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OCBC Group Reports First Half 2002 Results

Operating Profit rose 25% to S$672 million
Net Profit fell 30% to S$302 million due mainly to higher provisions

Singapore, 5 August 2002 – Oversea-Chinese Banking Corporation ("OCBC Bank") today reported an operating profit of S$672 million for the six months ended 30 June 2002, an increase of 25.4% compared to the first half of 2001. The increase was driven by the expanded revenue base of the enlarged Group and the realisation of cost synergies from the integration of Keppel Capital Holdings (KCH), which was acquired in August 2001. Compared to the second half of 2001, operating profit would also show an increase of 22%, after excluding the one-off gain of S$260 million from the sale of OUB shares in second half 2001.

However, the Group's first half net profit after tax fell by 30.4% year-on-year to S$302 million, due to higher provisions, goodwill amortisation and the effect of a one-off associate gain recorded in first half 2001.

The provision charge in first half 2002 was S$289 million, a decline of 26.4% from the S$392 million charge in second half 2001. Compared to first half 2001, provisions increased by 131%, due largely to an increase in specific provisions for loans from S$100 million to S$255 million. The relatively high level of provisions for loans was a reflection of the continuing soft economic conditions and property and equity markets in Singapore.

The year-on-year decline in net profit was also caused by a goodwill charge of S$62 million in first half 2002 following the acquisition of KCH, and a one-off gain of S$65 million in first half 2001 arising from the disposal of the banking business by associate PacificMas Berhad.

Robust Top Line Growth, Led by Fee Income
Total income rose by 22.5% to S$1,098 million, underpinned by a 15.8% rise in net interest income to S$745 million and 39.9% jump in non-interest income to S$353 million. While net interest margin fell by 31 basis points year-on-year to 1.93%, this was partly due to the net interest expense of S$63 million arising from the S$3.88 billion subordinated debt issued in July 2001 for the acquisition of KCH. Compared to the second half of 2001, net interest margin was only marginally lower by three basis points.

Non-interest income was boosted by a 33% rise in fee and commission income to S$181 million, as well as by gains from the disposal of investment securities. Growth in fees and commissions was broad-based, with the strongest growth coming from unit trust distribution, stockbroking income, trade-related fees and service charges.

Cost Synergies on Target
The Group achieved integration-related cost savings of approximately S$32 million in the first half of 2002, mainly from savings in premises and equipment costs and staff costs. This

is ahead of the original target of S$55 million integration cost savings for the full year. Apart from the integration cost savings, tighter cost control also resulted in lower expenses in other areas that were not related to the integration exercise. As a result, the enlarged Group's operating expenses in the first half fell by 15.2% compared to second half 2001, despite the fact that only four and a half months of KCH's costs were reflected in second half 2001. The Group's cost-to-income ratio improved to 38.8% from 40.1% in first half 2001 and 47.7% in second half 2001 (excluding the gain from the sale of OUB shares).

Provisions Remained High

The higher provision charge in the first half, compared to the same period last year, reflected an increase in specific provisions for loans and, to a lesser extent, provisions for a fall in value of property assets. Specific provisions for loans, after writebacks and recoveries, rose by 155% year-on-year to S$255 million. Around two-thirds of the specific provisions made in first half 2002 (before writebacks and recoveries) were provisions for existing NPLs due to either a decline in collateral values or weaker recovery prospects for the existing NPL accounts. The remaining one-third of specific provisions was for new NPLs classified during the first half of 2002. The bulk of the net increase in specific provisions was for business loans in Singapore and Malaysia.

Specific provisions for investment securities and other assets rose by 72.1% to S$63 million, largely due to lower valuation of properties which were consolidated in the balance sheet at fair market value at the time of the KCH acquisition.

The Group's overall provision coverage continued to improve, from 64.7% of NPLs as at 31 December 2001 to 67.6% as at 30 June 2002. Cumulative provisions over unsecured NPLs increased from 156.6% to 183.3% over the same period, while cumulative general provisions rose from 2.4% to 2.5% of total non-bank loans (net of specific provisions).

Sluggish Credit Demand, But Asset Quality was Stable

The subdued demand for credit in the domestic economy and the Group's selective and cautious lending approach resulted in a 4.0% decline in gross customer loans compared to December 2001. All major loan categories experienced a decline from their December 2001 levels except for housing loans. The Group's housing loans grew by 5.5% or S$611 million to S$11.79 billion, contributed by growth in both the Singapore and Malaysia portfolios. Housing loans now account for 23% of total loans, by far the largest segment.

The Group's asset quality remains stable. Non-performing loans fell by 3.9% from December 2001 to S$4.98 billion, with the bulk of the decline attributed to the Singapore loan portfolio. While there were new NPLs classified during the first half, these were more than offset by NPL recoveries, upgrades and write-offs. The overall NPL ratio fell marginally from 9.7% at end-2001 to 9.6% as at 30 June 2002.

Integration of KCH Largely Completed

The integration of KCH and its subsidiaries, acquired by OCBC Bank in August 2001, was largely completed as at the end of June 2002. Keppel TatLee Bank was legally and operationally merged with OCBC Bank on 25 February 2002.

To achieve an optimal network and remove branch duplications following the acquisition, the Group has to-date closed 41 branches and offices in Singapore and overseas (including finance company branches). The bulk of these closures took place before 25 February 2002.

Currently, the Group has a domestic network of 63 bank branches and sales centres and 14 finance company branches, and an overseas network of 50 bank branches and representative offices.

Staff rationalisation was also undertaken to eliminate the redundancies in job positions arising from the combination of the two banking groups. The Group's headcount stood at 7,694 as at 30 June 2002, a decrease of around 900 compared to the combined headcount of the two banking groups in September 2001, before integration began. The reduction was due to retrenchments as well as natural attrition. Going forward, the Group will continue to re-assess its human resource needs as part of the ongoing streamlining of operations.

CEO's Comments

Commenting on the first half performance, Mr David Conner, Chief Executive Officer of OCBC Bank, said: "The Group has achieved a satisfactory performance, with our operating profit holding up well under the challenging circumstances. We have worked hard to diversify our income streams, and the strong growth in fee-generating businesses is particularly encouraging. For example, our bancassurance market share has risen from 39% in 2001 to 48% in the first quarter of 2002, while unit trust sales have grown by 42% to S$600 million during the first half. We also did well in managing down our costs, with integration cost synergies ahead of target. While provisioning remained high, this was substantially lower than in second half 2001. Importantly, our overall provision coverage is comfortable relative to the level of NPLs."

"In the first half we have also achieved a successful integration of KCH well ahead of schedule. Our business focus for the rest of this year will be to exploit the revenue synergies from our enlarged customer base, continue to improve our asset quality, and enhance our operational efficiencies."

"Recently, OCBC Bank was named by US-based *Global Finance* magazine as the Best Corporate/ Institutional Internet Bank in Singapore as well as in the Asia Pacific. Such accolades would not be possible if we had not continually invested in our staff, systems and the latest technology to stay ahead of our competitors and to better serve our customers. With our solid foundation, I am confident that OCBC Bank is in a strong position to face the challenges ahead."