Basel II Pillar 3 Disclosures

Year ended 31 December 2010

DBS Group Holdings Ltd and its subsidiaries (the Group) have adopted Basel II as set out in the revised Monetary Authority of Singapore Notice to Banks No. 637 (Notice on Risk Based Capital Adequacy Requirements for Banks incorporated in Singapore or MAS Notice 637) with effect from 1 January 2008.

The Group views Basel II as part of continuing efforts to strengthen its risk management culture and ensure that the Group pursues business growth across segments and markets with the right risk management discipline, practices and processes in place.

The qualitative disclosures as required by MAS Notice 637 are presented in the Risk Management report on page 52 to page 59, the Capital Management and Planning report on page 60 and the Notes to the Financial Statements as referred to below. The following information does not form part of the audited accounts.

SCOPE OF APPLICATION

The Group applies the Basel II Internal Ratings-Based Approach (IRBA) for computing part of its regulatory capital requirements for credit risk. Approved wholesale portfolios are on the Foundation IRBA, while the approved retail portfolios are on the Advanced IRBA. Most of the remaining credit exposures are on the Standardised Approach (SA) for credit risk. The Group also adopts the SA for operational and market risks.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, as discussed in Note 2.2 to the Financial Statements, except where deductions from eligible capital are required under MAS Notice 637 or where entities meet separation requirements set by the MAS. Refer to Note 49 to the Financial Statements for the list of consolidated entities.

CAPITAL ADEQUACY

The following table sets forth details on the capital resources and capital adequacy ratios for the Group as at 31 December 2010. The Group's Tier 1 and total capital adequacy ratios as at 31 December 2010 were 15.1% and 18.4% respectively, which are above the MAS minimum requirements of 6.0% and 10.0%, while Core Tier 1 ratio was 11.8%.

The constituents of total eligible capital are set out in MAS Notice 637 Part VI. These include shareholders' funds after regulatory-related adjustments, minority interests, and eligible capital instruments issued by the Group. Refer to Notes 35 and 34 to the Financial Statements for the terms of these capital instruments, and Note 47 on the capital management policies and processes for the group.

In $ millions	**2010**
Tier 1 capital	
Share capital	8,780
Disclosed reserves	17,424
Paid-up non-cumulative preference shares	3,600
Minority interests	370
Innovative Tier 1 instruments	2,533
Less: Deductions from Tier 1 capital	
Goodwill and deferred tax assets	4,922
Other deductions (50%)	142
Eligible Tier 1 capital	27,643
Tier 2 capital	
Loan allowances admitted as Tier 2	696
Subordinated debts	5,281
Revaluation surplus from equity securities	149
Less: Deductions from Tier 2 capital	
Other deductions (50%)	142
Total eligible capital	33,627
Risk-Weighted Assets (RWA)	
Credit	142,037
Market	26,220
Operational	14,437
Total RWA	182,694
Core Tier 1 Ratio (%)	11.8
Tier 1 Capital Adequacy Ratio (%)	15.1
Total Capital Adequacy Ratio (%)	18.4

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Summary of RWA

In $ millions	2010 RWA
Credit risk:	
IRBA	
Retail exposures	
Residential mortgage exposures	2,497
Qualifying revolving retail exposures	1,590
Other retail exposures	805
Wholesale exposures	
Sovereign exposures	2,964
Bank exposures	10,331
Corporate exposures	60,983
Corporate small business exposures (SME)	2,484
Specialised lending exposures (SL)	22,850
Equity exposures	4,039
Securitisation exposures	7
Total IRBA RWA	108,550
Adjusted IRBA RWA post scaling factor of 1.06	115,063
SA	
Residential mortgage exposures	1,096
Regulatory retail exposures	882
Corporate exposures	13,243
Other exposures	
Real estate, premises, equipment and other fixed assets	1,383
Exposures to individuals	7,137
Others	3,233
Total SA RWA	26,974
Total RWA for credit risk	142,037
Market risk:	
Standardised approach (SA)	
Interest rate risk	18,840
Equity position risk	327
Foreign exchange risk	7,053
Commodity risk	#
Total RWA for market risk	26,220
Operational risk (SA)	14,437
Total RWA	182,694

Amount below $0.5m

CREDIT RISK

SUMMARY OF CREDIT EXPOSURES [a]

In $ millions	2010 Exposures
Advanced IRBA	
Retail exposures	
Residential mortgage exposures	40,195
Qualifying revolving retail exposures	4,107
Other retail exposures	3,111
Foundation IRBA	
Wholesale exposures	
Sovereign exposures	51,133
Bank exposures	43,317
Corporate exposures	96,729
Corporate small business exposures	2,698
Specialised lending exposures	20,254
IRBA for equity exposures	2,296
IRBA for securitisation exposures	107
Total IRBA	263,947
SA	
Residential mortgage exposures	3,131
Regulatory retail exposures	1,167
Corporate exposures	13,694
Other exposures	
Real estate, premises, equipment and other fixed assets	1,383
Exposures to individuals	7,131
Others	5,747
Total SA	32,253
Total	296,200

(a) *Amounts represent exposures after credit risk mitigation and where applicable include on-balance sheet amounts and credit equivalent amounts of off-balance sheet items determined in accordance with MAS Notice 637*

Refer to Notes 44.1 and 46 to the Financial Statements for analysis of maximum exposures to credit risk by geographic location, industry and residual contractual maturity distribution.

CREDIT RISK ASSESSED USING INTERNAL RATINGS – BASED APPROACH

RETAIL EXPOSURES

Residential mortgage exposures

Expected Loss (EL) % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 0.10%	38,590	5
> 0.10% to 0.50%	1,298	23
> 0.50%	307	59
Total	40,195	6

(a) Includes undrawn commitments
(b) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Qualifying revolving retail exposures

EL % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 5%	3,869	26
> 5%	238	257
Total	4,107	39

(a) Includes undrawn commitments
(b) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Other retail exposures

EL % range	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
Up to 0.30%	2,250	17
> 0.30%	861	49
Total	3,111	26

(a) Percentages disclosed are before the application of IRBA scaling factor and exclude defaulted exposures

Undrawn commitments for retail exposures

In $ millions	Notional amount	Credit equivalent amount [a]
Residential mortgage exposures	5,157	5,157
Qualifying revolving retail exposures	8,643	3,097
Total	13,800	8,254

(a) Credit equivalent amount represents notional amounts multiplied by the applicable credit conversion factors

WHOLESALE EXPOSURES

Sovereign exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.00 – 0.10	49,677	5
PD grade 4A/4B	0.10 – 0.33	27	27
PD grade 5	0.33 – 0.47	929	47
PD grade 6A/6B	0.47 – 1.11	500	55
PD grade 7A-9	1.11 – 99.99	#	92
Total		51,133	6

(a) Percentages disclosed are before the application of IRBA scaling factor
 # Amount below $0.5m

Bank exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.03[b] – 0.10	26,904	11
PD grade 4A/4B	0.10 – 0.33	8,642	33
PD grade 5	0.33 – 0.47	2,804	41
PD grade 6A/6B	0.47 – 1.11	3,693	61
PD grade 7A-9	1.11 – 99.99	1,257	92
PD grade 10	Default	17	–
Total		43,317	24 [c]

(a) Percentages disclosed are before the application of IRBA scaling factor
(b) For bank exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637
(c) Excludes defaulted exposures

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Corporate exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.03 [b] – 0.10	19,503	18
PD grade 4A/4B	0.10 – 0.33	13,044	48
PD grade 5	0.33 – 0.47	15,994	54
PD grade 6A/6B	0.47 – 1.11	21,231	73
PD grade 7A-9	1.11 – 99.99	24,921	109
PD grade 10	Default	2,036	–
Total		96,729	64 [c]

(a) Percentages disclosed are before the application of IRBA scaling factor

(b) For corporate exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

(c) Excludes defaulted exposures

Corporate small business [a] exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [b] (%)
PD grade 1-3	0.03 [c] – 0.10	–	–
PD grade 4A/4B	0.10 – 0.33	10	28
PD grade 5	0.33 – 0.47	75	51
PD grade 6A/6B	0.47 – 1.11	670	67
PD grade 7A-9	1.11 – 99.99	1,889	106
PD grade 10	Default	54	–
Total		2,698	94 [d]

(a) SME refers to corporations with reported annual sales of less than S$100 million as defined under MAS Notice 637

(b) Percentages disclosed are before the application of IRBA scaling factor

(c) For SME exposures, the PD is the greater of the one-year PD associated with the internal borrower grade to which that exposure is assigned, or 0.03% as specified in MAS Notice 637

(d) Excludes defaulted exposures

Specialised lending exposures

2010	RWA (In $ millions)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
Strong	3,061	5,361	57
Good	5,543	7,011	79
Satisfactory	4,212	3,663	115
Weak	10,034	4,014	250
Default	–	205	–
Total	22,850	20,254	114 [b]

(a) Percentages disclosed are before the application of applicable IRBA scaling factor

(b) Excludes defaulted exposures

SECURITISATION EXPOSURES

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by risk weights:

2010 In $ millions	Exposures subject to Rating-Based Method (RBM)	Exposures not subject to RBM	RWA	Deductions from Tier 1 capital and Tier 2 capital
Risk weights				
0% – 18%	12	–	1	–
20% – 50%	26	–	6	–
Deducted	66	3	–	69
Total	104	3	7	69

The table below sets out the securitisation exposures (net of specific allowances) purchased by the Group, analysed by exposure type:

2010 In $ millions	Total exposures	Exposures risk-weighted	Deductions from Tier 1 capital and Tier 2 capital
Exposure type			
ABS collateralised debt/loan obligations (CDO)	66	–	66
Mortgage-Backed Securities (MBS) and others	41	38	3
Total	107	38	69

PROVISIONING POLICIES FOR PAST DUE AND IMPAIRED EXPOSURES

Refer to the Notes to the Financial Statements listed in the following table for the Group's provisioning policies in relation to past due and impaired exposures.

Notes to the Financial Statements	Financial disclosures
2.8	The Group's accounting policies on the assessment of specific and general allowances on financial assets
44.2	Classified loans and past due loans by geographic and industry distribution
13, 20, 21 and 32	Movements in specific and general allowances during the year for the Group

COMPARISON OF EXPECTED LOSS AGAINST ACTUAL LOSSES

The following table sets out actual loss incurred in 2010 compared with EL reported for certain IRBA asset classes at December 2009. Actual loss refers to specific impairment loss allowance and charge-offs to the Group's income statement during the financial year ended 31 December 2010.

Basel Asset Class	2009 Expected Loss In $ millions	2010 Actual Loss In $ millions
Wholesale Exposures		
Sovereign exposures	9	–
Bank exposures	44	–
Corporate exposures (including SME & SL)	869	274
Retail Exposures		
Residential mortgage exposures	21	1
Qualifying revolving retail exposures	75	12
Other retail exposures	20	3

EL is a Basel II measure of expected future losses based on Internal Ratings-Based models where PD grades are more through-the-cycle and LGD estimates are on a downturn basis, floored by regulatory minimums for retail exposures and based on supervisory estimates for wholesale exposures. Actual Loss is an accounting construct which includes net impairment allowances for non-defaulting accounts at the onset of the financial year as well as write-offs during the year. The two measures of losses are therefore not directly comparable and it is not appropriate to use Actual Loss data to assess the performance of internal rating processes or to undertake comparative trend analysis.

CREDIT RISK ASSESSED USING STANDARDISED APPROACH

The following table shows the exposures under SA, analysed by risk weights:

In $ millions	2010 Exposures
Risk weights	
0%	2,331
20%	225
35%	3,130
50%	960
75%	1,156
100%	24,381
150%	70
Total	32,253

CREDIT RISK MITIGATION

The following table summarises the extent to which credit exposures are covered by eligible financial collateral, other eligible collateral and eligible credit protection after the application of haircuts:

2010 In $ millions	Eligible financial collateral	Other eligible collateral	Amount by which credit exposure have been reduced by eligible credit protection
Foundation IRBA			
Wholesale exposures			
Sovereign exposures	369	–	–
Bank exposures	1,022	–	39
Corporate exposures	3,489	4,036	2,605
Corporate SME	208	1,136	168
Sub-total	5,088	5,172	2,812
SA			
Residential mortgage exposures	198	–	–
Regulatory retail exposures	143	1	1
Corporate/ other exposures	3,055	50	844
Sub-total	3,396	51	845
Total	8,484	5,223	3,657

The above table excludes exposures where collateral has been taken into account directly in the risk weights, such as the specialised lending and residential mortgage exposures. It also excludes exposures where the collateral, while generally considered as eligible under Basel II, does not meet the

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required legal/ operational standards e.g. in the case of legal enforcement uncertainty in specific jurisdictions. Certain exposures where the collateral is eligible under Foundation IRBA and not under SA have also been excluded for portfolios where the SA is applied e.g. exposures collateralised by commercial properties.

COUNTERPARTY CREDIT RISK-RELATED EXPOSURES

NOTIONAL PRINCIPAL AMOUNTS OF CREDIT DERIVATIVES

	Notional of Credit Derivatives	
In $ millions	**Protection Bought**	**Protection Sold**
Own Credit Portfolio	30,403	28,573
Client Intermediation Activities	8,096	8,067
Total	38,499	36,640
Credit default swaps	38,422	36,640
Total return swaps	77	–
Total	38,499	36,640

Notional values of credit derivatives do not accurately reflect their economic risks. They comprise both beneficiary and guarantor (buy and sell protection) positions.

The Group generally has a mismatch between the total notional amounts of protection bought and sold as these credit derivatives are used to hedge risks from other instruments, including those from customer flows. The protection sold in credit derivatives are largely matched with the protection bought after notional amounts are adjusted, either to a duration-based equivalent basis, or to reflect the level of subordination in tranched structures.

The Group actively monitors its counterparty credit risk in credit derivative contracts. More than 95% of the notional value of the Group's credit derivative positions as at 31 December 2010 is to 15 large, established names with which the Group maintains collateral agreements.

CREDIT EQUIVALENT AMOUNTS FOR COUNTERPARTY EXPOSURES

In $ millions	2010
Replacement cost	16,691
Potential future exposure	14,053
Gross credit equivalent amount	30,744
Comprising:	
Interest rate contract	9,774
Credit derivative contracts	4,413
Equity contracts	221
Foreign exchange contracts and gold	16,328
Commodities contracts	8
Gross credit equivalent amount	30,744
Less: Effect of netting arrangement	13,889
Credit equivalent amount after netting	16,855
Less: Collateral amount	
Eligible financial collateral	504
Other eligible collateral	1
Net credit equivalent amount	16,350

Counterparty credit exposure is mitigated by exposure netting through ISDA agreements and recognition of eligible collateral, effects of which have been included in regulatory capital calculations where appropriate.

EQUITY EXPOSURES IN BANKING BOOK

SCOPE OF APPLICATION

The Group's banking book equity investments consist of:
- Investments held for yield and/or long-term capital gains;
- Strategic stakes in entities held as part of growth initiatives and/or in support of business operations.

The Group's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as either AFS investments or Investments in Associates; refer to Notes 2.2 and 2.7 to the Financial Statements for the Group's accounting policies. Entities in which the Group holds significant interests are disclosed in Note 49 to the Financial Statements.

CAPITAL TREATMENT

The Group has adopted the IRBA simple risk weight method to calculate regulatory capital for equity exposures in its banking book.

The following table summarises the Group's equity exposures in the banking book, including investments in Tier 1 capital instruments of financial institutions:

2010 In $ millions	Exposures subject to risk-weighting	Risk weight (%)	Deductions from Tier 1 or Tier 2 Capital
Equities listed on MAS-recognised exchanges	623	150	28
Equities not listed on MAS-recognised exchanges	1,553	200	92
Total	2,176	186	120

Equity exposures subject to simple risk weight method are further analysed as follows:

2010	Exposures subject to risk-weighting (in $ millions)	Exposure-weighted average risk weight (a) (%)
Major stake companies approved under section 32 of the Banking Act	703	195
Capital investments in financial institutions incorporated in Singapore, approved, licensed, registered or otherwise regulated by the Authority <= 2% of Eligible Total Capital	32	150
Other equity exposures	1,441	182
Total	2,176	186

(a) Percentages disclosed are before the application of IRBA scaling factor

Details of the Group's investments in AFS securities and Associates are set out in Notes 21 and 25 to the Financial Statements respectively, while realised gains arising from sale and liquidation of equity exposures are set out in Note 9 to the Financial Statements.

Total unrealised gains for equity that have not been reflected in the Group's income statement, but have been included in Tier 2 Capital, amounted to $149 million.