Media Release

OCBC GROUP REPORTS 2002 RESULTS

Net profit fell 14% to S$667 million due mainly to absence of one-off gains
Underlying operating profit rose by 26% driven by higher revenue and lower costs

Singapore, 25 February 2003 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") today reported an operating profit before provisions and goodwill amortisation of S$1,372 million for the financial year ended 31 December 2002, representing a marginal increase of 1.9% compared to 2001. However, excluding a large one-off gain of S$260 million from the disposal of Overseas Union Bank (OUB) shares recorded in 2001, the underlying operating profit growth in 2002 was a robust 26.2%. The improved performance was driven by revenue growth and realisation of cost savings in the first full year of the enlarged OCBC Group following the successful integration of Keppel Capital Holdings ("KCH"), which was acquired in August 2001. Operating profit before provisions and goodwill amortisation in the second half of 2002 was 2.2% higher than in first half 2002.

The Group's net profit after tax declined by 14.3% in 2002 to S$667 million, mainly due to higher goodwill amortisation, the S$260 million gain from the sale of OUB shares in 2001, and a one-off gain of S$65 million from associate PacificMas Berhad in 2001. The Group's net profit in the second half of 2002 was S$349 million, 10% higher than the first half's S$317 million, as operating profit improved and provisions fell compared to the first half.

The total provision charge for 2002 remained relatively high at S$501 million although this represented a decrease of 3.3% from the charge of S$518 million in 2001. The level of provisioning reflects the continuing soft economic conditions in Singapore and Malaysia, as well as the impact of weak property markets, particularly the industrial and commercial property in Singapore, on loan collateral values. Nevertheless, second half 2002 provisions of S$205 million were 30.6% lower than the first half's S$295 million.

The Board of OCBC Bank has recommended a final dividend of 15 cents per share for shareholders, bringing the total dividend for 2002 to 20 cents, compared to a total dividend payment of 18 cents for 2001.

Revenue Growth Driven by Enlarged Operations and Robust Fee Income

Excluding the one-off gain in 2001, the Group achieved a 13.7% increase in total income to S$2,222 million, underpinned by moderate growth in net interest income and robust fee-based revenue. Net interest income rose by 8.4% to S$1,509 million in 2002 on the back of a higher interest earning asset base following the acquisition of KCH. Second half 2002 net interest income was 2.6% higher than in the first half.

Net interest margin declined by 15 basis points to 1.94% in 2002 largely due to lower returns on interbank placements arising from the low interest rate environment, as well as competitive pressure on the margins for Singapore and Malaysia loans. Net interest margin in second half 2002 was marginally higher than in the first half.

Fee and commission income rose by a robust 27.9% to S$374 million, as the Group benefited from increased cross-selling opportunities to a broader consumer customer base. Most categories of fee and commission income recorded double-digit growth, with the strongest boost coming from loan-related fees, unit trust distribution, bancassurance, trade financing, stockbroking and service charges. Fee and commission income in the second half was 3.4% higher than in the first half. Fees and commissions as a proportion of total income (excluding the gain from OUB shares) rose from 15.0% in 2001 to 16.8% in 2002.

Improved Cost Efficiency

The Group achieved integration-related cost savings of approximately S$74 million in 2002, surpassing the original expected savings of S$55 million. Synergies were realised mainly from the rationalisation and optimisation of human resources, premises and equipment. Over and above the integration cost synergies, there were additional cost savings arising from tighter cost control and workflow rationalisation. As a result, total operating expenses decreased by 2% to S$849 million, despite the enlarged operations in 2002 compared to 2001 which included only four and a half months of KCH's expenses. Expenses were also lower by 1.9% in the second half compared to the first half. The Group's cost-to-income ratio improved to 38.2% from 44.3% in 2001 (excluding the gain from the sale of OUB shares).

Provisions Reflect Weak Economies and Asset Markets

Total provision charge in 2002 was S$501 million, comprising specific provisions of S$365 million for loans, specific provisions of S$80 million for investment securities, S$84 million for the Group's properties, and a net general provision writeback of S$28 million.

The specific loan provisions were mainly for loans to businesses in Singapore and Malaysia, reflecting the weak economic conditions as well as the continued decline in property markets which affected loan collateral values. Consumer loans accounted for less than 10% of the specific loan provisions made in 2002.

Provisions were made for investment securities to reflect the fall in value of private equity and venture funds, debt and other securities. The provisions for properties held by the Group were mainly for those properties which were consolidated at fair market value at the time of the KCH acquisition in August 2001 and which had since fallen in value.

The Group's overall provision coverage remained high at 62.3% of total non-performing loans (NPLs) as at 31 December 2002. Cumulative specific provisions covered 100% of unsecured NPLs, while cumulative general provisions were 2.5% of total non-bank loans (net of specific provisions).

Weak Loan Demand, Stable Asset Quality

The sluggish demand for credit and the Group's selective and cautious lending approach resulted in a 5.8% 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. Housing loans grew by 10.2% to S$12.31 billion, and accounted for 25% of the Group's total loans as at 31 December 2002.

The Group's NPLs fell by S$827 million or 16% to S$4,356 million as at 31 December 2002, as a result of NPL recoveries, repayments and upgrades, as well as write-offs of NPLs which had been fully provided for and were regarded as uncollectable. The NPL ratio improved from 9.7% to 8.1%.

CEO's Comments

Commenting on the 2002 performance, David Conner, Chief Executive Officer of OCBC Bank, said:

"This is a healthy set of results for the Group, given the weak economic environment in 2002. We have managed to grow our underlying operating profit by 26% by both growing revenue and controlling costs. Provisions were also lower in the second half compared to the first half, although they remained high."

"One of our priorities last year was to manage our credit process better in order to reduce loan losses going forward. In this regard, the Group had implemented a number of measures during the second half to further strengthen its credit process. These measures included an extensive portfolio review process to apply more stringent loan classification criteria, as well as the establishment of a Special Asset Management unit to consolidate the management of NPLs relating to Business Banking customers. The Special Asset Management unit reports to Group Risk Management and functions independently of the business units, thereby freeing the business units to focus on originating new loans and selling other products. The overall objective of the measures we have taken is to ensure that potential problem loans are recognised in a more timely fashion, so that remedial actions can be undertaken earlier to minimise future loan losses."

"2003 will no doubt be another challenging year for Singapore banks. Notwithstanding this, OCBC will continue to focus on growing its revenue, improving its operating performance and enhancing returns to shareholders."

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