capital investments in associates and insurance subsidiaries), as well as the methodologies available for computing risk-weighted assets. A description of the key terms and conditions of the capital instruments included within eligible total capital can be found in Notes 13, 16 and 21 of the financial statements, and the approaches adopted by OCBC for the computation of risk-weighted assets can be found in the "Basel II Pillar 3 Risk Disclosure" chapter.

$ million	2012	2011
Tier 1 Capital		
Ordinary shares	**7,057**	7,127
Preference shares	**2,896**	1,896
Innovative Tier 1 capital instruments	**2,059**	2,062
Disclosed reserves	**14,935**	12,391
Non-controlling interests	**835**	749
	27,782	24,225
Goodwill / others	**(3,877)**	(4,009)
Deductions from Tier 1 capital	**(2,314)**	(1,604)
Eligible Tier 1 Capital	**21,591**	18,612
Tier 2 Capital		
Subordinated term notes	**4,418**	3,343
Revaluation surplus on available-for-sale equity securities	**236**	361
Others	**168**	140
Deductions from Tier 2 capital	**(2,303)**	(2,270)
Eligible Total Capital	**24,110**	20,186
Credit	**106,169**	104,546
Market	**14,431**	15,817
Operational	**9,047**	8,144
Risk Weighted Assets	**129,647**	128,507
Tier 1 capital adequacy ratio	**16.6%**	14.4%
Total capital adequacy ratio	**18.5%**	15.7%

Insurance subsidiaries of Great Eastern Holdings ("GEH") were 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 were deducted from OCBC's Tier 1 and Tier 2 capital, and their assets were excluded from the computation of OCBC's risk-weighted assets. GEH's insurance subsidiaries are subject to capital requirements prescribed in the insurance regulations of the jurisdiction in which they operate. As of 31 December 2012, the capital adequacy ratios of GEH's insurance subsidiaries in Singapore and Malaysia were well above the minimum regulatory requirements of 120% and 130%, respectively.

REGULATORY CHANGE

On 14 September 2012, the MAS published a new MAS Notice 637 to implement the Basel III capital standards in Singapore. The implementation of the Basel III capital standards will be phased in between 1 January 2013 and 1 January 2019.