



OCBC Group Reports \$304 million Net Profit In Second Quarter 2005

First Half 2005 Net Profit rose 9% to S\$602 million

Interim dividend of 11 cents per share, up 39%

Singapore, 10 August 2005 – Oversea-Chinese Banking Corporation Limited (“OCBC Bank”) today reported a net profit attributable to shareholders of S\$304 million for the second quarter of 2005 (“2Q05”), an increase of 1% from the S\$300 million profit recorded in second quarter 2004 (“2Q04”). An interim gross dividend of 11 cents per share (based on the enlarged share capital after the recent Rights Issue and Sub-Division) has been declared, an increase of 39% over the first half 2004 gross dividend of 7.9 cents per share (adjusted¹).

The 2Q05 results reflected the enlarged operations of the Group following the consolidation of 81%-owned subsidiary Great Eastern Holdings (“GEH”) from June 2004, and subsidiary PT Bank NISP Tbk (“Bank NISP”) from April 2005 (the Group’s shareholding in Bank NISP was 51% in April 2005, rising to 70.6% in June 2005). By comparison, the 2Q04 results contained two months’ contribution from GEH as a 49%-owned associate and one month’s contribution from GEH as a subsidiary, as well as two months’ contribution from Bank NISP as a 22.5%-owned associate. GEH contributed S\$62 million to the Group’s net profit in 2Q05, up from S\$35 million in 2Q04. Bank NISP contributed a net S\$11 million in 2Q05 as compared to S\$1 million in 2Q04.

The Group’s operating profit before allowances for loans and other assets grew 4% year-on-year to S\$423 million in 2Q05, with revenue growth of 9% partly offset by expenses growth of 18%. Net interest income increased 7% to S\$407 million, driven largely by growth in interest earning assets and the consolidation of Bank NISP. However, net interest margin declined 10 basis points from 1.92% to 1.82% due mainly to higher cost of funds in a rising interest rate environment and limited gapping opportunities given the relatively flat yield curve.

Non-interest income grew 12% to S\$298 million due to the consolidation of GEH’s insurance income and 7% increase in fees and commissions, partly offset by significantly lower dealing income as 2Q04 recorded substantially higher gains from securities and derivatives dealing. Allowances for loans and other assets fell from S\$22 million in 2Q04 to a net reversal of S\$2 million in 2Q05. Amortisation of intangible assets and goodwill fell from S\$36 million in 2Q04 to S\$10 million in 2Q05 due to the discontinuation of goodwill amortisation under the new Financial Reporting Standard (“FRS”) 103.

¹ “Adjusted” shares and per share data throughout this announcement refer to the equivalent shares / per share numbers after adjustment for the 1-for-5 Rights Issue effected on 18 July 2005 and the 2-for-1 Sub-Division (or stock split) effected on 5 August 2005.

Compared to first quarter 2005's ("1Q05") net profit of S\$298 million, net profit in 2Q05 was higher by 2%. Net interest income grew 12% over the previous quarter and net interest margin improved from 1.78% to 1.82%, while non-interest income fell by 7% due to lower insurance income and other income. Operating expenses increased by 12%, faster than overall revenue growth of 3%, resulting in a 2% decline in operating profit before allowances.

First Half 2005 Results

For the first half of 2005 ("1H05"), the Group achieved net profit of S\$602 million, up 9% over the same period last year. Operating profit before allowances rose 18% to S\$854 million. Total revenue grew by 18% to S\$1,386 million, led by 44% jump in non-interest income to S\$617 million due largely to the inclusion of insurance income from GEH and 6% growth in fee and commission income. Net interest income grew 3% to S\$770 million, driven by a 10% growth in average interest-earning assets which was partly offset by an 11 basis points drop in net interest margin from 1.91% to 1.80%.

Operating expenses increased 19% to S\$532 million, attributable to higher staff costs and business promotion and marketing expenses. Excluding GEH and Bank NISP, operating expenses would have shown an increase of 6%. Allowances for loans and other assets fell from S\$43 million in first half 2004 to S\$23 million in first half 2005, as specific allowances for loans and impairment charges for property assets were reduced.

Annualised earnings per share for 1H05 increased by 6% to 37 cents. Annualised return on ordinary shareholders' equity in 1H05 was 10.6%, compared to 11.5% in 1H04.

Acquisition of Bank NISP

In April 2005, Bank NISP became a 51%-owned subsidiary after the Group acquired an additional 28.5% stake in the Indonesian bank. The Group's shareholding increased to 70.6% in June 2005 following the completion of a public tender offer for the remaining shares in Bank NISP.

Bank NISP's reported results for 2Q05 showed a net profit of Rp 1.3 billion (S\$0.2 million), down 98% year-on-year largely due to unrealised losses incurred in securities dealing. However, for purposes of consolidation, these results were adjusted by virtue of the fair value adjustments already made by the Group upon the acquisition in April 2005. The consolidated results showed a net contribution of S\$11 million from Bank NISP in 2Q05, higher than Bank NISP's reported results.

Second Quarter Revenue

The Group's revenue grew 9% from S\$647 million in 2Q04 to S\$704 million in 2Q05.

Net interest income increased 7% to S\$407 million, boosted by 13% growth in average interest earning assets. Customer loans grew by 6% year-on-year to S\$56.52 billion as at 30 June 2005, with growth registered mainly in loans to the housing, manufacturing and general commerce sectors. Net interest margin however fell by 10 basis points from 1.92% to 1.82% in an environment marked by rising cost of funds and

intense competition. Deposit cost increases were led by large deposits which are primarily pegged to interbank rates. Gapping profits continued to be depressed due to limited gapping opportunities.

Non-interest income rose by 12% to S\$298 million with higher contribution from insurance income and 7% growth in fees and commissions led by higher fund management, trade and remittances and credit card income. Securities and derivatives dealing however recorded losses of S\$7 million as adverse market conditions impacted the Group's portfolio.

Second Quarter Operating Expenses

With the enlarged Group operations, total operating expenses grew by 18% year-on-year to S\$282 million in 2Q05. Excluding the consolidation effects of GEH and Bank NISP, expenses growth was a marginal 2% as higher staff costs were largely offset by lower premises and equipment costs and lower other operating expenses. With the adoption of FRS 102 on Share-Based Payment, effective 1 January 2005, share option expenses amounted to S\$4 million in both 2Q05 and the restated 2Q04 expenses.

The Group's cost-to-income ratio increased from 37% in 2Q04 to 40% in 2Q05. For 1H05, the cost-to-income ratio was 38.4%, marginally higher than the 38.1% in 1H04.

Loan Allowances and Asset Quality

Total allowances for loans and other assets fell from S\$22 million in 2Q04 to a net reversal of S\$2 million in 2Q05, underpinned by continued improvement in the Group's asset quality. There was a net reversal of S\$3 million in specific loan allowances that were no longer required, as compared to S\$16 million allowances in 2Q04. Allowances for other assets fell from S\$7 million in 2Q04 to S\$1 million in 2Q05, as property values were stable.

Total non-performing loans ("NPLs") amounted to S\$2.59 billion in June 2005, representing declines of 10% from December 2004 and 4% from March 2005. The NPL ratio improved to 4.3%, from 5.0% in December 2004 and 4.8% in March 2005. Total cumulative specific and portfolio allowances amounted to S\$2.25 billion, representing 86.9% of total NPLs, up from 82.9% in December 2004 and 84.1% in March 2005.

Capital Position

Total capital adequacy ratio and Tier-1 ratio of the Group stood at 14.7% and 10.7% respectively as at 30 June 2005, down from 17.4% and 12.3% respectively as at 31 December 2004. In May 2005, a bonus cash dividend of S\$1.25 per share (S\$1 net) and a one-for-five Rights Issue at S\$5 per rights share was announced, with an election option to use the dividend to subscribe for the rights shares. The Rights Issue closed on 6 July 2005 with full subscription through the rights acceptances and excess rights applications. For the purpose of capital computation, the dividends of S\$1.31 billion declared in 2Q05 were deducted from Group Tier 1 capital as at 30 June 2005, thereby reducing the Group's Tier 1 and total capital ratios. On completion of the Rights Issue, the Group's capital levels were restored by S\$1.31 billion in July 2005.

Continuing with its capital management initiatives, the Group announced an additional S\$500 million on-market share buyback programme on 29 June 2005. The earlier S\$500 million buyback programme, announced on 11 August 2004, was completed in July 2005. A total of approximately 37.2 million ordinary shares (unadjusted basis) were purchased and cancelled under the first programme, representing approximately 2.8% of the Bank's issued share capital as at 11 August 2004. As at the date of this results announcement, the Group has purchased approximately 3.7 million ordinary shares (unadjusted basis) under the second buyback programme, for a total consideration of approximately S\$43 million.

Interim Dividend

An interim gross dividend of 11 cents per share has been declared, based on the enlarged share capital after the one-for-five Rights Issue and the two-for-one Sub-Division. This is in addition to the one-off bonus cash dividend of S\$1.25 per share (S\$1 net) announced in May 2005.

The interim dividend of 11 cents represents an increase of 39% over the adjusted 7.9 cents dividend for 1H04. The dividend payout will amount to an estimated S\$276 million (net), or approximately 46% of the Group's core net profit in 1H05.

Conclusion

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

"We delivered satisfactory results in an environment of slower economic growth in Singapore along with continued pressure from higher cost of funds and price competition. The acquisition of Bank NISP has added further diversity to our earnings profile and will provide us with better long term growth opportunities outside Singapore. Our overseas operations now account for 31% of revenue and 34% of pretax profit, compared to 21% and 23% respectively in second quarter 2004."

About OCBC Bank

OCBC Bank is Singapore's longest established local bank. It has assets of S\$137 billion and a network of 113 branches and representative offices in 15 countries and territories including Singapore, Malaysia, Indonesia, Brunei, China, Hong Kong SAR, Japan, Australia, UK and USA. OCBC Bank offers a range of specialist financial services including consumer, corporate, investment, private and transaction banking, global treasury, asset management and stockbroking services to meet the needs of its customers across communities. Its subsidiary, Great Eastern Holdings, is the largest insurance group in both Singapore and Malaysia in terms of assets and market share.

In 2004, OCBC Bank was named Lafferty Group's Retail Bank of the Year in Asia-Pacific and South East Asia and Global Finance magazine's Best Bank in Singapore. Additional information may be found at www.ocbc.com.