Media Release

OCBC Group's Fourth Quarter Earnings Up 8% to S$715 million, Bringing Full Year 2013 Net Profit After Tax to S$2.77 billion

Fourth quarter results driven by 22% increase in earnings from banking operations

Singapore, 14 February 2014 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$715 million for the fourth quarter of 2013 ("4Q13"), 8% higher than S$663 million a year ago ("4Q12"). This was underpinned by a 22% year-on-year increase in net profit after tax from our banking operations that included record quarterly earnings from our Malaysian and Indonesian banking subsidiaries which grew 37% and 17% respectively in local currency terms (34% and 6% in SGD terms).

The Group's net profit after tax for the financial year ended 31 December 2013 ("FY13") was S$2.77 billion. The strong momentum from our customer-related businesses lifted net interest income and fee income to record high levels. Our Malaysian and Indonesian banking subsidiaries also reported record full year results, while our insurance subsidiary Great Eastern Holdings ("GEH") achieved strong underlying business growth. Excluding non-core divestment gains of S$1.17 billion a year ago ("FY12"), core net profit after tax was 2% lower, as the strong customer-related business results throughout the year were offset by lower net trading income and unrealised mark-to-market losses from GEH's Non-Participating Fund.

Fourth Quarter Performance

Net interest income achieved a new quarterly high from robust asset and deposit growth, rising 12% to S$1.03 billion. Non-interest income was lower at S$679 million, down 10% from S$757 million in 4Q12. This was largely attributed to lower net trading income that fell 49% to S$69 million and lower life assurance profit that declined 22% to S$165 million. Fees and commissions rose 12% to S$341 million, led by higher wealth management, loan-related and trade-related fees. Operating expenses for the quarter declined 1% to S$713 million and net allowances were unchanged year-on-year at S$68 million.

Compared to the previous quarter, net profit after tax from banking operations grew 11% as a result of increases in net interest income and net trading income. The Group's net profit after tax was 6% lower, which was attributed to a decline in profit from life assurance.

Full Year Performance

Spurred by strong growth in both loans and deposits, full year net interest income was a record S$3.88 billion, 4% higher than S$3.75 billion a year ago. Customer loans rose 18% year-on-year to S$170 billion from broad-based growth in Singapore and key overseas markets, which was led by trade finance and loans to the housing and building & construction sectors. Net interest margin for FY13 was stable at 1.64% over the four quarters in 2013. Compared to the previous year, net interest margin declined 13 basis points as a result of the persistently low interest rate environment and the re-pricing of existing mortgage loans in response to market competition. This was partially mitigated by an improvement in corporate and commercial loan spreads and lower costs from deposit funding.

Our customer-related businesses recorded strong growth momentum, which increased trade finance income by 12% and treasury income from customer flows by 26% year-on-year. Fee and commission income rose 13% from S$1.20 billion in FY12 to reach a record S$1.36 billion, contributed by income growth in wealth management, loan-related, fund management and credit cards. Net gains from the sale of investment securities increased 46% to S$133 million. These income increases were however offset by a 49% drop in net trading income to S$262 million. Profit from life assurance also fell 13% to S$599 million from S$692 million a year ago, mainly from unrealised mark-to-market losses in GEH's Non-Participating Fund. GEH's underlying insurance business recorded strong growth in weighted new business premiums and new business embedded value. The Group's overall non-interest income, excluding divestment gains, declined 5% to S$2.74 billion from S$2.90 billion 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) grew to a new high of S$1.93 billion, an increase of 5% from S$1.84 billion a year ago. As a share of total income, wealth management activities contributed 29%, compared with 28% in FY12. OCBC's private banking business maintained its strong growth trajectory, with assets under management increasing 8% to US$46 billion (S$58 billion) as at 31 December 2013 from US$43 billion (S$52 billion) a year ago.

Operating expenses were well-managed, up 3% at S$2.78 billion compared to S$2.70 billion in FY12. Staff costs increased 4% to S$1.72 billion, reflecting a 3% rise in headcount to support business expansion in our key markets, annual salary increments and higher incentive compensation linked to business volume growth.

The cost-to-income ratio was 42.0% in FY13, compared with 40.6% a year ago, mainly as a result of the lower contribution from market-related trading and insurance income.

Allowances for loans and other assets were S$266 million, 2% lower than S$271 million in FY12, while the non-performing loans ("NPL") ratio improved to 0.7% from 0.8% a year ago.

Return on equity, based on core earnings, was 11.6% in FY13, compared with 12.5% a year ago. Core earnings per share for the year was 78.0 cents, compared with 79.1 cents in FY12.

Allowances and Asset Quality

Net allowances for loans and other assets were S$266 million in FY13, a decline of 2% compared with S$271 million a year ago. Specific allowances for loans, net of recoveries and writebacks, fell 29% to S$81 million from S$115 million a year ago. Specific allowances remained low at 5 basis points of loans, compared to 8 basis points of loans in FY12. Portfolio allowances increased 24% to S$183 million from S$148 million a year ago, in line with strong loan growth.

The Group's asset quality and coverage ratios remained sound. As at 31 December 2013, total non-performing assets ("NPAs") stood at S$1.30 billion, 11% higher year-on-year but 2% lower against the previous quarter. The NPL ratio as at 31 December 2013 was 0.7%, an improvement against 0.8% a year ago and the previous quarter. The Group's total cumulative allowances provided a healthy coverage of 134% of total NPAs and 310% of total unsecured NPAs as at 31 December 2013.

Subsidiaries' Results

Our key subsidiaries contributed positively to the Group's strong customer-related business growth. GEH continued to achieve strong underlying insurance business growth, with weighted new business premiums and new business embedded value up 27% and 22% respectively year-on-year. This was driven by sustained momentum across all sales channels in Singapore and Malaysia. The close collaboration between GEH and the OCBC Group also continued to yield robust bancassurance growth.

GEH reported a net profit after tax of S$675 million. Excluding divestment gains, net profit after tax was 12% lower compared to S$768 million a year ago, as strong growth in its underlying insurance business was more than offset by unrealised mark-to-market losses in its Non-Participating Fund. As a result, GEH's core net profit after tax contribution to the Group was S$542 million, excluding divestment gains and deducting amortisation of intangible assets and non-controlling interests. This was down 13% from S$622 million a year ago.

OCBC Bank (Malaysia) Berhad reported a record set of results. Full year net profit after tax was MYR946 million (S$374 million), 17% higher than MYR811 million (S$328 million) in FY12. This was achieved through broad-based income growth driven by a 52% increase in Islamic Financing Income, a 2% increase in net interest income and a 2% growth in non-interest income. Operating expenses rose 3% from the previous year while allowances were 29% lower. There was robust loan growth of 17% year-on-year, with the NPL ratio at 2.3%.

Bank OCBC NISP likewise reported a record net profit after tax of IDR1,143 billion (S$137 million), up 25% from IDR915 billion (S$122 million) a year ago. Total income rose 18% year-on-year, underpinned by net interest income growth of 22% and a 5% increase in non-interest income. Operating expenses were 14% higher while allowances increased 5%. Total customer loans were significantly higher by 21% year-on-year and the NPL ratio improved from 0.9% a year ago to 0.7%.

Capital and Funding Position

The Group continued to maintain a strong capital and funding position. Customer deposits were S$196 billion as at 31 December 2013, 19% higher than S$165 billion a year ago and up 8% from S$181 billion of the previous quarter. The loans-to-deposits ratio as at 31 December 2013 was 85.7%, lower compared to 86.2% a year ago and 88.4% of the previous quarter.

As at 31 December 2013, the Common Equity Tier 1 capital adequacy ratio ("CAR") was 14.5% and Tier 1 CAR and Total CAR were 14.5% and 16.3% respectively. Based on MAS' transitional Basel III rules for 2013, these ratios were well above the respective regulatory minima of 4.5%, 6% and 10%.

Final Dividend

The Board has proposed a final tax-exempt dividend of 17 cents per share, bringing the FY13 total dividend to 34 cents per share, an increase from 33 cents in FY12. This represents a payout ratio of 42%, which is within our target guidance range of 40% to 50% of the Group's core net profit after tax. The Scrip Dividend Scheme will be applicable to the final 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 28 April to 30 April 2014, both dates inclusive.

CEO's Comments

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

"Our full year performance underscores the solid fundamentals of our banking, insurance and wealth management franchise. The strong momentum across our customer-related businesses was maintained throughout the year, which substantially offset the lower income from market-related trading and insurance activities. Looking ahead, our overall outlook remains optimistic, given the positive macroeconomic environment and the underlying growth prospects in our key markets. We will continue to grow prudently, make the best use of our resources, work comfortably within our regulatory obligations and invest in our network and capabilities to support our customers. With our strong financial position and established customer franchise in our chosen markets, we are well-placed to continue delivering long-term shareholder value."

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 17 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.

For more information, please visit www.ocbc.com