Media Release

OCBC Group Reports Third Quarter 2015 Net Profit after Tax of S$902 million

Third quarter core earnings up 7% year-on-year, driven by 25% rise in profits from banking operations

Nine months' core net profit up 11% year-on-year to S$2.94 billion

Singapore, 28 October 2015 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$902 million for the third quarter of 2015 ("3Q15"), lower as compared to S$1.23 billion a year ago ("3Q14"). Excluding a S$391 million one-off gain realised a year ago, the Group's core net profit, however, grew 7% year-on-year. This was driven by a 25% increase in earnings from the Group's banking operations, which more than offset a decline in insurance contributions.

Net interest income for the third quarter rose 6% to S$1.32 billion, from S$1.25 billion the previous year, driven by strong asset growth. Customer loans grew 4% to S$213 billion, from S$205 billion a year ago across most industry segments and geographies. The increases were largely from loans to the building and construction sector and housing loans. Net interest margin of 1.66% was 2 basis points lower than 1.68% in 3Q14, as improved customer loan spreads in Singapore were more than offset by a lower loan-to-deposit ratio and a decline in money market gapping income.

Non-interest income, before one-off gains, of S$775 million was 3% lower than S$801 million a year ago due to a decline in insurance income. Non-interest income from banking operations rose strongly by 17% year-on-year, attributed to continued momentum in fee income and higher net trading income. Fee and commission income was S$408 million for the quarter, with wealth management, loan and trade fees being the largest contributors this quarter. Net trading income, primarily treasury-related income from customer flows, increased to S$196 million from S$113 million in 3Q14. Great Eastern Holdings ("GEH") recorded healthy underlying insurance business growth, with total weighted new sales and new business embedded value increasing 33% and 16% year-on-year respectively. Profit from life assurance, however, was 64% lower at S$62 million, mainly attributable to unrealised mark-to-market losses from bond and equity investments in GEH's Non-participating Fund.

The Group's share of results of associates and joint ventures amounted to S$99 million, higher as compared with S$14 million a year ago, mainly from contributions by Bank of Ningbo. 3Q14's net profit after tax included a one-off gain of S$391 million that arose from the Group's increased stake in Bank of Ningbo, which became a 20%-owned associated company on 30 September 2014. As a result, the Group's initial available-for-sale 15.3% investment was deemed disposed of in accordance with accounting standards, and its related fair value reserve was recognised in the income statement as a one-off gain.

Operating expenses of S$900 million were up 3% from S$870 million in 3Q14. This was largely from higher staff-related costs associated with headcount growth to support regional business expansion and annual salary increments. The Group's cost-to-income ratio was 43.0% for the quarter and 42.5% a year ago. Net allowances for loans and other assets were S$150 million, an increase from S$97 million in 3Q14.

Against the previous quarter ("2Q15"), the Group's net profit after tax was 14% lower, largely attributable to lower insurance income and a S$136 million gain recognised in the previous quarter from the sale of an investment in GEH's equity portfolio, which more than offset higher net trading income from the banking operations. Net interest income was 3% higher from a 2% rise in interest earning assets with net interest margin stable quarter-on-quarter at 1.66%. Operating expenses were 2% lower, while net allowances were 87% higher.

Nine Months' performance

Net profit after tax for the first nine months of 2015 ("9M15") was S$2.94 billion. Excluding one-off gains, the Group's core net profit after tax was 11% above the previous year ("9M14").

Net interest income grew 11% to S$3.85 billion from S$3.46 billion a year ago, underpinned by 14% growth in interest earning assets, which more than offset a 4 basis points reduction in net interest margin. Core non-interest income rose 5% from 9M14 to S$2.57 billion. Fees and commissions increased 12% to S$1.24 billion from robust growth across most business segments. Net trading income was higher at S$390 million as compared with S$346 million a year ago, while net gains from investment securities of S$197 million were up from S$69 million the previous year. Profit from life assurance declined 32% to S$393 million, primarily from unrealised mark-to-market losses in GEH's Non-participating Fund.

Operating expenses grew 15% year-on-year to S$2.69 billion, mainly from the consolidation of OCBC Wing Hang. Excluding OCBC Wing Hang, operating expenses rose 5%, mainly from higher staff costs. Net allowances for loans and other assets were S$294 million as compared to S$203 million in 9M14.

The Group's 9M15 wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, rose to S$1.74 billion, 4% above S$1.68 billion a year ago. As a proportion of the Group's total income, wealth management contributed 27%, as compared with 28% in 9M14. OCBC's private banking business assets under management as at 30 September 2015 amounted to US$52 billion (S$74 billion), higher than US$51 billion (S$65 billion) a year ago, driven by healthy inflow of net new money but partly offset by lower asset valuations.

Annualised core return on equity was 12.6% for 9M15, as compared to 14.3% the previous year, attributable to the enlarged share base following the rights issue in September 2014. Annualised core earnings per share was 96.6 cents, down from 98.5 cents in 9M14.

Allowances and Asset Quality

Net allowances for loans and other assets in 3Q15 were S$150 million, an increase from S$97 million a year ago. Specific allowances for loans, net of recoveries and write-backs, were S$65 million, flat against S$66 million in the previous year. Net specific allowances represented an annualised 12 basis points of loans for 3Q15, compared with 13 basis points in the previous year. Portfolio allowances for the quarter were S$50 million, higher than the S$31 million in 3Q14 and the S$32 million in the last quarter. Higher portfolio allowances were set aside as a prudent measure to buffer the loan portfolio against future market uncertainties. Other allowances of S$35 million were made during the quarter for other non-loan assets, primarily investments in equities.

The non-performing loan ("NPL") ratio was higher at 0.9% for the quarter, as compared with 0.7% a year ago and the last quarter. Absolute NPLs were S$1.86 billion as at 30 September 2015, an increase from S$1.34 billion of the previous year and S$1.46 billion of the prior quarter. The increase in NPLs was largely attributed to the classification of a few large corporate accounts associated with the oil and gas services sector. The overall quality of the Group's loan portfolio remained fundamentally sound.

Allowance coverage ratios were maintained at healthy levels, with total cumulative allowances covering 453% of unsecured non-performing assets ("NPAs") and 121% of total NPAs.

Funding and Capital Position

The Group's funding and capital position remained strong. Customer deposits rose 6% year-on-year to S$252 billion from S$237 billion, and the ratio of current and savings balances to total customer deposits increased further to 47.5%, from 44.5% a year ago. The loan-to-deposit ratio as at 30 September 2015 was 83.5%, lower as compared with 85.5% the previous year.

For 3Q15, the average Singapore dollar and all-currency liquidity coverage ratios for the Group (excluding OCBC Wing Hang) were 248% and 117% respectively, higher as compared to the respective regulatory ratios of 100% and 60%. OCBC Wing Hang's liquidity coverage ratios will be incorporated into the overall Group position in due course.

The Group's Common Equity Tier 1 capital adequacy ratio ("CAR") as at 30 September 2015, was 14.5% and Tier 1 CAR and Total CAR were 14.5% and 16.6% respectively. Based on Basel III transitional arrangements, these ratios were well above the respective regulatory minima of 6.5%, 8% and 10%. The Group's leverage ratio of 7.6% was higher than the 3% minimum requirement as guided by the Basel Committee.

CEO's Comments

Commenting on the Group's performance, CEO Samuel Tsien said:

"This quarter marks the first year since we acquired OCBC Wing Hang Bank. It is evident that the OCBC Wing Hang Bank addition to our Greater China franchise has further strengthened and diversified the Group's earnings.

Our banking operations reported another quarter of strong growth, with core net profit increasing 25% year-on-year and 4% quarter-on-quarter. Our insurance operations, while recording strong underlying business growth as reflected by increased total weighted new sales and higher new business embedded value, was impacted by unrealised mark-to-market losses in its debt and equity investment portfolio as a result of the volatile financial markets.

Against a more uncertain and challenging operating environment, we will continue to be focused and prudent as we grow our franchise across our key markets. We will maintain our strong capital position, remain disciplined in our cost management and set aside an adequate level of allowances."

About OCBC Bank

OCBC Bank is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second largest financial services group in Southeast Asia by assets and one of the world's most highly-rated banks, with an Aa1 rating from Moody's. Recognised for its financial strength and stability, OCBC Bank is consistently ranked among the world's strongest and safest banks by leading market research firms and publications.

OCBC Bank and its subsidiaries offer a broad array of commercial banking, specialist financial and wealth management services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services.

OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. It has over 620 branches and representative offices in 18 countries and territories. These include the more than 330 branches and offices in Indonesia operated by subsidiary Bank OCBC NISP, and 94 branches and offices in Hong Kong, China and Macau under OCBC Wing Hang.

OCBC Bank's private banking services are provided by subsidiary Bank of Singapore, which has received increasing industry recognition as Asia's Global Private Bank, and was voted Outstanding Private Bank in Southeast Asia in 2014 by Private Banker International.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the oldest and most established life insurance group in Singapore and Malaysia. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia.

For more information, please visit www.ocbc.com