



Media Release

OCBC's Full Year 2003 Net Profit

Grew 43% to S\$954 million

Net Profit for Fourth Quarter rose 65% to S\$279 million

Singapore, 11 February 2004 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") today reported a net profit of S\$954 million for the financial year ended 31 December 2003, an increase of 43% compared to 2002, representing a record high for the Group. The earnings growth was driven by a substantial reduction in provisions, gains from the divestment of non-core assets and higher contributions from associates.

The Group's operating profit before provisions and goodwill amortisation fell by 2% to S\$1,338 million, mainly due to a 5% decline in net interest income as a result of increased competition driving down interest margins. Non-interest income increased by 6%, boosted by gains from the divestment of non-core assets which contributed S\$128 million. The divestments comprised shares in Fraser and Neave Limited ("F&N") and WBL Corporation Limited, and a residential development site at Mount Emily Road. Fee and commission income was largely unchanged from 2002, but showed a strong rebound in the second half compared to the first half which was affected by weak investment sentiments and economic uncertainties. Operating expenses for the year rose marginally by 1%.

Provisions fell by 55% from S\$501 million in 2002 to S\$225 million in 2003, reflecting the significant progress made in strengthening the Group's credit processes and asset quality since the second half of 2002. The Group's non-performing loans ("NPLs") ratio improved from 8.1% at the end of 2002 to 6.9% at the end of 2003, while cumulative provision coverage increased from 62.4% to 67.0% of total NPLs.

Pretax contribution from associates increased by 46% to S\$235 million, due to higher profits from insurance associate Great Eastern Holdings Limited, and a S\$14 million gain from the sale of an associate's stake in Raffles Hotel.

The total after-tax gain from the divestment of non-core assets, including the gain reflected under the associates line, was S\$126 million in 2003. Excluding this amount, the Group's net profit in 2003 would be S\$828 million, an increase of 24% over 2002.

The Board of OCBC Bank has recommended a final dividend of 12 cents per share for ordinary shareholders, bringing the total dividend for 2003 to 23 cents, an increase of 15% compared to the total dividend of 20 cents for 2002.

Fourth Quarter 2003 Results

Compared to the fourth quarter of 2002, net profit in the fourth quarter of 2003 rose by 65% to S\$279 million. Operating profit before provisions and goodwill amortisation increased by 2% year-on-year to S\$358 million, driven by a 13% growth in fee and commission income as well as the divestment gain from the property at Mount Emily Road. Net interest income declined by 2%, while operating expenses were unchanged from a year ago. Provisions in the fourth quarter amounted to S\$54 million, 58% lower than in the same period in 2002. Associates' contribution rose by 100% to S\$94 million resulting from higher earnings from Great Eastern Holdings as well as a S\$14 million gain from Raffles Investments' sale of Raffles Hotel.

Full Year Results

Net Interest Income

Net interest income in 2003 fell by 5% to S\$1,435 million, as increased competition led to lower interest margins, offsetting the impact of a higher loan volume. Net interest margin fell by 12 basis points, from 2.02% in 2002 to 1.90% in 2003.

Customer loans grew by 5% from the end of 2002 to S\$52.59 billion as at the end of 2003, driven by growth in consumer loans. Housing loans expanded by 25% to S\$15.38 billion, while loans to professionals and individuals increased by 7% to S\$8.13 billion. Consumer loans now account for 45% of the Group's loan portfolio, compared to 40% at the end of 2002.

Non-Interest Income

Total non-interest income grew by 6% to S\$758 million in 2003. Dividends and other income were higher due to gains from the divestment of non-core assets. The gains comprised S\$78 million from the disposal of shares in F&N, S\$46 million from the sale of the property at Mount Emily Road, and S\$4 million from the disposal of shares in WBL Corporation Limited.

Fee and commission income registered a strong 19% rebound in the second half of 2003 compared to the first half, as investment sentiments and stock market turnover recovered. This helped to make up for the lower distribution fees from unit trusts and bancassurance products in the first half of 2003. For the full year, fee and commission income was S\$373 million, similar to the level in 2002. Growth was registered in brokerage income, loan-related fees, credit card and fund management income.

Strong retail sales in treasury and structured products helped boost the Group's total sales of wealth management products in Singapore and Malaysia to a record S\$5.2 billion in 2003, compared to S\$3.9 billion in 2002. Sales of treasury and structured products in Singapore doubled from S\$1.5 billion to S\$3.0 billion. Unit trust sales in the two major markets totalled S\$1.2 billion, while bancassurance sales contributed S\$1.0 billion.

The Group recorded a net loss of S\$19 million in securities and derivatives dealing in 2003, compared to a net gain of S\$61 million in 2002. In the second half of the year, an unexpected spike in long term interest rates resulted in losses from the disposal of Singapore Government Securities and corporate debt securities, the latter comprising mainly securities related to a primary market underwriting transaction. The S\$19 million net loss also included some unrealised losses on interest rate derivatives.

Operating Expenses

Costs were managed tightly during 2003 in view of the sluggish economic environment. Compared to 2002, operating expenses rose only marginally by 1%, to S\$855 million. Increases in staff costs and premises and equipment costs were offset by lower professional and business promotion costs. The Group's cost-to-income ratio for 2003 was 39.0%, slightly above the 38.2% in 2002.

Provisions and Asset Quality

Total provisions in 2003 fell 55% to S\$225 million. Specific provisions for loans fell by 47% from S\$365 million in 2002 to S\$194 million in 2003. Specific provisions for diminution in value of investment securities and other assets also declined sharply, from S\$163 million in 2002 to S\$57 million in 2003. The S\$57 million provisions comprised provisions of S\$49 million for the Group's properties, down from S\$84 million in 2002, and provisions of S\$8 million for investments and other assets, down from S\$79 million in 2002.

As at 31 December 2003, the Group's NPLs were S\$3.83 billion, a reduction of 12% or S\$521 million compared to 31 December 2002. The NPL ratio improved to 6.9% from 8.1% in December 2002.

Cumulative specific and general provisions amounted to S\$2.57 billion or 67.0% of total NPLs as at 31 December 2003, up from 62.4% in December 2002. Cumulative specific provisions covered 100% of unsecured NPLs, similar to the level in December 2002. The Group's general provisions ratio (over net loans) was at a comfortable 2.3%.

Conclusion

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

"2003 has been a difficult year for most companies and individuals in Singapore, and against this backdrop, OCBC has done well. Even excluding the non-core gains, our net profit increased by 24% over 2002. The large reduction in provisions is an important achievement as it reflects an improved credit process and stronger asset quality. We are also encouraged by the growth in net interest income and fee income in the second half, and by the market share gains we have made in consumer loans.

The global economic outlook has brightened considerably over the past few months, giving us some sense of optimism for 2004. However, we must also be prepared for any adverse changes in the external environment. OCBC is in a strong position to capitalise on the growth opportunities ahead, and we will continue to press on in executing our New Horizons strategic initiatives."

For more information, please contact:

Peter Zheng

Head Group Corporate Communications

Tel : (65) 6530 1531

Fax : (65) 6535 7477

Duty Handphone: 9620 2336

Kelvin Quek

Head Investor Relations

Tel: (65) 6530 4205

Fax: (65) 6532 6001