Media Release

OCBC Group Reports Third Quarter Net Profit of S$570 million

Robust revenue growth and low credit losses lift earnings by 27% year-on-year and 13% over previous quarter

Nine months' net profit up 20% to S$1,749 million

Singapore, 1 November 2010 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") today reported a net profit of S$570 million for the third quarter of 2010 ("3Q10"), an increase of 27% from S$450 million a year ago. Earnings growth was underpinned by higher net interest income, strong fee and commission income, and lower credit losses. The 3Q10 results included the consolidation of Bank of Singapore, acquired in January this year.

Net interest income increased 10% year-on-year to S$754 million, driven by asset growth which more than offset the impact of lower interest margins. Loans grew by 29% year-on-year, and 7% from the previous quarter, with broad-based increases across all geographies and segments. Non-interest income was S$621 million, an increase of 59% as the prior year period included a one-time loss of S$213 million (S$154 million after tax and non-controlling interests) from the redemption of the GreatLink Choice ("GLC") policies by Great Eastern Holdings ("GEH"), which was reflected under "other income". Fee and commission income surged 37% to a record S$260 million, led by wealth management income, which more than doubled, investment banking, loan-related and trade-related income. Insurance income, trading income and investment gains were lower, as the prior year results were boosted by the strong market recovery from the global financial crisis. Operating expenses increased 23%, reflecting the consolidation of Bank of Singapore, the stepping up of business expansion in key markets following a period of cost restraint during the financial crisis, and higher business volumes. Allowances for loans and other assets fell from S$52 million to S$43 million, with a significant reduction in specific allowances partly offset by higher portfolio allowances set aside for loan growth. The non-performing loans ("NPL") ratio improved further during the quarter from 1.3% to 1.1%.

Compared to 2Q10, net profit increased by a robust 13%. Net interest income grew 5% on higher asset volumes and stable margins. Growth in loan-related, trade-related and wealth management income lifted fee and commission income by 3% compared to the previous quarter. Insurance and trading income also improved as the unstable market conditions in the previous quarter receded. Expenses rose 3%, while allowances were higher than in the previous quarter as a result of increased portfolio allowances.

For the first nine months of 2010 ("9M10"), the Group's net profit increased 20% to S$1,749 million. Net interest income grew 2% as strong asset growth was largely offset by lower interest margins. Non-interest income increased 22%, mainly from higher fee and commission income and gains from investment securities. Operating expenses were 23% higher, driven by the consolidation of Bank of Singapore, business expansion and higher business volumes. Allowances fell sharply from S$353 million to S$86 million as a result of lower specific allowances for loans and other assets, partially offset by higher portfolio allowances for loan growth.

GEH made significant contributions to the Group's improved results for the quarter as well as the nine months period. Net profit contribution from GEH increased 146% quarter-on-quarter to S$137 million in 3Q10, and 16% year-on-year to S$340 million in 9M10. For the nine months, GEH accounted for 19% of the Group's net profit. GEH also achieved robust growth in new business premiums and embedded value. Total weighted new business premiums rose 12% year-on-year for the quarter and 19% for the nine months, while new business embedded value increased 29% year-on-year for the quarter and 31% for the nine months.

For the nine months, the Group's annualised return on equity improved to 12.7% from 12.5% a year ago, while annualised core earnings per share rose 16% to 69.1 cents.

Net Interest Income

Net interest income in 3Q10 grew 10% year-on-year to S$754 million, driven by a 20% growth in average interest-earning assets, which more than offset a decline in net interest margin. Customer loans grew 29% from a year ago, and 7% from the previous quarter, to S$102 billion. Excluding the consolidation effect of Bank of Singapore, loan growth would have been 23% year-on-year. The growth was broad-based across all geographies and across the consumer, corporate and SME loan segments. By industry, the biggest increases came from the housing and general commerce sectors, and lending to non-bank financial institutions, investment and holding companies.

Net interest margin declined 18 basis points year-on-year, from 2.16% to 1.98%. The decline was partly due to the inclusion of Bank of Singapore's lower-yielding, well collateralised assets. Excluding the consolidation effect, net interest margin would have recorded a smaller year-on-year decline of 12 basis points, attributable mainly to reduced average asset yields in a sustained low interest rate environment.

Compared with 2Q10, net interest income grew a robust 5%, contributed mainly by higher asset volumes. Net interest margin improved marginally by 2 basis points from the previous quarter, helped by better margins in Malaysia.

Non-Interest Income

Non-interest income increased 59% year-on-year to S$621 million. Excluding the S$213 million GLC loss in 3Q09, the year-on-year increase in non-interest income was 3%.

Fee and commission income surged 37% to S$260 million, partly a result of contributions from Bank of Singapore. Wealth management income more than doubled to S$50 million, while investment banking, loan-related and trade-related activities also grew strongly. Profit from life assurance fell 26% to S$156 million, as the investment performance of the Singapore non-participating fund was exceptionally strong in the prior year period. Net trading income fell from S$94 million to S$82 million, and gains from sale of investment securities declined from S$35 million to S$23 million.

Compared to 2Q10, non-interest income grew strongly by 20%. Profit from life assurance and net trading income recovered as the unstable market conditions in the previous quarter, caused by the European sovereign debt crisis, receded. In particular, the investment performance of GEH's Singapore non-participating fund improved as credit spreads narrowed and equity prices rose during the third quarter. Fee and commission income rose 3% over the previous quarter, led by higher loan-related and trade-related income and wealth management income.

Operating Expenses

Operating expenses increased 23% year-on-year to S$573 million, reflecting the consolidation of Bank of Singapore, the Group's renewed investments in regional expansion, and higher business volumes. Staff costs rose 29% as a result of increases in headcount, salaries and accruals for incentive compensation, with the consolidation of Bank of Singapore being the largest contributor. Group headcount rose 10%, with more than 80% of the increase coming from the Group's overseas markets including China, Malaysia and Indonesia, and from the consolidation of Bank of Singapore. Other operating expenses rose 15%, attributable largely to higher depreciation expenses, property-related expenses, IT costs and professional fees, the latter driven by higher business volumes.

Quarter-on-quarter, operating expenses increased moderately by 3%, contributed by higher staff costs, IT costs and miscellaneous expenses. The cost-to-income ratio was 41.7% for 3Q10 and 40.9% for 9M10.

Allowances and Asset Quality

Net allowances for loans and other assets were S$43 million for the quarter, higher than the S$18 million in 2Q10 and down from S$52 million a year ago. The year-on-year decline was mainly due to lower specific allowances for loans. Portfolio allowances of S$29 million were set aside for the strong loan growth, higher than the S$5 million in both 2Q10 and 3Q09.

The Group's NPL and coverage ratios improved further. The level of NPLs fell 12% from the previous quarter to S$1,115 million, while the NPL ratio improved to 1.1%, below the pre-financial crisis low of 1.3%. Cumulative allowances amounted to 126% of total NPAs and 350% of unsecured NPAs, up from 112% and 288%, respectively, in the previous quarter.

Capital Ratios

The Group remains strongly capitalised, with a Tier 1 ratio of 15.2% and total capital adequacy ratio of 15.5% as at 30 September 2010, well above the corresponding regulatory minimums of 6% and 10%. Core Tier 1 ratio, excluding perpetual and innovative preference shares, was 11.5%.

CEO's Comments

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

"Revenue momentum across our key businesses remains strong, with broad-based loan growth, robust fee revenues, and healthy contributions from Great Eastern and Bank of Singapore. We intend to continue investing in our regional franchise, positioning for growth opportunities in our key markets."

About OCBC Bank

OCBC Bank, established in 1912, is the second largest financial services group in Southeast Asia by assets. It is among the world's highest rated banks, with a long term credit rating of Aa1 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 411 branches and offices in Indonesia operated by its subsidiary, PT Bank OCBC NISP.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets, and its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia.

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