PILLAR 3 DISCLOSURES

Year Ended 31 December 2012

The Group views the Basel framework 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 Notice 637 are presented in the Risk Management report on page 74 to page 83, the Capital Management and Planning report on page 84 to page 85 and the Notes to the Financial Statements as referred to below. Disclosures on remuneration are presented in the Corporate Governance report on page 57 to page 73. 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 2.4 to the Financial Statements, except where deductions from eligible capital are required under Notice 637 or where entities meet separation requirements set by the MAS. Refer to Note 23 to the Financial Statements for the list of subsidiaries and other controlled entities.

2 CAPITAL ADEQUACY

The following table sets forth details on the capital resources and capital adequacy ratios (CAR) for the Group as at 31 December 2012. The Group's Tier 1 CAR and Total CAR as at 31 December 2012 were 14.0% and 17.1% respectively, which are above the MAS minimum requirements of 6.0% and 10.0%.

The constituents of Eligible Total Capital are set out in 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 34 and 35 to the Financial Statements for the terms of these capital instruments and the Capital Management and Planning report for the approach to assessing the adequacy of capital to support current and future activities.

In $ millions	2012
Tier 1 capital	
Share capital	9,645
Disclosed reserves	21,463
Paid-up non-cumulative preference shares	2,500
Minority interests	261
Innovative Tier 1 instruments	1,500
Less: Deductions from Tier 1 capital	
Goodwill and deferred tax assets	4,925
Other deductions (50%)	248
Eligible Tier 1 Capital	30,196
Tier 2 capital	
Loan allowances admitted as Tier 2 Capital	1,283
Subordinated debts	5,505
Eligible revaluation surplus from available-for-sale equity securities	95
Less: Deductions from Tier 2 capital	
Other deductions (50%)	248
Eligible Total Capital	36,831
Risk-Weighted Assets (RWA)	
Credit	173,969
Market	27,827
Operational	13,795
Total RWA	215,591
Tier 1 CAR (%)	14.0
Total CAR (%)	17.1

Significant Banking Subsidiary

DBS Bank (Hong Kong) Limited[a]	
Tier 1 CAR (%)[b]	14.3
Total CAR (%)	16.7

(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

3 CREDIT RISK

3.1 SUMMARY OF CREDIT EXPOSURES[a] AND RWA

2012 In $ millions	Exposures	RWA
Advanced IRBA		
Retail exposures		
Residential mortgage exposures	50,547	2,927
Qualifying revolving retail exposures	10,393	2,718
Other retail exposures	3,569	940
Foundation IRBA		
Wholesale exposures		
Sovereign exposures	47,930	4,152
Bank exposures	66,046	17,233
Corporate exposures	130,049	71,950
Corporate small business exposures (SME)	8,581	6,536
Specialised lending exposures (SL)	24,203	21,689
IRBA for equity exposures	2,566	7,640
IRBA for securitisation exposures	258	152
Total IRBA	344,142	135,937
Adjusted IRBA RWA post scaling factor of 1.06		144,093
SA		
Securitisation	455	211
Residential mortgage exposures	5,304	1,857
Regulatory retail exposures	1,542	1,163
Corporate exposures	11,942	11,784
Commercial real estate exposures	2,241	2,246
Other exposures		
Real estate, premises, equipment and other fixed assets	1,442	1,442
Exposures to individuals	7,899	7,919
Others	7,175	3,254
Total SA	38,000	29,876
Total Credit Risk	382,142	173,969
Market risk:		
SA		
Interest rate risk		17,955
Equity position risk		121
Foreign exchange risk		9,687
Commodity risk		64
Total market risk		27,827
Operational risk (SA)		13,795
Total RWA		215,591

(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 Notice 637

Refer to Notes 19 to 21, 38, 43.1 and 45 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%	48,590	5
> 0.10% to 0.50%	1,559	25
> 0.50%	398	46
Total	50,547	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%	9,874	19
> 5%	519	171
Total	10,393	26

(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%	2,507	17
> 0.30%	1,062	48
Total	3,569	26

(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	9,783	9,783
Qualifying revolving retail exposures	11,897	8,644
Total	21,680	18,427

(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	0.01 – 0.10	44,405	6
PD grade 4	0.10 – 0.33	5	25
PD grade 5	0.33 – 0.47	3,361	38
PD grade 6	0.47 – 1.11	–	–
PD grade 7-9	1.11 – 99.99	159	98
Total		47,930	9

(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	29,058	11
PD grade 4	0.10 – 0.33	22,292	29
PD grade 5	0.33 – 0.47	9,251	40
PD grade 6	0.47 – 1.11	3,665	60
PD grade 7-9	1.11 – 99.99	1,780	84
Total		66,046	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 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	32,111	17
PD grade 4	0.10 – 0.33	18,829	45
PD grade 5	0.33 – 0.47	20,711	48
PD grade 6	0.47 – 1.11	23,876	67
PD grade 7-9	1.11 – 99.99	32,669	99
PD grade 10	Default	1,853	-
Total		130,049	56[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 Notice 637
(c) Excludes default exposures

(D) Corporate small business exposures

PD grade	PD Range (%)	Exposures (In $ millions)	Exposure-weighted average risk weight[a] (%)
PD grade 1-3	0.03[b] – 0.10	445	21
PD grade 4	0.10 – 0.33	341	46
PD grade 5	0.33 – 0.47	628	40
PD grade 6	0.47 – 1.11	2,004	64
PD grade 7-9	1.11 – 99.99	5,094	93
PD grade 10	Default	69	–
Total		8,581	77[c]

(a) Percentages disclosed are before the application of IRBA scaling factor
(b) 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 Notice 637
(c) Excludes default exposures

3.2.3 Specialised lending exposures

2012	RWA (In $ millions)	Exposures (In $ millions)	Exposure-weighted average risk weight[a] (%)
Strong	6,268	10,559	59
Good	6,869	8,596	80
Satisfactory	3,465	3,013	115
Weak	5,087	2,035	250
Default	–	#	–
Total	21,689	24,203	90[b]

(a) Percentages disclosed are before the application of applicable IRBA scaling factor
(b) Excludes default exposures
 # amount below $0.5m

3.2.4 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.

Financial disclosures	Notes to the Financial Statements
The Group's accounting policies on the assessment of specific and general allowances on financial assets	2.10
Classified loans and past due loans by geographic and industry distribution	43.2
Movements in specific and general allowances during the year for the Group	13 and 20

3.2.5 Comparison of Expected Loss against Actual Losses

The following table sets out actual loss incurred in 2012 compared with EL reported for certain IRBA asset classes at December 2011. Actual loss refers to specific impairment loss allowance and charge-offs to the Group's income statement during the financial year ended 31 December 2012.

Basel Asset Class	2011 Expected Loss In $ millions	2012 Actual Loss In $ millions
Wholesale Exposures		
Sovereign exposures	8	–
Bank exposures	79	–
Corporate exposures (including SME & SL)	939	103
Retail Exposures		
Residential mortgage exposures	19	#
Qualifying revolving retail exposures	96	24
Other retail exposures	13	2

 # amount below $0.5m

EL is an estimate of expected future losses using IRBA model estimates of PD and LGD parameters. Under the IRBA, PD estimates are required to be through-the-cycle and LGD estimates are on a downturn basis, floored at regulatory minima for retail exposures and based on supervisory estimates for wholesale exposures. Actual Loss is an accounting-based measure which includes net impairment allowances taken for accounts defaulting during the year and includes write-offs during the year. The two measures of losses are hence 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%	3,329
20%	410
35%	5,304
50%	871
75%	1,528
100%	26,019
>100%	84
Total	37,545[a]

(a) Excludes securitisation exposures. Refer to page 92 for securitisation under SA.

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:

2012 In $ millions	Eligible financial collateral	Other eligible collateral	Amount by which credit exposures have been reduced by eligible credit protection
Foundation IRBA			
Wholesale exposures			
Sovereign exposures	2,312	–	7
Bank exposures	2,884	–	27
Corporate exposures	7,813	7,262	2,003
Corporate SME	1,409	2,492	297
Specialised lending exposures	261	–	–
Sub-total	14,679	9,754	2,334
SA			
Residential mortgage exposures	78	–	–
Regulatory retail exposures	101	–	4
Commercial real estate exposures	63	–	108
Corporate/ other exposures	6,579	–	1,044
Sub-total	6,821	–	1,156
Total	21,500	9,754	3,490

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. legal enforcement certainty 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

In $ millions	Notional of Credit Derivatives Protection Bought	 Protection Sold
Own Credit Portfolio	24,770	22,717
Client Intermediation Activities	6,417	6,621
Total	31,187	29,338
Credit default swaps	31,100	29,338
Total return swaps	87	–
Total	31,187	29,338

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 90% of the notional value of the Group's credit derivative positions as at 31 December 2012 is to 12 large, established names with which the Group maintains collateral agreements.

3.5.2 Credit equivalent amounts for counterparty exposures

In $ millions	2012
Replacement cost	16,208
Potential future exposure	16,928
Gross credit equivalent amount	33,136
Comprising:	
Interest rate contracts	10,521
Credit derivative contracts	3,849
Equity contracts	132
Foreign exchange and gold contracts	18,527
Commodities and precious metals contracts	107
Gross credit equivalent amount	33,136
Less: Effect of netting arrangement	16,029
Credit equivalent amount after netting	17,107
Less: Collateral amount	
Eligible financial collateral	720
Other eligible collateral	16
Net credit equivalent amount	16,371

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 available-for-sale (AFS) investments or investments in associates. Refer to Notes 2.4 and 2.8 to the Financial Statements for the Group's accounting policies. Entities in which the Group holds significant interests are disclosed in Notes 24 and 25 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:

2012 In $ millions	Total exposures	Exposures risk-weighted	Deduction from Tier 1 or Tier 2 Capital
Risk weights			
300%	1,142	1,142	–
400%	1,054	1,054	–
Deducted	370	–	370
Total	2,566	2,196	370

2012	Exposures (in $ millions)	Exposure-weighted average risk weight[a] (%)
Major stake companies approved under section 32 of the Banking Act	574	336
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	1,590	353
Total	2,196	348

(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 AFS equity that have not been reflected in the Group's income statement, but have been included in Tier 2 Capital is $95 million.

5 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.

Banking book assets and trading book securitisation positions are valued in accordance with the Group accounting policy for the respective assets and positions. 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 special purpose entities 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 any such arranged transaction is subject to independent risk assessment. 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 Notice 637 paragraph 7.1.11, securitisation exposures in the banking book are risk weighted using either SA or the Ratings-Based Method for exposures under IRBA. 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. Other than these legacy exposures, the Group has invested in asset-backed securitisations in order to meet policy lending requirements in a certain jurisdiction. These latter exposures are in the banking book and risk weighted under SA. They 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.

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

2012 In $ millions	Total Exposures	Exposures Risk-Weighted	RWA	Deductions from Tier 1 capital and Tier 2 capital
IRBA				
Risk weights				
On-balance sheet[a]				
0% – 29%				
RMBS	3	3	#	–
30% – 100%				
CMBS	164	164	115	–
Off-balance sheet[b]				
30% – 100%				
CMBS	53	53	37	–
Deducted				
ABS CDO & Others	38	–	–	38
Total IRBA	258	220	152	38
SA				
Risk weights				
On-balance sheet[a]				
0% – 29%				
ABS	249	249	50	–
30% – 100%				
ABS	204	204	161	–
Deducted				
ABS	2	–	–	2
Total SA	455	453	211	2
Grand total	713	673	363	40[c]

RMBS refers to Residential Mortgage-Backed Securities
CMBS refers to Commercial Mortgage-Backed Securities
ABS CDO refers to ABS collateralised debt/ loan obligations
ABS refers to Asset-Backed Securities

(a) Includes undrawn commitment
(b) Interest rate and cross currency swaps with securitisation vehicle
(c) Includes resecuritisation exposures amounting to $38m
 # amount below $0.5m

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

2012 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%				
RMBS	63	63	20	–
30% – 100%				
ABS	2	2	9	–
Deducted				
Tranched Credit Index CDS	86	–	–	86
Total	151	65	29	86

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.