Media Release

OCBC Group Reports 46% Increase in First Half 2004 Net Profit to S$559 million

Second quarter net profit rose 35% to S$303 million, driven by higher revenue and lower provisions

Interim dividend raised by 73% to 19 cents per share

Singapore, 11 Aug 2004 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") today reported a net profit of S$559 million for the first half of 2004, an increase of 46% compared to first half 2003. The robust performance was driven by strong growth in fee and commission income, higher net interest income, and lower provisions. In line with its new dividend payout policy, the Group is pleased to announce an interim gross dividend of 19 cents per share, a 73% increase over the 11 cents paid for first half 2003.

The Group's operating profit before provisions and goodwill amortisation increased by 21% to S$731 million in the first half. Total income grew by 14% to S$1,172 million, outpacing operating expenses growth of 4% to S$441 million. Fee and commission income jumped 37% to S$232 million, led by wealth management income which more than doubled. Net interest income grew by 5% to S$745 million on the back of higher loan volume and a slightly improved net interest margin of 1.91%. Provisions fell from S$134 million to S$43 million, attributable to the strengthening of the Group's credit processes over the past two years, as well as the improving economic environment.

With the consolidation of Great Eastern Holdings Limited ("GEH"), the Group's total assets increased by 35% from S$87 billion in March 2004 to S$118 billion in June 2004. Annualised return on ordinary shareholders' funds ("ROE") improved from 8.1% in first half 2003 to 11.6% in first half 2004, while cash ROE increased from 9.5% to 13.1% over the same period.

Second Quarter 2004 Results

Net profit in the second quarter increased by 35% year-on-year to S$303 million, boosted by higher revenue and lower provisions. Operating profit before provisions rose 34% to S$411 million on the back of growth in all the major revenue segments of net interest income, fee income and other income. Provisions in the second quarter were S$22 million, down from S$70 million a year ago.

Compared to first quarter 2004, the second quarter's net profit also showed an improvement of 19%. The rise in interest rates from March to June 2004 resulted in a derivatives gain, as compared to derivatives losses in the first quarter when rates moved lower. In addition, a 4% growth in net interest income over the first quarter also contributed to the stronger bottomline. The strong fee income performance of the first quarter was sustained in the second quarter, despite a fall in brokerage income arising from lower stock market turnover, as this decline was offset by growth in other fee income segments, particularly wealth management. Second quarter provisions were largely similar to the S$20 million level recorded in the first quarter.

The second quarter results also included a maiden S$1 million pretax contribution, net of goodwill amortisation, from PT Bank NISP Tbk ("Bank NISP"), reflected under the share of associated companies' profits. Bank NISP became a 22.5%-owned associated company of the Group at the end of April 2004. Goodwill amortisation relating to the acquisition of the 22.5% stake was insignificant, amounting to S$0.7 million in the second quarter or an annualised S$4.0 million.

The Group's annualised ROE improved from 10.7% in first quarter 2004 to 12.6% in the second quarter, while cash ROE improved from 12.1% to 14.1%.

Consolidation of Great Eastern Holdings

At the close of OCBC Bank's voluntary unconditional offer ("Offer") for GEH on 30 June 2004, the Bank has an effective shareholding of 81.1% in GEH, up from 48.9% before the Offer. For the second quarter of 2004, GEH's accounts were consolidated for the month of June based on an effective shareholding of 70.1% achieved at the end of May (i.e. with 29.9% minority interests). For April and May 2004, GEH's pretax contribution continued to be equity accounted at 48.9% under the associates line.

The net effect of GEH's one-month consolidation on the Group's second quarter net profit was not significant, as it was consolidated for only one month at a lower effective shareholding than the current 81.1%, and also because of the goodwill amortisation. Assuming GEH was equity accounted as a 48.9%-owned associated company for all of the three months, OCBC Group would have reported a net profit of S$302 million for the second quarter, marginally lower than the reported S$303 million. However, if GEH had been consolidated at 81.1% shareholding for the entire quarter, the Group's second quarter net profit would have been approximately S$9 million higher at S$312 million.

Goodwill arising from the acquisition of the additional stake in GEH, including the value of in-force business, amounted to S$1,076 million. This was computed based on the difference between the acquisition cost of S$1,808 million and the Bank's additional share in the estimated fair value of GEH's net tangible assets of S$732 million. For the period from June to December 2004, this amount will be amortised based on 20 years, i.e. at S$4.5 million per month. From January 2005, the Group will adopt the new Financial Reporting Standard (FRS) 103 on Business Combinations, whereby goodwill will be tested for impairment and no longer amortised. However, it is the Group's intention to treat the value of in-force business as intangible assets, which will continue to be amortised over a period of 20 years, while the balance will be treated as goodwill subject to the impairment test.

Revenue

Total income in the first half of 2004 grew by S$143 million or 14% to S$1,172 million compared to the same period in 2003.

Net interest income rose 5% to S$745 million, boosted by higher loan volume and lower deposit costs. Net interest margin improved slightly to 1.91%, as lower cost of funds largely cushioned the impact of lower yielding assets.

Customer loans grew by 4% from December 2003, and by 7% year-on-year, to S$54.68 billion in June 2004. Growth was led by housing loans, which grew by 7% from December 2003 to S$16.48 billion in June 2004, accounting for 30% of the Group's total loans. Loans to the transport and communication, non-bank financial institutions and investment holding, and general commerce sectors also registered good growth of between 7% and 10% as compared to December 2003.

Total non-interest income jumped by 33% to S$428 million, propelled by stronger fee and commission income, higher dividend income as well as income from GEH's insurance business for the month of June. Non-interest income accounted for 36.5% of total income, up from 31.3% in first half 2003.

Fee and commission income rose 37% to S$232 million, with the largest increase coming from wealth management income (from sales of unit trusts, bancassurance products and structured deposits) which jumped 138% to S$74 million. Wealth management income now accounts for 32% of total fee income, compared to 18% share in first half 2003. Income from stockbroking, investment banking, trade financing, fund management and credit cards also achieved strong growth.

Dividend income more than doubled to S$65 million in the first half, largely due to a special dividend of S$29 million from Robinson & Company, Limited. Included under non-interest income is a new item, "income from insurance", which comprise the profit from GEH's life assurance operations and the net earned premiums from its general insurance business. This item amounted to S$26 million for the second quarter, representing GEH's contribution for the month of June.

Other income in the first half fell by 27% to S$68 million, reflecting the marked-to-market derivatives loss incurred in the first quarter, which was partially offset by a derivatives gain in the second quarter. Income from foreign exchange dealing increased by 22% to S$37 million.

Operating Expenses

Operating expenses increased by 4% to S$441 million in the first half. Excluding the consolidation of GEH's S$5 million expenses, the increase was 3% or S$12 million. The increase was attributed to higher staff costs arising from a higher average headcount, as well as higher business promotion expenses. These were partially offset by lower premises and equipment expenses, as there was a one time write-off of S$10 million relating to certain fixed assets in the second quarter of 2003.

With stronger growth in revenue compared to expenses, the Group's cost-to-income ratio improved from 41.2% in first half 2003 to 37.6% in first half 2004.

Following the consolidation of GEH, the Group's headcount increased to 10,095 in June 2004, including 2,471 headcount from GEH.

Provisions and Asset Quality

Total provisions fell from S$134 million in first half 2003 to S$43 million in first half 2004. The bulk of the reduction came from lower specific provisions for loans, which fell from S$117 million to S$25 million. This can be attributed to an improvement in the Group's overall credit processes and quality of its loan portfolio in the midst of better economic conditions in Singapore and Malaysia.

Improved market valuation of investment securities helped lower the specific provisions for diminution in value of investment securities, properties and other assets from S$47 million to S$17 million. A general provision of S$1 million was made in first half 2004 compared to a write-back of S$30 million in the same period last year.

The Group's asset quality continued to show a steady improvement. Total non-performing loans ("NPLs") were S$3.51 billion in June 2004, a decline of 8% from December 2003 and 15% from June 2003, largely due to a reduction in Singapore NPLs. The Group's NPL ratio improved to 6.1% in June 2004, from 6.9% in December 2003 and 7.5% in June 2003.

The Group continues to maintain strong provision coverage for its NPLs. Total cumulative specific and general provisions amounted to S$2.47 billion in June 2004, representing 70.4% of NPLs, up from 67.0% in December 2003. Cumulative specific provisions covered 99.0% of unsecured NPLs, while cumulative general provisions were 2.2% of non-bank loans (net of specific provisions).

Interim Dividend

An interim gross dividend of 19 cents per share has been declared, up from the 11 cents interim dividend last year. The dividend will be paid on 13 September 2004. Based on the enlarged share capital base of OCBC following the GEH Offer, the interim dividend payout amounts to S$203 million (net), representing 36% of the Group's core net profit in the first half. This is in line with OCBC's recently revised dividend policy, which targets a minimum payout of 35% of core earnings, up from 25% previously.

Capital Ratios

The Group's capital position remains strong. Under the revised capital adequacy framework issued by the Monetary Authority of Singapore, OCBC Group's total capital adequacy ratio at 30 June 2004 was 17.7%, and Tier-1 ratio was 12.6%.

Conclusion

Commenting on the first half results and the outlook, CEO David Conner said:

"We are pleased with the steady improvement in our core businesses since the first quarter of 2003. Our loan volume has grown at above the industry average, and we have managed to hold our interest margin for the past six quarters despite intense competitive pressures. Our fee income base continues to grow strongly, driven by what we believe to be our key competitive edge in wealth management. We look forward to a closer partnership with Great Eastern Holdings which will further differentiate OCBC from its competitors."

About OCBC Bank

OCBC Bank is a Singapore-based financial services group with assets of S$118 billion and operations in 14 countries and territories including Singapore, Malaysia, Indonesia, China, Hong Kong SAR, Japan, Australia, UK and USA, and has more than 110 branches and representative offices around the world. It offers a range of specialist financial services including consumer, corporate, investment, private and transaction banking, global treasury, asset management and stockbroking services to its customers. OCBC Bank's subsidiary, Great Eastern Holdings Limited, is the largest insurance company in both Singapore and Malaysia in terms of assets and market share. Additional information may be found at www.ocbc.com.

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