Media Release

OCBC Group Reports Third Quarter 2014 Net Profit after Tax up 62% to S$1.23 billion

Third quarter results led by 30% rise in core earnings from banking operations

Nine months core net profit at a new high

Singapore, 30 October 2014 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$1.23 billion for the third quarter of 2014 ("3Q14"), an increase of 62% from S$759 million a year ago ("3Q13").

The 3Q14 earnings included a one-off gain of S$391 million that arose from the Group's increased stake in Bank of Ningbo Co., Ltd ("BON"), which became a 20%-owned associated company on 30 September 2014. As a result, the Group's initial available-for-sale 15.3% investment was deemed disposed of in accordance with accounting standards, and its related fair value reserve was recognised in the income statement as a one-off gain. Excluding the one-off gain, the Group's core net profit rose 11%, underpinned by strong earnings from its banking operations, which grew 30% year-on-year from increased net interest income, record fee income and higher trading income.

The Group's third quarter core net profit included the results of the 97.5%-owned OCBC Wing Hang Bank (formerly Wing Hang Bank), following the completion of the acquisition on 29 July 2014. OCBC Wing Hang's net profit contribution to the Group's consolidated results for this period was S$38 million, after merger-related adjustments primarily in depreciation and provisions. OCBC Wing Hang became a wholly-owned subsidiary after quarter-end on 15 October 2014 and was delisted from the Hong Kong Stock Exchange on 16 October 2014.

Net interest income for the quarter increased 27% to S$1.25 billion from S$978 million a year ago, driven by strong asset growth and higher net interest margin. Net interest margin rose 5 basis points to 1.68% from 1.63% in 3Q13, contributed by improved loan spreads and higher returns from money market activities. Customer loans grew S$42.9 billion or 27% from a year ago to S$205 billion, with OCBC Wing Hang contributing S$24.9 billion to the increase. Excluding the consolidation effect of OCBC Wing Hang, loan growth of 11% was broad-based, led by general commerce loans, housing loans, and loans to professionals and individuals.

Core non-interest income, before one-off gains, rose 3% to S$801 million from S$779 million a year ago. Fee and commission income climbed 16% to a new high of S$406 million from S$352 million in 3Q13, driven by strong growth in wealth management, loan and trade fees. Net trading income for the quarter, primarily treasury-related income from customer flows, increased to S$113 million from S$47 million a year ago. Great Eastern Holdings ("GEH") continued to build on the strength of its underlying insurance business, recording higher operating profit from in-force business growth. Profit from life assurance, however, was 27% lower at S$174 million, as unrealised mark-to-market investment gains in its Non-Participating Fund were lower than in the previous year.

Operating expenses rose 28% from a year ago to S$870 million, reflecting the consolidation of OCBC Wing Hang. Excluding OCBC Wing Hang, operating expenses grew 16%. Approximately 4% of the year-on-year increase was attributable to a lower expense base a year ago that was the result of a reversal of an insurance-related provision no longer required by GEH in 3Q13. The balance was due to an increase in staff costs and headcount to support business expansion. The Group's cost-to-income ratio for 3Q14 was 42.5% as compared to 38.8% a year ago. Net allowances for loans and other assets were S$97 million, relatively unchanged from S$94 million a year ago. The Group's non-performing loans ("NPL") ratio of 0.7% was lower as compared to 0.8% in 3Q13.

Against the previous quarter ("2Q14"), the Group's core net profit after tax was 9% lower. Net interest income, including OCBC Wing Hang's contribution, rose 11%. Non-interest income, excluding one-off gains, declined 6% as fee income growth of 15% was more than offset by lower trading and insurance income. Operating expenses rose 14%, mainly from the consolidation of OCBC Wing Hang. Excluding OCBC Wing Hang, the Group's operating expenses grew 4% from 2Q14. Of the S$31 million quarterly increase in net allowances for loans and other assets, S$30 million was attributable to the consolidation of OCBC Wing Hang.

Nine Months' performance

Net profit after tax for the first nine months of 2014 ("9M14") was S$3.05 billion. Excluding one-off gains, the Group achieved a core net profit after tax of S$2.66 billion, which was 30% higher from a year ago ("9M13") and driven by broad-based income growth.

Net interest income rose 21% to S$3.46 billion from S$2.85 billion a year ago, underpinned by 17% asset growth and a 6 basis point improvement in net interest margin. Core non-interest income increased 19% from the previous year to S$2.45 billion. Fees and commissions grew 10% to S$1.11 billion from increased wealth management, loan and trade fees. Net trading income was higher at S$346 million as compared to S$193 million a year ago, while net gains from investment securities of S$69 million was down from S$130 million in 9M13. Profit from life assurance increased 33% to S$578 million, as in-force business growth was supported by the improved investment performance of GEH's Non-Participating Fund. Operating expenses grew 13% year-on-year to S$2.34 billion. Before accounting for OCBC Wing Hang, the Group's operating expenses increased 9%, mainly from higher staff costs. Net allowances for loans and other assets were S$203 million as compared to S$198 million in 9M13.

The Group's overall income from wealth management activities (comprising income from insurance, private banking, asset management, stockbroking and other wealth management products) climbed to a new record of S$1.68 billion in 9M14, and represented a 17% increase from S$1.44 billion the previous year. As a share of total income, wealth management activities contributed 28% as compared to 29% a year ago. OCBC's private banking business maintained its strong growth, with assets under management of US$51 billion (S$65 billion) as at 30 September 2014, 13% higher as compared to US$45 billion (S$57 billion) a year ago.

Annualised core return on equity was 14.3% for 9M14, higher than 11.5% a year ago. Annualised core earnings per share increased 31% to 98.5 cents, up from 75.3 cents in 9M13.

Allowances and Asset Quality

Net allowances for loans and other assets were S$97 million in 3Q14 as compared to S$94 million a year ago. Specific allowances for loans, net of recoveries and writebacks, were S$66 million for the quarter. Excluding the consolidation of S$24 million in specific allowances from OCBC Wing Hang, specific allowances in 3Q14 of S$42 million were unchanged year-on-year. Portfolio allowances of S$31 million were lower as compared to S$49 million the previous year.

The Group's asset quality and coverage ratios remained sound. As at 30 September 2014, total non-performing assets ("NPAs") increased 3% from a year ago to S$1.37 billion. The Group's NPAs, however, fell 3% year-on-year before the consolidation of OCBC Wing Hang's NPAs. The NPL ratio was 0.7%, an improvement from 0.8% a year ago and unchanged quarter-on-quarter.

The Group's total cumulative allowances provided a healthy coverage of 155% of total NPAs and 480% of total unsecured NPAs, an increase as compared to the respective ratios of 130% and 294% a year ago. The higher year-on-year coverage was partly attributable to the consolidation of OCBC Wing Hang's cumulative allowances.

Funding and Capital Position

The Group continued to maintain its strong funding and capital position following the acquisition of OCBC Wing Hang.

After taking into account OCBC Wing Hang's deposits of S$32.1 billion, the Group's customer deposits amounted to S$237 billion and were S$55.9 billion or 31% higher than a year ago. Excluding OCBC Wing Hang, customer deposits increased 13% year-on-year. As at 30 September 2014, the Group's loans-to-deposits ratio, which includes OCBC Wing Hang, was 85.5% as compared to 88.4% the previous year.

On 18 August 2014, we launched a renounceable underwritten rights issue which raised net proceeds of S$3.3 billion. The rights issue was fully subscribed, with acceptances and excess applications totalling 171.5% as at the close of the offer on 15 September 2014. The proceeds from the rights issue strengthened our balance sheet and enhanced the financial flexibility of the Group following the successful completion of the acquisition of OCBC Wing Hang.

As at 30 September 2014, the Common Equity Tier 1 capital adequacy ratio ("CAR") was 13.2% and Tier 1 CAR and Total CAR were 13.2% and 15.5% respectively. Based on Basel III transitional arrangements, these ratios were well above the respective regulatory minima of 5.5%, 7% and 10%.

CEO's Comments

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

"Our record nine-month results reflect the underlying strength and diversity of our banking and insurance franchise. Independent of the consolidation of OCBC Wing Hang's earnings, we achieved broad-based loan growth, improved our net interest margin and reported record fee income, particularly in wealth management. With the addition of OCBC Wing Hang, our earnings and asset base would be further diversified. We completed our S$3.3 billion equity rights issue successfully in September with a high over-subscription rate. I would like to thank our shareholders for their strong support, which is an affirmation of our strategy of prudent expansion in our core markets.

I am also pleased to report that the integration of OCBC Wing Hang is progressing well. The management and staff of OCBC Wing Hang and the OCBC Group are working very closely together. The integration has been effective and smooth at both the customer-facing and operational levels.

With our newly expanded regional presence and enlarged customer base, we are well-placed to capture new cross border opportunities in addition to in-market business expansions and realisation of synergistic value of the combined franchise."

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 over 630 branches and representative offices in 18 countries and territories. These include the more than 330 branches and offices in Indonesia operated by subsidiary, Bank OCBC NISP and OCBC Wing Hang's 95 branches in Hong Kong, China and Macau.

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 continues to gain industry recognition including being voted "Outstanding Private Bank in Asia Pacific" in 2013 by Private Banker International.

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