BASEL II PILLAR 3 DISCLOSURES

Year Ended 31 December 2011

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 MAS637 are presented in the Risk Management report on page 61 to page 68, the Capital Management and Planning report on page 69 and the Notes to the Financial Statements as referred to below. Disclosures on remuneration are presented in the Corporate Governance report on page 44 to page 60. The following information does not form part of the audited accounts.

1 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.

2 CAPITAL ADEQUACY

The following table sets forth details on the capital resources and capital adequacy ratios for the Group as at 31 December 2011. The Group's Tier 1 and total capital adequacy ratios as at 31 December 2011 were 12.9% and 15.8% respectively, which are above the MAS minimum requirements of 6.0% and 10.0%.

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	2011
Tier 1 capital	
Share capital	9,350
Disclosed reserves	19,033
Paid-up non-cumulative preference shares	2,500
Minority interests	275
Innovative Tier 1 instruments	1,500
Less: Deductions from Tier 1 capital	
Goodwill and deferred tax assets	4,931
Other deductions (50%)	192
Eligible Tier 1 capital	27,535
Tier 2 capital	
Loan allowances admitted as Tier 2	1,151
Subordinated debts	5,305
Revaluation surplus from equity securities	29
Less: Deductions from Tier 2 capital	
Other deductions (50%)	192
Total eligible capital	33,828
Risk-Weighted Assets (RWA)	
Credit	174,833
Market	25,855
Operational	13,034
Total RWA	213,722
Tier 1 Capital Adequacy Ratio (%)	12.9
Total Capital Adequacy Ratio (%)	15.8

Significant Banking Subsidiary

DBS Bank (Hong Kong) Limited and its subsidiaries [(a)]

Tier 1 Capital Adequacy Ratio (%) [(b)]	12.2
Total Capital Adequacy Ratio (%)	14.5

(a) The capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority (HKMA) under Section 98A of the Hong Kong Banking Ordinance

(b) Core capital ratio under HKMA rules

In $ millions	2011 RWA
Credit risk:	
IRBA	
Retail exposures	
Residential mortgage exposures	2,648
Qualifying revolving retail exposures	2,418
Other retail exposures	867
Wholesale exposures	
Sovereign exposures	3,711
Bank exposures	17,583
Corporate exposures	75,231
Corporate small business exposures (SME)	2,926
Specialised lending exposures (SL)	23,611
Equity	8,366
Securitisation	165
Total IRBA RWA	137,526
Adjusted IRBA RWA post scaling factor of 1.06	145,778
SA	
Residential mortgage exposures	1,173
Regulatory retail exposures	1,039
Corporate exposures	13,029
Commercial real estate exposures	1,192
Other exposures	
Real estate, premises, equipment and other fixed assets	1,347
Exposures to individuals	7,543
Others	3,732
Total SA RWA	29,055
Total credit risk	174,833
Market risk:	
SA	
Interest rate risk	18,804
Equity position risk	118
Foreign exchange risk	6,925
Commodity risk	8
Total RWA for market risk	25,855
Operational risk (SA)	13,034
Total RWA	213,722

3 CREDIT RISK

3.1 SUMMARY OF CREDIT EXPOSURES[(a)]

In $ millions	2011 Exposures
Advanced IRBA	
Retail exposures	
Residential mortgage exposures	44,492
Qualifying revolving retail exposures	9,952
Other retail exposures	3,242
Foundation IRBA	
Wholesale exposures	
Sovereign exposures	48,762
Bank exposures	66,428
Corporate exposures	121,280
Corporate small business exposures	4,245
Specialised lending exposures	23,697
IRBA for equity exposures	2,527
IRBA for securitisation exposures	348
Total IRBA	324,973
SA	
Residential mortgage exposures	3,351
Regulatory retail exposures	1,372
Corporate exposures	13,082
Commercial real estate exposures	1,190
Other exposures	
Real estate, premises, equipment and other fixed assets	1,347
Exposures to individuals	7,533
Others	7,262
Total SA	35,137
Total	360,110

(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 19 to 21, 38, 44.1 and 46 for major types of credit exposures by geographic location and industry distribution, analysis of maximum exposures to credit risk and credit exposures by residual contractual maturity distribution.

3.2 CREDIT RISK ASSESSED USING INTERNAL RATINGS-BASED APPROACH

3.2.1 RETAIL EXPOSURES

(A) Residential mortgage exposures

Expected Loss (EL) % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 0.10%	42,857	5
> 0.10% to 0.50%	1,266	32
> 0.50%	369	60
Total	44,492	6

(a) *Includes undrawn commitments set out in table(D) below*
(b) *Percentages disclosed are before the application of IRBA scaling factor and exclude default exposures*

(B) Qualifying revolving retail exposures

EL % range	Exposures [a] (In $ millions)	Exposure-weighted average risk weight [b] (%)
Up to 5%	9,467	17
> 5%	485	176
Total	9,952	24

(a) *Includes undrawn commitments set out in table(D) below*
(b) *Percentages disclosed are before the application of IRBA scaling factor and exclude default exposures*

(C) Other retail exposures

EL % range	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
Up to 0.30%	2,167	17
> 0.30%	1,075	47
Total	3,242	27

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

(D) Undrawn commitment for retail exposures

In $ millions	Notional amount	Credit equivalent amount [a]
Residential mortgage exposures	7,118	7,118
Qualifying revolving retail exposures	11,465	8,314
Total	18,583	15,432

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

3.2.2 WHOLESALE EXPOSURES

(A) Sovereign exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.00 – 0.10	46,534	6
PD grade 4A/4B	0.10 – 0.33	10	25
PD grade 5	0.33 – 0.47	1,720	37
PD grade 6A/6B	0.47 – 1.11	477	64
PD grade 7A-9	1.11 – 99.99	21	93
Total		48,762	8

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

(B) Bank exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight [a] (%)
PD grade 1-3	0.03[b] – 0.10	33,179	10
PD grade 4A/4B	0.10 – 0.33	17,017	31
PD grade 5	0.33 – 0.47	7,555	41
PD grade 6A/6B	0.47 – 1.11	5,900	56
PD grade 7A-9	1.11 – 99.99	2,777	86
Total		66,428	26

(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) Corporate exposures

PD grade	PD range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight[a] (%)
PD grade 1-3	0.03[b] – 0.10	22,457	18
PD grade 4A/4B	0.10 – 0.33	19,029	45
PD grade 5	0.33 – 0.47	19,008	53
PD grade 6A/6B	0.47 – 1.11	27,741	73
PD grade 7A-9	1.11 – 99.99	31,164	104
PD grade 10	Default	1,881	–
Total		121,280	63 [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 default exposures*

(D) 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	9	35
PD grade 5	0.33 – 0.47	588	9
PD grade 6A/6B	0.47 – 1.11	1,278	49
PD grade 7A-9	1.11 – 99.99	2,317	97
PD grade 10	Default	53	–
Total		4,245	70 [d]

(a) SME refers to corporations with reported annual sales of less than $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 default exposures

3.2.3 SPECIALISED LENDING EXPOSURES

2011	RWA (In $ millions)	Exposures (In $ millions)	Exposure-weighted average risk weights[a] (%)
Strong	4,774	8,119	59
Good	7,360	8,837	83
Satisfactory	4,549	3,955	115
Weak	6,928	2,771	250
Default	0	15	0
Total	23,611	23,697	100 [b]

(a) Percentages disclosed are before the application of applicable IRBA scaling factor
(b) Excludes default exposures

3.2.4 SECURITISATION EXPOSURES

The Group does not securitise its own assets, nor does it acquire assets with a view to securitising them. The Group does not provide implicit support for any transactions it structures or in which it has invested. RWA and deductions incorporate implementation of Basel II.5 per MAS Notice 637 effective 31 Dec 2011.

All banking book assets are held at cost, less impairment allowances while all positions in trading book are fair valued though profit and loss. Refer to Note 2 to the Financial Statements on the Group's accounting policy.

Securitisations for clients

The Group arranges securitisations for clients and earns fees for arranging such transactions and placing the securities issued into the market. These transactions do not involve SPEs that are controlled by the Group. For transactions that are not underwritten, no securitisation exposures are assumed as a direct consequence of arranging the transactions. Any decision to invest in such arranged transaction will be subject to independent risk assessment (see below). Where the Group provides an underwriting commitment, any securitisation exposure arising will be held in the trading book to be traded or sold down in accordance with internal policy and risk limits.

Exposures to client asset-backed securitisations

The Group invests in clients' securitisation transactions from time to time, and this may include securitisation transactions arranged by either the Group or by other parties. The Group may also act as liquidity facility provider, working capital facility provider or swap counterparty. Subject to MAS Notice 637 paragraph 7.1.11, securitisation exposures in the banking book are risk weighted using the Ratings-Based Method or included in deductions from Tier 1 and Tier 2 Capital. Such exposures require the approval of the independent risk function prior to being assumed and are subject to regular risk review thereafter, taking into account the underlying risk characteristics of the assets.

Investment in collateralised debt obligations and asset-backed securitisations

The Group continues to hold certain investments in collateralised debt obligations and asset-backed securitisations that were made before 2008. Allowances for credit losses have been made for the total exposures arising from investments in CDOs. The remaining exposures are reviewed regularly by the independent risk function. To determine the capital requirements, the ratings-based method is used for banking book exposures and the standardised approach is used for trading book exposures.

Structured credit trading

Prior to 2008, the Group structured CDO notes. The Group was a credit default swap (CDS) counterparty to the issuing entity of the notes. Positions arising from this role were hedged with tranched credit index CDS with external counterparties. These positions are classified as securitisation exposures under MAS Notice 637. They are held in the trading book and the standardised approach is used to determine the capital requirements. The credit and market risks arising from these transactions are subject to risk limits. A substantial proportion of these exposures matured during 2011.

The table below sets out the banking book securitisation exposures (net of specific allowances) held by the Group, analysed by risk weights and exposure type:

2011 In $ millions	Total Exposures	Exposures Risk-Weighted	RWA	Deductions from Tier 1 capital and Tier 2 capital
Risk weights				
On-balance sheet [(a)]				
0% – 29%				
Asset-Backed Securities (ABS)	85	85	17	–
Residential Mortgage-Backed Securities (RMBS)	9	9	1	–
30% – 100%				
Commercial Mortgage-Backed Securities (CMBS) & Others	165	165	116	–
Deducted				
Asset-Backed Securities (ABS)	4	–	–	4
ABS collateralised debt/loan obligations (CDO) & Others [(b)]	40	–	–	40
Sub-total	303	259	134	44
Off-balance sheet				
30% – 100%				
Interest rate & cross currency swaps with securitisation vehicle	45	45	31	–
Total	348	304	165	44

(a) Includes undrawn commitment
(b) Includes resecuritisation exposures amounting to $40m

The table below sets out the trading book securitisation exposures held by the Group, analysed by risk weights and exposure type:

2011 In $ millions	Total Exposures	Exposures subject to Specific Risk capital requirement	RWA	Deductions from Tier 1 capital and Tier 2 capital
Risk weights				
On-balance sheet				
0% – 29%				
Residential Mortgage-Backed Securities (RMBS)	75	75	24	–
30% – 100%				
Asset-Backed Securities (ABS)	5	5	19	–
Sub-total	80	80	43	–
Off-balance sheet				
30% – 100%				
Tranched Credit Index CDS	13	13	80	–
Deducted				
Tranched Credit Index CDS	194	–	–	194
Sub-total	207	13	80	194
Total	287	93	123	194

The Group did not enter into any sale of securitisation exposures during the year. The Group did not obtain credit risk mitigants and guarantees for its resecuritisation exposures.

3.2.5 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

3.2.6 COMPARISON OF EXPECTED LOSS AGAINST ACTUAL LOSSES

The following table sets out actual loss incurred in 2011 compared with EL reported for certain IRBA asset classes at December 2010. Actual loss refers to specific impairment loss allowance and charge-offs to the Group's income statement during the financial year ended 31 December 2011.

Basel Asset Class	2010 Expected Loss In $ millions	2011 Actual Loss In $ millions
Wholesale Exposures		
Sovereign exposures	6	–
Bank exposures	42	–
Corporate exposures (including SME & SL)	937	170
Retail Exposures		
Residential mortgage exposures	17	#
Qualifying revolving retail exposures	103	21
Other retail exposures	13	2

amount below $0.5m

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 and includes 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 process or to undertake comparative trend analysis.

3.3 CREDIT RISK ASSESSED USING STANDARDISED APPROACH

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

In $ millions	Exposures
Risk weights	
0%	2,796
20%	321
35%	3,350
50%	1,153
75%	1,358
100%	26,040
>100%	119
Total	35,137

3.4 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:

2011 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	1,044	–	6
Bank exposures	3,338	1	29
Corporate exposures	5,336	5,969	3,855
Corporate SME	1,182	1,330	119
Sub-total	10,900	7,300	4,009
SA			
Residential mortgage exposures	334	–	–
Regulatory retail exposures	134	–	1
Commercial real estate exposures	17	–	–
Corporate/ other exposures	6,416	–	1,375
Sub-total	6,901	–	1,376
Total	17,801	7,300	5,385

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 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.

3.5 COUNTERPARTY CREDIT RISK-RELATED EXPOSURES

3.5.1 NOTIONAL PRINCIPAL AMOUNTS OF CREDIT DERIVATIVES

	Notional of Credit Derivatives	
In $ millions	Protection Bought	Protection Sold
Own Credit Portfolio	39,914	38,202
Client Intermediation Activities	8,443	8,197
Total	48,357	46,399
Credit default swaps	48,334	46,399
Total return swaps	23	–
Total	48,357	46,399

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 higher total notional amounts of protection bought than sold as credit derivatives are also 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 through other credit derivatives or structured notes issued.

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 2011 is to 15 large, established names with which the Group maintains collateral agreements.

3.5.2 CREDIT EQUIVALENT AMOUNTS FOR COUNTERPARTY EXPOSURES

In $ millions	2011
Replacement cost	20,797
Potential future exposure	18,093
Gross credit equivalent amount	38,890
Comprising:	
Interest rate contracts	11,808
Credit derivative contracts	6,977
Equity contracts	109
Foreign exchange contracts and gold	19,964
Commodities contracts	32
Gross credit equivalent amount	38,890
Less: Effect of netting arrangement	18,902
Credit equivalent amount after netting	19,988
Less: Collateral amount	
Eligible financial collateral	863
Other eligible collateral	11
Net credit equivalent amount	19,114

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.

4 EQUITY EXPOSURES IN BANKING BOOK

4.1 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.

4.2 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 tables summarise the Group's equity exposures in the banking book, including investments in Tier 1 capital instruments of financial institutions:

2011 In $ millions	Total exposures	Exposures risk-weighted	Deductions from Tier 1 or Tier 2 Capital
Risk weights			
300%	1,195	1,195	–
400%	1,195	1,195	–
Deducted	137	–	137
Total	2,527	2,390	137

2011	Exposures risk-weighted (in $ millions)	Exposure-weighted average risk weight[a] (%)
Major stake companies approved under section 32 of the Banking Act	819	326
Capital investments in financial institutions incorporated in Singapore, approved, licensed, registered or otherwise regulated by the Authority <= 2% of Eligible Total Capital	32	300
Other equity exposures	1,539	364
Total	2,390	350

(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 Statement.

The amount of unrealised gains for equity that have not been reflected in the Group's income statement, but have been included in Tier 2 Capital is $29 million.