Media Release

OCBC Group Reports Second Quarter 2013 Net Profit of S$597 million

First Half 2013 Net Profit of S$1.29 billion

Singapore, 2 August 2013 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$597 million for the second quarter of 2013 ("2Q13"). The Group's core customer businesses continued to deliver strong performance during the quarter. Strong loan growth and a stable net interest margin drove net interest income to a new quarterly high. Fees and commissions also achieved a new quarterly record. Profits of our Malaysian and Indonesian banking subsidiaries increased 8% and 40% year-on-year, respectively, in local currency terms. New insurance business sales were up 34% and new business embedded value was up 20%. The strong core customer business results were however offset by significantly reduced profit contribution from subsidiary Great Eastern Holdings ("GEH") arising from unrealised mark-to-market losses in its Non-Participating Fund. As a result, the Group's net profit declined 8%, from S$648 million a year ago ("2Q12"). Before contribution from GEH, the Group's second quarter operating profit rose 5% year-on-year and 18% quarter-on-quarter, and its net profit rose 1% and 12% respectively against the corresponding periods.

Second quarter net interest income rose 3% to S$961 million, as compared to S$931 million in 2Q12. This was driven by robust customer loan growth across all key customer segments and markets, which increased 15% from a year ago to S$159 billion. Net interest margin of 1.64% was stable quarter-on-quarter, but was 13 basis points lower than 2Q12. The year-on-year decline in net interest margin was largely attributable to the sustained low interest rate environment and the continued impact of the re-pricing of existing mortgage loans in Singapore in response to market competition.

Non-interest income was 2% higher at S$606 million, up from S$596 million a year ago. Fees and commissions increased 9% to a new quarterly record of S$347 million, underpinned by continued growth in wealth management, loan-related, fund management and brokerage income. Trading income, supported by customer flows, rose 21% to S$90 million from S$75 million in 2Q12, while net gains from the sale of investment securities increased year-on-year to S$46 million. GEH's new business sales grew 34% year-on-year, while new business embedded value rose 20%, reflecting the underlying strength of its business. However, rising long-term interest rates and widening credit spreads led to unrealised mark-to-market losses in GEH's Non-Participating Fund, resulting in a 78% decline in life assurance profit to S$16 million.

Operating expenses rose 9% to S$718 million, from S$661 million in 2Q12, largely attributed to higher staff-related costs. The increase in staff costs was primarily from headcount growth of 5% to support the expansion of the Group's business franchise, with the balance attributable to annual salary increments and incentive compensation in line with stronger business volume. Net allowances were S$83 million, of which S$72 million were portfolio allowances in line with increases in loan outstanding, as compared to net allowances of S$38 million a year ago.

Compared to the previous quarter ("1Q13"), the Group's net profit after tax was 14% lower. Net interest income was up 5% quarter-on-quarter, lifted by 7% growth in customer loans, while net interest margin remained stable quarter-on-quarter. Non-interest income declined 11%, as increases in fees and commissions, trading and dividend income were offset by lower life insurance profit. Operating expenses rose 7%, largely from higher staff costs due to the Group's annual salary adjustments which took effect in April.

First Half Performance

For the first half of 2013 ("1H13"), the Group reported a net profit after tax of S$1.29 billion, 13% below last year's first half ("1H12") net profit of S$1.48 billion. Core net profit after tax, which excludes divestment gains, fell 10% as strong fee income growth was offset by lower trading and insurance income.

1H13 net interest income was relatively stable year-on-year at S$1.87 billion, as the 11% asset growth was offset by narrower net interest margins as compared with a year ago. Core non-interest income, excluding divestment gains, was 7% lower at S$1.28 billion as compared to S$1.39 billion a year ago. Trading income was 38% lower at S$146 million, as compared to the strong 1H12 performance. Profit from life assurance was down 34% at S$194 million, mainly from the weaker investment performance of GEH's Non-Participating Fund. However, fees and commissions grew 12% to S$663 million from S$591 million a year ago, driven by sustained growth in wealth management, loan-related, fund management and brokerage income. Gains from the sale of investment securities were also higher, up 45% year-on-year to S$93 million. Operating expenses rose 8% to S$1.39 billion, largely attributable to higher staff costs associated with increased staff strength, salary increments and higher business volume-related incentive compensation. Specific allowances declined 76% to S$13 million in 1H13, while portfolio allowances rose 21% to S$89 million, in tandem with strong loan growth. The Group's non-performing loans ("NPL") ratio was 0.7%, an improvement from 0.9% in the previous year.

The Group's overall income from various wealth management activities, comprising income from insurance, private banking, asset management, stockbroking and sales of other wealth management products, was S$877 million in 1H13, up 2% from a year ago. As a share of total income, wealth management activities contributed 28%, as compared to 26% in the previous year. OCBC's private banking business continued to expand, with assets under management of US$45 billion (S$57 billion) as at 30 June 2013, a 26% increase from US$36 billion (S$45 billion) a year ago.

Annualised return on equity, based on core earnings, was 10.9% in 1H13, compared with 13.1% in 1H12, while annualised core earnings per share was 73.4 cents, down from 81.5 cents a year ago.

Allowances and Asset Quality

Net allowances for loans and other assets were S$83 million in 2Q13, higher than the S$21 million in 1Q13, and S$38 million a year ago. These mainly comprised portfolio allowances, which amounted to S$72 million. Specific allowances for loans, net of recoveries and write-backs, remained low at S$11 million, and represented an annualised 3 basis points of loans for the quarter.

The NPL ratio further improved from a year ago to 0.7%, as compared with 0.9% in 2Q12, and was unchanged quarter-on-quarter. Total non-performing assets ("NPAs") declined 8% from a year ago to S$1.18 billion, and were 5% higher from 1Q13. The Group's coverage ratios remained strong, with total cumulative allowances amounting to 144% of total NPAs and 329% of unsecured NPAs.

Capital Ratios

The Group remains strongly capitalised, with a Common Equity Tier 1 ("CET1") capital adequacy ratio ("CAR") of 14.9%, and Tier 1 and Total CAR of 14.9% and 16.8% respectively as at 30 June 2013. These ratios, based on MAS' transitional Basel III rules for 2013, were well above the regulatory minima of 4.5%, 6% and 10%, respectively.

Interim Dividend

An interim dividend of 17 cents per share has been declared for the first half-year of 2013. The Scrip Dividend Scheme will not be applicable to the interim dividend. The interim dividend payout will amount to approximately S$583 million, representing 45% of the Group's core net profit after tax.

CEO's Comments

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

"Our quarterly and first half results underscored the continued strong performance of our customer franchise. Broad-based loan and deposit growth, a stable net interest margin, record high income from fees and commissions, strong insurance product sales at Great Eastern all contributed to our underlying performance. We are also pleased with the increased contributions from our Malaysian and Indonesian banking subsidiaries, which reflected the results of our focused strategy of deepening and diversifying our business franchises in the region. Despite the partial erosion to our earnings in the second quarter from the unrealised mark-to-market losses at our subsidiary Great Eastern, the momentum in our customer flow business remains strong. Coupled with our sound capital, funding and liquidity position, we are well-placed to make further inroads into the Group's key markets, while being alert to possible continued uncertainties in the global economy."

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. It was ranked by Bloomberg Markets as the world's strongest bank in 2011 and 2012.

OCBC Bank and its subsidiaries offer a broad array of 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 a network of over 450 branches and representative offices in 15 countries and territories, including about 340 branches and offices in Indonesia that are operated by its subsidiary, Bank OCBC NISP.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia. Private banking services are provided by subsidiary Bank of Singapore, which continued to gain industry recognition including being voted "Outstanding Private Bank in Asia Pacific" by Private Banker International.

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