

Management Discussion and Analysis

Overview

	2022 \$ million	2021 \$ million	+ / (-) %
Selected Income Statement Items			
Net interest income	7,688	5,855	31
Non-interest income	3,987	4,741	(16)
Total income	11,675	10,596	10
Operating expenses	(5,026)	(4,764)	5
Operating profit before allowances and amortisation	6,649	5,832	14
Amortisation of intangible assets	(104)	(103)	1
Allowances for loans and other assets	(584)	(873)	(33)
Operating profit after allowances and amortisation	5,961	4,856	23
Share of results of associates, net of tax	978	824	19
Profit before income tax	6,939	5,680	22
Net profit attributable to equity holders of the Bank	5,748	4,858	18
Cash basis net profit attributable to equity holders of the Bank ⁽¹⁾	5,852	4,961	18
Selected Balance Sheet Items			
Ordinary equity	51,387	51,463	–
Equity attributable to equity holders of the Bank	53,087	52,663	1
Total assets	559,956	542,187	3
Assets excluding life insurance fund investment securities and other assets	461,961	442,091	4
Net loans to customers	291,467	286,281	2
Deposits of non-bank customers	350,081	342,395	2
Per Ordinary Share (\$)			
Basic earnings ⁽²⁾	1.27	1.07	
Diluted earnings ⁽²⁾	1.27	1.07	
Net asset value	11.43	11.46	
Key Financial Ratios (%)			
Return on equity ⁽²⁾⁽³⁾	11.1	9.6	
Return on assets ⁽⁴⁾	1.25	1.13	
Net interest margin	1.91	1.54	
Non-interest income to total income	34.1	44.7	
Cost-to-income	43.0	45.0	
Loans-to-deposits	83.3	83.6	
Non-performing loan ratio	1.2	1.5	
Total capital adequacy ratio (CAR) ⁽⁵⁾	17.7	17.6	
Tier 1 CAR ⁽⁵⁾	15.9	16.0	
Common Equity Tier 1 CAR ⁽⁵⁾	15.2	15.5	
Leverage ratio ⁽⁵⁾⁽⁶⁾	7.2	7.7	
Singapore dollar liquidity coverage ratio ⁽⁵⁾⁽⁷⁾	325	308	
All-currency liquidity coverage ratio ⁽⁵⁾⁽⁷⁾	152	151	
Net stable funding ratio ⁽⁵⁾⁽⁸⁾	117	121	

(1) Excludes amortisation of intangible assets.

(2) Calculated based on net profit less distributions on other equity instruments paid and estimated to be due at the end of the financial year.

(3) Other equity instruments and non-controlling interests are not included in the computation for return on equity.

(4) Computation of return on assets excludes life insurance fund investment securities and other assets.

(5) Public disclosures required under MAS Notice 637, MAS Notice 651 and MAS Notice 653 can be found in the Capital and Regulatory Disclosures section of the Bank's Investor Relations website (<https://www.ocbc.com/group/investors/investor-information#pillarthree disclosures>).

(6) The Group's leverage ratio is computed based on MAS Notice 637.

(7) The Group's liquidity coverage ratios ("LCR") are computed based on MAS Notice 649 and reported based on the average LCR for the respective years.

(8) The Group's net stable funding ratio is computed based on MAS Notice 652.

Overview (continued)

The Group's net profit for the financial year ended 31 December 2022 increased 18% to a record \$5.75 billion, from \$4.86 billion a year ago, driven by strong growth in net interest income and lower allowances.

The strong performance reflected the strength and agility of OCBC's well-diversified business franchise that was well-positioned to capture opportunities in a rapidly changing operating environment. The Group's record earnings were supported by strong growth in net interest income which more than offset weaker non-interest income. Disciplined cost management drove cost-to-income ratio lower, while allowances declined from improving credit conditions and robust portfolio quality. Wealth management fee income was softer as macro headwinds and market volatilities lowered client investment activity, although net new money inflows were higher year-on-year. Great Eastern Holdings' (GEH) underlying insurance business remained strong. However, profit from insurance declined as a result of unrealised valuation losses arising from unfavourable movement in the discount rates used to value longer-end duration insurance contract liabilities in the fourth quarter. The Group continue to maintain sound capital, funding and liquidity positions to capture growth opportunities while ensuring sufficient buffers for uncertainties. The 2022 total dividend was raised to 68 cents, supported by resilient earnings and strong capital position.

Net interest income grew 31% to a record \$7.69 billion, underpinned by a 37-basis point expansion in net interest margin and 6% growth in average assets.

Non-interest income was \$3.99 billion, down 16% from the previous year. Net fee income was \$1.85 billion, 18% lower than a year ago. The decline was largely from softer wealth management fees attributable to prevailing risk-off investment sentiments. This was partly offset by an increase in fees from loan and trade-related activities.

Net trading income improved 9% to \$834 million, compared to \$763 million a year ago, from higher non-customer flow treasury income partly driven by gains from hedging activities.

Net loss from the sale of investment securities of \$206 million, compared to net gain of \$92 million last year, was mainly attributable to bond portfolio rebalancing and positioning amid changing market conditions.

GEH's underlying insurance business remained resilient with a 7% growth in operating profit. GEH's embedded value, a measure of the long-term economic value of the existing business of a life insurance company was \$17.9 billion as at 31 December 2022. Total weighted new sales were \$1.91 billion with new business embedded value (NBEV) 9% higher at \$875 million and the NBEV margin increased to 45.8%. However, profit from insurance fell 11% to \$1.19 billion from \$1.33 billion in the previous year, largely from unrealised valuation losses in the fourth quarter due to unfavourable movement in the discount rates used to value its longer-end duration insurance contract liabilities.

The Group's wealth management income, comprising consolidated income from insurance, private banking, premier private client, premier banking, asset management and stockbroking was \$3.89 billion, as compared to \$4.01 billion last year, and contributed 33% to the Group's total income. As at 31 December 2022, Group wealth management assets under management was higher at \$258 billion compared to \$257 billion a year ago, driven by continued growth in net new money inflows which offset negative market valuation.

Operating expenses grew 5% to \$5.03 billion, led by higher staff and IT-related costs. The increases were largely attributable to annual salary adjustments and headcount growth to strengthen the talent pool, coupled with the Group's continued investments to enhance technology capabilities in support of the strategic priorities to drive growth. Cost-to-income ratio improved to 43.0% from 45.0% in 2021.

Net allowances declined 33% to \$584 million. A drop in allowances for impaired assets was partly offset by increased allowances for non-impaired assets arising from macro-economic variables updates and additional overlays to buffer for uncertainties.

Share of results of associates rose 19% to \$978 million from \$824 million in the previous year.

Full year return on equity improved to 11.1% from 9.6% in the previous year. Earnings per share rose 18% to \$1.27 from \$1.07 in the prior year.

Overview (continued)

Allowances and Asset Quality

As at 31 December 2022, total non-performing assets (NPA) were \$3.49 billion, 20% lower than a year ago. NPAs declined from the previous year as higher recoveries and upgrades largely from Malaysia and Indonesia following exits from relief programmes more than offset new NPA formation during the year. New NPA formation more than halved from a year ago, driven by overall improvement in the credit environment and asset quality. The NPL ratio was stable at 1.2%, while the allowance coverage against total NPAs was raised to 114%.

For 2022, total allowances were lower at \$584 million and represented 16-basis points of loans, as compared to \$873 million and 29-basis points in the preceding year. The decline was mainly due to lower allowances for impaired assets, partly offset by increased allowances for non-impaired assets arising from macro-economic variables updates and additional overlays to buffer for uncertainties.

Funding, Liquidity and Capital Position

As at 31 December 2022, customer loans were \$295 billion. On a constant currency basis, loans grew 4.5% from a year ago. In 2022, loan growth was largely driven by lending in Singapore, Australia, the United States and United Kingdom. Sustainable financing commitments rose 30% from a year ago to \$44 billion, well on track to achieve the Group's target of \$50 billion by 2025.

Customer deposits rose 2% year-on-year to \$350 billion, led by a rise in fixed deposits. Loans-to-deposits ratio was 83.3% as compared to 83.6% in the previous year.

As at 31 December 2022, Group CET1 CAR was 15.2%, while the leverage ratio was 7.2%.

Dividend

The Board has proposed a final dividend of 40 cents per share, an increase of 43% or 12 cents from a year ago. This brings 2022 total dividend to 68 cents, up 28% or 15 cents from the previous year. This represents a payout ratio of 53% against net profit, which exceeds 49% a year ago. The Scrip Dividend Scheme is not applicable.

The increase is supported by OCBC's resilient earnings growth and strong capital position. Going forward, OCBC targets to deliver a dividend payout ratio of 50%, barring any unforeseen circumstances.

Net Interest Income

Average Balance Sheet

	2022			2021		
	Average Balance \$ million	Interest \$ million	Average Rate %	Average Balance \$ million	Interest \$ million	Average Rate %
Interest earning assets						
Loans to customers	289,708	8,852	3.06	272,302	5,786	2.12
Placements with and loans to banks	49,804	1,314	2.64	44,428	448	1.01
Other interest earning assets	62,100	1,424	2.29	62,959	1,191	1.89
	401,612	11,590	2.89	379,689	7,425	1.96
Interest bearing liabilities						
Deposits of non-bank customers	347,287	3,223	0.93	323,120	1,300	0.40
Deposits and balances of banks	12,814	195	1.52	10,171	68	0.67
Other borrowings	19,590	484	2.47	21,941	202	0.92
	379,691	3,902	1.03	355,232	1,570	0.44
Net interest income/margin⁽¹⁾		7,688	1.91		5,855	1.54

Volume and Rate Analysis

Increase/(decrease) for 2022 over 2021 due to change in:	Volume \$ million	Rate \$ million	Net change \$ million
Interest income			
Loans to customers	370	2,696	3,066
Placements with and loans to banks	54	812	866
Other interest earning assets	(16)	249	233
	408	3,757	4,165
Interest expense			
Deposits of non-bank customers	97	1,826	1,923
Deposits and balances of banks	18	109	127
Other borrowings	(22)	304	282
	93	2,239	2,332
Impact on net interest income	315	1,518	1,833
Due to change in number of days			—
Net interest income			1,833

(1) Net interest margin is net interest income as a percentage of interest earning assets.

Non-Interest Income

	2022 \$ million	2021 \$ million	+ / (-) %
Gross fee and commission income			
Brokerage	103	141	(27)
Credit card	337	287	17
Fund management	119	133	(11)
Guarantees	14	14	1
Investment banking	100	106	(5)
Loan-related	180	179	–
Service charges	87	79	10
Trade-related and remittances	298	286	4
Wealth management	919	1,310	(30)
Others	50	46	9
	2,207	2,581	(15)
Fee and commission expense	(356)	(336)	6
Fees and commissions (net)	1,851	2,245	(18)
Dividends	125	113	11
Net trading income	834	763	9
Income from life and general insurance			
Profit from life insurance	971	1,137	(15)
Premium income from general insurance	218	197	11
Sub-total	1,189	1,334	(11)
Other income			
Disposal of investment securities	(206)	92	nm
Disposal of plant and equipment	(1)	(1)	48
Disposal of properties	100	108	(8)
Rental and property-related income	78	66	18
Others	17	21	(19)
Sub-total	(12)	286	nm
Total non-interest income	3,987	4,741	(16)

(1) "nm" denotes not meaningful.

Operating Expenses

	2022 \$ million	2021 \$ million	+ /(-) %
Staff costs	3,233	3,028	7
Property and equipment			
Depreciation	426	412	3
Maintenance	156	145	8
Rental expenses	7	7	(6)
Others	330	304	9
	919	868	6
Other operating expenses	874	868	1
Total operating expenses	5,026	4,764	5
Group staff strength			
Period end	31,604	30,809	3
Average	31,269	30,610	2

Allowances for Loans and Other Assets

	2022 \$ million	2021 \$ million	+ /(-) %
Allowances/(write-back):			
Impaired loans			
Singapore	(30)	42	nm
Malaysia	(23)	262	nm
Indonesia	2	213	(99)
Greater China	107	218	(51)
Others	80	117	(31)
	136	852	(84)
Impaired other assets	80	3	nm
Non-impaired loans	369	15	nm
Non-impaired other assets	(1)	3	nm
Allowances for loans and other assets	584	873	(33)

(1) "nm" denotes not meaningful.

Loans to Customers

	2022 \$ million	2021 \$ million	+ / (-) %
By Industry			
Agriculture, mining and quarrying	8,193	8,094	1
Manufacturing	15,052	15,642	(4)
Building and construction	89,299	81,375	10
Housing loans	62,015	61,733	–
General commerce	29,209	30,159	(3)
Transport, storage and communication	13,017	13,423	(3)
Financial institutions, investment and holding companies	24,387	25,365	(4)
Professionals and individuals	34,752	36,854	(6)
Others	19,056	17,071	12
	294,980	289,716	2

By Currency			
Singapore Dollar	107,270	102,131	5
United States Dollar	70,884	73,022	(3)
Malaysian Ringgit	18,413	20,189	(9)
Indonesian Rupiah	8,732	8,720	–
Hong Kong Dollar	36,295	34,691	5
Chinese Renminbi	7,358	6,688	10
Others	46,028	44,275	4
	294,980	289,716	2

By Geography⁽¹⁾			
Singapore	119,925	115,620	4
Malaysia	25,077	27,611	(9)
Indonesia	18,600	18,918	(2)
Greater China	72,756	74,120	(2)
Other Asia Pacific	21,734	19,293	13
Rest of the World	36,888	34,154	8
	294,980	289,716	2

(1) Loans by geography are determined based on where the credit risk resides, which may be different from the borrower's country of residence or the booking location of the loans.

Non-Performing Assets

	Total NPAs ⁽¹⁾ \$ million	Substandard \$ million	Doubtful \$ million	Loss \$ million	NPLs ⁽²⁾ \$ million	NPL Ratio ⁽²⁾ %
Singapore						
2022	437	202	154	81	383	0.3
2021	606	300	206	100	551	0.5
Malaysia						
2022	981	522	188	271	941	3.8
2021	1,516	1,126	166	224	1,467	5.3
Indonesia						
2022	778	343	252	183	778	4.2
2021	1,216	722	255	189	1,208	6.4
Greater China						
2022	901	444	431	26	901	1.2
2021	586	117	447	22	586	0.8
Other Asia Pacific						
2022	96	41	54	1	96	0.4
2021	186	62	124	#	186	1.0
Rest of the World						
2022	293	30	263	#	284	0.8
2021	228	21	207	#	217	0.6
Group						
2022	3,486	1,582	1,342	562	3,383	1.2
2021	4,338	2,398	1,405	535	4,215	1.5

(1) Refer to non-performing assets. Comprise loans to customers, debt securities and contingent liabilities.

(2) Refer to non-performing loans. Exclude debt securities and contingent liabilities.

(3) # represents amounts less than \$0.5 million.

Non-Performing Assets (continued)

	2022		2021	
	\$ million	% of gross loans	\$ million	% of gross loans
NPLs by Industry				
Loans and advances				
Agriculture, mining and quarrying	56	0.7	96	1.2
Manufacturing	614	4.1	840	5.4
Building and construction	592	0.7	330	0.4
Housing loans	579	0.9	1,002	1.6
General commerce	392	1.3	594	2.0
Transport, storage and communication	392	3.0	491	3.7
Financial institutions, investment and holding companies	131	0.5	89	0.4
Professionals and individuals	128	0.4	179	0.5
Others	499	2.6	594	3.5
Total NPLs	3,383	1.2	4,215	1.5
Classified debt securities	–		6	
Classified contingent liabilities	103		117	
Total NPAs	3,486		4,338	

	2022		2021	
	\$ million	%	\$ million	%
NPAs by Period Overdue				
Over 180 days	968	28	927	21
Over 90 to 180 days	396	11	145	3
30 to 90 days	296	9	179	4
Less than 30 days	383	11	1,018	24
Not overdue	1,443	41	2,069	48
	3,486	100	4,338	100

Deposits

	2022 \$ million	2021 \$ million	+ / (-) %
Deposits of non-bank customers	350,081	342,395	2
Deposits and balances of banks	10,046	8,239	22
	360,127	350,634	3

Non-Bank Deposits by Product

Fixed deposits	133,415	91,338	46
Savings deposits	69,036	78,566	(12)
Current accounts	112,245	138,077	(19)
Others	35,385	34,414	3
	350,081	342,395	2

Non-Bank Deposits by Currency

Singapore Dollar	130,205	133,157	(2)
United States Dollar	119,527	109,842	9
Malaysian Ringgit	21,278	22,603	(6)
Indonesian Rupiah	11,196	12,197	(8)
Hong Kong Dollar	26,210	23,381	12
Chinese Renminbi	8,837	10,311	(14)
Others	32,828	30,904	6
	350,081	342,395	2

Performance by Business Segment

OCBC Group's businesses are presented in the following customer segments and business activities: Global Consumer/Private Banking, Global Wholesale Banking, Global Treasury and Markets and Insurance.

Profit before Income Tax by Business Segment

	2022 \$ million	2021 \$ million	+ / (-) %
Global Consumer/Private Banking	1,537	1,110	38
Global Wholesale Banking	3,002	1,688	78
Global Treasury and Markets	649	864	(25)
Insurance	881	1,224	(28)
Others	870	794	9
Profit before income tax	6,939	5,680	22

Performance by Business Segment (continued)

Global Consumer/Private Banking

Global Consumer/Private Banking provides a full range of products and services to individual customers. At Global Consumer Banking, the products and services offered include deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards, wealth management products (unit trusts, bancassurance products and structured deposits) and brokerage services. Private Banking caters to the specialised banking needs of high net worth individuals, offering wealth management expertise, including investment advice and portfolio management services, estate and trust planning, and wealth structuring.

Global Consumer/Private Banking's 2022 profit before income tax rose 38% to \$1.54 billion, driven by net interest income growth amid a rising interest rate environment and lower allowances. This was partly offset by a decline in wealth management and brokerage fee income and higher expenses.

Global Wholesale Banking

Global Wholesale Banking serves institutional customers ranging from large corporates and the public sector to small and medium enterprises. The business provides a full range of financing solutions including long-term project financing, short-term credit, working capital and trade financing, as well as customised and structured equity-linked financing. It also provides customers with a broad range of products and services such as cash management and custodian services, capital market solutions, corporate finance services and advisory banking, and treasury products.

Global Wholesale Banking's profit before income tax rose 78% to \$3.00 billion in 2022, from \$1.69 billion a year ago. The higher profit was led by growth in net interest income and lower allowances, partly offset by a decline in income from investment banking activities and an increase in expenses.

Global Treasury and Markets

Global Treasury and Markets is responsible for the management of the Group's asset and liability interest rate positions, engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and offers structured treasury products and financial solutions to meet customers' investment and hedging needs. Income from treasury products and services offered to customers in Global Consumer/Private Banking and Global Wholesale Banking, is reflected in the respective business segments.

Global Treasury's profit before income tax was down 25% to \$649 million in 2022, mainly attributable to lower net interest income, realised losses from its fixed income portfolio, partly offset by an increase in net trading income.

Insurance

The Group's insurance business, including its fund management activities, is undertaken by 87.9%-owned subsidiary GEH and its subsidiaries, which provide both life and general insurance products to its customers mainly in Singapore and Malaysia.

GEH's profit before income tax was \$881 million in 2022, down 28% from \$1.22 billion in the previous year, mainly attributable to lower net valuation gains in its insurance funds largely due to unrealised mark-to-market losses on its insurance contract liabilities in the fourth quarter.

After tax and non-controlling interests, GEH's contribution to the Group's net profit was \$643 million in 2022, lower than the \$932 million a year ago.

Others

Others comprise mainly property holding, investment holding and items not attributable to the business segments described above.

Where there are material changes in the organisational structure and management reporting methodologies, segment information for prior periods is reclassified to allow comparability.

Performance by Geographical Segment

	2022		2021	
	\$ million	%	\$ million	%
Total income				
Singapore	6,738	58	5,955	56
Malaysia	1,668	14	1,619	15
Indonesia	1,016	9	940	9
Greater China	1,558	13	1,453	14
Other Asia Pacific	251	2	262	3
Rest of the World	444	4	367	3
	11,675	100	10,596	100
Operating profit before allowances and amortisation				
Singapore	3,771	57	3,118	53
Malaysia	1,135	17	1,088	19
Indonesia	547	8	517	9
Greater China	721	11	680	12
Other Asia Pacific	176	3	197	3
Rest of the World	299	4	232	4
	6,649	100	5,832	100
Profit before income tax				
Singapore	3,568	51	3,039	53
Malaysia	1,239	18	860	15
Indonesia	325	5	325	6
Greater China	1,353	20	1,243	22
Other Asia Pacific	239	3	102	2
Rest of the World	215	3	111	2
	6,939	100	5,680	100
Total assets				
Singapore	323,392	58	317,491	59
Malaysia	65,280	12	66,997	12
Indonesia	21,047	4	20,954	4
Greater China	93,291	17	88,031	16
Other Asia Pacific	20,321	3	18,631	3
Rest of the World	36,625	6	30,083	6
	559,956	100	542,187	100

The geographical segment analysis is based on the location where assets or transactions are booked. The geographical information is stated after elimination of intra-group transactions and balances.

Capital Adequacy Ratios

The Group remained strongly capitalised, with a Common Equity Tier 1 (CET1) capital adequacy ratio (CAR) of 15.2%, and Tier 1 and Total CAR of 15.9% and 17.7% respectively. These ratios were well above the regulatory minima of 6.5%, 8% and 10%, respectively, for 2022.