

Media Release

OCBC Group Reports Third Quarter Net Profit After Tax of S\$759 million

Strong growth in customer-related businesses drove core earnings up 5% from a year ago and 27% quarter-on-quarter

Singapore, 1 November 2013 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S\$759 million for the third quarter of 2013 ("3Q13"). Excluding non-core gains realised a year ago ("3Q12") from the divestment of the Group's stakes in Fraser and Neave, Limited and Asia Pacific Breweries Limited, core net profit after tax rose 5% from a year ago, and 27% from the previous quarter ("2Q13"). Sustained performance of the Group's broad-based customer-related businesses drove continued growth in net interest income, record fees and commissions, and higher life assurance profit. The Group's Malaysian and Indonesian banking subsidiaries each recorded a 21% year-on-year increase in net profit after tax, in local currency terms, while Great Eastern Holdings' ("GEH") earnings contribution to Group core net profit after tax rose 49%.

Net interest income rose 4% to a quarterly high of S\$978 million, from S\$944 million in 3Q12, driven by robust asset growth which more than offset a year-on-year reduction in net interest margin. Customer loans increased 16% year-on-year to S\$162 billion, with broad-based loan growth across all customer segments and geographies. Net interest margin of 1.63% for 3Q13 was stable quarter-on-quarter, and was 12 basis points lower than the prior year. The year-on-year decline in interest margin was attributable to the continued low interest rate environment, and the re-pricing of existing Singapore housing loans.

Non-interest income, excluding divestment gains, rose 3% to S\$779 million, from S\$754 million in 3Q12, despite a 68% decline in trading income. The Group achieved a consecutive quarter of record fees and commissions of S\$352 million, up 16% from S\$303 million a year ago, spurred by robust growth across all fee segments. Net trading income, however, fell from the strong 3Q12 performance of S\$144 million to S\$47 million. Net gains from the sale of investment securities increased to S\$37 million, from S\$13 million in 3Q12. GEH's underlying insurance business continued to grow strongly, as reflected by a 38% year-on-year increase in new business sales, and an 18% rise in new business embedded value. Profit from life assurance grew 26% from S\$190 million a year ago to S\$240 million, driven by continued underwriting profit growth, and improved investment performance.

Operating expenses of S\$681 million for the quarter were lower as compared to S\$685 million a year ago. The cost-to-income ratio for the third quarter was 38.8%, an improvement from 45.8% the previous quarter, and 40.3% a year ago. Allowances for loans and other assets of S\$94 million were up from S\$70 million in 3Q12. The Group's asset quality remained sound, with the non-performing loans ("NPL") ratio unchanged year-on-year at 0.8%.

Compared to the previous quarter, core net profit after tax for 3Q13 grew 27%. Net interest income was 2% higher quarter-on-quarter, largely from asset growth which more than offset a marginal 1 basis point decline in net interest margin. Non-interest income rose 29%, driven by higher fee income, and an increase in profit from life assurance, largely as a result of a recovery in financial markets which gave rise to unrealised mark-to-market gains in GEH's Non-Participating Fund in 3Q13. Operating expenses fell 5%, contributed by lower staff incentive-related costs, and a decline in insurance-related expenses. Allowances for loans and other assets were S\$94 million, of which S\$49 million related to portfolio allowances set aside for loan growth.

Nine Months' Performance

Net profit after tax for the first nine months of 2013 ("9M13") was S\$2.05 billion. Excluding divestment gains, core net profit after tax declined 5% from a year ago ("9M12"), mainly as trading income declined S\$186 million year-on-year, and profit from life assurance was S\$47 million lower.

Net interest income for 9M13 rose 1% to S\$2.85 billion, from S\$2.83 billion the previous year, as asset growth of 11% more than offset the compression in net interest margin. Excluding divestment gains, core non-interest income of S\$2.06 billion was 4% lower from S\$2.14 billion a year ago, mainly attributable to a 49% decline in trading income. Fees and commissions grew 13% to S\$1.01 billion, led by strong growth in wealth management, loan-related, credit card and fund management income. Net gains from investment securities, from disposal of bonds and equities, increased by S\$53 million to S\$130 million. Net trading income of S\$193 million was lower by S\$186 million, compared to the strong 9M12 performance. Profit from life assurance fell 10% to S\$434 million, as strong underwriting profit growth was more than offset by lower investment performance from GEH's Non-Participating Fund. Operating expenses rose 5% to S\$2.07 billion, from S\$1.97 billion in 9M12, mainly attributable to higher staff costs. Allowances for loans and other assets were S\$198 million, down from S\$204 million a year ago.

The Group's overall income from wealth management activities, comprising income from insurance, private banking, asset management, stockbroking and sales of other wealth management products, was S\$1.44 billion in 9M13, up 8% from a year ago. As a share of total income, wealth management activities contributed 29%, as compared to 27% in the previous year. OCBC's private banking business continued to expand year-on-year, with assets under management of US\$45 billion (S\$57 billion) as at 30 September 2013, a 15% increase from US\$39 billion (S\$48 billion) a year ago.

Annualised return on equity, based on core earnings, was 11.5% in 9M13, compared to 13.0% a year ago. Annualised core earnings per share was 77.4 cents, down from 80.9 cents in 9M12.

Allowances and Asset Quality

Allowances for loans and other assets were S\$94 million for the quarter, up from S\$70 million in 3Q12. Portfolio allowances of S\$49 million were 60% higher year-on-year, in line with robust loan growth. Specific allowances for loans, net of recoveries and writebacks, were S\$42 million, as compared to S\$24 million in 3Q12. Specific allowances for the quarter were at a relatively low 10 basis points of loans on an annualised basis.

Absolute NPLs rose 14% from the previous quarter to S\$1.31 billion as at 30 September 2013, and the NPL ratio remained low at 0.8% as compared to 0.7% in 2Q13. The Group's coverage ratios remained healthy, with total cumulative allowances representing 130% of total NPAs and 294% of unsecured NPAs.

Capital Ratios

The Group continues to be well-capitalised, with a Common Equity Tier 1 ("CET1") capital adequacy ratio ("CAR") of 14.3%, and Tier 1 and Total CAR of 14.3% and 16.1% respectively as at 30 September 2013. Based on MAS' transitional Basel III rules for 2013, these ratios were well above the regulatory minima of 4.5%, 6% and 10%, respectively.

CEO's Comments

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

"We are pleased with our third quarter results. The challenging market conditions associated with the uncertainty over the timing of the US Federal Reserve's tapering of bond purchases have reduced our income contribution from trading and market-related activities. However, our customer franchise and the strong momentum across our regional businesses have continued to contribute to robust lending, fee-based and insurance performance. We see further opportunities to deepen our commercial, wealth management and insurance presence in our key markets, and will continue to drive disciplined and sustainable growth in the region."

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 more than 330 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" in 2013 by Private Banker International.

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