Media Release

OCBC Group Reports Full Year 2011 Net Profit of S$2,312 million

Earnings underpinned by record net interest income and fee income

Singapore, 20 February 2012 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit of S$2,312 million for the financial year ended 31 December 2011 ("FY11"), an increase of 3% from 2010. Core net profit, which excludes gains from the divestment of non-core assets, was S$2,280 million, up 1% from a year ago. Full year performance was underpinned by robust growth in the Group's customer-related businesses, as reflected by record net interest income and fee income, as well as healthy growth in insurance new business weighted premiums and new business embedded value.

Compared with 2010, net interest income grew 16% to S$3,410 million on broad-based loan growth of 27%. Net interest margin declined 12 basis points, primarily due to the low interest rate environment and strong growth in lower-risk loans. Fees and commissions grew 16% to S$1,137 million, led by wealth management revenue and trade-related fees. Trading income was affected by challenging financial market conditions, resulting in a 46% year-on-year decline to S$217 million. Great Eastern Holdings' ("GEH") life assurance profits from the Participating and Investment-linked funds grew 25% to S$249 million. Investment performance of the Non-participating fund[1] was adversely affected by volatility of the financial markets with the fund's profits declining 44% to S$134 million. The Group's operating expenses increased 8% to S$2,430 million, reflecting continued disciplined cost management. Net allowances for loans and other assets increased from S$134 million to S$221 million, largely attributable to increased portfolio allowances in line with robust loan growth, and lower recoveries and write-backs. The non-performing loans ("NPL") ratio was unchanged year-on-year at 0.9%.

Net profit for the fourth quarter of 2011 ("4Q11") was S$594 million, an 18% increase from a year ago ("4Q10") and a 16% increase from the previous quarter ("3Q11"). Net interest income rose 20% year-on-year and 6% quarter-on-quarter, driven by robust loan growth. Fees and commissions grew marginally year-on-year to S$257 million, but were 16% lower than the previous quarter, largely attributable to lower wealth management revenue, and loan and trade-related fees. Trading income rebounded quarter-on-quarter to S$163 million.

[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.

GEH's life assurance profits from the Participating and Investment-linked funds rose 29% year-on-year to S$65 million. However, this was offset by weaker investment performance of the Non-participating fund, resulting in overall life assurance profits declining 23% year-on-year and 33% quarter-on-quarter to S$51 million. Operating expenses of S$620 million were unchanged year-on-year and marginally higher than the previous quarter. Net allowances for loans and other assets were S$78 million, compared with S$48 million a year ago and S$38 million in the previous quarter.

The Group's revenue from various wealth management activities (comprising insurance, private banking, asset management, stockbroking and sales of other wealth management products), was S$1,285 million for 2011, 2% lower year-on-year due to lower insurance income. As a share of total revenue, wealth management contributed 23%, compared with 25% a year ago. OCBC's private banking franchise continued to expand, with assets under management increasing 19% during the year to US$32 billion (S$41 billion) as of 31 December 2011.

Return on equity, based on core earnings, was 11.1% in 2011, compared with 12.1% in 2010. Core earnings per share for the year was 64.8 cents, compared with 66.1 cents a year ago.

Net Interest Income

Net interest income grew 16% to S$3,410 million in 2011, with robust loan growth partly offset by lower net interest margin. Loan growth of 27% for the year was broad-based across customer segments and key markets, with the largest increases contributed by the general commerce sector, housing loans and loans to professionals and individuals.

Net interest margin declinedby 12 basis points to 1.86% from 1.98% in 2010, as a result of the persistently low interest rate environment, strong growth in well-collateralised, lower-yielding trade-related loans, and price competition, particularly for housing loans. Risk weighted assets ("RWA") grew at 22% for the year, versus loan growth of 27%, an indication of the relatively lower-risk loans being booked.

For 4Q11, net interest income rose 20% year-on-year and 6% from the previous quarter to S$925 million, led by strong loan growth of 5%. Net interest margin was 1.85%, stable quarter-on-quarter and lower than the 1.96% a year ago.

Non-Interest Income

Non-interest income for 2011 was S$2,251 million. Excluding a S$39 million gain from the divestment of non-core assets, core non-interest income was S$2,212 million, 7% lower year-on-year. Fees and commissions grew 16% to a record S$1,137 million, with strong growth across most components of fee income, led by wealth management income, trade-related fees and service charges, and investment banking fees. Treasury income from customer flows increased 48% year-on-year to S$324 million, demonstrating continuing product innovation and increased success in cross-selling. Growth in customer-related income was offset by the adverse impact of volatile financial markets on trading income and investment performance of GEH's Non-participating fund. Trading income declined 46% year-on-year to S$217 million, while profit from GEH's Non-participating fund declined 44%. This was partially offset by a 25% increase in profit from GEH's Participating and Investment-linked funds, resulting in total profit from life assurance declining 13% year-on-year to S$383 million.

For 4Q11, non-interest income was 2% higher year-on-year at S$572 million onhigher trading income and gains from the sale of investment securities. Excluding a S$35 million gain in 4Q10 from the sale of Pacific Insurance Berhad by the Bank's 63.5%-owned subsidiary, PacificMas Berhad, non-interest income would have increased 9% year-on-year. Compared with 3Q11, non-interest income increased 31% as trading income rebounded to S$163 million, from a loss of S$68 million in 3Q11.

Operating Expenses

Operating expenses increased 8% to S$2,430 million for the year, reflecting continued disciplined cost management. Excluding the one-time expense of S$31 million in the fourth quarter of 2010 relating to the merger of Bank OCBC NISP and Bank OCBC Indonesia ("BOI"), operating expenses would have increased 9% year-on-year. The increase was largely attributable to higher staff costs, which rose 13% to S$1,448 million. The increase in staff costs reflected a 6% growth in staff strength to support expansion of the Group's franchise; the balance was largely attributable to salary increments, and higher incentive compensation and sales commissions linked to stronger business volumes.

4Q11 operating expenses were maintained flat year-on-year at S$620 million. Excluding the one-time above-mentioned merger costs in 4Q10, operating expenses in 4Q11 would have increased 5%. Compared to the previous quarter, operating expenses were marginally higher by 1%.

The cost-to-income ratio was 43.2% for 2011, compared with 42.3% in 2010.

Allowances and Asset Quality

The Group's asset quality remained healthy. Absolute non-performing assets ("NPAs") and the NPL ratio both declined over the first nine months of 2011, but increased in 4Q11 as a result of a comprehensive portfolio review conducted in anticipation of an economic slowdown in 2012. This review resulted in selected accounts being identified for closer attention. NPAs increased from S$1,158 million in 3Q11 to S$1,437 million in 4Q11, and the NPL ratio increased from 0.7% to 0.9%. The reclassified accounts were mainly in the substandard category and are well-collateralised, as reflected in the relatively modest increase in specific allowances compared to the increase in NPAs. Despite the increase in NPAs in 4Q11, the NPL ratio of 0.9% continued to reflect the health of the portfolio, and was equivalent to the NPL ratio a year ago.

Net allowances increased from S$134 million in 2010 to S$221 million in 2011, largely attributable to higher portfolio allowances, and lower recoveries and write-backs. Portfolio allowances increased 31% year-on-year to S$127 million, in line with robust loan growth. Specific allowances for new and existing NPLs decreased 23% to S$231 million, while recoveries and write-backs of S$151 million were 37% lower than a year ago, resulting in net specific allowances increasing to S$79 million from S$57 million in 2010.

The Group's coverage ratios remained strong. Total cumulative allowances represented 107% of total NPAs and 326% of unsecured NPAs.

Subsidiaries' Results

GEH achieved healthy growth in its underlying insurance business in 2011, with new business weighted premiums increasing 10% and new business embedded value growing strongly by 20%. The results reflect strong sales growth across markets, with contribution from the bancassurance and agency channels, as well as GEH's focus on sales of regular premium and protection-based products to better serve the needs of customers.

GEH's net profit for the year was S$386 million, compared with S$507 million in 2010. Profit from insurance operations was S$412 million, underpinned by strong underwriting profits which were offset by weaker investment income due to the challenging financial market conditions. Net investment income in the Shareholders' Fund of S$96 million was up marginally year-on-year.The investment portfolios of the insurance funds and Shareholders' Fund remained sound with no significant impairment charges.

With effect from 1 July 2011, GEH changed the discount rates used in valuing part of its liabilities in its Singapore insurance funds, from Singapore Government Securities ("SGS") yields to zero-coupon SGS yields. The use of zero-coupon SGS yields enables closer matching in valuation between assets and liabilities. The effect of this change on GEH was a reduction in policy liabilities, and an overall positive financial impact of S$68 million, of which S$50 million relates to the periods prior to 1 July 2011.

GEH's contribution to the Group's net profit, after deducting amortisation of intangible assets and non-controlling interests, declined from S$405 million in 2010 to S$297 million in 2011, contributing 13% of the Group's core earnings in 2011.

OCBC Bank (Malaysia) Berhad achieved 6% growth in full year net profit to MYR749 million (S$307 million). Revenue growth was broad-based, with net interest income, Islamic finance income and non-interest income registering growth rates of 7%, 19% and 6%, respectively. Net interest margin declined from 2.42% to 2.32%, partly due to increases in the statutory reserve requirements during the year. Expenses grew 14% as the Group continued to invest in branch expansion and upgrading of capabilities and systems. Allowances were reduced marginally during the year. Loans grew 20% year-on-year, and the NPL ratio improved from 2.8% to 2.6%.

Bank OCBC NISP's net profit increased 80% to IDR753 billion (S$108 million) for 2011, boosted by the merger with BOI. Net interest income grew 13% year-on-year on robust loan growth of 31%, and non-interest income grew 16%. Revenue growth was enabled by the broader market coverage of the merged entity, improved product capabilities and increased synergies from stronger collaboration with other subsidiaries within the Group. Expenses grew 7% for the year; excluding the one-time merger expense of IDR204 billion (S$31 million) in 2010, expenses rose by 23%. Allowances increased 2% during the year. Asset quality remained healthy, with the NPL ratio improving to 1.3% from 2.0% a year ago.

Capital Position

OCBC Group continues to maintain a strong capital position, with a Tier 1 capital adequacy ratio ("CAR") of 14.4% and total CAR of 15.7% as of 31 December 2011. These ratios remain well above the regulatory minimum of 6% and 10%, respectively. The Group's core Tier 1 ratio, which excludes Tier 1 preference shares, was 11.4% as of 31 December 2011, compared with 12.5% in December 2010.

Final Dividend

A final tax-exempt dividend of 15 cents per share has been proposed, bringing the FY11 total dividend to 30 cents per share, unchanged from FY10. The Scrip Dividend Scheme will not be applicable to the final dividend. The estimated total net dividend of S$1,024 million for 2011 represents 45% of the Group's core net profit of S$2,280 million. This is in line with the Group's dividend policy which targets a minimum payout of 45% of core earnings.

CEO's Comments

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

"Our results for 2011 underscore the strength of our customer franchise in a challenging operating environment. While mindful of the current economic slowdown driven by concerns over sovereign debt in Europe and a sluggish recovery in the US, we will continue to invest in our regional network, and to leverage synergies across the OCBC Group to better serve our customers."

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 continued to gain industry recognition in 2011 including being voted the "Outstanding Private Bank in Asia Pacific" by Private Banker International.

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