

Media Release

OCBC Group Achieves Record Full Year Net Profit of S\$2,253 million for 2010

15% earnings growth was driven by non-interest income and lower credit losses

Singapore, 18 February 2011 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") achieved record full year net profit of S\$2,253 million for the financial year ended 31 December 2010 ("FY10"), an increase of 15% from 2009. Robust growth in fee and commission income and other non-interest income, and a significant reduction in credit losses, were the key drivers. The full year results included the consolidation of Bank of Singapore (formerly ING Asia Private Bank) from 29 January 2010.

Net interest income for the year increased by 4%, with strong asset growth largely offset by narrower interest margins. Loan growth was 29% for the year and 5% in the fourth quarter, with broad-based contributions across key geographies as well as customer and industry segments. Fee and commission income surged 36%, led by wealth management, trade-related, loan-related and investment banking income. Trading and investment income were also higher, while life assurance profit was lower, resulting in a 20% increase in total non-interest income. Operating expenses rose 25%, reflecting the consolidation of Bank of Singapore, the Group's renewed investments in key markets, and business volume-related costs. The increase was also due to stringent cost controls in 2009 when expenses were held 3% lower than 2008. Allowances for loans and other assets were reduced from S\$429 million in 2009 to S\$134 million in 2010. The non-performing loans ("NPL") ratio improved from 1.7% to 0.9%.

Net profit for the fourth quarter of 2010 ("4Q10") was S\$505 million, a 1% increase from a year ago, but down 11% from the previous quarter. Key revenue items showed steady trends, with net interest income rising 12% year-on-year and 2% quarter-on-quarter, while fee income grew 33% year-on-year and was marginally lower than the previous quarter. Life assurance profit, however, fell 48% year-on-year and 58% quarter-on-quarter to S\$66 million, largely the result of rising long-term interest rates which affected the valuation of fixed income assets of the Non-Participating Fund¹. Expenses for the quarter were inflated by a one-time charge of S\$31 million related to the merger of the Bank's Indonesian subsidiaries, Bank OCBC NISP and Bank OCBC Indonesia ("BOI"), which was completed on 1 January 2011. Excluding this item, expenses were 3% higher than the previous quarter.

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.

Return on equity was 12.1% in 2010 compared to 12.2% in 2009. Earnings per share for the year was 66.1 cents, up 11% from 2009.

Net Interest Income

Net interest income increased 4% to S\$2,947 million in 2010, with interest-earning asset growth of 18% partly offset by lower net interest margin. Customer loans grew by a robust 29% year-on-year (23% excluding the consolidation effect of Bank of Singapore), and 5% from the previous quarter, to S\$106 billion. By industry, the largest increases came from loans to the housing, general commerce and building and construction sectors, which grew by 26%, 52% and 18%, respectively.

Net interest margin fell 25 basis points from 2.23% to 1.98%. Six basis points of the decline was due to the inclusion of Bank of Singapore's lower-yielding, well-collateralised assets which contributed to the Group's net interest income but reduced its overall net interest margin. Excluding this consolidation effect, net interest margin fell 19 basis points to 2.04%, attributable to lower average asset yields as a result of the continuing low interest rate environment, and lower gapping income.

For 4Q10, net interest income rose 12% year-on-year and 2% from the previous quarter to S\$769 million, supported by higher loan volumes. Net interest margin was 1.96%, compared to 1.98% in the previous quarter and 2.08% a year ago.

Non-Interest Income

Non-interest income grew 20% to S\$2,378 million, accounting for 45% of the Group's revenue. Fees and commissions increased 36% to S\$994 million. The largest increase came from wealth management income which tripled from S\$65 million to S\$189 million, driven mainly by contributions from Bank of Singapore, as well as stronger bancassurance sales. Fee income from trade-related, loan-related and investment banking activities also registered significant growth. Net trading income rose 14% to S\$391 million, while net gains from disposal of investment securities tripled from S\$50 million to S\$153 million.

Profit from life assurance was S\$437 million, a decline of 17%, excluding the prior year's non-recurring gains. The investment performance of the Non-Participating Fund was weaker as compared to the previous year's results, which were helped by the strong rebound in equity and bond markets from the lows of the global financial crisis.

For 4Q10, non-interest income grew 13% year-on-year to S\$560 million, contributed by higher fees and commissions and net trading income, and a S\$35 million gain (S\$22 million after non-controlling interests) from the sale of Pacific Insurance Berhad by the Bank's 63.5%-owned subsidiary, PacificMas Berhad. Compared to 3Q10, non-interest income declined 10% mainly because of weaker insurance results.

Operating Expenses

Operating expenses increased 25% to S\$2,254 million, contributed by the consolidation of Bank of Singapore, the stepping up of investments following a period of cost restraint during the 2008-2009 financial crisis, and business volume-related costs. Excluding the consolidation of Bank of Singapore, expenses increased by 13% over the two year period from 2008 to 2010.

Staff costs rose 29%, reflecting increases in headcount, base salaries and variable compensation, with the consolidation of Bank of Singapore being the largest contributor. Group headcount grew 9% during the year, with more than 80% of the increase coming from the Group's overseas markets, including Indonesia, China, Malaysia, and from the consolidation of Bank of Singapore.

Operating expenses of S\$620 million in 4Q10 included a one-time cost of S\$31 million related to the merger of Bank OCBC NISP and BOI. Excluding this one-time charge, operating expenses would have increased by 26% year-on-year and by 3% over the previous quarter, compared to the reported increase of 33% and 8%, respectively.

The cost-to-income ratio increased to 42.3% from 37.3% in 2009.

Allowances and Asset Quality

Net allowances fell from S\$429 million in 2009 to S\$134 million in 2010, contributed by lower specific allowances for loans and investments, and net writebacks of allowances for CDOs. Higher portfolio allowances of S\$98 million were set aside for strong loan growth during the year. For 4Q10, net allowances were S\$48 million, down from S\$77 million in 4Q09 and slightly above the S\$43 million in 3Q10.

The Group's asset quality and coverage ratios remained healthy. Absolute NPLs fell 28% during the year, and 11% from the previous quarter, to S\$995 million. The NPL ratio improved to 0.9% from 1.1% in the previous quarter and 1.7% a year ago. Total cumulative allowances represented 119% of total non-performing assets ("NPAs") and 271% of unsecured NPAs.

Subsidiaries' Results

Great Eastern Holdings ("GEH") achieved healthy growth in its underlying insurance business in 2010, with new business weighted premiums increasing by 20% and new business embedded value climbing 30%. These results were driven by GEH's strategy of focusing on regular premium and protection products, which will improve longer term profitability. GEH's net profit for the year was S\$507 million, a marginal decline of 2% from 2009, as the previous year's results were boosted by the strong recovery in credit markets after the global financial crisis.

GEH's contribution to the Group's net profit, after deducting amortisation of intangible assets and non-controlling interests, fell 2% from S\$412 million to S\$405 million, contributing 18% of the Group's earnings in 2010.

OCBC Bank (Malaysia) Berhad achieved 16% growth in full year net profit to MYR 706 million (S\$299 million). Revenue growth was broad-based, with net interest income, Islamic Banking income and non-interest income registering growth rates of 9%, 10% and 8% respectively. Net interest margin improved from 2.35% to 2.42%, partially benefiting from the policy rate hikes in Malaysia. Expenses grew 10% while allowances fell 30%. Loans grew 10% during the year, and the NPL ratio improved from 3.8% to 2.8%.

Bank OCBC NISP in Indonesia recorded a 26% decline in full year net profit to IDR 321 billion (S\$48 million), contributed mainly by the one-time expense of IDR 188 billion relating to its merger with BOI. Net interest income grew 5% as a result of assets growth which offset a fall in net interest margin from 5.53% to 5.14%, while non-interest income fell 3%. Expenses excluding the one-time charge rose 8%, while allowances fell 16%. Loans grew 28% for the year, and its NPL ratio improved from 3.2% to 2.0%. Following the completion of the merger on 1 January 2011, Bank OCBC NISP's total assets increased 13% to IDR 50.1 trillion, its total equity rose 29% to IDR 5.8 trillion, and OCBC Bank's stake in the enlarged entity increased from 81.9% to 85.06%.

Bank of Singapore was consolidated from 29 January 2010 and has achieved healthy results for the year. Its assets under management grew strongly in the second half of 2010, with 18% growth achieved for the full year. Earning asset base, which includes loans, grew 20% to US\$32 billion. Bank of Singapore's global branding campaign, launched in early 2010, has been successful in building name recognition, helping retain existing customers and attract new customers while enhancing its ability to bring in talent from global private bank competitors. More than 200 new staff were hired during the year, including 60 relationship managers. In addition to growing its business in existing markets, Bank of Singapore increased its assets from customers based in Europe and the Middle East, markets which were previously the purview of a separate unit under the ING organisation. Cross-sell and referral efforts between OCBC Bank and Bank of Singapore have also been successful, covering the areas of property and business financing, deposits, insurance sales and customer acquisition.

Capital Position

OCBC Group continues to maintain a strong capital position, with a Tier 1 capital adequacy ratio ("CAR") of 16.3% and total CAR of 17.6% as at 31 December 2010. These ratios were slightly above the levels a year ago, and well above the regulatory minimum of 6% and 10% respectively. The Group's core Tier 1 ratio, which excludes perpetual and innovative preference shares, was 12.5%.

Final Dividend

A final tax-exempt dividend of 15 cents per share has been proposed, bringing the FY10 total dividend to 30 cents per share, up from 28 cents for FY09. 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 19 April to 21 April 2011, both dates inclusive.

CEO's Comments

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

"Our results for 2010 underscore the strengths of our customer franchise in both lending and fee-based businesses. While mindful of commodity price increases and other factors causing inflationary pressures, on balance, we are optimistic for the outlook for 2011 given the healthy economic growth prospects in Asia."

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.

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 530 branches and representative offices in 15 countries and territories, including 413 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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