Management Discussion and Analysis

OVERVIEW

	2003 S$m	2002 S$m	+ / (-) %
Selected profit and loss data:			
Net interest income	**1,435**	1,509	(5)
Fees and commissions	**373**	374	(0)
Dividends	**75**	34	122
Rental income	**64**	77	(17)
Other income	**247**	228	8
Total income	**2,193**	2,222	(1)
Less: Operating expenses	**855**	849	1
Operating profit	**1,338**	1,372	(2)
Less: Goodwill amortisation	**127**	127	(0)
Less: Total provisions	**225**	501	(55)
Add: Share of associated companies' results	**235**	161	46
Profit before tax	**1,222**	906	35
Less: Tax	**266**	237	12
Less: Minority interests	**2**	2	(23)
Net profit attributable to shareholders	**954**	667	43
Cash basis net profit attributable to shareholders [(1)]	**1,081**	794	36
Selected balance sheet data:			
Total assets	**84,497**	84,051	1
Loans to non-bank customers (net of provisions)	**50,155**	47,367	6
Deposits of non-bank customers	**53,460**	53,948	(1)
Ordinary shareholders' funds	**9,166**	9,224	(1)
Total shareholders' funds	**10,059**	9,224	9
Key Indicators:			
Ratios (% p.a.)			
Return on ordinary shareholders' funds [(2)]	**10.0**	7.4	
Return on ordinary shareholders' funds [(2)] – Cash basis [(1)]	**11.4**	8.8	
Return on total shareholders' funds	**9.8**	7.4	
Return on total shareholders' funds – Cash basis [(1)]	**11.1**	8.8	
Return on assets	**1.13**	0.80	
Return on assets – Cash basis [(1)]	**1.28**	0.95	
Per ordinary share data (S$)			
Basic earnings [(3)]	**0.72**	0.52	39
Cash earnings [(1)]	**0.82**	0.62	33
Net asset value			
– Before valuation surplus	**7.16**	7.15	0
– After valuation surplus	**9.95**	9.69	3

(1) Excluding goodwill amortisation charge
(2) Calculated after deducting preference shares dividends paid and estimated to be due as at 31 December 2003 from net profit attributable to shareholders
(3) Calculated after deducting declared and/or paid preference shares dividends from net profit attributable to shareholders

Note: Some of the figures may not add up to the relevant totals due to rounding

Management Discussion and Analysis

Group net profit for the financial year ended 31 December 2003 increased by 43% to S$954 million, 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.

Group 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 Group's total assets increased by 0.5% to S$84.5 billion as at 31 December 2003, while total shareholders' equity increased by 9% to S$10.1 billion. The Group's Tier 1 and total capital adequacy ratios computed based on the Bank for International Settlements guidelines were 12.6% and 21.8% respectively as at 31 December 2003.

Earnings per ordinary share increased by 39% from 52 cents in 2002 to 72 cents in 2003. A final dividend of 12 cents per share for ordinary shareholders has been proposed, bringing the total dividend for 2003 to 23 cents, an increase of 15% compared to the total dividend of 20 cents for 2002.

Management Discussion and Analysis

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.

Average Balance Sheet

	2003			2002		
	Average Balance[1] S$m	Interest S$m	Average Rate %	Average Balance[1] S$m	Interest S$m	Average Rate %
Assets						
Loans and advances to non-bank customers	**48,309**	**1,791**	**3.71**	47,739	2,055	4.30
Placements with and loans to banks	**14,526**	**267**	**1.84**	14,941	312	2.09
Other interest earning assets [2]	**12,610**	**322**	**2.55**	11,913	363	3.04
Total interest earning assets	**75,445**	**2,381**	**3.16**	74,593	2,729	3.66
Non-interest earning assets	**8,873**	**–**	**–**	8,722	–	–
Total assets [4]	**84,317**	**–**	**–**	83,315	–	–
Liabilities						
Deposits of non-bank customers and floating rate negotiable certificates of deposits	**55,452**	**681**	**1.23**	56,378	895	1.59
Deposits and balances of banks	**12,135**	**158**	**1.30**	11,695	210	1.79
Other borrowings [3]	**4,175**	**106**	**2.54**	4,042	115	2.85
Total interest bearing liabilities	**71,763**	**946**	**1.32**	72,116	1,220	1.69
Non-interest bearing liabilities [4]	**2,780**	**–**	**–**	2,189	–	–
Total liabilities	**74,543**	**–**	**–**	74,305	–	–
Net interest income/margin [4]		**1,435**	**1.90**		1,509	2.02

[1] Average balances are based on monthly averages
[2] Comprise debt securities, government securities and treasury bills
[3] Comprise debt securities issued, including the Upper Tier 2 subordinated debt issued in July 2001, and bills payable
[4] 2002 figures have been re-stated to net off provisions against the assets, instead of reporting provisions as non-interest bearing liabilities. Consequently, 2002's net interest margins have been re-stated.

Management Discussion and Analysis

The table below analyses the changes in net interest income due to changes in volume and changes in rate for 2003 compared to 2002.

Volume and Rate Analysis

	2003 over 2002 Incr/(Decr) due to change in		
	Volume S$m	Rate S$m	Net Change S$m
Interest Income			
Loans and advances to non-bank customers	21	(284)	(263)
Placements with and loans to banks	(8)	(37)	(45)
Other interest earning assets	18	(58)	(40)
Total	31	(380)	(348)
Interest Expense			
Deposits of non-bank customers and floating rate negotiable certificates of deposits	(11)	(202)	(214)
Deposits and balances of banks	6	(57)	(51)
Other borrowings	3	(12)	(9)
Total	(2)	(272)	(274)
Net Interest Income	34	(108)	(74)

Management Discussion and Analysis

NON-INTEREST INCOME

	2003 S$m	2002 S$m	+ / (-) %
Fee and commission income			
Brokerage	**62**	57	8
Bancassurance	**33**	35	(7)
Unit trust distribution	**35**	44	(21)
Fund management	**19**	17	12
Credit cards	**30**	27	11
Loan-related	**73**	68	8
Trade-related	**30**	32	(4)
Guarantees	**18**	18	(4)
Investment banking	**12**	14	(14)
Service charges	**53**	50	6
Others	**8**	12	(34)
Total	**373**	374	(0)
Dividends	**75**	34	122
Rental income	**64**	77	(17)
Other income			
Dealing in foreign exchange	**61**	48	27
Dealing in securities and derivatives	**(19)**	61	n.m.
Disposal of investment securities	**92**	47	97
Disposal of associated companies	**0**	10	(100)
Disposal of properties	**47**	#	n.m.
Others	**66**	62	6
Total	**247**	228	8
Total non-interest income	**758**	712	6
Fees and Commissions/Total Income	**17.0%**	16.8%	
Non-Interest Income/Total Income	**34.6%**	32.1%	

– Amount under S$500,000

Total non-interest income grew by 6% to S$758 million in 2003, boosted by the gains from divestments of non-core assets which contributed a total of S$128 million, reflected under dividend income and other income. The gains comprised S$78 million from disposal of F&N shares, S$46 million from the sale of a residential development site at Mount Emily Road, and S$4 million from disposal of WBL Corporation shares.

Fee and commission income amounted to S$373 million in 2003, largely unchanged from 2002. Growth in brokerage income, loan-related fees, credit card and fund management income offset the lower income from unit trusts and bancassurance which was mainly due to the weak investment sentiments in the first half of the year.

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 deal. The S$19 million net loss also included some unrealised losses on interest rate derivatives.

Management Discussion and Analysis

OPERATING EXPENSES

	2003 S$m	2002 S$m	+ / (-) %
Staff costs	**478**	465	3
Premises and equipment			
Depreciation of fixed assets	**81**	73	12
Amortisation of computer software costs	**20**	11	86
Maintenance and hire of fixed assets	**36**	24	49
Rental expenses	**18**	22	(17)
Others	**69**	62	10
Total	**225**	192	17
Other operating expenses	**157**	178	(12)
	860	835	3
Restructuring and other integration costs	**(5)**	14	n.m.
Total operating expenses	**855**	849	1
Group staff strength – year end	**7,424**	7,477	(1)
Group staff strength – average	**7,350**	7,777	(5)
Cost-to-income ratio	**39.0%**	38.2%	

– Amount under S$500,000

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. Premises and equipment costs rose by 17% as a result of a S$10 million write-off of fixed assets in the second quarter, coupled with higher computer charges and amortisation of software costs following the commissioning of the new core banking system in 2002.

The Group's cost-to-income ratio for 2003 was 39.0%, slightly above the 38.2% in 2002.

Management Discussion and Analysis

PROVISION CHARGE

	2003 S$m	2002 S$m	+ / (-) %
Specific provision for loan losses			
– Singapore	**191**	221	(14)
– Malaysia	**55**	111	(50)
– Other regional countries	**(27)**	6	n.m.
– Others	**(25)**	27	n.m.
Sub-Total	**194**	365	(47)
General provision for loan losses			
– Five regional countries [1]	**(31)**	(23)	n.m.
– Singapore & others	**5**	(5)	n.m.
Sub-Total	**(26)**	(27)	n.m.
Specific provision for diminution in value of investment securities and other assets	**57**	163	(65)
Total provision charge	**225**	501	(55)

[1] Five regional countries comprise Malaysia, Indonesia, Thailand, South Korea and the Philippines
– Amount under S$500,000

Total provisions in 2003 amounted to S$225 million, a decrease of 55% from S$501 million in 2002.

Specific provisions for loans fell by 47% from S$365 million in 2002 to S$194 million in 2003. Provisions for both new and existing NPLs were lower, reflecting the substantial progress made in strengthening the Group's credit processes and overall asset quality, coupled with a gradually improving economic environment during the latter half of 2003.

Specific provisions for diminution in value of investment securities and other assets also registered a sharp decline, from S$163 million in 2002 to S$57 million in 2003. Provisions for the Group's properties fell from S$84 million to S$49 million, while provisions for investments and other assets fell from S$79 million to S$8 million.

There was a net write-back of general provisions amounting to S$26 million in 2003, compared to S$27 million net write-back in 2002.

Management Discussion and Analysis

LOANS AND ADVANCES

	31 Dec 2003 S$m	31 Dec 2002 S$m	+ / (-) %
Loans to customers	**52,159**	49,587	5
Bills receivable	**429**	297	44
Gross loans to customers	**52,589**	49,884	5
Less Provisions:			
Specific provisions	**1,251**	1,306	(4)
General provisions	**1,183**	1,211	(2)
Net loans to customers	**50,155**	47,367	6

Loans to customers grew by 5% year-on-year to S$52.59 billion as at 31 December 2003, driven by growth in consumer loans. Housing loans expanded by 25% to S$15.38 billion, boosted by the new HDB (Housing Development Board) home loan market as well as growth in the Malaysia portfolio. Loans to professionals and individuals increased by 7% to S$8.13 billion, driven mainly by car loans and other individual loans.

	31 Dec 2003		31 Dec 2002	
	S$m	%	S$m	%
Loans By Industry				
Agriculture, mining & quarrying	**519**	**1**	437	1
Transport, storage and communication	**1,525**	**3**	1,753	4
Building and construction	**7,302**	**14**	7,453	15
Manufacturing	**3,265**	**6**	3,455	7
Financial institutions, investment and holding companies	**8,924**	**17**	9,047	18
General commerce	**3,065**	**6**	3,208	6
Professionals and individuals	**8,129**	**15**	7,613	15
Housing loans	**15,382**	**29**	12,313	25
Others	**4,478**	**9**	4,605	9
	52,589	**100**	49,884	100

Management Discussion and Analysis

NON-PERFORMING LOANS

By grading, security coverage and countries

	Total NPLs[1] S$m	Sub-Standard NPLs S$m	Doubtful NPLs S$m	Loss NPLs S$m	Secured NPLs as % of total NPLs %	Non-bank NPLs as % of non-bank loans[2] %
Malaysia						
31 Dec 2003	**1,068**	**699**	**126**	**243**	**69.3**	**11.3**
31 Dec 2002	1,199	831	183	186	70.7	14.2
Other Four Regional Countries						
31 Dec 2003	**140**	**17**	**100**	**24**	**22.8**	**30.8**
31 Dec 2002	208	23	156	28	28.4	34.1
Total Regional Countries						
31 Dec 2003	**1,208**	**716**	**225**	**267**	**63.9**	**12.4**
31 Dec 2002	1,407	854	339	214	64.5	15.8
Singapore						
31 Dec 2003	**2,389**	**1,725**	**498**	**166**	**65.0**	**6.2**
31 Dec 2002	2,646	1,952	502	192	69.9	7.3
Others						
31 Dec 2003	**237**	**155**	**82**	**#**	**53.0**	**3.6**
31 Dec 2002	304	148	96	61	32.9	3.5
Group Total						
31 Dec 2003	**3,834**	**2,596**	**805**	**433**	**63.9**	**6.9**
31 Dec 2002	4,356	2,953	936	467	65.6	8.1

[1] Comprise non-bank loans, debt securities and contingent facilities
[2] Excluding debt securities
– Amount under S$500,000

Continued progress was made in reducing the Group's NPLs during the year, both in absolute terms and as a proportion of total loans.

Compared to 31 December 2002, total NPLs declined by 12% or S$521 million to S$3.83 billion as at 31 December 2003. Singapore NPLs of S$2.39 billion accounted for 62.3% of the Group's total NPLs, while Malaysia NPLs of S$1.07 billion made up 27.9%. Of the total NPLs, 67.7% were in the substandard category while 63.9% were secured by collateral.

The ratio of NPLs to non-bank loans improved from 8.1% as at 31 December 2002 to 6.9% as at 31 December 2003. The Singapore NPL ratio fell from 7.3% to 6.2%, while the Malaysia NPL ratio improved from 14.2% to 11.3%.

Management Discussion and Analysis

	31 Dec 2003		31 Dec 2002	
	S$m	%	S$m	%
NPLs By Industry [1]				
Agriculture, mining & quarrying	**33**	**6.4**	39	8.9
Transport, storage and communication	**131**	**8.6**	72	4.1
Building and construction	**763**	**10.4**	756	10.1
Manufacturing	**497**	**15.2**	680	19.7
Financial institutions, investment and holding companies	**524**	**5.9**	768	8.5
General commerce	**463**	**15.1**	539	16.8
Professionals and individuals	**600**	**7.4**	582	7.6
Housing loans	**223**	**1.4**	227	1.8
Others	**393**	**8.8**	379	8.2
Sub-total	**3,627**	**6.9**	4,042	8.1
Debt securities	**207**		314	
Total	**3,834**	**7.3**	4,356	8.7

[1] The percentages refer to the amount of NPLs over gross customer loans in each industry

	31 Dec 2003		31 Dec 2002	
	S$m	As % of Total NPLs	S$m	As % of Total NPLs
NPLs By Period Overdue				
Over 180 days	**2,223**	**58**	2,339	54
Over 90 to 180 days	**302**	**8**	567	13
Over 30 to 90 days	**242**	**6**	267	6
Less than 30 days	**136**	**4**	208	5
No overdue	**931**	**24**	975	22
	3,834	**100**	4,356	100

Management Discussion and Analysis

CUMULATIVE PROVISIONS

	Total cumulative provisions[1] S$m	Specific provisions S$m	General provisions S$m	Specific provisions as % of total NPLs %	Total cumulative provisions as % of total NPLs %	Total cumulative provisions as % of unsecured NPLs %
Malaysia						
31 Dec 2003	**766**	**402**	**363**	**37.6**	**71.7**	**233.3**
31 Dec 2002	743	377	366	31.5	62.0	211.9
Other Four Regional Countries						
31 Dec 2003	**340**	**127**	**213**	**90.9**	**242.8**	**314.7**
31 Dec 2002	415	171	244	82.6	200.1	279.4
Total Regional Countries						
31 Dec 2003	**1,106**	**529**	**576**	**43.8**	**91.5**	**253.4**
31 Dec 2002	1,159	549	610	39.0	82.4	232.0
Singapore						
31 Dec 2003	**1,282**	**771**	**511**	**32.3**	**53.7**	**153.5**
31 Dec 2002	1,305	800	506	30.2	49.3	164.1
Others						
31 Dec 2003	**179**	**84**	**95**	**35.5**	**75.7**	**161.1**
31 Dec 2002	253	158	95	52.0	83.2	124.0
Group Total						
31 Dec 2003	**2,568**	**1,385**	**1,183**	**36.1**	**67.0**	**185.6**
31 Dec 2002	2,717	1,506	1,211	34.6	62.4	181.2

(1) Include provisions for debt securities

Total cumulative specific and general provisions amounted to S$2.57 billion as at 31 December 2003. These represent 67.0% of total NPLs, an improvement from the coverage of 62.4% as at 31 December 2002. Cumulative specific provisions covered 100.1% of unsecured NPLs, similar to the level at 31 December 2002. In addition, cumulative general provisions were 2.3% (December 2002: 2.5%) of total non-bank loans (net of specific provisions).

Management Discussion and Analysis

EXPOSURE TO THE FIVE REGIONAL COUNTRIES, HONG KONG AND CHINA

	Loans and debt securities						Net Exposure	
	Bank S$m	Central Bank and Government S$m	Non-Bank S$m	Investments S$m	Gross Exposure S$m	Less: Loans to and investment in subsidiaries /branches S$m	Total S$m	% of Group assets %
Malaysia								
31 Dec 2003	**2,954**	**3,210**	**8,164**	**579**	**14,907**	**2,494**	**12,413**	**14.7**
31 Dec 2002	1,259	2,823	7,078	590	11,750	1,229	10,522	12.5
Indonesia								
31 Dec 2003	**91**	**121**	**285**	**68**	**566**	**68**	**498**	**0.6**
31 Dec 2002	181	105	356	50	692	49	643	0.8
Thailand								
31 Dec 2003	**70**	**46**	**87**	**#**	**203**	**55**	**148**	**0.2**
31 Dec 2002	74	33	108	#	215	58	157	0.2
Korea								
31 Dec 2003	**387**	**34**	**111**	**0**	**532**	**26**	**505**	**0.6**
31 Dec 2002	228	35	102	0	364	27	337	0.4
Philippines								
31 Dec 2003	**35**	**16**	**38**	**1**	**90**	**1**	**89**	**0.1**
31 Dec 2002	25	17	28	5	74	5	69	0.1
Total Five Regional Countries								
31 Dec 2003	**3,536**	**3,428**	**8,686**	**648**	**16,298**	**2,646**	**13,652**	**16.2**
31 Dec 2002	1,767	3,012	7,671	645	13,095	1,367	11,727	14.0
Hong Kong								
31 Dec 2003	**421**	**28**	**1,274**	**19**	**1,742**	**9**	**1,733**	**2.1**
31 Dec 2002	528	29	1,312	23	1,892	9	1,883	2.2
China								
31 Dec 2003	**592**	**7**	**891**	**3**	**1,493**	**370**	**1,123**	**1.3**
31 Dec 2002	476	16	1,002	9	1,503	345	1,158	1.4
Total								
31 Dec 2003	**4,549**	**3,463**	**10,851**	**670**	**19,533**	**3,024**	**16,508**	**19.5**
31 Dec 2002	2,770	3,057	9,985	677	16,489	1,721	14,768	17.6

– Amount under S$500,000

The Group's net exposure to the five regional countries – Malaysia, Indonesia, Thailand, the Philippines and South Korea – was S$13.65 billion as at 31 December 2003, an increase of 16% compared to the end of 2002. This exposure amounted to 16.2% of the Group's total assets. The increase was largely from Malaysia, which accounted for 14.7% of Group assets.

Management Discussion and Analysis

DEPOSITS

	31 Dec 2003 S$m	31 Dec 2002 S$m	+ / (-) %
Deposits of non-bank customers	**53,460**	53,948	(1)
Deposits and balances of banks	**12,480**	12,621	(1)
	65,940	66,569	(1)
Loans-to-deposits ratio (net non-bank loans/non-bank deposits)	**93.8%**	87.8%	

Total deposits and non-bank customer deposits both declined by a marginal 1%, to S$65.94 billion and S$53.46 billion respectively as at 31 December 2003. The decline in non-bank deposits was attributed to lower fixed deposits, which was largely offset by higher savings and current account deposits.

The Group's loans-to-deposits ratio rose from 87.8% at the end of 2002 to 93.8% as at 31 December 2003, largely reflecting the 5% loan growth in 2003.

	31 Dec 2003		31 Dec 2002	
	S$m	%	S$m	%
Non-Bank Deposits By Product				
Fixed deposits	**34,273**	64	**36,176**	67
Savings deposits	**11,131**	21	**10,802**	20
Current account	**6,108**	11	**5,294**	10
Others	**1,948**	4	**1,676**	3
	53,460	100	**53,948**	100

Management Discussion and Analysis

CAPITAL ADEQUACY RATIOS

	31 Dec 2003 S$m	31 Dec 2002 S$m
Tier 1 Capital		
Paid-up ordinary and preference shares	**1,284**	1,290
Disclosed reserves/others	**8,681**	7,802
Less: Goodwill	**2,072**	2,199
	7,893	6,894
Tier 2 Capital		
Asset revaluation reserves [1]	**1,302**	1,121
Cumulative general provisions	**607**	597
Hybrid (debt/equity) capital instruments	**3,857**	3,879
	5,766	5,597
Less: Capital deductions for private equity and venture capital investments	**2**	5
Total Capital	**13,657**	12,486
Risk weighted assets including market risk	**62,723**	59,884
Tier 1 ratio	**12.6%**	11.5%
Total capital adequacy ratio	**21.8%**	20.9%

[1] After discount of 55% based on Bank for International Settlements (BIS) guidelines

Note: Capital adequacy ratio is calculated in accordance with the Basel Committee on Banking Supervision guidelines

The Group's total capital adequacy ratio remained strong at 21.8% as at 31 December 2003 compared to 20.9% as at 31 December 2002. The Tier 1 capital ratio increased from 11.5% to 12.6% over the same period.

Various capital management initiatives were undertaken during the year to enhance the Group's overall capital structure and to enhance the return for shareholders:

- During the year, the Bank issued two tranches of non-cumulative, non-convertible Tier 1 preference shares, raising a total of S$895 million. This amount comprised S$500 million of OCBC Class E 4.5% preference shares, and S$395 million of OCBC Class G 4.2% preference shares.

- In July 2003, a special cash dividend of 49.75 cents (net) per ordinary share was paid to ordinary shareholders, with an option to elect to receive the Class G preference shares in lieu of the cash dividend. A total cash payment of S$434 million was paid to shareholders who have elected for the cash dividend.

- On 17 September 2003, a selective capital reduction exercise was completed, under which 12,138,915 ordinary shares held by F&N were cancelled in exchange for cash of S$8.63 per share, or S$105 million in total. This exercise reduced the Bank's issued and paid-up ordinary share capital by 0.94%.

Management Discussion and Analysis

VALUATION SURPLUS

	31 Dec 2003			31 Dec 2002		
	Net book value S$m	**Market value S$m**	**Surplus S$m**	**Net book value S$m**	**Market value S$m**	**Surplus S$m**
Properties	**1,274**	**2,664**	**1,390**	1,360	2,901	1,542
Equity securities	**1,466**	**3,499**	**2,033**	1,431	2,911	1,480
Debt securities (1)	**13,438**	**13,587**	**149**	12,050	12,301	252
Total investments	**16,178**	**19,750**	**3,571**	14,840	18,114	3,273

(1) Includes government treasury bills and securities

The Group's unrealised valuation surplus amounted to S$3.57 billion as at 31 December 2003, an increase of 9% compared to 31 December 2002. The increase was attributable mainly to the appreciation in the share price of associate Great Eastern Holdings. Equity securities accounted for S$2.03 billion or 57% of the surplus while properties accounted for S$1.39 billion or 39%.

Management Discussion and Analysis

FINANCIAL DERIVATIVES

	31 December 2003					
	Trading			Non-Trading		
In $'000	Contractual or principal notional amount	Fair value - assets	Fair value - liabilities	Contractual or principal notional amount	Fair value - assets	Fair value - liabilities
Foreign exchange derivatives						
Forwards	241,448	1,272	471	2,964,908	32,782	25,124
Swaps	49,411,052	588,763	571,415	3,963,290	121,009	24,664
OTC options – bought and sold	531,203	987	6,027	228,013	2,078	435
Sub-total	50,183,703	591,022	577,913	7,156,211	155,869	50,223
Interest rate derivatives						
Forwards	18,703,100	6,419	6,085	–	–	–
Swaps	93,236,704	514,609	514,352	14,408,500	451,920	248,840
OTC options – bought and sold	429,712	1,224	777	1,555,456	1,569	5,620
Exchange traded futures – bought and sold	5,534,326	1,532	2,036	–	–	–
Sub-total	117,903,842	523,784	523,250	15,963,956	453,489	254,460
Equity derivatives						
Futures	–	–	–	218	–	4
Options bought	–	–	–	10,785	1	81
Sub-total	–	–	–	11,003	1	85
Credit derivatives						
Credit default swaps	–	–	–	8,505	–	1,234
Other derivatives						
Gold forwards - bought and sold	–	–	–	19,105	28	274
Silver forwards - bought and sold	–	–	–	281	9	10
Sub-total	–	–	–	19,386	37	284
Total	168,087,545	1,114,806	1,101,163	23,159,061	609,396	306,286
Fair value of trading derivatives included in other assets and other liabilities		1,114,806	1,101,163			

The above tables analyse the contractual or underlying principal amounts of derivative financial instruments entered with third parties for trading and non-trading purposes as at 31 December 2003. In addition, they also set out the corresponding gross positive and negative fair values by instrument type. In the financial statements, trading and non-trading (excluding those non-trading derivative financial instruments which are held for hedging and are accounted for on an accrual basis) derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Other assets" or "Other liabilities".

Management Discussion and Analysis

PERFORMANCE BY BUSINESS SEGMENT

For the purpose of financial reporting, OCBC Group's businesses are presented under four main segments representing the key customer and product groups: Consumer Banking, Business Banking, Global Treasury and Others.

Net Profit by Business Segment

	2003 S$m	2002 S$m	+/(-) %
Consumer Banking	**245**	331	(26)
Business Banking	**482**	283	70
Global Treasury	**138**	198	(30)
Others*	**38**	(140)	n.m.
	903	672	34
Goodwill Amortisation	**(127)**	(127)	–
Share of Associates' Profits	**180**	124	45
Minority Interests	**(2)**	(2)	–
Group	**954**	667	43

* Includes gains from divestment of non-core assets in 2003 (S$112 million net of tax), and provisions for diminution in value of investments and properties (2003: S$60 million, 2002: S$155 million)

Consumer Banking
Consumer Banking provides a full range of products and services to individuals, including deposit accounts, consumer loans such as housing loans and other personal loans, stock brokerage, unit trusts, bancassurance products and credit cards.

The segment's net profit decreased by 26% from 2002 to S$245 million in 2003 due to lower interest margins as well as higher provisions.

Business Banking
Business Banking provides a full range of financial services to business customers, ranging from large corporates and the public sector to small and medium-sized enterprises. The products and services offered include short term and long term credit facilities, deposit and payment services, cash management, capital markets, corporate finance, trustee and custodian services.

Business Banking's net profit increased 70% to S$482 million in 2003, due largely to lower provisions, reflecting the improvement in asset quality.

Global Treasury
Global Treasury engages and assists customers in foreign exchange activities, financial futures trading and money market operations, as well as customer-driven derivatives business. It has responsibility over the Group's treasury businesses in Singapore, Malaysia, Hong Kong, London and Sydney.

In 2003, Treasury's operations were adversely affected by the fall in government bond prices, resulting in a 30% fall in net profit to S$138 million.

Others
The "Others" segment include asset management, property and investment holding, other investments and unallocated items including corporate overheads, divestment gains and provisions for diminution in value of investments, properties and other assets.

Management Discussion and Analysis

PERFORMANCE BY GEOGRAPHICAL SEGMENT

	2003		2002	
	S$m	%	S$m	%
Income before operating expenses				
Singapore	**1,706**	**78**	1,710	77
Malaysia	**332**	**15**	332	15
Other ASEAN	**18**	**1**	21	1
Asia Pacific	**100**	**5**	126	6
Rest of the world	**37**	**1**	33	1
	2,193	**100**	2,222	100
Profit before tax				
Singapore	**983**	**80**	692	76
Malaysia	**150**	**13**	103	11
Other ASEAN	**12**	**1**	2	0
Asia Pacific	**51**	**4**	86	10
Rest of the world	**26**	**2**	22	3
	1,222	**100**	906	100

	31 Dec 2003		31 Dec 2002	
	S$m	%	S$m	%
Total assets				
Singapore	**65,267**	**77**	66,553	79
Malaysia	**11,579**	**14**	10,016	12
Other ASEAN	**347**	**0**	353	0
Asia Pacific	**4,729**	**6**	4,511	5
Rest of the world	**2,575**	**3**	2,619	4
	84,497	**100**	84,051	100

The analysis by geographical segment is based on the location where the assets or transactions are booked. The Group's Singapore and Malaysia operations accounted for 80% and 13% respectively of Group pretax profit in 2003, with the remaining contribution coming mainly from the Greater China operations.