# OCBC Group's First Half 2003 Net Profit Increased 21% to S$384 million

## Improved performance driven by lower provisions and stable costs

## Second quarter 2003 net profit rose 120% year-on-year to S$224 million

Singapore, 5 Aug 2003 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") registered a net profit attributable to shareholders of S$384 million in the first six months of 2003, a rise of 21% compared to the first half of 2002. The profit improvement was driven by a 55% fall in provisions from S$295 million to S$134 million, led by lower specific provisions for loans and investment securities. In addition, tight cost management kept operating expenses stable in a difficult economic environment.

Net profit in the second quarter of 2003 was S$224 million, an increase of 120% over second quarter 2002, as the latter period accounted for the bulk of provisions made in first half 2002.

In the first half of 2003, operating profit before provisions and goodwill amortisation fell 11% to S$605 million compared to the same period in 2002. Revenue in the first half was affected by the generally weak economic and investment environment, particularly during the first four months of the year as a result of the Iraq war and SARS. In addition, operating profit in last year's first half was boosted by gains of S$46 million from the disposal of investment securities, as compared to a S$3 million gain this year.

Comparing second quarter 2003 with first quarter 2003, the Group's overall performance has improved. Net profit of S$224 million in second quarter 2003 was 41% higher than the first quarter's S$159 million, driven by a 6% rise in total revenue and significantly higher contribution from associate Great Eastern Holdings. With the end of the war, the containment of SARS, and improved investment sentiment, operating profit before provisions and goodwill increased by 3% over the first quarter.

### Higher Revenue in the Second Quarter

Total income fell by 7% year-on-year in the first half of 2003 to S$1,029 million, with half of the decline attributed to lower gains from the disposal of investment securities. However, comparing the second quarter with first quarter 2003, total income showed an increase of 6%, driven mainly by higher non-interest income.

Net interest income in the first half fell by 5% to S$707 million due mainly to a reduction in net interest margin from 2.01% to 1.90%. Interest margins were affected by lower customer spreads due to competition and by lower returns on net available funds. However, net interest income in second quarter 2003 grew by a marginal 1% over the first quarter, helped by higher average loan volume and relatively stable net interest margin.

Fee-based activities were affected by the poor investment sentiments in the first four months of 2003, resulting in an 8% year-on-year decline in fee and commission income to S$170 million in the first half of 2003. Lower income from wealth management products and stockbroking more than offset higher loan-related fees and credit card fees. However, fee and commission income recovered in the second quarter to register an increase of 7% over the first quarter, led by higher brokerage and wealth management income.

## Expenses Tightly Managed

The Group continued to manage its expenses tightly, particularly given the sluggish economic environment. Total operating expenses in the first half declined by 1% to S$424 million as compared to the same period in 2002, due to lower staff costs and other operating expenses, and a S$5 million reversal of specific restructuring costs. The overall cost decline would have been larger if not for a one time write-off of S$10 million relating to certain fixed assets in the second quarter. This write-off also contributed to an 11% increase in operating expenses from the first quarter to the second quarter, and a corresponding rise in the cost-to-income ratio from 40.3% to 42.1%. The average cost-to-income ratio of 41.2% in the first half was higher than a year ago due to the year-on-year decline in total income.

## Lower Provisions and Improving Asset Quality

Total provisions for the first half amounted to S$134 million, a decrease of 55% from S$295 million in first half 2002. Provisions in the second quarter of 2003 were S$70 million, slightly above the S$64 million in the first quarter which had included a S$31 million release of general provisions.

The bulk of the provisions in the first half were specific provisions for loans which amounted to S$117 million, compared to S$255 million in first half 2002. While business conditions remained weak during the first half, provisions for new non-performing loans (NPLs) and for the shortfall in collateral value of existing NPLs were not as high as in first half 2002.

Specific provisions for diminution in value of investment securities, properties and other assets also registered a year-on-year decline from S$68 million to S$47 million, as the Group had made significant provisions for private equity and venture funds in the first half of 2002.

In addition, the Group released S$30 million from its general provision reserves in the first half of 2003 (S$27 million released in first half 2002). As at 30 June 2003, general provision reserves remained at a prudent level of 2.4% of total non-bank loans (net of specific provisions).

Overall provision coverage remained at a comfortable level of 63% of NPLs as at 30 June 2003, while cumulative specific provisions were 103% of unsecured NPLs.

Compared to 31 December 2002, total NPLs fell by 6% to S$4.12 billion as at 30 June 2003. The NPL ratio improved to 7.5% in June 2003, from 8.1% in December 2002 and 9.6% in June 2002. The reduction in NPLs in the first half came mainly from Singapore NPLs where the recoveries, repayments and write-offs of fully provided loss loans more than offset new classified loans.

## Moderate Loan Growth

Customer loan balances increased by 3% from 31 December 2002 to S$51.25 billion as at 30 June 2003, with most of the growth occurring in the second quarter. The increase came largely from consumer loans. Housing loans grew by 10% from December 2002 to S$13.56 billion in June 2003, while loans to professionals and private individuals increased by 5% over the same period to S$7.98 billion.

## Interim Dividend

An interim gross dividend of 11 cents per share has been declared, compared to the 5 cents interim dividend and 15 cents final dividend for financial year 2002. The interim dividend, representing a payout of 29%, is in line with OCBC's dividend policy adopted earlier this year as part of its New Horizons strategy. Under the policy, OCBC targets to pay out at least 25% of profit after tax from its core business, barring unforeseen circumstances. It also targets to pay more uniform dividends every half-year, increasing in line with its core earnings.

## Conclusion

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

"We are generally pleased with our second quarter results, particularly as we are seeing some post-war and post-SARS improvement in revenues and loan growth. We continue to focus on executing our New Horizons initiatives, while striving to help our customers through the current difficult economic environment. Barring unforeseen events, we are hopeful that the improving trend in the second quarter would be sustained in the second half of the year."

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