CET1 Capital Adequacy Ratios

The Basel III capital standards came into effect on 1 January 2013. These standards set minimum capital adequacy requirements that apply to all banks operating in the Basel Committee jurisdictions. The requirements are designed to ensure that banks maintain a high level of capital to absorb potential losses and maintain their operations during times of stress.

The Basel III capital adequacy requirements consist of a Tier 1 capital adequacy framework for Singapore. OCBC Group is required to meet minimum Common Equity Tier 1 ("CET1"), Tier 1, and total capital adequacy ratios of 6.5%, 8.0%, and 10.0%, respectively, in 2015.

CET1 Capital Adequacy Ratio

For the financial year ended 31 December 2015, the CET1 capital adequacy ratio for Singapore-incorporated banks is 9.0%, 10.5%, and 11.0%, respectively, in 2015.

To ensure that banks build up adequate capital buffer outside periods of stress, a Capital Conservation Buffer ("CCB") of 2.5 percentage points above the minimum capital adequacy requirements was introduced. The CCB is to be maintained in the form of CET1 capital, and will begin at 0.625% on 1 January 2016, and increase by 0.625% on 1 January each year, to reach 2.5% on 1 January 2019. Including the CCB, Singapore-incorporated banks will be required to meet CET1 CAR, Tier 1 CAR and total CAR of 9.0%, 10.5% and 12.5%, respectively, from 1 January 2019.

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 Initiatives

The following significant capital initiatives were undertaken by the Group during the financial year ended 31 December 2015:

- **TIER 1 CAPITAL**
  - Issuance of $500 million Additional Tier 1 Capital Securities by OCBC Bank on 25 August 2015.
  - Redemption of $396 million Class G Preference Shares by OCBC Bank on 20 December 2015.
  - Redemption of $400 million Preference Shares by OCBC Capital Corporation, a wholly-owned subsidiary of the Bank, on 20 March 2015.

- **TIER 2 CAPITAL**
  - Redemption of MYR500 million subordinated notes by OCBC Bank (Malaysia) Berhad on 4 November 2015.

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 2015, the Board of Directors has recommended a final dividend of 18 cents per share. This brings the full year 2015 dividend to 36 cents per share, or an estimated total dividend payout of $1,470 million, representing 38% of the Group's core net profit of $3,903 million (2014: total dividend payout of $1,347 million, representing 39% of the Group's core net profit of $3,451 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. During the financial year ended 31 December 2015, the Bank purchased 11.8 million ordinary shares for $117 million as part of its fourth $500 million share buyback programme, while 14.7 million treasury shares were delivered to meet obligations under its employee share schemes.
In addition, OCBC will be subject to a Countercyclical Buffer requirement if this buffer is applied by regulators in countries which the Group has credit exposures to. Generally in the range of 0% to 2.5% of risk-weighted assets, the Countercyclical Buffer is not an ongoing requirement but it may be applied by regulators to limit excessive credit growth in their economy.

The table below shows the composition of the Group’s regulatory capital and its capital adequacy ratios as of 31 December 2015 based on MAS’ transitional Basel III rules for 2015. The capital adequacy ratios were determined in accordance with the requirements of MAS Notice 637, which included the definitions for CET1, Tier 1 and Tier 2 capital, the required regulatory adjustments against capital (including goodwill, intangible assets, deferred tax assets and capital investments in unconsolidated major stake companies), and the methodologies available for computing risk-weighted assets. Some of OCBC’s existing Additional Tier 1 and Tier 2 capital instruments were issued under the Basel II capital adequacy framework. These capital instruments did not contain provisions to require them to be written off or converted into ordinary shares if the Bank was determined by the Monetary Authority of Singapore (“MAS”) to be non-viable, and will be gradually phased out under MAS’ Basel III transitional rules. As per the requirements of MAS Notice 637, OCBC’s insurance subsidiaries were not consolidated for the computation of the capital adequacy ratios, i.e. capital investments in these insurance subsidiaries were deducted from OCBC’s capital and their assets were excluded from the computation of OCBC’s risk-weighted assets.

A description of the key terms and conditions of the regulatory capital instruments 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 “Pillar 3 Disclosures” chapter.

The Group’s CET1 CAR as of 31 December 2015, on a fully implemented basis, was 11.8%. In computing this ratio, the required regulatory adjustments made against CET1 capital and the recognition of non-controlling interests as CET1 capital were based on MAS’ Basel III rules which will be effective from 1 January 2018.

OCBC’s banking and insurance subsidiaries are subject to capital adequacy requirements of the jurisdiction in which they operate. As of 31 December 2015, the capital adequacy ratios of these subsidiaries were above their respective local requirements.

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### Tier 1 Capital

<table>
<thead>
<tr>
<th>Description</th>
<th>Basel III 2015</th>
<th>Basel III 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td>13,560</td>
<td>12,356</td>
</tr>
<tr>
<td>Disclosed reserves/others</td>
<td>19,655</td>
<td>17,512</td>
</tr>
<tr>
<td>Regulatory adjustments</td>
<td>(4,577)</td>
<td>(3,889)</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1 Capital</strong></td>
<td><strong>28,638</strong></td>
<td><strong>25,979</strong></td>
</tr>
<tr>
<td>Additional Tier 1 capital</td>
<td>3,128</td>
<td>3,438</td>
</tr>
<tr>
<td>Regulatory adjustments</td>
<td>(3,128)</td>
<td>(3,438)</td>
</tr>
<tr>
<td><strong>Tier 1 Capital</strong></td>
<td><strong>28,638</strong></td>
<td><strong>25,979</strong></td>
</tr>
<tr>
<td>Tier 2 capital</td>
<td>6,151</td>
<td>5,963</td>
</tr>
<tr>
<td>Regulatory adjustments</td>
<td>(2,334)</td>
<td>(2,015)</td>
</tr>
<tr>
<td><strong>Total Eligible Capital</strong></td>
<td><strong>32,455</strong></td>
<td><strong>29,927</strong></td>
</tr>
</tbody>
</table>

### Capital Adequacy Ratios

- **Common Equity Tier 1**: 14.8% (2015), 13.8% (2014)
- **Tier 1**: 14.8% (2015), 13.8% (2014)
- **Total**: 16.8% (2015), 15.9% (2014)

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Disclosures required under Part XIA of MAS Notice 637 ‘Notice of Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore’ (This section does not form part of OCBC’s audited financial statements)

The Basel Committee has developed an indicator-based measurement approach to identify Global Systemically Important Bank (G-SIB) and determine the higher loss absorbency requirements for banks classified as G-SIBs. While OCBC is not a G-SIB, it is required under MAS Notice 637 to disclose the indicators which can be found on the Bank’s Investor Relations website. (http://www.ocbc.com/group/investors/Cap_and_Reg_Disclosures.html)