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OCBC GROUP REPORTS NET PROFIT OF S$785 MILLION IN 2001

Singapore, 27 February 2002 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported today that its Group net profit for the year ended 31 December 2001 fell 6.5% to S$785 million. The decline was largely due to higher provisions, which more than offset a 25.7% growth in operating profit.

The weaker economic environment, especially during the second half of 2001, necessitated an increase in specific provisions to ensure a comfortable level of coverage. The Group's provision charge rose by S$379 million to S$518 million. Of this increase, S$236 million was due to higher specific provisions, largely to cover declines in collateral value of existing non-performing loans (NPLs) and, to a smaller extent, to provide for new NPLs. The remaining S$143 million of the provision increase was due to a general provision charge of S$2 million in 2001 compared to a write-back of S$141 million in 2000.

Operating profit was boosted by a pretax gain of S$260 million from the disposal of Overseas Union Bank (OUB) shares held by the Group (included under "Other income"). Excluding this gain, operating profit showed an increase of 1.5%, underpinned by higher net interest income and fee and commission income, and a moderation in cost increases.

While the results included four and a half months' contribution from Keppel Capital Holdings (KCH), the contribution of KCH was more than offset by the costs relating to its acquisition, given that cost savings will only start to be realised in 2002, when the various businesses are integrated. On a proforma basis - excluding the KCH contribution and the acquisition-related costs - the Group's net profit of S$838 million was largely sustained at 2000's level.

The Group's earnings per share in 2001 was S$0.61, and return on shareholders' funds was 9.4%. Net tangible assets per share fell by 19.6% from S$6.34 to S$5.10 after the deduction of goodwill of S$2.20 billion associated mainly with the acquisition of KCH. Including the unrealised valuation surplus of S$3.59 billion (S$2.79 per share), the adjusted net tangible assets per share was S$7.89.

A final dividend of 13 cents per share has been proposed, bringing the total dividends for 2001 to 18 cents.

Impact of KCH Acquisition
KCH's accounts were consolidated from 16 August 2001. Its after-tax profit contribution to the Group amounted to S$81 million (S$85 million pretax), but this was offset by acquisition-related costs. At the pretax level, the acquisition-related costs amounted to S$151 million, comprising S$45 million in amortised goodwill, S$32 million in integration costs and S$74 million in net interest expense relating to the S$3.88 billion Upper Tier 2 subordinated debt issued in July 2001.

To provide a more meaningful comparison with the previous year, the remaining sections of this media release, unless otherwise stated, refer to the Group's performance on a proforma basis, i.e. excluding the four and a half months' contribution from KCH and excluding the acquisition-related costs (amortised goodwill, integration costs and subordinated debt interest cost).

Income Resilient despite Weak Economic Environment

In spite of a difficult operating environment in its two main markets - Singapore and Malaysia - the Group managed to sustain its income. Both net interest income and fee and commission income rose slightly compared to 2000. The disposal of OUB shares contributed S$260 million to other income. Excluding this gain, total income of the Group rose 3.1% to S$1,780 million.

Net interest income rose a marginal 0.9% to S$1,271 million. Average interest earning assets rose 8.7%, offset partly by a 17-basis point decline in net interest margin to 2.16% due mainly to the low interest rate environment and lower customer spreads. Fee and commission income edged up -1.5% to S$259 million. Non-brokerage fee and commission income rose 11.8%, led by higher income from loan-related fees, bancassurance, unit trust distribution and credit cards. Brokerage income fell 29.5% as a result of the lower stock market turnover and the fall in stockbroking commission rates.

Expenses Under Control

While the Group continued to strengthen its capabilities in a number of areas, cost control measures undertaken early in the year resulted in a significant moderation in costs. Operating expenses rose by 13.0% in 2001 compared to an increase of 26.9% in 2000, with the year-on-year increase decelerating from 24.8% in the first half to 3.6% in the second half. The Group had deferred non-essential projects in the first quarter of 2001, and also imposed a headcount freeze in April 2001 followed by a hiring freeze in July 2001 in preparation for the acquisition of KCH. The cost-to-income ratio was 36.3% in 2001 compared to 38.0% in 2000. Excluding the gain from disposal of OUB shares, the cost-to-income ratio was 41.6%.

Higher Provisioning

The provision charge (excluding KCH) rose by S$312 million or 224% to S$451 million. Of the increase of S$312 million, S$176 million came from higher specific provisions for loan losses, while S$136 million was due to lower general provision write-backs. The higher specific provisions were largely for existing NPLs (as at end-2000) in Singapore and Malaysia, as the economic downturn had resulted in a decline in the value of collateral. In addition, some specific provisions were made for new NPLs classified in 2001. There was a minimal write-back of general provisions in 2001, against the previous year's write-back of S$141 million.

As a result of the higher provisioning, the Group's overall provision coverage has improved from 58.8% at end-2000 to 62.8% at end-2001 (64.7% including KCH).

Loans Grew 8.2% while NPLs fell 12.6%

Gross customer loans rose by 8.2% to S$38.13 billion, boosted by increases in housing loans, loans to the transport and communication sector and loans to non-bank financial institutions. Given the economic environment, the Group's focus was on protecting asset quality, and loan growth was targeted largely at top-tier corporates and secured consumer credit such as housing loans and car loans.

Pro-active management of NPLs resulted in a decline in the Group's non-performing loans (NPLs) to S$3.58 billion at end-2001, which was 12.6% lower than at end-2000 and 8.8% lower than at June 2001. The overall NPL ratio fell from 11.5% at end-2000 to 9.3% at end-2001 (9.7% including KCH).

Integration of KCH

Following the completion of the KCH acquisition in August 2001, the Group has successfully effected a smooth integration of the two banking groups. The respective Finance, Asset Management and Futures & Bullion subsidiaries of KCH and OCBC Bank were legally and operationally merged on 2 January 2002, followed by the Securities subsidiaries on 28 January 2002. The "Operational Day One" for OCBC Bank and Keppel TatLee Bank (KTB) took place on 25 February 2002, when the two banks were merged, not only in name, but as a single operating entity serving the combined customer base of both banks. With the crossover, customers of both banks now enjoy common servicing capabilities across all channels, including branches, ATMs, Internet banking, call center and phone banking. Products and services were also aligned under the OCBC brand, with similar pricing and features.

With an enhanced distribution network and common platform serving a larger customer base, OCBC Group is now in a good position to leverage its income streams and achieve revenue synergies from the merger. Ex-KTB customers have access to the full suite of OCBC Bank products, particularly wealth management products such as bancassurance and unit trusts. Likewise, OCBC Bank customers have access to the best-in-breed products of ex-KTB such as Prestige Credit and E-Products.

To achieve an optimal and cost-effective distribution network, the Group has to-date closed 20 bank branches and sales centres and 7 finance company branches in Singapore, and 2 branches and 7 representative offices overseas. The rationalisation of other branches, and the bulk of the staff rationalisation, are expected to take place in the remaining months of 2002. By the end of 2002, the Group expects to have a total of 62 bank branches and sales centres, and 15 finance company branches in Singapore. Outside of Singapore, customers will be served by a network of 45 branches, 4 representative offices and 1 joint venture bank in 14 countries.

The Group expects to realise annual cost savings of around S$100 million (in today's dollars) by 2004. Approximately 55% of the annual cost savings are expected to be realised by 2002, and 95% by 2003. Cost savings will be derived from the rationalisation of domestic and international branches, elimination of duplication in technology, operations, corporate functions, business profit centres, and the integration of subsidiaries.

Total cash outlay in respect of the integration is estimated at S$111 million, of which S$24 million has been taken as a fair value adjustment to the net assets of KCH on acquisition. Further, S$32 million has been charged to the 2001 Income Statement, and another S$26 million are expected to be charged in 2002. The remainder will be amortised as capital expenditure over 2003 to 2008.

Commenting on the integration, Mr Alex Au, Vice Chairman and CEO of OCBC Bank, said: "Right from the start, the management and staff of both banking groups have worked closely together to implement the integration plans effectively at both the operational and customerfacing levels. The key priority is to minimise inconvenience to our customers and achieve a smooth and seamless integration. We have certainly achieved this objective."

"The smooth integration of KCH and its subsidiaries in such a short period of time is testimony to the hard work, resolve and commitment of our staff. But the tasks do not end here. Going forward, the management and staff of OCBC Group will remain fully committed to delivering the synergies and value that the combined organisation offers, for the benefit of all our stakeholders - customers, shareholders and employees."

About OCBC Bank

OCBC Bank is a Singapore-based financial services group offering a broad range of financial services, including consumer, corporate and international banking, investment management, global treasury, stockbroking and eFinancial services.

In August 2001, OCBC Bank acquired Keppel Capital Holdings Ltd and all its subsidiaries, including Keppel TatLee Bank Limited, Keppel Securities Private Limited and Keppel TatLee Finance Limited. On 25 February 2002, OCBC Bank and Keppel TatLee Bank were operationally and legally integrated, representing an important step forward in OCBC Bank's mission to be a world-class financial institution in Asia Pacific.

The OCBC Group has total assets of S$85 billion. The Bank has branches and representative offices in 14 countries, including Malaysia, China, Hong Kong SAR, Japan, Australia, UK and USA. In Asia, it has one of the most extensive networks among regional banks. For the financial year ended 31 December 2001, OCBC Bank achieved a profit attributable to shareholders of S$785 million.

A leading eCommerce financial services provider, OCBC Bank is being transformed into a 'click-and-mortar' bank, and is well positioned to pursue global innovative eCommerce initiatives. By leveraging on its rich heritage, innovative spirit and entrepreneurial management outlook, OCBC Bank is committed to helping its customers, shareholders and staff grow from strength to strength.