Media Release

OCBC Group's First Quarter 2005 Net Profit Increased 17% to S$298 million

Operating Profit Rose 35% due to Growth in Non-Interest Income

Singapore, 11 May 2005 – Oversea-Chinese Banking Corporation Limited today reported a net profit attributable to shareholders of S$298 million for the first quarter of 2005 ("1Q05"), up 17% from S$255 million in first quarter 2004 ("1Q04"). The earnings growth was driven mainly by higher non-interest income and lower amortisation charges for intangible assets and goodwill. Annualised return on ordinary shareholders' equity ("ROE") was 10.6%, unchanged from 1Q04, while annualised earnings per share increased by 14% to 91 cents.

Operating profit before provisions rose 35% to S$431 million, with revenue growth of 30% outpacing expenses growth of 21%. Non-interest income grew 98% to S$319 million due mainly to the insurance income contribution from Great Eastern Holdings ("GEH") and a turnaround in derivatives dealing from a loss to a net gain. Fees and commissions grew by 5%, led by growth in fund management, wealth management and trade and remittance activities. Net interest income however fell by 0.5% to S$363 million, hurt by higher cost of funds in a rising interest rate environment and limited gapping opportunities due to a flattening yield curve. Net interest margin declined from 1.90% to 1.78%.

Amortisation of intangible assets and goodwill fell from S$32 million in 1Q04 to S$10 million in 1Q05 as goodwill from acquisitions is no longer amortised under the new Financial Reporting Standard ("FRS") 103.

GEH, which was consolidated as a subsidiary from June 2004, contributed S$58 million to the Group's net profit in 1Q05, compared to S$46 million contribution in 1Q04 when it was equity accounted as an associate. A contribution of S$4 million was also recorded from 22.5%-owned associate PT Bank NISP Tbk ("Bank NISP"), which became a 51%-owned subsidiary in April 2005. The Group will commence consolidation of Bank NISP's results as a subsidiary in the second quarter of 2005.

Compared to the fourth quarter of 2004 ("4Q04"), Group net profit grew by 8%. Lower insurance income and net interest income were offset by the turnaround in derivatives dealing income and a 12% fall in expenses, resulting in a 3% increase in operating profit before provisions.

Revenue

Total income grew by 30% year-on-year to S$682 million in 1Q05.

Net interest income fell marginally by 0.5% to S$363 million, as growth in interest earning assets was offset by the effects of higher cost of funds in a rising interest rate environment and limited gapping opportunities due to a flattening yield curve. Market-driven deposit rates for larger deposits rose faster than average loan yields, resulting in a 12 basis points decline in net interest margin from 1.90% to 1.78%. Customer loans increased by 3% year-on-year to S$53.57 billion, led by housing loans and loans to the manufacturing and transport sectors. Compared to December 2004, loans fell marginally by 1%, with growth in housing and manufacturing loans offset by declines in other sectors.

Non-interest income jumped 98% to S$319 million, mainly due to the inclusion of S$105 million in insurance income from GEH, and a turnaround in securities and derivatives dealing income from losses of S$62 million in 1Q04 to a net gain of S$12 million in 1Q05. Fees and commissions rose moderately by 5% to S$121 million, boosted by growth from fund management, wealth management, trade and remittances, credit cards, and loan-related activities, offset partly by weaker stockbroking and investment banking income.

Operating Expenses

Total operating expenses increased by 21% to S$251 million in 1Q05. Excluding GEH's expenses of S$21 million in 1Q05, the underlying cost increase for the Group was 11%, attributable to higher staff costs and higher business promotion expenses. Staff costs rose due to increases in headcount, salaries, commission incentives to sales and front-line staff, and share-based compensation. Expensing of share options compensation was introduced this year with the adoption of FRS 102 on Share-Based Payment, and amounted to S$4 million in 1Q05, as compared to S$1 million in the restated 1Q04 expenses. Excluding the share options expensing and GEH, the Group's operating expenses increased by 9% over 1Q04.

Despite the cost increases, the Group's cost-to-income ratio improved from 39.4% in 1Q04 to 36.8% in 1Q05, as revenue grew faster than expenses.

Provisions and Asset Quality

Total provisions in 1Q05 were S$24 million, compared to S$20 million in 1Q04. Specific provisions for loans amounted to S$18 million, up from S$9 million in 1Q04 mainly because of lower recoveries from non-performing loans ("NPLs"). This was partially offset by lower impairment charges for investment securities and other assets of S$7 million, as compared to S$10 million in 1Q04. No portfolio provision was made in 1Q05, while a general provision of S$1 million was made in 1Q04.

Total NPLs declined by 6% from S$2.87 billion in December 2004 to S$2.71 billion in March 2005. The NPL ratio improved from 5.0% to 4.8% over the same period. Total cumulative specific provisions and portfolio provisions amounted to S$2.27 billion, representing 84.1% of total NPLs, up from 82.9% in December 2004.

Capital Position

The Group's capital position remains strong. Total capital adequacy ratio and Tier-1 ratio of the Group stood at 17.7% and 13.3% respectively as at 31 March 2005, up from 17.4% and 12.3% respectively in December 2004. Tier-1 capital was boosted by the issue of S$400 million of hybrid Tier 1 preference shares in January 2005 as part of the Group's efforts to achieve a more efficient Tier 1 capital mix and to utilise lower-cost capital. Total capital was further augmented by the inclusion of S$126 million in revaluation surplus from equity securities as part of Tier 2 capital.

Impact of Major Accounting Changes

In 2005, the Group adopted FRS 39 on Financial Instruments: Recognition and Measurement, FRS 102 on Share-Based Payment and FRS 103 on Business Combinations which are effective for financial years beginning on or after 1 January 2005.

The adoption of FRS 39 resulted in certain changes in the accounting policies relating to the recognition and measurement of the Group's financial assets and liabilities, application of hedge accounting criteria and loan impairment requirements. There is no requirement to restate comparative figures for prior periods. However, the financial effects of these changes on the balance sheet resulted in a net increase of S$675 million in the Group's shareholders' equity as at 1 January 2005. This increase in equity was mainly from the Fair Value Reserves which represent the fair value surplus of available-for-sale assets, primarily investment securities and long-term government securities. The net impact of FRS 39 on the Income Statement is a reduction of S$6 million in profit after tax for 1Q05 (as compared to the previous accounting standards).

Under FRS 39, provisions for loan losses now comprise specific provisions and portfolio provisions, and the former general provisions for unspecified risks are no longer allowed. Specific provisions are established when the present value of future recoverable cash flows for impaired loans is lower than the carrying value of the loan. Impaired loans are assessed on a loan-by-loan basis except for certain homogeneous loans with similar characteristics which are assessed on a collective basis, taking into account the historical loss experience on such loans. Portfolio provisions are set aside for the remaining unimpaired loans based on historical default rates which take into account various risk factors. The Group has determined and set aside under FRS 39, cumulative specific provisions of S$1.32 billion and cumulative portfolio provisions of S$0.95 billion for loan losses as at 31 March 2005.

The adoption of FRS 102 resulted in share options compensation expenses of S$4 million in 1Q05, with restatement of S$1 million and S$4 million in 1Q04 and 4Q04 respectively for expense comparatives.

Under FRS 103, goodwill acquired in a business combination is to be measured at cost less accumulated impairment losses. Goodwill is no longer amortised but is subject to impairment test to be conducted at least annually or when indication of impairment exists. For 1Q05, this resulted in a S$35 million reduction in the amortisation charge primarily pertaining to goodwill from the acquisition of Keppel Capital Holdings in 2001. For the Bank's acquisition of an additional 32% stake in GEH in 2004, the value of the in-force business of GEH is treated as an intangible asset with a definite useful life, amortised at a rate of S$10 million per quarter.

More details on the impact of adopting the new / revised FRS can be found in Appendix V of the Financial Review.

Conclusion

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

"Our results are satisfactory in spite of the higher cost of funds, continued price competition and limited gapping opportunities. We now have a more diversified earnings profile compared to a year ago. Our Malaysia operations, including those of GEH, are doing well and now account for 30% of our earnings. The insurance contribution from Great Eastern has also lifted our non-interest income to 47% of total revenues. The consolidation of Bank NISP as a subsidiary from April 2005 is expected to further strengthen our earnings profile."

About OCBC Bank

OCBC Bank is Singapore's longest established local bank. It has assets of S$128 billion and a network of 112 branches and representative offices in 14 countries and territories including Singapore, Malaysia, Indonesia, 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.

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