

## Letter to Shareholders



Our performance again demonstrates our ability to deliver stable earnings in a year characterised by challenging market conditions. In our key markets, we have a strong, broad-based and loyal customer franchise with good growth potential. We are executing our well-defined strategy according to plan, and we have the vision, ability and resources to pursue organic growth and explore strategic opportunities with confidence.

Core Net Profit	
<b>S\$2.77b</b>	<b>2013</b>
<b>S\$2.83b</b>	<b>2012</b>

Dear Fellow Shareholders

Global economic sentiments have gradually improved over the last twelve months. The United States economy has seen positive growth momentum and is on a sounder footing. The Eurozone is slowly pulling itself out from recession, though it will take some time before there is sustainable growth. Japan has begun to overcome decades of deflation, while China has started to rebalance from an investment-led growth model to one driven by private consumption. In our home market of Singapore, 2013 GDP growth of 3.7% was higher than the 1.3% achieved in the previous year. The economies of Malaysia and Indonesia however had a relatively difficult year, the result of soft commodity prices, currency weakness and lacklustre global trade sentiment. 2013 was also a year marked by turbulence in financial markets, created largely by uncertainties over the US Federal Reserve's timing of its QE tapering programme, which many feared would trigger capital outflows from emerging economies.

Against this backdrop, we performed well and maintained a strong balance sheet. Business momentum was strong, although our

market-related performance was impacted by volatile financial markets. Our strategy continues to be focused on deepening our presence in our core markets of Singapore, Malaysia, Indonesia and Greater China. At the same time we recognise the key trends that may reshape our future operating environment, particularly in relation to wealth creation and social progression, digitisation, adoption of Basel III capital and liquidity requirements, internationalisation of the RMB, and growing inter-connectivity of the regional and global economy. Accelerated cross-border flows of trade, capital, talent and investment present both opportunities and pitfalls.

### PERFORMANCE REVIEW

For the full year 2013, our Group reported net profit after tax of S\$2.77 billion. Excluding non-core gains realised a year ago from the divestment of the Group's stakes in Fraser and Neave, Limited and Asia Pacific Breweries Limited, core net profit after tax was 2% lower than a year ago. Sustained momentum from our customer-related businesses produced record net interest, fee and commission income. In Malaysia and Indonesia, our banking subsidiaries reported record net profit after tax. Our insurance subsidiary Great Eastern Holdings

achieved strong underlying business growth, but the strong customer franchise was offset by lower trading income and unrealised mark-to-market losses in Great Eastern Holdings' Non-Participating Fund.

Net interest income reached a new high of S\$3.88 billion, an increase of 4% from S\$3.75 billion a year ago. This was driven by robust loan and deposit growth, which more than made up for a drop in net interest margin. Customer loan growth, led by trade finance, rose 18% to S\$170 billion, up from S\$144 billion a year ago, underpinned by broad-based increases across all customer segments and geographies. Net interest margin declined 13 basis points because of the persistently low interest rate environment and the re-pricing of existing housing loans in response to market competition, though this was partially mitigated by an improvement in corporate and commercial spreads and lower deposit funding costs. Overall, the Group's net interest margin stabilised in 2013, holding steady at around 1.64% throughout the four quarters of 2013.

Non-interest income, excluding divestment gains, fell 5% to S\$2.74 billion, down from S\$2.90 billion the previous year, as sustained customer-led fee growth was offset by weaker market-related earnings. Fee and commission income attained a new record of S\$1.36 billion, a 13% increase from S\$1.20 billion in 2012. This was achieved through broad-based growth in all fee categories, including wealth management, loan-related, fund management, and credit card fee income. Customer-related treasury income rose 26% to S\$401 million, but overall net trading income was 49% lower at S\$262 million. Profit from life assurance was lower by 13% at S\$599 million, compared to S\$692 million a year ago, mainly because of unrealised mark-to-market losses in Great Eastern Holdings' Non-Participating Fund. These mark-to-market losses effectively neutralised the strength of Great Eastern Holdings' underwriting business, as more appropriately measured by new business weighted premiums and new business embedded value (which grew 27% and 22% respectively).

Operating expenses were well-managed, up only 3% from S\$2.70 billion in 2012 to S\$2.78 billion. Staff costs rose 4% to S\$1.72 billion, largely from a 3% increase in headcount to support business expansion in our key markets, and from the impact of annual salary increments and higher incentive compensation due to growth in business volume.

We remained prudent and disciplined in our approach to risk management. Asset quality

remained sound, with the non-performing loan ("NPL") ratio improving to 0.7% from 0.8% in 2012. We also maintained healthy coverage ratios, with total cumulative allowances covering 134% of total non-performing assets ("NPAs"), which included assets other than loans, and 310% of unsecured NPAs. Total allowances for loans and other assets were S\$266 million, 2% lower than a year ago.

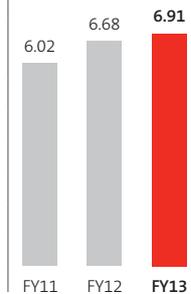
Effective funding, liquidity and capital management remain a key focus for us. We grew our customer deposits by 19% to S\$196 billion, with our loans-to-deposits ratio at 85.7% at the end of the year, and supplemented these deposits by accessing diversified wholesale funding markets, through our commercial paper and medium-term note programmes, for example. We are committed to maintaining a sustainable funding base as well as a solid capital base to support our operations, pursue business opportunities, and ensure full compliance with regulatory capital requirements. MAS' Basel III capital adequacy requirements came into effect on 1 January 2013, and are being progressively phased in between 1 January 2013 and 1 January 2019. As at 31 December 2013, based on MAS' transitional Basel III rules for 2013, the Group's Common Equity Tier 1 capital adequacy ratio ("CAR") was 14.5%, with Tier 1 and Total CAR at 14.5% and 16.3% respectively. These ratios were well above the regulatory minima of 4.5%, 6% and 10%, respectively, for 2013.

Our key subsidiaries contributed positively to the Group's strong customer-related business growth. Great Eastern Holdings continued to achieve strong underlying insurance business growth, with new business weighted premiums up 27%, and new business embedded value 22% higher year-on-year. All sales channels in Singapore and Malaysia did well. The close partnership between Great Eastern Holdings and the OCBC Group continued to yield robust bancassurance growth. Great Eastern Holdings' full year core net profit after tax contribution to the Group, excluding divestment gains, was S\$542 million, down 13% from S\$622 million a year ago, as the strong underwriting performance was more than offset by unrealised mark-to-market losses in its Non-Participating Fund. The unrealised mark-to-market losses were the result of less favourable financial market conditions during the year, and volatile long-term interest rates in particular, that negatively impacted the valuation of assets and liabilities.

OCBC Bank (Malaysia) Berhad reported a record set of results, with full year net profit after tax at MYR946 million (S\$374 million), 17% higher than

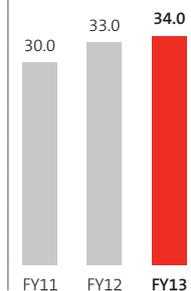
#### Net Asset Value Per Share

(before valuation surplus -S\$)

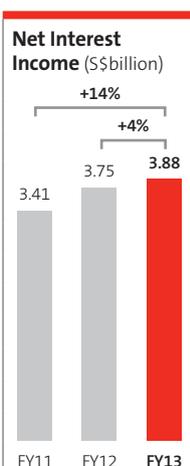


#### Net Dividend Per Share

(cents)

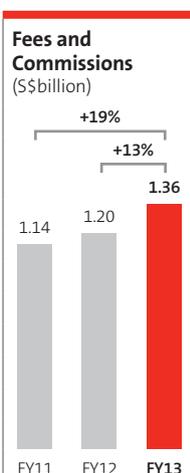


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2012's MYR811 million (S\$328 million). This was driven by broad-based income growth, led by a 52% increase in Islamic Financing Income, a 2% rise in net interest income, and 2% growth in non-interest income. Against total income growth of 8%, operating expenses rose 3% from the previous year, while allowances were 29% lower. Loan growth was robust, rising 17% year-on-year, while the NPL ratio was 2.3%.

Bank OCBC NISP also 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, from higher net interest income which grew 22%, and from a 5% increase in non-interest income. Operating expenses were 14% higher, while allowances rose 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%.



Bank of Singapore continued to attract a healthy inflow of net new money, with its assets under management growing to US\$46 billion (S\$58 billion), representing an 8% increase from US\$43 billion (S\$52 billion) in 2012. Bank of Singapore's earning asset base, which includes loans that are all extended on a secured basis, rose to US\$57 billion (S\$71 billion), up 9% from US\$52 billion (S\$63 billion) a year ago, driven by broad-based asset growth across its major markets.

Our core market of Greater China, comprising China, Hong Kong and Taiwan, contributed 6% to the Group's profit before tax. It achieved a 56% increase in customer loans, which grew from S\$17 billion a year ago to S\$27 billion as at 31 December 2013, and its NPL ratio of 0.4% was lower than the overall Group NPL ratio of 0.7%.

### DIVIDENDS

The Board has recommended a final tax-exempt dividend of 17 cents per share, bringing the full year 2013 dividend to 34 cents, a 3% increase from the previous year's 33 cents. The dividend payout ratio represents 42% of our core earnings, within our guidance target range of 40% to 50% of core earnings.

Our Scrip Dividend Scheme will be applicable to the final dividend. Shareholders have the option to receive the final dividend in the form of shares instead of cash. These will be issued at a 10% discount to the average of the daily volume-weighted average prices from 28 April 2014 (the ex-dividend date) to 30 April 2014 (the books closure date), both dates inclusive.

### CREATING VALUE

We have always been prudent and disciplined in growing our businesses in clearly-defined core markets. Through the years, we have approached new markets by first establishing our own presence, understanding the local culture and business practices, building our investment there, and integrating with the Group's network over time. When inorganic opportunities arise, we are highly selective, and will only pursue acquisitions that fit our strategy and corporate culture, and create long term shareholder value.

On 6 January 2014, we announced that OCBC Bank entered into an exclusivity agreement (the "Exclusivity Agreement") with the substantial shareholders of Hong Kong-listed Wing Hang Bank, Limited ("Wing Hang"). Under the terms of the Exclusivity Agreement, the substantial shareholders have agreed that they will engage exclusively with OCBC to seek to finalise the terms for a possible transaction which would, should it proceed, involve OCBC Bank making a general offer for all of the shares of Wing Hang (the "Possible Offer"). Discussions between OCBC Bank and the substantial shareholders are currently ongoing. Any Possible Offer would be subject to obtaining all relevant regulatory and other approvals. At this stage, there is no certainty that the terms of a Possible Offer will be agreed, or that a Possible Offer or any similar transaction will ultimately be concluded. We will make further announcements as and when appropriate or required.

### BUILDING STRONG CONNECTIONS

Asia is now the key contributor of global economic growth. Through our long-term strategy of steadily deepening OCBC's presence in South East Asia, and now Greater China, we have developed a well-diversified and integrated network. We are therefore well-placed to meet our customers' financial needs and help them participate in the growth of wealth, trade and investment flows within Asia, and between Asia and the world.

### CUSTOMERS AT THE FOREFRONT

We value the trust and confidence that our customers place in us, and are fully committed to helping them achieve their aspirations by providing comprehensive and innovative financial services that meet their needs.

We are the only bank in Singapore to offer the widest network of full-service Sunday banking branches. As part of our continuing efforts to enhance the customer experience, we opened a branch at Robinsons, a departmental store located along Orchard Road, which offers customers the

convenience of seven-days-a-week banking services. We increased the number of OCBC Al-Amin Xpres branches in Malaysia, and expanded our regional network of Premier Centres from 45 to 58. “FRANK by OCBC”, our popular banking programme designed for young working adults, doubled its customer base in a year. We also launched our Premier Private Client segment in Singapore, offering an improved proposition for affluent customers with investable funds of S\$1 million and above. For Private Banking clients, we further expanded Bank of Singapore’s offering of best-in-class products and solutions. In partnership with Great Eastern Holdings, we are the market leader in bancassurance in Singapore for the 13<sup>th</sup> straight year.

Digitisation will continue to revolutionise our industry, and here again we strive to remain at the forefront. We launched OCBC Money Insights, an online personal financial management tool, a first for a bank in Singapore. Accessible via internet banking or mobile banking applications, this tool enables customers to easily monitor their expenses, set budgets and goals, and allows their savings, current and credit card accounts to be integrated. In July 2013, we launched the OCBC Blue-Chip Investment Plan, another first-of-its-kind product in Singapore, which gives customers the ability to set aside a pre-determined fixed sum of money each month to invest in 20 Singapore blue-chip stocks for amounts starting from as low as S\$100 per month.

For our corporate customers, we remain focused on seeking opportunities to provide them with the best financial products and services to support their various stages of growth. We remain the leading bank of choice in Singapore for SME businesses. In Investment Banking, we have selectively grown our Capital Markets and Corporate Finance teams to better serve the needs of corporate, commercial and regional institutional customers. We are growing our market share and have steadily advanced in the industry league rankings. Our “Workplace Banking” programme continued to reach out to companies in Singapore and Malaysia to offer banking facilities to their employees.

#### DEEPER PRESENCE IN MALAYSIA, INDONESIA AND GREATER CHINA

In our core overseas markets, we continued to improve the customer experience, expand our distribution network and deepen our capabilities.

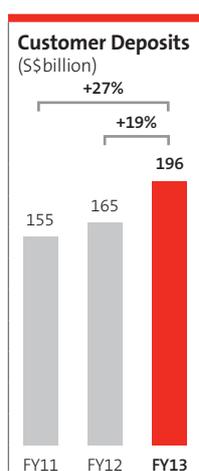
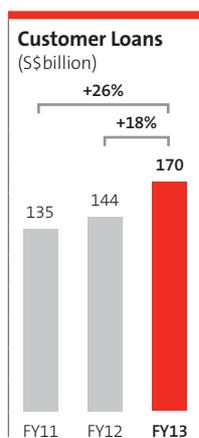
In Malaysia, we are among the largest foreign banks by assets, loans, deposits, and branches. During the year, we opened two OCBC Al-Amin Xpres branches, giving us a country-wide network of 41, comprising 31 conventional and 10 Islamic banking branches.

Through OCBC Al-Amin we are the only Singapore bank that operates a stand-alone Islamic bank, while Great Eastern Holdings is the largest insurance company by asset size with the biggest agency force in the country. There are excellent prospects for us to expand the scope and scale of Islamic banking and Takaful (Islamic insurance) products and services, thereby increasing our overall market penetration in Malaysia.

Bank OCBC NISP, the seventh largest privately-owned bank by assets in Indonesia with a network of 339 branches and offices, was named Indonesia’s Domestic Retail Bank of The Year 2013 by *Asian Banking & Finance*. Over the course of the year, several initiatives were undertaken to improve productivity and customer engagement. To better serve our affluent customers, we opened three new Premier Centres, bringing our total in Indonesia to 14. A reflection of close collaboration within the Group, the successful partnership between Bank OCBC NISP and Great Eastern Holdings yielded strong bancassurance growth.

OCBC China unveiled its RMB1 billion corporate office in Shanghai’s Pudong financial district in September 2013, making us the first Singapore bank to own its head office building in China. We also opened a branch in Shaoxing, Zhejiang, and are now present in nine cities, with a network of 16 branches and sub-branches. The growth of our operations in China mirrors our expanding presence in the country. We offer an extensive range of RMB and foreign currency products for our corporate customers, covering loans, deposits, trade financing, cash management, and treasury solutions. We also facilitate their cross-border trade activities and overseas expansion through OCBC’s extensive network. In addition, 2013 marked the first full year of operations for our China Business Office, which was established in September 2012. Based in Singapore and dedicated to serving the overseas financial requirements of Chinese corporations expanding into South East Asia, it achieved strong growth during the year, with loans outstanding up four-fold, and income increasing 76% year-on-year. In consumer banking, OCBC China has changed its focus to one of serving affluent customers under the OCBC Premier Banking brand. We further expanded the range of our wealth management products when we obtained approval from the China Securities Regulatory Committee to distribute local unit trusts.

We further developed our fruitful partnership with Bank of Ningbo. Our collaboration with Bank of Ningbo in product and business development, offshore financing, trade finance and private



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banking increased substantially, and we expect the value from such synergistic collaboration to continue increasing as OCBC becomes an effective offshore financial service provider to those customers of Bank of Ningbo who are increasingly investing and conducting business abroad.

Outside our core overseas markets, we remain alert to emerging opportunities within ASEAN, including those available in Myanmar, while supporting our network customers in Australia, US, Europe, Japan and Korea through our branches.

### FOSTERING GROUP SYNERGIES

Our core businesses of banking, wealth management and insurance are closely interlinked, and we continue to direct our focus towards maximising the synergies within the Group. A positive step in this direction was when we upgraded Singapore's core banking system in August 2013, and aligned it to Malaysia's to create a common core banking platform. Following this, we are now able to create unified processes and product offerings across both countries, allowing us to serve the financial needs of our customers in both countries in a better, faster and more cost effective way. We are also intensifying efforts to channel the collective expertise across the Group towards enhancing the scope of our wealth management products and services. We are further investing in enterprise-wide data management systems to harness our Group-wide customer and portfolio analytics, while strengthening system resilience and streamlining technology capabilities across the Group.

### PEOPLE

We value diversity in our workforce, and seek to provide employees with a vibrant and dynamic work environment. We aim to provide every person with equal opportunities to develop careers within the Group. In April 2013, we opened the S\$60 million OCBC Campus in Singapore's Central Business District. This 10-storey regional learning and development hub provides continuous learning and development opportunities for our employees across the OCBC Group. During the year, we launched "My Learning Portal", a one-stop personalised online portal for employees to manage their personal and team learning activities. Virtual classes are also made available to employees across different geographies. For the eighth consecutive year, our average man-days of training per employee exceeded our annual target of five days.

Our employee share ownership schemes continue to record high participation rates, and as a result, a significant proportion of our employees now have personal stakes in OCBC's well-being. We have also introduced new employee work-life programmes, and continued to support our employees' voluntary participation in charitable causes.

We are pleased to see the success of our efforts in making OCBC an employer of choice for our Group's 25,000 employees, as demonstrated by our consistently high levels of employee engagement that are comfortably within the High Performance/Best Employer range, and above the Global Financial Norm engagement score, as surveyed by Aon Hewitt.

### CARING FOR THE COMMUNITY

OCBC's outreach to the community stems from our deep-seated belief in giving back to society.

In October 2013, we set up the OCBC-TODAY Children's Fund (the "Fund") with our adopted charity partner, the Singapore Children's Society, to help children from broken homes rebuild their lives through counselling and therapy programmes. The Fund aims to raise S\$1.5 million each year, with OCBC matching S\$1 for every S\$2 in public donations to the Fund, subject to a maximum donation by us of S\$500,000. In China, we expanded our partnership with the Shanghai Soong Ching Ling Foundation, working with them to impart life skills and values to the children of migrant workers.

We became the largest sponsorship partner of the Singapore Sports Hub, a unique cluster of integrated world-class sports, entertainment and lifestyle facilities that will be completed in 2014. Our sponsorship, worth more than S\$50 million over a period of 15 years, will fund activities at the Singapore Sports Hub that foster greater social cohesion and community engagement.

We were also active throughout the year in supporting many organisations and causes through our donations and employee volunteer initiatives. These were centred on five main themes: families, the environment, education, cycling and humanitarian efforts. In Singapore alone, for example, the number of OCBC volunteer hours increased by 28% from the previous year to 10,327 hours, while the number of volunteers rose 6% to 1,655.

## OUTLOOK

Going into 2014, growth in the advanced economies in the US, Europe and Japan is expected to gather momentum, which would in turn benefit the Asian economies. Current consensus GDP estimates for 2014 in our key overseas markets are for the Chinese economy to grow in the mid-7% range, while growth expectations for Malaysia are closer to 5%. The Indonesian economy is forecast to grow in the mid to high-5% range, driven by private consumption growth. According to the latest forecasts, the Singapore economy is expected to grow by between 2% and 4% this year, as domestic challenges of a tight labour market, rising business costs and a softening property market remain key considerations in 2014. We will stay alert to the implications of further QE tapering by the US Federal Reserve and the possibility of an earlier than forecast rise in interest rates, which could add volatility to financial markets and dampen the pace of global economic recovery. In addition, political discords in some parts of Asia, and ongoing territorial tensions in the East and South China Sea, cannot be ignored.

Our overall outlook remains optimistic, given the generally positive macroeconomic environment and the underlying growth prospects in our key markets. We will grow prudently, make the best use of our resources, work comfortably within Basel III regulatory obligations, and continue to invest in building our network and capabilities. With our strong financial position and established customer franchise in our chosen markets, we are well-placed to continue delivering long-term shareholder value.

## ACKNOWLEDGEMENTS

The Board extends a warm welcome to two new independent Directors: Mr Tan Ngiap Joo and Mr Wee Joo Yeow. Mr Tan, previously a long-serving member of OCBC's senior management team, joined us on 2 September 2013. Mr Wee was appointed to the Board on 2 January 2014, and brings with him close to 40 years of banking experience. We value their distinguished careers and deep wealth of relevant knowledge and look forward to their active participation on the Board.

During the year, two of our board members, Mr Colm McCarthy and Prof Neo Boon Siong, retired from the Board, having served over four years and nine years respectively. Mr Bobby Chin and Mrs Fang Ai Lian, members of the Board since 1 October 2005 and 1 November 2008, respectively, have indicated that they will not stand for re-election at the 2014 Annual General Meeting. On behalf of the Board we wish them well, and thank them for their significant contributions to the Group.

Our thanks go to members of the Board and all management and staff of OCBC, as well as customers and shareholders who have given the OCBC Group their steadfast and loyal support.



**CHEONG CHOONG KONG**  
CHAIRMAN



**SAMUEL N. TSIEN**  
CHIEF EXECUTIVE OFFICER

17 March 2014