"Our New Horizons strategy reflects our commitment to deliver better and more consistent returns for our shareholders, more innovative and competitive products for our customers, and more rewarding careers for our staff ...... We have full confidence that management and staff are fully committed to achieving the goals that we have set."

Mr Lee Seng Wee
Chairman

Mr David Conner
Chief Executive Officer

After a difficult year in 2001, marked by Singapore's worst recession since independence and the September 11 events, 2002 initially brought some relief. But as the year progressed, optimism for global economic recovery waned. The possibility of war in the Middle East dominated the news in the second half, dampening business sentiment worldwide. The reality of terrorism was felt close to home when Bali was rocked by bomb blasts in October. For the full year, the Singapore economy grew by a sluggish 2.2%, while Malaysia, OCBC's second biggest market, did better, with GDP growth of 4.2%.

Other challenges Singapore banks faced in 2002 included low interest rates and increased foreign competition, which continued to erode margins and threaten market share. At the same time, banks had to be vigilant about loan quality while staying focused on delivering revenue and cost synergies identified as a result of the 2001 acquisitions.

Financial Results

Against this backdrop, we are pleased to report healthy results for our core businesses last year. 2002 marked the first full year of operations of the enlarged OCBC Group following our acquisition of Keppel Capital Holdings (KCH) in August 2001. Group net profit was S$667 million, compared to the previous year's S$778 million, which included a one-off gain of S$260 million from the sale of our stake in Overseas Union Bank. Excluding the one-off gain, our operating profit before goodwill and provisions rose by 26% to S$1,372 million, and our underlying net profit growth in 2002 was a robust 27%.

The improvement at the operating level was driven by both revenue growth and cost discipline. Fee and commission income was particularly strong, posting growth of 28%, as we succeeded in cross selling several products, particularly bancassurance, unit trusts and trade related products, to our larger customer base. Net interest income grew by a smaller 8%, hurt by lower returns on interbank placements as well as the competitive margin pressure in Singapore and Malaysia. Our loan portfolio contracted 5.8% during the year as the weak economic recovery affected credit demand and we exercised greater prudence in credit extension.

We managed to reduce operating expenses by 2% despite having a full year of enlarged operations compared with 2001, which captured only four and a half months of KCH's expenses. This was due to judicious cost control and workflow rationalisation throughout the organisation, especially integration-related activities which yielded cost savings of S$74 million, well ahead of our original target of S$55 million.

Provision charges in 2002, which were necessary given weak economic conditions and soft property markets, remained high at S$501 million. Nonetheless, our ratio of non-performing loans (NPLs) to total non-bank loans improved from 9.7% to 8.1%. This was largely due to our decision to write off approximately S$1 billion of NPLs which had been fully provided for and were deemed uncollectable. Our provision coverage ratios remain comfortable. Total cumulative provisions now amount to 62% of total NPLs while cumulative specific provisions cover 100% of unsecured NPLs. Cumulative general provisions are 2.5% of net loans.

The Board has recommended a final dividend of 15 cents per share for ordinary shareholders, bringing the total distribution for 2002 to 20 cents per share, compared to 18 cents for 2001. The total dividends of S$201 million net of tax represent a payout ratio of 30% compared to 23% for 2001. The Group's total capital adequacy ratio and Tier-1 ratio remained strong at 20.9% and 11.5% respectively as at the end of 2002.

Achievements

Our most satisfying achievement in 2002 was the successful integration of KCH in February, barely six months after the acquisition. The hard work and resolve of management and staff ensured that the process was completed smoothly. The Bank also took pains to ensure that the necessary retrenchments that followed were carried out in as humane and dignified a manner as possible.

With integration completed early in the year, we were able to focus on cross selling to our enlarged customer base to enhance our market position. Despite intense competition from local and foreign banks, we increased or maintained our market share in several key business segments in 2002, building on the successes of the previous year.

Our bancassurance sales premiums in Singapore rose 56% to S$1 billion in 2002, increasing our market share from 39% to 45%, and further entrenching our number one position in the bancassurance market. This success was helped by the popularity of new products launched such as the US Dollar and Singapore Dollar Guaranteed Return Plan. Our unit trust sales in Singapore also rose strongly by 38% to S$1.1 billion, giving us an estimated market share of 29%, up from 20% in 2001. We believe OCBC is now the leading bancassurance and unit trust distributor in Singapore.

In the private home loan segment, we attained the number one position in terms of new loans booked, based on caveats lodged. We booked a total of S$3.4 billion of new housing loans in Singapore in 2002, a 61% jump over the previous year. With the liberalisation of financing for Housing Development Board flats with effect from 1 January 2003, OCBC intends to be a key player in the HDB home loan market as well.

Our renovation and car loans also witnessed strong growth of 60% and 140% respectively. Our credit card franchise received a significant boost with the launch of the co-branded OCBC Robinsons Credit Card in November. By year-end, our credit card base had expanded significantly to around half a million cards.

We continue to build on our position as a major SME bank in Singapore. More than a third of local SMEs have banking relationships with OCBC, including 58% of the 2002 Enterprise 50 SMEs in Singapore. We have introduced greater industry specialisation among our relationship manager teams to serve our SME customers better. In 2002, we also managed the initial public offerings of three of our SME customers on the Singapore stock exchange. Among the smaller enterprises such as sole proprietorships and partnerships, OCBC garnered the top spot for the Micro Loans scheme which is administered by SPRING Singapore and has the participation of more than 20 financial institutions.

In corporate banking, OCBC was ranked the Top Arranger of Singapore Syndicated Loans in 2002 by Thomson Financial Services, for the second year running. We arranged a total of US$612 million in 14 syndicated loan issues, garnering a market share of 17%. We were involved in a broad spectrum of transactions not only in terms of size, structure and complexity but also in the diversity of sectors, including hotels, property, commodities, electronics manufacturers and trading companies. We also participated actively in Singapore Dollar bond issues. We underwrote and managed several fixed-rate bond issues by Singapore statutory boards, government-linked companies and other corporations. Our corporate finance team was also involved in four financial advisory mandates for divestments and takeovers, and three secondary market fund raising exercises.

OCBC was named the Best Corporate/Institutional Internet Bank in Singapore as well as in the Asia-Pacific in 2002 by US-based *Global Finance* magazine, which also marks the second year that we were named Singapore's best in this category. This award gives recognition to our electronic trade and cash management system, Velocity@ocbc, as the best-in-class online cash management system in Singapore and the Asia Pacific.

OCBC Malaysia achieved 6% loan growth during 2002, led by robust growth in housing loans, which surged by 28% to RM3.65 billion as at 31 December 2002. Customers responded well to the two housing loan products we introduced during the year, an eight-year fixed-rate package and a five-year fixed-rate package. Unit trust sales also fared well, with sales of close to RM180 million. Our support of the business community in Malaysia was recognised when we received the Friend of SMI (small and medium industries) Award in the foreign bank category from the SMI Association of Malaysia. In line with official efforts to promote Malaysia as a regional Islamic financial centre, our Islamic Banking arm complies fully with Syariah principles and offers 14 products, accounting for one-third of all Islamic Banking products in the market. In 2002, the Rating Agency of Malaysia also upgraded the long-term rating of OCBC Malaysia from AA2 to AA1.

In the area of risk management, much was accomplished in 2002 as we implemented several measures to improve our credit process and asset quality. We brought in additional expertise to strengthen our management of NPLs and property collateral, as well as to enhance the credit audit function. Extensive portfolio reviews were undertaken for all our Business Banking loans, whereby more stringent loan classification criteria were applied to ensure that we recognise problem loans early so as to be able to take early remedial actions and work with customers to minimise potential losses. We also established a Special Asset Management unit to consolidate and focus on the management of NPLs relating to Business Banking customers. This unit operates independently of our marketing units, thereby freeing Business Banking relationship managers to focus on originating new loans and selling other products. In short, we are paying greater attention to the entire credit process, from loan origination to problem recognition and remedial management, with the ultimate objective of minimising loan losses going forward.

Ongoing development of our employees is extremely important for the long term growth of OCBC. Over the past year we have embarked on several programmes to boost employee satisfaction and further raise the skill levels of our staff. A detailed group-wide employee survey was conducted to identify employee satisfaction issues, and we are now taking meaningful follow-up actions in response to the findings. We plan to conduct these surveys annually, and the results will form part of the key performance indicators for senior management. We have also strengthened our succession planning and retention programmes with several strategic initiatives such as training on performance coaching to assist employees with their personal career development efforts.

New Horizons Strategy

In February 2003, we unveiled our new strategic direction, New Horizons. The name symbolises our objective of going overseas for growth.

Our strategy is founded on the recognition that OCBC needs to expand overseas in order to secure its long-term growth, given that growth opportunities in the mature Singapore financial services market are limited. At the same time, we also recognise the need to develop greater depth and breadth in our cross-border management skills before venturing into major overseas acquisitions or alliances. Hence our immediate priority will be to build a solid growth platform in Singapore and Malaysia by strengthening our customer and product offerings with the intention of transferring our more successful product solutions to other markets in ASEAN and China as soon as possible. This process already began with our reorganisation in October 2002, whereby customer, product and support function heads were assigned global responsibilities in their respective areas. This change is accelerating the development of our cross-border management skills so that we can achieve our goal of becoming solidly established in a third country and be poised to enter a fourth country in three years.

In Malaysia and Singapore, we will exploit our existing branch network and strong distribution capability to become even more entrenched as a community bank. Our aim is to be among the top three consumer and SME banks in the combined Singapore and Malaysia market in three years' time. We will also strive to be one of the top three players in this combined market in each of the following product segments: wealth management, transaction banking, treasury and investment banking. We will seek to develop best-in-class products through further innovation and therefore we have set a target to achieve 15% of annual revenues to come from new products.

Our key financial goals are to deliver 10% EPS growth per annum and a 12% return on equity to ordinary shareholders based on current capital adequacy requirements. We will endeavour, barring unforeseen circumstances, to pay out dividends of at least 25% of profit after tax from our core businesses. We intend to make more uniform half-yearly dividend payments, with overall dividends increasing over time in line with our earnings growth. In addition, we expect to return excess capital to shareholders through share buyback programmes rather than only by way of dividends.

In January 2003, we obtained shareholder approval at an EGM to establish a Tier-1 preference share programme to help strengthen our capital base in preparation for future growth, as well as to manage our Tier-1 capital composition more efficiently. Following the approval, we successfully raised S$500 million in January 2003 in our inaugural preference share issue. We continue to maintain our Tier-1 and total capital adequacy ratios at a comfortable cushion above regulatory minimums, and we plan to issue more alternative Tier-1 capital, when appropriate, to further improve ROE.

Our non-core assets will be divested over time to comply with regulatory requirements as well as to enhance shareholder value. When suitable opportunities exist, proceeds from these divestments will be reinvested in core financial services businesses, effectively swapping these assets for growth opportunities over time.

Our New Horizons strategy reflects our commitment to deliver better and more consistent returns for our shareholders, more innovative and competitive products for our customers, and more rewarding careers for our staff. As with any strategy, the key lies in its execution. We have full confidence that management and staff are fully committed to achieving the goals that we have set.

Outlook

The business outlook remains very uncertain at this time. The possible outbreak of war in the Middle East is weighing heavily on the business environment globally. The recovery in the US economy is far from certain, while Europe and Japan are also struggling as possible engines for growth. In Singapore, the stock market has fallen for three consecutive years, other asset values remain soft, and loan demand is weak despite the lowest interest rates in recent memory.

In the current environment, it is difficult for us to be sanguine about 2003. While we will tap areas of growth, such as HDB loans, wealth management and the Malaysia market, we will also be steering a prudent course in order to maintain the quality of our portfolio. We know this is a challenging year in which to launch our new strategy, but we intend to press ahead to secure our long term future. We believe OCBC has what it takes to meet the challenges we will face going forward.

In closing, we would like to thank all our shareholders, customers and staff for their continued support and contributions to OCBC in 2002. With your unwavering support, we have every confidence that OCBC will be successful in seeking New Horizons of growth.

Mr Lee Seng Wee
Chairman

Mr David Conner
Chief Executive Officer

Singapore, 12 March 2003