Media Release

OCBC Group Reports Third Quarter 2011 Net Profit of S$513 million

Strong growth in core customer-related earnings offset by weaker financial markets-related income

Singapore, 3 November 2011 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit of S$513 million for the third quarter of 2011 ("3Q11"). The Group's core customer-related businesses continued to grow, as reflected in the growth of net interest income, fee income and insurance earnings from Great Eastern Holdings' ("GEH") Participating and Investment-linked funds. The volatility of the financial markets in 3Q11 had an adverse impact on trading income at OCBC Bank and insurance profits from GEH's Non-participating fund[1], resulting in a 10% decline in the Group's net profit from S$570 million a year ago.

Compared with the third quarter of 2010 ("3Q10"), net interest income grew by 16% to S$874 million, underpinned by broad-based loan growth of 27%. This was partly offset by a 13 basis point decline in net interest margins, largely attributable to the low interest rate environment and strong growth in lower-risk loans. Fees and commissions grew by 20% to S$307 million, led by increases in wealth management, loans and trade-related fees. Trading performance was affected by the challenging financial markets, resulting in a significant decline in income from a year ago. GEH's life assurance profits from Participating and Investment-linked funds grew 32% year-on-year to S$67 million. Performance of the Non-participating fund was however adversely affected by the volatile financial markets, resulting in a decline of profits to S$9 million from S$105 million a year ago.

The Group's operating expenses increased by 7% year-on-year to S$611 million with most of the increase relating to higher staff costs, largely attributable to a 6% growth in staff strength. Allowances for loans and other assets declined to S$38 million from S$43 million in 3Q10. The Group's asset quality remained sound, with the non-performing loans ("NPL") ratio further improving to 0.7% from 1.1% a year ago.

[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.

Compared with 2Q11's net profit of S$577 million, net profit for 3Q11 was 11% lower. The quarter-on-quarter movement was largely attributable to the poor trading performance and lower Non-participating fund insurance income in 3Q11, which more than offset the 6% quarter-on-quarter growth in net interest income and the 1% reduction in operating expenses.

For the first nine months of 2011 ("9M11"), the Group reported net profit of S$1,718 million, marginally lower than S$1,749 million for the same period a year ago. Core net profit, which excludes the gain from divestment of non-core property in Bassein Road, Singapore, in 1Q11, declined 4% year-on-year to S$1,686 million. Net interest income grew by 14% year-on-year, underpinned by strong loan growth across all key markets. The growth in net interest income was more than offset by an 81% decline in trading income and an 11% reduction in life assurance profits, both resulting from the volatile financial markets, particularly in 3Q11. Operating expenses grew by 11%, largely attributable to higher staff-related costs as a result of the increase in headcount to support the continued growth of the Group's regional franchise as well as annual salary adjustments, and higher business volume-driven costs. Net allowances were 66% higher in 9M11, with the year-on-year increase largely contributed by increased portfolio allowances made for the strong loan growth.

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$1,022 million for 9M11, an increase of 2% from a year ago. As a share of total revenue, wealth management contributed 25%, broadly similar to a year ago. OCBC's private banking franchise continued to expand, with assets under management increasing 11% in the first nine months to US$29 billion as of 30 September 2011.

The Group's annualised return on equity, based on core earnings, for 9M11 was 11.1%, compared with 12.7% a year ago, while annualised core earnings per share for 9M11 was 64.5 cents, compared with 69.1 cents a year ago.

Net Interest Income

3Q11 net interest income rose 16% year-on-year to S$874 million, led by a 24% growth in interest earning assets. Customer loans grew 27% to S$129 billion, with broad-based growth in consumer, corporate and SME customer segments across all key markets. The biggest segmental increases came from housing, general commerce, non-bank financial institutions and investment and holding companies.

Net interest margin declined by 13 basis points year-on-year, from 1.98% to 1.85%, attributable to continued margin compression due to the persistently low interest rate environment, strong growth in lower-yielding trade-linked loans, and price competition, particularly for housing loans.

Compared with 2Q11, net interest income rose 6%, mainly driven by higher total assets.

Non-Interest Income

Non-interest income of S$436 million for 3Q11 was 30% lower year-on-year, as the growth in customer revenues was more than offset by the decline in trading income and insurance profits. Fees and commissions grew 20% year-on-year to S$307 million, led by wealth management, loan and trade-related fees. Volatile financial markets affected trading performance, such that a loss of S$68 million was incurred, compared with a gain of S$85 million a year ago.

Life assurance profits from GEH declined 51% year-on-year to S$76 million as the volatile financial markets in 3Q11 impacted the performance of the Non-participating fund. Profits from the Participating fund on the other hand grew 17% year-on-year to S$29 million, and profits from the Investment-linked fund grew 45% over the same period, to S$38 million. Investment performance of the Non-participating fund suffered from unrealised mark-to-market losses during the quarter. Insurance profit was also affected by the net impact of falling interest rates on the values of assets and liabilities. Non-participating fund profit for 3Q11 was S$9 million, down from S$105 million in 3Q10.

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 financial impact in 3Q11 of S$89 million, comprising S$38 million attributable to changes in 3Q11 and S$51 million attributable to the prior periods.

Despite the volatility in quarterly earnings, GEH's underlying insurance business remained healthy. Total weighted new premium increased 8% year-on-year, underpinned by sustained sales growth in Singapore and Malaysia. Underlying long term profitability continued to improve, as reflected in the 13% year-on-year increase in new business embedded value.

On a quarter-on-quarter basis, non-interest income declined by 26%. Adverse financial market conditions resulted in weaker trading performance and lower profits from life assurance, which more than offset the growth in fee income.

Operating Expenses

Operating expenses were S$611 million for the quarter, up 7% from 3Q10, reflecting the result of disciplined cost management. The year-on-year increase was largely explained by higher staff costs, which were up 9% to S$362 million and this was largely attributable to a 6% growth in staff strength to support expansion of the bank's regional franchise as well as the annual salary adjustments in 2Q11.

Compared with 2Q11, operating expenses were lower by 1%, largely contributed by a 3% reduction in staff costs.

The cost-to-income ratio was 46.6% for 3Q11 and 43.9% for 9M11.

Allowances and Asset Quality

Allowances for loans and other assets continue to reflect the active management of the credit portfolio. Net allowances were S$38 million in 3Q11, compared with S$56 million in 2Q11 and S$43 million in 3Q10. The amount for the quarter comprised mainly portfolio allowances of S$23 million and specific allowances of S$16 million.

Net allowances for 9M11 were S$143 million, compared with S$86 million a year ago. The year-on-year difference was largely attributable to increases in portfolio allowances in line with robust loan growth.

The Group's NPL ratio and coverage ratios remained healthy. The NPL ratio improved to 0.7% from 0.8% in the previous quarter and 1.1% a year ago. Absolute NPLs were reduced by 1% from the previous quarter to S$900 million. Cumulative allowances amounted to 130% of total non-performing assets ("NPAs") and 365% of unsecured NPAs, increased from 123% and 311%, respectively, in the previous quarter.

Capital Ratios

OCBC Bank remained well capitalised, with a Tier 1 capital adequacy ratio ("CAR") of 14.4%, and total CAR of 15.9% as of 30 September 2011. These capital positions were well above the regulatory minima of 6% and 10%, respectively. The Core Tier 1 ratio, which excludes Tier 1 preference shares, was 11.2%. The Group is also well positioned to meet MAS' capital requirements under Basel III.

CEO's Comments

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

"Given the volatile market conditions, overall, we are quite satisfied with our third quarter results, which clearly reflected the strength of our customer businesses. With economic growth slowing, we are well-positioned and intend to continue supporting our customers across all our key markets."

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 three private banks in Singapore.

For more information, please visit www.ocbc.com