Media Release

OCBC Group Reports 15% Increase in Second Quarter 2011 Net Profit to S$577 million

Performance underpinned by robust growth in net interest income and fee income

Singapore, 4 August 2011 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit of S$577 million for the second quarter of 2011 ("2Q11"), representing a 15% increase from S$503 million a year ago. Earnings growth was underpinned by strong interest income and fee income performance arising from a combination of broad-based growth in loan, trade-related and wealth management activities.

Net interest income grew to S$827 million, a 15% increase from the same quarter a year ago. The increase was driven by loan growth of 27% across various industry sectors in Singapore and key markets overseas. The gain from robust asset growth was partly offset by lower net interest margins, though margin compression during the quarter was slower than during the preceding period. Non-interest income increased 13% to S$586 million on strong growth in fee income and life assurance profit. Fee income grew 20% to S$299 million, contributed by higher trade-related income and fees linked to Renminbi-settled trade, as well as fund management and other wealth management-related income. Life assurance profit from Great Eastern Holdings ("GEH") surged 53% to S$106 million, supported by strong underwriting results and improved investment performance as compared to a year ago. GEH's new business premiums grew 16% year-on-year, while new business embedded value rose 23%.

Operating expenses increased by 11% year-on-year to S$618 million, reflecting higher staff costs arising from headcount growth, salary increments, as well as sales commissions and incentive compensation linked to stronger business volumes. Net allowances of S$56 million were substantially higher than S$18 million a year ago, comprising mainly portfolio allowances for the strong loan growth. This increase in portfolio allowances had a negative bearing on the earnings for the quarter, while income from the new loans will flow through over time.

The Group's revenue from various wealth management activities, comprising revenue from insurance, private banking, asset management, stockbroking and sales of other wealth management products, grew to S$350 million, up 29% from a year ago. As a share of total revenue, wealth management contributed 24.8%, up from 21.9% a year ago. OCBC's private banking business continued to grow strongly, with assets under management increasing 12% in the first six months to US$29.6 billion as at 30 June 2011.

Compared to 1Q11's core net profit of S$596 million, second quarter net profit was 3% lower. Quarter-on-quarter, net interest income and fees and commissions grew at healthy rates of 6% and 9%, respectively. However, this increase was largely offset by a 50% decline in net trading income and 29% fall in life assurance profit. Operating expenses increased by 6% over the previous quarter, reflecting the Group's annual salary increments which took effect in April, higher sales commissions and other business volume-related costs.

For the first half of 2011 ("1H11"), the Group achieved a core net profit of S$1,173 million, marginally below last year's first half profit of S$1,179 million. Reported net profit, which included the S$32 million gain from the divestment of non-core assets in 1Q11, was S$1,205 million, 2% higher year-on-year. Net interest income grew 13% to S$1,611 million on robust asset growth. Non-interest income was largely flat at S$1,204 million, as the gains from a 21% increase in fee income and 19% growth in life assurance profit were offset by a 45% decline in net trading income and investment gains. Operating expenses increased by 13%, reflecting the Group's continued investments in growing its regional presence and wealth management businesses, as well as costs related to higher business volumes. Net allowances increased from S$43 million to S$105 million, comprising mainly higher portfolio allowances of S$84 million, which were recorded upfront to provide for the strong loan growth.

Annualised return on equity, based on core earnings, was 11.8% in 1H11, compared to 13.1% in 1H10. Annualised core earnings per share fell 4% year-on-year to 68.1 cents in 1H11, reflecting the enlarged share capital arising from the high participation rates in the Group's Scrip Dividend Scheme.

Net Interest Income

Net interest income growth of 15% year-on-year in 2Q11 was driven by a 21% increase in interest earning assets. Customer loans grew 27% from a year ago, and 9% from the previous quarter, to S$121 billion. Loan growth during the quarter was broad-based, with the biggest increases coming from loans to the general commerce sector, financial institutions, investment and holding companies, and the housing sector. Net interest margin declined by 9 basis points from 1.96% a year ago to 1.87%. The margin decline was attributed to the persistent low interest rate environment, strong growth in well-collateralised, lower-yielding loans linked to trade, and price competition, particularly in the housing loan segment.

Compared with 1Q11, net interest income rose 6%, propelled by comparable growth in interest earning assets. Net interest margin narrowed by 3 basis points from the previous quarter, reflecting continued strong growth in lower-yielding loans as well as lower spreads for housing loans.

Non-Interest Income

Non-interest income growth of 13% year-on-year was supported by higher fee and commission income, profits from life assurance and dividend income. Fees and commissions rose 20% to S$299 million, led by growth in trade-related income, service charges linked to Renminbi-settled trade, fund management and other wealth management-related income. Life assurance profits increased by 53% to S$106 million, reflecting strong underwriting profit and a better investment performance as compared to the period a year ago. Gains from investment securities fell from S$53 million to S$31 million, while net trading income dipped from S$43 million to S$41 million.

Compared with 1Q11, non-interest income was 5% lower (excluding the gain from divestment of non-core assets in 1Q11). Fee income and dividend income were higher by 9% and 85% respectively. However, life assurance profits declined by 29%, as profit from GEH's Non-Participating Fund[1] did not match the strong performance of the previous quarter. Net trading income declined by 50% from S$81 million in the previous quarter, reflecting a more challenging trading environment in choppy markets.

Operating Expenses

The year-on-year increase of 11% in operating expenses was largely due to higher staff costs, which rose 14% to S$373 million. Group staff strength increased 6% year-on-year to support the expansion of the Group's franchise in Singapore and overseas markets. The increase in staff costs was also attributable to salary increments, higher incentive compensation and sales commissions as a result of stronger business volumes.

Compared with 1Q11, operating expenses were up 6% on higher staff costs and other costs to support increased business volumes. Staff costs rose 7% quarter-on-quarter, partly reflecting the impact of annual salary increments which took effect in April. Higher business volumes during the quarter, particularly in loans and trade-related services as well as insurance sales, also resulted in higher sales commissions and professional fees.

The cost-to-income ratio was 43.7% in 2Q11 and 42.6% for 1H11, compared to 45.2% and 40.5%, respectively, in the same periods in 2010.

[1] The Non-Participating Fund is made up of insurance policies and riders which have fixed policyholder benefits, e.g. term insurance, critical illness, accident, medical and disability insurance, and in which the policyholders do not participate or share in the profits of the fund.

Allowances and Asset Quality

Allowances for loans and other assets were S$56 million for the quarter, up from S$18 million a year ago and S$49 million in 1Q11. The allowances comprised mainly portfolio allowances of S$54 million, a significant increase from the S$5 million a year ago. These upfront provisions were made in view of the robust loan growth. While portfolio allowances increased, specific allowances for loans, net of recoveries and writebacks, remained low at S$3 million, down from S$11 million a year ago and S$12 million in 1Q11.

The Group's asset quality improved and coverage ratios remained strong. Absolute NPLs declined by 6% from the previous quarter to S$913 million, and the NPL ratio improved from 0.9% to 0.8%. Total cumulative allowances represented 123% of total non-performing assets ("NPAs") in 1Q11, similar to the previous quarter; total cumulative allowances as a percentage of unsecured NPAs was 311%, up from 272% in 1Q11.

Capital Ratios

OCBC Group remained well capitalised, with a Tier 1 ratio of 15.4%, and total capital adequacy ratio of 17.0% as of 30 June 2011. These capital positions were well above the regulatory minimums of 6% and 10%, respectively. The Core Tier 1 ratio, which excludes Tier 1 preference shares, was 11.9%. The Group is well positioned to meet the revised MAS capital requirements announced on 28 June 2011.

Interim Dividend

An interim tax-exempt dividend of 15 cents per share has been declared for the first half-year of 2011, similar to the 1H10 interim dividend. The interim dividend payout will amount to approximately S$508 million, representing 43% of the Group's core net profit. As per the last five dividend payments, the Scrip Dividend Scheme will be applicable to the interim dividend. The issue price for the new shares, to be allotted to shareholders who opt for the scrip dividend, will be at a 10% discount to the average of the daily volume weighted average prices of the shares during the price determination period from 16 August 2011 (the ex-dividend date) to 18 August 2011 (the books closure date), both dates inclusive.

CEO's Comments

Commenting on the Group's performance, CEO David Conner said:

"Our solid first half performance shows that our investments are continuing to bear fruit, underpinned by favorable economic conditions in our key markets. While we are cognizant of inflationary risks, as well as possible negative implications of fiscal issues in the US and Europe on global markets, we will continue to focus on expanding our regional franchise for further growth."

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 also ranked by Bloomberg Markets as the world's strongest bank.

OCBC Bank and its subsidiaries offer a broad array of specialist financial 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 500 branches and representative offices in 15 countries and territories, including more than 400 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 has been ranked among the top five global private banks in Asia.

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