OCBC ANNUAL GENERAL MEETING TO BE HELD ON 25 APRIL 2023

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

Singapore, 21 April 2023 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") would like to thank shareholders for their questions submitted in advance of the 86th Annual General Meeting ("2023 AGM"). The 2023 AGM will be held, in a wholly physical format, at Sands Expo & Convention Centre, Level 4, Roselle and Simpor Ballrooms, 10 Bayfront Avenue, Singapore 018956, on Tuesday, 25 April 2023 at 2.00 p.m. (Singapore time).

Responses to substantial and relevant questions from shareholders which are related to the resolutions to be tabled for approval at the 2023 AGM

Our responses to the substantial and relevant questions received from shareholders are grouped by topic. Where appropriate, questions have been rephrased for clarity and consolidated if they overlap or are substantially similar. The topics are as follows:

A. Strategic Priorities and Business Performance
B. Financial Performance
C. Capital Management and Dividends

Thank you for supporting OCBC Bank.

By Order of the Board

Company Secretary

A. Strategic Priorities and Business Performance

Question 1

It has been nine years since the acquisition of Wing Hang Bank in 2014. Can management share how the acquisition has performed? What are the tangible benefits so far?

Response

The acquisition of Wing Hang Bank in 2014 (rebranded as "OCBC Wing Hang Bank" or "OWHB") was a strategic move to deepen the Group's presence in Greater China and provide synergies to the Group's other key markets of Singapore, Malaysia and Indonesia.

The acquisition of OWHB enlarged OCBC's customer base in Greater China and the Group's presence in China expanded into six cities out of the 11 cities within the Greater Bay Area (including Hong Kong SAR and Macau SAR). This strengthened OCBC's network to support customers expanding into Greater China and raised the Group's ability to increase its penetration of Chinese corporates and State-owned Enterprises. The acquisition of OWHB has also allowed the Group to enhance product offerings across the customer franchise while increasing its access to US dollar and Renminbi funding to support cross-border transactions.

Through deliberate strategic initiatives taken over the years, including the acquisition of OWHB, OCBC's Greater China franchise has grown substantially. Greater China's contribution to the Group's pre-tax profit grew from 6% (S$208 million) in 2013 to 20% (S$1.35 billion) in 2022. In 2013, the Group's loans to Greater China were S$27 billion or 16% of total Group loans, and these grew to S$73 billion in 2022 and accounted for 25% of total Group loans.

As set out in our corporate strategy, OCBC continues to strengthen its Greater China franchise, including supporting ASEAN-Greater China trade and investment flows, and capturing rising Asian wealth through its Singapore and Hong Kong SAR hubs.

A. Strategic Priorities and Business Performance *(continued)*

<u>Question 2</u>

It was noted that profit contribution from OCBC's insurance subsidiary, Great Eastern Holdings ("GEH"), was lower in 2022, and there was an S$8.00 billion investment loss reported in GEH's Consolidated Profit and Loss Statement on page 94 of its Annual Report 2022. How can the Group mitigate such volatility on earnings and dividend payout?

Further, how will the implementation of Singapore Financial Reporting Standards (International) 17 ("SFRS(I) 17") *Insurance Contracts*, from 1 January 2023, impact OCBC's earnings?

<u>Response</u>

As presented in the Consolidated Profit or Loss Statement on page 94 of GEH's Annual Report 2022, net profit attributable to shareholders for 2022 was lower at S$784 million compared to S$1.11 billion in 2021, driven by a decline in total income which more than offset a drop in total expenses.

GEH's total income in 2022 of S$12.6 billion was lower than S$20.0 billion a year ago. This was largely due to an S$8.00 billion investment loss in the insurance and shareholder funds, mainly from unrealised fair value changes for its investments as a result of unfavourable market movements. More details are shown in Note 5 to the Financial Statements (page 141 of GEH's Annual Report 2022). The unfavourable investment performance in 2022 was in line with the global investment market. For the year, the negative impact on GEH's investment portfolio stemmed from rising interest rates, widening credit spreads and a decline in major equity indices, but these were largely unrealised and should reverse when market conditions improve. GEH proactively manages its investment portfolio and the portfolio remains sound. GEH's Enterprise Risk Management Framework is set out on pages 170 to 200 of its Annual Report 2022.

Notwithstanding the impact from negative market valuations, GEH's underlying insurance business remains strong, with higher new business embedded value ("NBEV") and improved NBEV margin in 2022.

OCBC has a well-established business franchise, comprising three key business pillars of Banking, Wealth Management and Insurance. OCBC's diversified income streams provide earnings resiliency and underpinned OCBC's well-balanced growth over the years. Despite macro uncertainties and market volatilities in 2022, the Group achieved record earnings and delivered a higher dividend payout, reflecting the strength and quality of its diversified business franchise. OCBC remains focused on executing its strategic priorities and capturing opportunities as they arise to drive long-term sustainable growth.

With the implementation of SFRS(I) 17 by GEH from 1 January 2023, its insurance profit is expected to be less volatile due to the reclassification of insurance assets and liabilities to "Fair Value through Other Comprehensive Income". This will remove a significant portion of previously observed volatilities from the valuation of assets and liabilities.

B. Financial Performance

Question 1

What was the Group's total investment in government and debt securities, and fair value losses recorded as at 31 December 2022? Does the Group hold any Additional Tier 1 capital instruments ("AT1")? What is the duration of OCBC's bond portfolio and what are the actions taken by OCBC to reduce losses arising from rate increases?

Response

The Group's total government and debt securities was S$62.3 billion as at 31 December 2022. This comprised Singapore government treasury bills and securities of S$17.1 billion, other government treasury bills and securities of S$22.3 billion and debt securities of S$23.0 billion. The Group's direct holdings in AT1s were not material as at 31 December 2022.

The breakdown of the above portfolio by financial assets classification is disclosed on page 222 of OCBC's Annual Report 2022, and the securities are largely classified as Fair Value through Other Comprehensive Income ("FVOCI") assets.

The fair value adjustments on FVOCI securities are recorded in Fair Value Reserves under Equity ("FVR"). As disclosed in the Group's Balance Sheet on page 118 of OCBC's Annual Report 2022, FVR was a negative S$1.01 billion as at 31 December 2022, as compared to a positive S$848 million as at the previous year end. The year-on-year movement in FVR is set out in the Group's Statement of Changes in Equity on page 119 of the Annual Report 2022, and the decline in 2022 was largely due to unrealised mark-to-market losses on government and debt securities, and these were included in the computation of capital adequacy ratios.

The duration of the above securities portfolio was largely between 1 to 2 years.

As set out on pages 70 to 83 of OCBC's Annual Report 2022, the Group has a comprehensive risk management framework and disciplined approach to manage its principal risks. As part of the Group's risk management, the actions taken to protect the value of the investment portfolio include increasing interest rate hedge positions and shortening the bond portfolio duration.

B. Financial Performance *(continued)*

Question 2

The Statement of Comprehensive Income on page 117 of OCBC's Annual Report 2022 shows "Profit for the year" of S$5.88 billion, but this dropped to S$2.44 billion after taking into account "Other Comprehensive Losses" of S$3.44 billion.

a) Given the size of the "Other Comprehensive Losses" of S$3.44 billion which has been deducted from the reserves in the Balance Sheet, it would seem important to highlight these in the "Message from Chairman & CEO"?

b) The Earnings per share ("EPS") of S$1.27 for 2022 reported on page 146 of OCBC's Annual Report 2022 was calculated based on "Profit attributable to equity holders of the Bank". Should "Total Comprehensive Income" of S$2.44 billion reported on page 117 be used to derive EPS of 55 cents?

c) Are these losses taken into account when determining the variable remuneration of senior executives?

Response

a) We will consider including the relevant performance highlights in future.

b) The computation of the reported EPS of S$1.27 was in accordance with the requirements as set out in the Singapore Financial Reporting Standards (International) 33 ("SFRS(I) 33) *Earnings Per Share*. SFRS(I) 33 states that EPS shall be computed using the "profit and loss attributable to ordinary equity holders".

c) The relevant income or losses recorded in "Other Comprehensive Income/Loss" are taken into account in determining the variable remuneration for the senior executives who are directly managing the investment portfolios.

B. Financial Performance *(continued)*

Question 3

Please provide more details on the S$206 million loss from disposal of investment securities as disclosed on page 93 of OCBC's Annual Report 2022.

Response

The S$206 million loss from disposal of investment securities was due to portfolio rebalancing and positioning amid changing market conditions. These largely comprised fixed income bonds across the government, corporate and financial institution sectors in both developed and emerging markets.

Question 4

Can you explain why there are a number of days where the Daily P&L is twice the Maximum VaR, as disclosed under the Risk Management Chapter on pages 78 and 79 of OCBC's Annual Report 2022?

Response

There was only one day where the Daily P&L was twice the maximum VaR of S$11.07 million (as shown in the table on page 78 of OCBC's Annual Report 2022), under the "(28) - (24)" SGD million bucket in the bar chart "Frequency Distribution of Group Trading Daily P&L for FY 2022" on page 79. This was largely related to the mark-down of a debt security. The VaR methodology undergoes rigorous back-testing and is within expectations. In addition to VaR, OCBC monitors the market risk of exposures through sensitivity limits as detailed on pages 78 and 79, under "Other Risk Measures" in the Market Risk Management section.

Question 5

Is the Regulatory Loss Allowance Reserve ("RLAR") disclosed in OCBC's Annual Report 2022?

Response

The RLAR as at 31 December 2022 was S$455 million, and is disclosed in footnote 1 of the Group's Statement of Changes in Equity on page 119 of OCBC's Annual Report 2022.

B. Financial Performance *(continued)*

Question 6

What contributed to the rising non-performing loans ("NPL") in Greater China in the last two to three years?

With the reopening of China, would OCBC see a strong recovery of these NPLs?

Response

The Group's NPLs in Greater China were S$358 million, S$586 million and S$901 million as at the end of 2020, 2021 and 2022 respectively. There were no systemic risks noted in any particular sector and the NPL ratio for Greater China was 1.2% as at 31 December 2022, as disclosed on page 96 of OCBC's Annual Report 2022.

The year-on-year increase in 2021 of S$228 million was mainly driven by project financing delays due to supply chain disruption brought upon by Covid in Greater China. For 2022, the increase of S$315 million was largely from two corporate accounts, which were idiosyncratic in nature and mostly secured on properties, with loan-to-value ratio at about 60%.

The resumption of business activities from the reopening of China, together with multiple fiscal measures to aid economic growth, are expected to drive recovery in domestic consumption and private sector investment over time. This could potentially increase trade and investment flows, and support regional growth. However, the pace of recovery for these NPLs would be dependent on various factors including (but not limited to) the global economic environment, risk events and specific factors to the underlying projects.

OCBC continues to manage its portfolio proactively and with prudence. We are closely monitoring developments, and remain vigilant in identifying early warning signs and potential impact to the overall loan portfolio.

C. Capital Management and Dividends

<u>Question 1</u>

OCBC owns 87.9% of Great Eastern Holdings ("GEH"). The Monetary Authority of Singapore ("MAS") has introduced the policy to separate the financial and non-financial businesses of banks in Singapore to help banks remain focused on core banking business and competencies, and to prevent contagion risks. Recent worldwide banking turmoil has highlighted the immediate need to take one step further and banks must separate their banking and insurance activities to establish financial stability.

Will OCBC consider distributing all its GEH shares to OCBC shareholders to effect this split? This will unlock value in OCBC shares. This will also provide more liquidity to the trading of GEH shares for possible inclusion into MSCI and STI indices.

<u>Response</u>

Under the current regulations in Singapore, OCBC is permitted to hold a major stake in GEH. Presently, there are no plans to distribute GEH shares to OCBC shareholders.

GEH is a well-established market leader and trusted brand in Singapore and Malaysia, with a broad customer base of more than 14.5 million policyholders. GEH's insurance business is one of OCBC's three key business pillars. OCBC's diversified business franchise has enabled the Group to deliver well-balanced growth over the years and GEH continues to play an integral role in driving the Group's long-term growth.

<u>Question 2</u>

When does OCBC expect to fully implement the final Basel III reforms? What is the impact on the Group's Common Equity Tier 1 ("CET1") capital adequacy ratio?

<u>Response</u>

The implementation of the final Basel III reforms in Singapore is expected to commence between 1 January 2024 and 1 January 2025. The implementation will be a phase-in approach over a transitional period to be determined by MAS. The transitional timeline will be finalised by 1 July 2023. The impact of final Basel III reforms implementation on the Group's CET1 capital adequacy ratio is projected to be immaterial after full implementation.

C. Capital Management and Dividends *(continued)*

Question 3

OCBC's dividend policy has been revised from "sustainable and progressive dividend" to "a 50% dividend payout ratio" barring any unforeseen circumstances. Will OCBC maintain the dividend quantum minimally at the last dividend paid even if earnings decline?

Response

OCBC aims to deliver a 50% dividend payout ratio which demonstrates its confidence and ability to generate quality earnings and shareholder returns over the long term.

OCBC remains focused in executing its strategic priorities to drive growth, and in pursuing initiatives to improve capital efficiencies. As the Group achieves earnings growth over time, the dividend quantum should increase correspondingly, supported by our strong capital position.

We will review the dividend quantum at each dividend period.

Question 4

Would OCBC consider quarterly dividends?

Response

There are currently no plans to change the frequency of dividend payments from half-yearly to quarterly.