Media Release

OCBC Group Reports Record Third Quarter Net Profit After Tax of S$1.85 billion, with 41% year-on-year growth in core earnings

Nine months' net profit was 94% higher at S$3.33 billion, with 28% year-on-year growth in core earnings

Singapore, 9 November 2012 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a record net profit after tax of S$1.85 billion for the third quarter of 2012 ("3Q12"), which included divestment gains of S$1.13 billion. Excluding divestment gains, core net profit grew by 41% from S$513 million a year ago to S$724 million, driven by higher net interest income, improved trading performance and increased profit from life assurance.

Third quarter net interest income rose 8% to S$944 million from a year ago. Loans to customers were 8% higher, driven by 8% increase in Singapore, while Malaysia and Indonesia grew 12% and 40% respectively in local currency terms, and partly offset by a 6% decline in Greater China. Net interest margin declined year-on-year from 1.85% to 1.75%. This was largely attributable to competition and limited gapping opportunities in a persistently low interest rate environment, and higher interest cost arising from issuance of longer dated debt securities. In August 2012, the Group realised gains of S$1.26 billion (S$1.13 billion post-tax) from the divestment of its stakes in Fraser and Neave, Limited ("F&N") and Asia Pacific Breweries Limited ("APB"). Excluding the divestment gains, core non-interest income rose 73% year-on-year to S$754 million. Fees and commissions, led by growth in wealth management income, represented 40% of total core non-interest income. Net trading income increased from a year ago to S$144 million. Profit from life assurance more than doubled to S$190 million, lifted by the strong underwriting and investment performance of Great Eastern Holdings' ("GEH") Non-Participating Fund. As a result, total core income increased 30% from a year ago to S$1.70 billion.

Against total core income growth of 30% year-on-year, operating expenses rose 12% to S$685 million, mainly from higher staff costs associated with headcount growth, salary increments and incentive compensation linked to higher business volumes. The cost-to-income ratio improved from 46.6% to 40.3%. Specific allowances for loans for the third quarter were S$24 million, representing a low 7 basis points of loans on an annualised basis.

Compared to the previous quarter ("2Q12"), core net profit for 3Q12 grew 12%. Net interest income was 1% higher, as asset growth more than offset lower net interest margins. The margin compression of 2 basis points during the quarter was slower than the previous quarter. Non-interest income rose 27%, arising from higher profit from life assurance and net trading income. Operating expenses increased 4% quarter-on-quarter.

Nine Months' Performance

Net profit after tax for the first nine months of 2012 ("9M12") was S$3.33 billion, an increase of 94% from S$1.72 billion a year ago ("9M11"). Excluding divestment gains, core net profit grew by 28% to a record S$2.16 billion, led by stronger net interest income, increased fee and insurance income, and higher trading income.

Net interest income for 9M12 increased 14% to S$2.83 billion, underpinned by strong loan growth. The Group's first nine months' core non-interest income grew 31% to S$2.14 billion. Fees and commissions of S$894 million were mainly from wealth management and loan-related activities. Trading income for 9M12 was S$379 million, as compared to S$54 million a year ago, largely attributable to higher net gains from securities and derivatives trading. Insurance income from GEH increased 39% to S$587 million, mainly contributed by the improved investment performance of the Non-Participating Fund. Total core income grew 20% to S$4.97 billion and operating expenses of S$1.97 billion were up 9%, mainly from higher staff related costs. The cost-to-income ratio improved to 39.7%, from 43.9% in 9M11. Allowances for loans and other assets were S$204 million as compared to S$143 million a year ago.

The Group's 9M12 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$1.34 billion, up 34% from a year ago. As a share of total revenue, wealth management contributed 27%, up 3 percentage points year-on-year. OCBC's private banking business registered strong growth momentum, with assets under management increasing 35% year-on-year to US$39 billion (S$48 billion) as at 30 September 2012.

Annualised return on equity, based on core earnings, was 13.0% in 9M12, higher than 11.1% reported in 9M11. Annualised core earnings per share rose 25% year-on-year to 80.9 cents, up from 64.5 cents a year ago.

Allowances and Asset Quality

The Group's asset quality remained strong as a result of effective credit risk management practices. The non-performing loans ("NPL") ratio was 0.8%, an improvement from 0.9% of the previous quarter, while absolute non-performing assets ("NPAs") declined 2% quarter-on-quarter to S$1.26 billion.

Allowances for loans and other assets were S$70 million, as compared to S$38 million in the previous quarter. Total cumulative allowances were 128% of total NPAs and 370% of unsecured NPAs, compared to 125% and 373% respectively as at 2Q12.

Capital Ratios

OCBC Group remains well-capitalised, with Tier 1 ratio of 15.9% and total capital adequacy ratio of 18.0% as at 30 September 2012. These were well above the regulatory minimums of 6% and 10% respectively. The Core Tier 1 ratio, which excludes Tier 1 preference shares, rose from 11.1% in the previous quarter to 12.1%. The ratios were higher than those as at 30 June 2012, attributable to higher earnings and retention of the realised gains from the divestment of the Group's shareholdings in F&N and APB, as well as from the issuance of preference shares and subordinated notes. With the increase in capital, the Group is comfortably positioned to meet MAS' capital requirements under Basel III.

CEO's Comments

Commenting on the Group's performance, CEO Samuel Tsien said:
"Our quarterly and year-to-date core earnings underscore the fundamental strength of our banking and insurance businesses. Our strong liquidity and capital positions were further enhanced by the gains from divestments of non-core assets and additional capital raised during the quarter. While we remain vigilant over the global economy given the lack of visibility in many major markets, we are in a strong position to capitalise on market opportunities and support our customers in all our key countries."

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 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 500 branches and representative offices in 15 countries and territories, including about 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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