
Media Release

OCBC Group Reports First Quarter 2012 Net Profit of S\$832 million Up 32% Year-on-Year

Record results underpinned by broad-based revenue growth

Singapore, 11 May 2012 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a record quarterly net profit of S\$832 million for the first quarter of 2012 ("1Q12"), up 32% from a year ago and 40% from the previous quarter. Core net profit, which excludes gains from the divestment of non-core assets, was S\$790 million, up 33% year-on-year and 33% quarter-on-quarter. Performance during the quarter was underpinned by robust growth in the Group's customer-related businesses and a strong increase in market-related income.

Compared with the first quarter of 2011 ("1Q11"), net interest income grew 21% to S\$951 million on broad-based loan growth of 21%. This was partly offset by a 4 basis point decline in net interest margin, largely attributable to the low interest rate environment and strong growth in lower-risk loans. Non-interest income, excluding the gain from property divestment of S\$56 million (S\$42 million post-tax), grew 28% to S\$790 million. Fees and commissions were largely unchanged at S\$274 million, as strong growth in wealth management and loan-related fees were offset by lower investment banking fees. Trading income surged 98% to S\$160 million, while gains from the sale of investment securities increased 85% to S\$43 million. Insurance income from Great Eastern Holdings ("GEH") grew 41% to S\$253 million, as a result of an improved investment performance of GEH's Non-Participating Fund¹. Operating expenses increased 8% to S\$625 million. Total allowances for loans and other assets were S\$96 million, compared with S\$49 million a year ago. Portfolio allowances and specific allowances for 1Q12 were S\$45 million and S\$43 million, respectively. The Group's asset quality remained sound, with the non-performing loans ("NPL") ratio at 1.0% at the end of 1Q12.

Compared with the previous quarter ("4Q11"), net interest income increased 3% on higher average asset volumes and a marginal increase in net interest margin. Non-interest income (excluding divestment gains) grew 38%, contributed by higher fees and commissions, increased gains from investment securities, and a significant increase in life assurance profit. Operating expenses were largely unchanged, while allowances for loans and other assets were higher as a result of an increase in portfolio allowances.

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.

The Group's revenue from various wealth management activities, comprising revenue from insurance, private banking, asset management, stockbroking and sale of wealth management products, grew strongly to S\$527 million, up 39% from a year ago and 85% from the previous quarter. As a share of total revenue, wealth management contributed 30%, up from 27% in 1Q11 and 19% in 4Q11. OCBC's private banking franchise continued to expand, with assets under management increasing 25% year-on-year to US\$35 billion (S\$44 billion) as of 31 March 2012.

Annualised return on equity, based on core earnings, increased to 14.7%, from 12.2% in 1Q11 and 11.2% in 4Q11. Annualised core earnings per share rose 29% year-on-year to 89.8 cents.

Net Interest Income

Net interest income grew 21% year-on-year to S\$951 million, with robust loan growth partly offset by lower net interest margin. Customer loans grew 21% year-on-year to S\$135 billion, with broad based-contributions across consumer, corporate and SME customer segments in all key markets. The largest increases were contributed by housing loans, loans to the general commerce sector and to financial institutions.

Net interest margin declined 4 basis points to 1.86% in 1Q12 from 1.90% in 1Q11, as a result of the persistently low interest rate environment, robust growth in lower-yielding trade-linked loans, and price competition, particularly for housing loans. Risk-weighted assets ("RWA") grew 15%, versus loan growth of 21%, an indication of the relatively lower-risk loans being booked.

On a quarter-on-quarter basis, 1Q12 net interest income increased 3%, driven by higher average asset volumes and a 1 basis point improvement in net interest margin.

Non-Interest Income

Non-interest income (excluding divestment gains) for the quarter grew 28% to S\$790 million from S\$618 million a year ago. Fee and commission income was S\$274 million, unchanged from a year ago, as higher wealth management and loan-related fees were offset by lower brokerage fees and investment banking income. Treasury income from customer flows increased 26% year-on-year to S\$80 million, demonstrating continuing product innovation and success in cross-selling. Net trading income increased by 98% to S\$160 million, boosted by higher income from foreign exchange and gains from securities trading activities. Net gains from investment securities were S\$43 million, up from S\$23 million in 1Q11. Profit from life assurance grew 47% to S\$221 million, driven by improvement in investment performance of GEH's Non-Participating fund.

During the quarter, the Group recognised a gain of S\$56 million from the sale of property in Melbourne, Australia. In 1Q11, a gain of S\$39 million was recorded from the disposal of the Group's property at Bassein Road, Singapore. Including the gains from the sale of the properties, the Group's non-interest income rose 29% year-on-year to S\$846 million.

Compared with 4Q11, non-interest income (excluding divestment gains) grew 38%. Growth was driven by a significant increase in life assurance profit, which rose to S\$221 million from S\$51 million in the previous quarter. The quarter-on-quarter increase in non-interest income was also driven by higher wealth management fees and gains from investment securities.

Operating Expenses

Operating expenses increased 8% year-on-year to S\$625 million. The increase was largely attributable to higher staff costs, which rose 9% to S\$382 million. The higher staff costs reflected a 6% growth in staff strength to support the expansion of the Group's franchise; the balance was largely attributable to higher salaries and incentive compensation in line with stronger business volumes.

Compared with the previous quarter, expenses increased marginally by 1%, as higher staff costs were offset by lower communication, business promotion and professional expenses.

The cost-to-income ratio based on core earnings was 35.9% in 1Q12, compared with 41.5% in 1Q11 and 41.4% in 4Q11.

Allowances and Asset Quality

Net allowances for loans and other assets were S\$96 million for 1Q12, compared with S\$78 million in 4Q11 and S\$49 million in 1Q11. The quarter-on-quarter increase was attributable to portfolio allowances, which increased to S\$45 million from S\$21 million in 4Q11. Specific allowances decreased 10% from the previous quarter to S\$43 million, largely attributable to lower allowances for new and existing NPLs.

The Group's asset quality remained healthy. The NPL ratio remained relatively low at 1.0% as of 31 March 2012, a marginal increase from 0.9% in the previous quarter. Absolute non-performing assets ("NPAs") were S\$1,513 million as of 31 March 2012, compared with S\$1,437 million as of 31 December 2011. The quarter-on-quarter movement in NPAs was attributable to a small number of accounts that were classified as new NPAs during the quarter.

The Group's coverage ratios remained strong. Total cumulative allowances of S\$1,603 million represented 106% of total NPAs and 353% of unsecured NPAs.

Capital Position

The Group's capital position remained strong, with a Tier 1 capital adequacy ratio ("CAR") of 14.7% and total CAR of 16.1% as of 31 March 2012. These ratios remain well above the regulatory minimums of 6% and 10%, respectively. The Group's core Tier 1 ratio, the computation of which excludes Tier 1 preference shares, was 11.6%.

CEO's Comments

Commenting on the Group's performance, CEO Samuel Tsien remarked:

“Our first quarter performance reflects the strength of our customer franchise which enabled us to capture revenue opportunities in a generally improved market environment. Contribution from our insurance business was also higher as a result of improved investment performance. While the global economic outlook is still mixed, we expect the strength and further expansion of our customer franchise in our key markets will continue to provide us with significant growth opportunities.”

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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