Media Release

OCBC Group Reported Third Quarter 2016 Net Profit of S$943 million

Third quarter earnings grew 5% year-on-year and 6% from the previous quarter, boosted by non-interest income from both banking and insurance operations

Nine months net profit of S$2.68 billion

Singapore, 27 October 2016 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$943 million for the third quarter of 2016 ("3Q16"). This was 5% above S$902 million a year ago ("3Q15") and 6% above S$885 million the previous quarter ("2Q16"). The earnings performance over both periods was underpinned by strong performance in non-interest income, particularly fees from wealth management and profit from life assurance.

Third quarter net interest income of S$1.23 billion was 6% lower as compared to S$1.32 billion the year before, driven by lower loan volumes and net interest margin. As at 30 September 2016, customer loans were S$209 billion or 2% lower than the year before, led by a decline in trade-related lending to Greater China, which offset an increase in housing loans and other consumer loans. Net interest margin for the quarter of 1.62% was 4 basis points below the previous year, mainly as a result of a lower average loan-to-deposit ratio and reduced customer loan yields.

Non-interest income increased 25% to S$970 million from S$775 million a year ago. As a share of the Group's total income, wealth management contributions were 28% for the quarter, as compared to 22% in the prior year. Fee and commission income increased 5% to S$428 million, boosted by continued growth in wealth management fee income. Net trading income of S$163 million, primarily treasury-related income from customer flows, was lower than S$196 million the previous year, while net realised gains from the sale of investment securities were S$41 million. Profit from life assurance of S$164 million was higher than S$62 million in 3Q15. Strong underlying insurance business growth by Great Eastern Holdings ("GEH") was accompanied by a 29% increase in new business embedded value and robust quarterly total weighted new sales. Unrealised mark-to-market gains in GEH's equity and bond investment portfolio also contributed to the improvement in insurance earnings during the quarter.

The Group's share of results of associates of S$105 million was 7% higher than S$99 million a year ago and up 3% from the quarter before, largely attributable to contributions from associated company Bank of Ningbo.

The Group's cost-to-income ratio of 43.2% was comparable to the previous year, and lower than 45.5% a quarter ago. Allowances for loans and other assets were S$166 million for the quarter as compared to S$150 million in 3Q15.

Against the previous quarter, the Group's net profit after tax was 6% higher. Net interest income declined 2%, as customer loan growth was more than offset by a 6 basis points fall in net interest margin. The contraction in net interest margin was attributable to a decline in loan yields across the board in Singapore, Malaysia and Indonesia. Non-interest income rose 23%, contributed by broad-based growth across all major income components – fee, trading and insurance. Operating expenses of S$953 million increased by 2% quarter-on-quarter, reflecting continued cost discipline across the Group. Net allowances for loans and other assets were 89% above the previous quarter, which included a S$56 million increase in portfolio allowances.

Nine Months' Performance

Net profit after tax for the first nine months of 2016 ("9M16") was S$2.68 billion as compared to S$2.94 billion a year ago ("9M15").

Net interest income for the Group declined 1% from a year ago to S$3.80 billion, as a 3 basis points improvement in net interest margin to 1.68% was more than offset by a 3% contraction in interest earning assets.

Non-interest income of S$2.51 billion was down 2% from S$2.57 billion a year ago which included a S$136 million realised gain in GEH's equity investment portfolio. Fee and commission income was 2% lower at S$1.22 billion while net trading income, mainly comprising customer flow income, rose 5% to S$407 million. For 9M16, net gains from the sale of investment securities were S$143 million. Profit from life assurance was S$355 million as compared to S$393 million a year ago.

OCBC's private banking business achieved robust growth in assets under management ("AUM"). Bank of Singapore's AUM as at 30 September 2016 was US$62 billion (S$85 billion), up 20% from US$52 billion (S$74 billion) a year ago. This does not include the AUM contributions from the acquisition of the Barclays Wealth and Investment Management business in Singapore and Hong Kong, which is scheduled for completion later this year. The Group's 9M16 wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, was S$1.63 billion.

The Group's 9M16 operating expenses increased by a modest 4% to S$2.81 billion, mainly attributable to a rise in staff costs associated with annual salary increments and increased headcount in our wealth management and insurance businesses as well as Indonesia operations. Net allowances for loans and other assets of S$421 million were 43% higher than S$294 million the previous year, reflecting increased net specific allowances for loans and portfolio allowances set aside.

Income from associates of S$314 million grew 9% from S$289 million a year ago.

Annualised return on equity for 9M16 was 10.5% as compared to 12.6% a year ago. Annualised earnings per share amounted to 85.1 cents, down from 96.6 cents a year ago.

Allowances and Asset Quality

Net allowances for loans and other assets were S$166 million for the quarter, as compared to S$88 million the previous quarter and S$150 million a year ago.

Specific allowances for loans, net of recoveries and write-backs, amounted to S$99 million and were the equivalent of 19 basis points of loans on an annualised basis. Portfolio allowances were also increased from the quarter before and a year ago to S$64 million in view of the current weak economic environment.

The Group's asset quality and coverage ratios remained healthy. Non-performing assets ("NPAs") as at 30 September 2016 were S$2.59 billion as compared to S$2.49 billion a quarter ago and S$1.93 billion the previous year. The quarterly and year-on-year increase in NPAs primarily reflects the approach the Group has undertaken since 3Q15 to pro-actively classify corporate accounts associated with the oil and gas support services sector, which has come under increasing stress as a result of persistently low oil prices. As at 30 September 2016, the non-performing loans ("NPL") ratio of 1.2% was slightly above 1.1% from the previous quarter and up from 0.9% a year ago. The Group's coverage ratios improved quarter-on-quarter, with total cumulative allowances representing 101% of total NPAs and 308% of unsecured NPAs.

Funding and Capital Position

The Group's funding and capital position remained strong. As at 30 September 2016, customer loans and deposits were S$209 billion and S$247 billion respectively. The loans-to-deposit ratio was 83.1% as compared to 83.5% a year ago. Current and savings deposits accounted for more than half of total non-bank deposits, with the ratio at 50.2% as compared to 47.5% a year ago.

For 3Q16, the average Singapore dollar and all-currency liquidity coverage ratios for the Group (excluding OCBC Wing Hang which will be included in due course) were 271% and 133% respectively, higher as compared to the respective regulatory ratios of 100% and 70%.

The Group's Common Equity Tier 1 capital adequacy ratio ("CAR"), Tier 1 CAR and Total CAR as at 30 September 2016, were 15.1%, 15.6% and 17.6% respectively. Based on Basel III transitional arrangements, these ratios were well above the respective regulatory minima of 6.5%, 8% and 10%. In addition to these minimum capital requirements, a capital conservation buffer ("CCB") of 2.5% and countercyclical buffer of up to 2.5% will be phased in from 2016 to 2019. The CCB was 0.625% as at 1 January 2016, and will be increased by 0.625% each year to reach 2.5% on 1 January 2019. The Group's leverage ratio of 8.4% was above the 3% minimum requirement as guided by the Basel Committee.

CEO's Comments

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

"The operating environment for the Group remains challenging amidst weak economic conditions. We continue to keep a firm grip on cost, maintain strong liquidity and capital, and ensure prudent levels of provisioning. Despite the Group's conservative positioning, we delivered a yearly and quarterly rise in third quarter earnings. The improvements arose from a combination of higher wealth management and insurance income, as well as increased contributions from Indonesia. This clearly demonstrates the strength of the Group's diversified franchise across geographies and businesses.

Going forward, we will continue to adopt a prudent approach in managing our business, and will be well-placed to support our customers."

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 Top 50 Safest Banks by Global Finance and has been named Best Managed Bank in Singapore and the Asia Pacific by The Asian Banker.

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 610 branches and representative offices in 18 countries and regions. These include the more than 330 branches and offices in Indonesia under subsidiary Bank OCBC NISP, and 110 branches and offices in Hong Kong, China and Macau under OCBC Wing Hang.

OCBC Bank's private banking services are provided by its wholly-owned subsidiary Bank of Singapore, which operates on a unique open-architecture product platform to source for the best-in-class products to meet its clients' goals.

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