Media Release

OCBC's Third Quarter 2003 Net Profit Increased 62% to S$292 million

Net profit for first nine months rose 36% to S$676 million

Singapore, 14 November 2003 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") today reported that its third quarter 2003 net profit rose by 62% to S$292 million, compared to S$181 million in third quarter 2002. The improved performance was driven by a reduction in provisions from S$75 million to S$37 million, higher contribution from associates and an exceptional net gain of S$72 million from the divestment of shares in Fraser and Neave, Limited ("F&N") through a selective capital reduction by F&N.

Operating profit before provisions and goodwill amortisation in the third quarter of 2003 was S$375 million, an increase of 10% over the same period last year, underpinned by the F&N gain. Net interest income fell 8% due to lower interest margins, while fee and commission income rose 1%. Operating expenses rose 5% from a year ago due mainly to higher staff costs.

Third Quarter 2003 versus Second Quarter 2003

Compared with the second quarter of 2003, net profit in the third quarter increased by 30% from S$224 million, while operating profit before provisions and goodwill amortisation rose by 22% from S$307 million. Net interest income edged up by 1% over the second quarter due to slightly higher loan volume and relatively stable interest margins, while fee and commission income increased by a robust 14%. Operating expenses were lower by 4%. Provisions were down 47% from the S$70 million charged in second quarter 2003.

Nine Months' Results

For the first nine months of 2003, the Group's net profit was S$676 million, up 36% from S$498 million in the same period last year. The earnings growth was driven by a 54% fall in provisions from S$371 million to S$171 million. The large reduction in provisions was both a reflection of the exceptionally high provisions in 2002, as well as the progress made in strengthening the Group's credit processes and overall asset quality since the second half of 2002. Reflecting the improvement in asset quality, the Group's non-performing loans (NPL) ratio was 7.1% as at 30 September 2003, down from 10.0% in September 2002, while overall provisions coverage remained at a prudent level of 66.2%.

Operating profit before provisions and goodwill amortisation in the first nine months of 2003 fell 4% to S$980 million, largely due to a 6% decline in net interest income as interest margins were lower on average compared to 2002. Fee and commission income fell 5% as the first six months' performance had been affected by the weak investment sentiments due to the Iraq war and SARS. Operating expenses in the first nine months rose marginally by 1%.

Revenue

Total income in third quarter 2003 was S$589 million, up 8% over the same quarter last year.

Net interest income was S$359 million, 8% lower than third quarter 2002, as the net interest margin fell from 2.07% to 1.88%. The lower interest margin was attributable to narrowing of interest spreads in the Singapore and Malaysia markets as well as lower returns on net available funds due to the low interest rate environment. However, compared to second quarter 2003, net interest margin was relatively stable with a marginal one basis point erosion, and net interest income was higher by 1%.

Fee and commission income increased by 1% to S$100 million as compared to the third quarter of 2002. Higher stockbroking income compensated for weaker loan-related fees, service charges and unit trust distribution fees. However, compared to second quarter 2003, fees and commissions registered a strong growth of 14%, underpinned by higher stockbroking and wealth management income as investment sentiments recovered after the SARS period.

The Group recorded a net loss of S$38 million in securities and derivatives dealing in the third quarter, largely due to the unexpected sharp rise in long term interest rates in July. Of this amount, S$17 million loss arose from the disposal of Singapore Government Securities (SGS) as the Group adjusted the composition of its SGS portfolio in the light of changing interest rate trends. Another S$15 million loss was from the disposal of corporate debt securities, the bulk of which was for securities underwritten in the primary market. The balance comprise mainly unrealised losses on interest rate swaps that were used in the management of the Group's asset and liability position.

Operating Expenses

The Group continues to manage its costs tightly. Operating expenses for third quarter 2003 amounted to S$214 million, up 5% over third quarter 2002 due to higher staff costs. But compared to second quarter 2003, expenses were 4% lower, and stripping out the S$10 million one-time write-off of fixed assets in the second quarter, overall expenses were largely flat quarter-on-quarter.

For the first nine months of 2003, total operating expenses of S$638 million were marginally above that of the corresponding period last year. The cost-to-income ratio for the nine-month period was 39.4%, slightly above the 38.3% last year as a result of the lower revenue base.

Provisions and Asset Quality

Compared to third quarter 2002, total provisions in third quarter 2003 fell 51% to S$37 million, due to lower specific provisions for loans and for investment securities. Specific provisions for loans fell from S$54 million to S$30 million. Efforts undertaken since the second half of 2002 to strengthen the Group's credit processes and overall asset quality, coupled with a gradually improving economic environment during the third quarter, have resulted in lower provisions for both new and existing NPLs. Specific provisions for diminution in value of investment securities and other assets also registered a decline from S$22 million in third quarter 2002 to S$5 million in third quarter 2003, as market valuation for investment securities improved.

Cumulative specific and general provisions were at a comfortable level of 66.2% of NPLs as at 30 September 2003, up from 62.4% in December 2002. Cumulative specific provisions covered 105% of unsecured NPLs, up from 100% in December 2002. The Group's general provisions ratio (over net loans) was at a comfortable 2.4%.

As at 30 September 2003, the Group's NPLs were S$3.89 billion, a reduction of 11% or S$466 million compared to 31 December 2002. The NPL ratio was 7.1% compared to 10.0% in September 2002 and 8.1% in December 2002.

Loan Growth

Customer loan balances increased by 3% from 31 December 2002 to S$51.40 billion as at 30 September 2003, with most of the growth derived from consumer loans. Housing loans grew by 18% from December 2002 to S$14.52 billion as at 30 September 2003, while loans to professionals and individuals increased by 10% over the same period to S$8.38 billion.

Conclusion

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

"Our third quarter results show a steady recovery from the macroeconomic uncertainties in the first half of the year. We are pleased with the trends in our fee income, the costs front and asset quality, but we still need to work harder to increase overall revenues. We remain cautiously optimistic about the overall business outlook."

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