Media Release

OCBC Group Reports Record Second Quarter 2014 Net Profit after Tax of S$921 million

Half Year earnings rose 41% to a new high, supported by healthy business momentum

Singapore, 5 August 2014 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$921 million for the second quarter of 2014 ("2Q14"), an increase of 54% from S$597 million a year ago ("2Q13"). The record quarterly performance was underpinned by higher net interest income, strong non-interest income growth, mark-to-market gains in the insurance business and continued cost discipline.

Net interest income climbed 17% from S$961 million a year ago to a new high of S$1.13 billion in 2Q14, led by strong asset growth with increased net interest margin. Customer loans rose 12% year-on-year to S$177 billion, with broad-based growth across all key customers segments and geographies. Net interest margin for the quarter was 1.70%, 6 basis points higher than 1.64% in 2Q13. The improvement in net interest margin arose from higher loan spreads and better returns from money market activities.

Non-interest income rose 40% to S$850 million from S$606 million in 2Q13. Fee and commission income of S$353 million increased 2% from a year ago, led by higher wealth management and trade-related income. Net trading income, primarily treasury-related income from customer flows, of S$133 million was 48% above the previous year, while dividend income grew 53% to S$56 million. Profit from life assurance for the quarter was S$220 million, significantly higher as compared to S$16 million a year ago. This was largely attributable to higher mark-to-market gains in Great Eastern Holdings' Non-Participating Fund as a result of favourable interest rates and tighter credit spreads.

The Group's operating expenses were well-managed, rising 6% to S$760 million from S$718 million in 2Q13, with the increase largely attributable to higher staff costs linked to headcount growth and annual salary increments. The cost-to-income ratio was 38.5%, a marked improvement from 45.8% the previous year. Net allowances for loans and other assets were S$66 million, lower as compared to S$83 million a year ago. The Group's non-performing loans ("NPL") ratio of 0.7% was unchanged year-on-year.

On a quarter-on-quarter basis, the Group's net profit after tax was 3% higher. Net interest income rose 4% from asset growth with stable net interest margin. Non-interest income grew 6%, largely led by higher trading, dividend and insurance income. Operating expenses rose 8%, mainly contributed by an increase in staff costs as a result of the Group's annual salary adjustments, which took effect in April. Net allowances for loans and other assets increased from S$41 million to S$66 million, largely from portfolio allowances.

First Half Performance

For the first half of 2014 ("1H14"), the Group achieved a record net profit after tax of S$1.82 billion, 41% higher as compared to S$1.29 billion a year ago ("1H13"). Healthy business momentum across all customer-related businesses continued to drive the strong earnings performance.

First half net interest income rose 18% to S$2.21 billion, contributed by 14% growth in interest-earning assets and a 6 basis point increase in net interest margin to 1.70%. Non-interest income grew 29% from a year ago to S$1.65 billion. Fee and commission income of S$706 million was 6% higher as compared to 1H13, led by wealth management, trade-related and loan-related income growth. Net trading income rose 59% to S$232 million from S$146 million a year ago, with treasury-related income from customer flows being the largest component. Profit from life assurance of S$403 million was higher than S$194 million in 1H13, largely as a result of the improved investment performance of Great Eastern Holdings' Non-Participating Fund.

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) rose to a new high of S$1.15 billion, up 31% from S$877 million a year ago. As a share of total income, wealth management activities contributed 30% as compared to 28% in 1H13. OCBC's private banking business continued to grow, with assets under management of US$51 billion (S$64 billion) as at 30 June 2014, 14% higher than US$45 billion (S$57 billion) a year ago.

The Group's operating expenses grew 5% to S$1.47 billion, while net allowances for loans and other assets increased 2% to S$107 million.

Annualised return on equity was 14.9% for 1H14, higher as compared to 10.9% a year ago. Annualised earnings per share rose 43% to 105.1 cents, up from 73.4 cents in 1H13.

Allowances and Asset Quality

Net allowances for loans and other assets in 1H14 were S$107 million, up 2% from S$104 million the previous year. Specific allowances for loans, net of recoveries and writebacks, were S$59 million as compared to S$13 million in 1H13. Specific allowances remained low at 7 basis points of loans on an annualised basis. Portfolio allowances of S$59 million were 34% lower than S$89 million the previous year.

The Group's asset quality and coverage ratios remained sound. As at 30 June 2014, total non-performing assets ("NPAs") amounted to S$1.22 billion, 3% higher than a year ago but 1% lower quarter-on-quarter. The NPL ratio as at 30 June 2014 of 0.7% was stable year-on-year and against the previous quarter. The Group's total cumulative allowances provided a healthy coverage of 149% of total NPAs and 423% of total unsecured NPAs, a higher coverage as compared to the respective ratios of 145% and 396% as at 31 March 2014.

Funding and Capital Position

The Group maintained its strong funding and capital position. Customer deposits exceeded S$200 billion for the first time, rising 14% to S$201 billion as at 30 June 2014, higher as compared to S$176 billion a year ago. The loans-to-deposits ratio was 87.2%, lower than 89.2% the previous year.

As at 30 June 2014, the Common Equity Tier 1 capital adequacy ratio ("CAR") was 14.7% and Tier 1 CAR and Total CAR were 14.7% and 17.4% respectively. Based on Basel III transitional arrangements, these ratios were well above the respective regulatory minima of 5.5%, 7% and 10%.

Interim Dividend

An interim dividend of 18 cents per share has been declared for the first half of 2014.

The Scrip Dividend Scheme will be applicable to the interim dividend, giving shareholders the option to receive the dividend in the form of shares. The issue price of the shares will be set at a 10% discount to the average of the daily volume weighted average prices during the price determination period from 25 August to 27 August 2014, both dates inclusive.

The interim dividend payout will amount to approximately S$628 million, representing 35% of the Group's 1H14 net profit after tax.

CEO's Comments

Commenting on the Group's performance, CEO Samuel Tsien said:
"We are very pleased with our record second quarter as well as first half earnings performance. Loans growth continued, net interest margin improvement was sustained, and non-interest income increased, led by higher insurance income, trade and wealth-related fees. Our strong earnings contributed to the organic build-up of our capital base, which was further augmented by two Basel III compliant subordinated debt issuances in the second quarter.

Along with our strong results, we are also delighted to announce that Wing Hang Bank became a subsidiary of OCBC Bank in July. At the close of the general offer period on 29 July 2014, we obtained a 97.5% interest in the issued share capital of Wing Hang Bank. We intend to compulsorily acquire the remaining shares and privatise Wing Hang Bank. With the addition of the Wing Hang Bank platform to the OCBC network, we are excited not only about the new in-market synergistic opportunities, but also the significant cross-border business arising from the growing regional trade, investment, capital and wealth flows between Greater China and South East Asia, which OCBC is now strategically positioned to capture."

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 is 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 530 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 Wing Hang Bank's 70 branches in Hong Kong, China and Macau. Wing Hang Bank became a subsidiary of OCBC Bank on 15 July 2014.

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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