

## Management Discussion and Analysis

### OVERVIEW

	2002 S\$m	2001 S\$m	+ / (-) %
<b>Selected profit and loss data:</b>			
Net interest income	1,509	1,392	8.4
Fees and commissions	374	292	27.9
Dividends	34	36	(7.0)
Rental income	77	81	(5.2)
Other income	228	412	(44.7)
Total income	2,222	2,214	0.4
Less: Operating expenses	849	867	(2.0)
Operating profit	1,372	1,347	1.9
Less: Goodwill amortisation <sup>(1)</sup>	127	51	146.7
Less: Total provisions	501	518	(3.3)
Add: Share of associated companies' results	161	198	(19.0)
Profit before tax	906	977	(7.3)
Less: Tax <sup>(1)</sup>	237	195	21.3
Less: Minority interests	2	3	(34.8)
Net profit attributable to stockholders	667	778	(14.3)
Cash basis net profit attributable to stockholders <sup>(2)</sup>	794	829	(4.3)
<b>Selected balance sheet data:</b>			
Total assets	84,051	85,417	(1.6)
Loans to customers (net of provisions)	47,269	49,609	(4.7)
Deposits of non-bank customers	53,948	54,675	(1.3)
Total shareholders' equity	9,224	8,832	4.4
<b>Key Indicators:</b>			
Return on equity (%)	7.4	9.3	
Return on equity (%) – Cash basis <sup>(2)</sup>	8.8	9.9	
Return on assets (%)	0.80	1.11	
Return on assets (%) – Cash basis <sup>(2)</sup>	0.95	1.19	
Basic Earnings per share (S\$)	0.52	0.60	(14.5)
Cash Earnings per share (S\$) <sup>(2)</sup>	0.62	0.65	(4.6)
Gross dividends per share (S\$)			
– Interim dividend	0.05	0.05	–
– Proposed final dividend	0.15	0.13	15.4
Total	0.20	0.18	11.1
Net asset value per share (S\$)			
– Before valuation surplus	7.15	6.86	4.1
– After valuation surplus	9.69	9.65	0.3

<sup>(1)</sup> With effect from 1 January 2002, the Group adopted the revised Singapore Statement of Accounting Standard (SAS) 12 on Income Taxes which became effective for financial periods beginning on or after 1 April 2001. The effect of adopting SAS 12 was an increase to the Group's net profit by S\$24.9 million in 2002, representing lower tax expense by S\$31.1 million and additional goodwill amortisation of S\$6.2 million. Correspondingly, 2001 figures were restated to reflect a reduction of S\$7.0 million in net profit due to higher tax expense and goodwill amortisation

<sup>(2)</sup> Excluding goodwill amortisation charge

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

Group operating profit before provisions and goodwill amortisation rose 1.9% to S\$1,372 million for the year ended 31 December 2002. 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"). The 2001 results included only four and a half months' contribution from KCH, which was acquired in August 2001.

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.

Earnings per share declined by 14.5% to S\$0.52 and return on equity was 7.4% compared to 9.3% in 2001. A final dividend of 15 cents per share has been proposed, 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.

Net interest margin declined by 0.15% 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.

Fee and commission income rose by 27.9% to S\$374 million, as the Group benefited from increased cross-selling 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. 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. 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 fell 3.3% to S\$501 million, comprising specific provisions of S\$365 million for loans, specific provisions of S\$80 million for investment securities (including debt securities) and 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. 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%.

**NET INTEREST INCOME**

Net interest income increased by 8.4% to S\$1,509 million in 2002 mainly as a result of the higher interest earning asset base subsequent to the acquisition of KCH. Net interest margin however declined by 0.15% to 1.94% largely due to lower returns on interbank placements arising from the low interest rate environment, as well as competitive pressure on margins for Singapore and Malaysia loans.

**Average Balance Sheet <sup>(1)</sup>**

	2002			2001 <sup>(4)</sup>		
	Average Balance S\$m	Interest S\$m	Average Rate %	Average Balance S\$m	Interest S\$m	Average Rate %
<b>Assets</b>						
Loans and advances to non-bank customers	50,851	2,055	4.04	42,030	2,138	5.09
Placements with and loans to banks	14,943	312	2.09	16,025	569	3.55
Other interest earning assets <sup>(2)</sup>	12,062	379	3.14	8,686	333	3.83
Total interest earning assets	77,856	2,746	3.53	66,741	3,040	4.56
Non-interest earning assets	8,722			5,774		
Total assets	86,578			72,515		
<b>Liabilities</b>						
Deposits of non-bank customers and floating rate negotiable certificates of deposits	56,378	896	1.59	45,571	1,183	2.60
Deposits and balances of banks	11,695	226	1.94	11,938	378	3.17
Other borrowings <sup>(3)</sup>	4,042	115	2.85	2,069	87	4.19
Total interest bearing liabilities	72,116	1,237	1.72	59,578	1,648	2.77
Non-interest bearing liabilities	5,453			4,329		
Total liabilities	77,569			63,907		
<b>Net interest income/margin</b>		<b>1,509</b>	<b>1.94</b>		1,392	2.09

<sup>(1)</sup> Average balances are based on monthly averages

<sup>(2)</sup> Comprise debt securities, government securities and treasury bills

<sup>(3)</sup> Comprise debt securities issued, including the S\$3.88 billion Upper Tier 2 subordinated debt issued in July 2001, and bills payable

<sup>(4)</sup> 2001 figures have been restated to reflect the matching of swap interest expense against the interest income of the underlying hedged assets. The effect of this reclassification is a reduction in the average gross yield on interest earning assets from 5.36% to 4.56% and the average cost of interest bearing liabilities from 3.67% to 2.77%

The table below analyses changes in net interest income due to changes in volume and changes in rate for 2002 compared with 2001, and 2001 compared with 2000.

**Volume and Rate Analysis**

	2002 over 2001			2001 over 2000		
	Incr/(Decr) due to change in Volume S\$m	Rate S\$m	Net Change S\$m	Incr/(Decr) due to change in Volume S\$m	Rate S\$m	Net Change S\$m
<b>Interest Income</b>						
Loans and advances to non-bank customers	356	(440)	(83)	493	(240)	253
Placements with and loans to banks	(23)	(234)	(257)	(18)	(104)	(122)
Other interest earning assets	106	(60)	46	134	(0)	134
Total	440	(734)	(294)	610	(344)	265
<b>Interest Expense</b>						
Deposits of non-bank customers and floating rate negotiable certificates of deposits	172	(459)	(288)	190	(191)	(1)
Deposits and balances of banks	(5)	(147)	(152)	136	(85)	51
Other borrowings	56	(28)	28	76	7	84
Total	223	(635)	(411)	403	(269)	134
<b>Net Interest Income</b>	<b>217</b>	<b>(100)</b>	<b>117</b>	<b>207</b>	<b>(75)</b>	<b>131</b>

**NON-INTEREST INCOME**

	2002 S\$m	2001 S\$m	+ / (-) %
<b>Fee and commission income</b>			
Brokerage	61	52	17.9
Investment banking	13	16	(17.9)
Trade-related	32	23	36.4
Loan-related	68	44	55.5
Service charges	50	34	46.4
Guarantees	18	14	33.9
Credit cards	27	22	22.7
Fund management	17	15	13.6
Unit trust distribution	44	32	37.9
Bancassurance	35	30	15.5
Others	8	10	(17.7)
Total	374	292	27.9
<b>Dividends</b>	<b>34</b>	<b>36</b>	<b>(7.0)</b>
<b>Rental income</b>	<b>77</b>	<b>81</b>	<b>(5.2)</b>
<b>Other income</b>			
Dealing in foreign exchange	48	33	43.4
Dealing in securities and derivatives	61	68	(10.8)
Disposal of investment securities	47	256	(81.6)
Disposal of associated companies	10	0	n.m.
Sale of properties	0	8	(98.0)
Others	62	47	32.5
Total	228	412	(44.7)
<b>Total non-interest income</b>	<b>712</b>	<b>822</b>	<b>(13.3)</b>
Fees and Commissions/Total Income	16.8%	13.2%	
Non-Interest Income/Total Income	32.1%	37.1%	

Total non-interest income of S\$712m was 13.3% lower compared to 2001 which included an exceptional gain of S\$260m from the disposal of OUB shares. Excluding this gain, non-interest income increased by 26.7% as the Group benefited from cross-selling to a broader consumer customer base particularly in fee-based activities. Fee and commission income grew 27.9% to S\$374 million, with most categories showing double-digit growth. The biggest boost came from loan-related fees, unit trust distribution, bancassurance, trade financing, stockbroking and service charges. Fees and commissions as a proportion of total income rose from 15.0% in 2001 (excluding the gain from sale of OUB shares) to 16.8% in 2002.

**OPERATING EXPENSES**

	2002 S\$m	2001 S\$m	+ / (-) %
<b>Staff costs</b>			
Salaries and other costs	412	416	(0.9)
Provident fund contribution	42	49	(13.9)
Directors' emoluments <sup>(1)</sup>	10	11	(4.8)
Total staff costs	465	476	(2.3)
<b>Premises and equipment</b>			
Depreciation of fixed assets	73	71	2.6
Amortisation of computer software costs	11	10	8.3
Maintenance and hire of fixed assets	24	24	0.6
Rental of premises	22	28	(22.0)
Others	62	61	2.2
Total premises and equipment costs	192	194	(1.0)
<b>Other operating expenses</b>	178	164	8.6
	835	834	0.1
<b>Restructuring and other integration costs</b>	14	32	(56.4)
<b>Total operating expenses</b>	849	867	(2.0)
Group staff strength – year end	7,477	8,567	(12.7)
Group staff strength – average	7,777	7,519	3.4
Cost-to-income ratio	38.2%	39.1 <sup>(2)</sup>	

<sup>(1)</sup> These include remuneration and fees paid to directors of the Bank and its subsidiaries

<sup>(2)</sup> Excluding the S\$260million gain from sale of OUB Shares, cost-to-income ratio would be 44.3%

Operating expenses decreased by 2% to S\$849 million in 2002, despite the enlarged asset base in 2002 and the inclusion of only four and a half months of KCH's expenses in the 2001 base. Considerable focus to control costs and rationalise workflow has resulted in the drop in expenses. Staff costs, the largest expense component, fell by 2.3% to S\$465 million despite a 3.4% increase in average headcount, due to lower staff bonuses and disciplined management of staff-related costs. Premises and equipment expenses were largely flat, while other operating expenses increased by 8.6% to S\$178 million mainly as a result of business-driven spending aimed at enhancing customer service. Restructuring and integration costs incurred in connection with the acquisition and integration of KCH fell by 56.4% to S\$14 million as the bulk of integration expenses had been incurred in 2001.

The Group achieved integration-related cost savings of approximately S\$74 million in 2002, surpassing the original target of S\$55 million.

Cost-efficiency as measured by cost-to-income ratio improved from 44.3% (excluding the gain from sale of OUB shares) to 38.2%.

**PROVISION CHARGE**

	2002 S\$m	2001 S\$m	+ / (-) %
<b>Specific provision for loan losses</b>			
– Singapore	221	227	(2.7)
– Malaysia	111	99	11.3
– Other regional countries	6	38	(82.9)
– Others	26	84	(68.5)
Sub-Total	365	448	(18.6)
<b>General provision for loan losses</b>			
– Five regional countries	(23)	(51)	n.m
– Singapore & others	(5)	53	n.m
Sub-Total	(28)	2	n.m
Specific provision for diminution in value of investment securities and other assets	164	68	142.0
<b>Total provision charge</b>	501	518	(3.3)

Total provision charge decreased by 3.3% or S\$17 million to S\$501 million in 2002. Specific provisions for loans were lower compared to 2001 but this was partly offset by higher specific provisions for diminution in value of investment securities and other assets.

Total specific loan provisions in 2002 was S\$365 million, as the Group continues to set aside sufficient reserves to cover anticipated loan losses. The bulk of the provisions were for loans to businesses in Singapore and Malaysia, reflecting the impact of weak economic conditions as well as the continued decline in property markets, especially industrial and commercial property, which had affected collateral values. Consumer loans were relatively less affected by the economic weakness and they accounted for less than 10% of the specific loan provisions made in 2002.

Specific provisions for diminution in value of investment securities and other assets increased by 142% to S\$164 million. Provisions of S\$80 million were made for investment securities, comprising S\$39 million for private equity and venture funds, and S\$41 million for debt and other securities. Provisions for the Group's properties amounted to another S\$84 million. These were mainly for 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.

A net write-back of S\$28 million in general provisions was made during the year compared to a provision of S\$2 million in 2001.

**LOANS AND ADVANCES**

	31 Dec 2002 S\$m	31 Dec 2001 S\$m	+ / (-) %
Loans to customers	49,485	52,543	(5.8)
Bills receivable	297	306	(2.8)
Gross loans to customers	49,782	52,849	(5.8)
Less Provisions:			
Specific provisions	1,306	1,993	(34.5)
General provisions	1,206	1,246	(3.2)
Net loans to customers	47,269	49,609	(4.7)

Gross customers loans decreased by 5.8% year-on-year to S\$49.8 billion as at 31 December 2002 with contraction in lending seen across most sectors. The decline generally reflects the weak demand for loans as well as the Group's selective and cautious approach in lending. Loans to professionals and individuals were however largely maintained while housing loans saw healthy growth of S\$1.14 billion or 10.2%.

	31 Dec 2002		31 Dec 2001	
	S\$m	%	S\$m	%
<b>By Industry</b>				
Agriculture, mining & quarrying	437	1	503	1
Transport, storage and communication	1,753	4	2,786	5
Building and construction	7,453	15	9,099	17
Manufacturing	3,455	7	3,697	7
Financial institutions, investment and holding companies	9,047	18	9,798	18
General commerce	3,208	6	3,576	7
Professionals and individuals	7,510	15	7,544	14
Housing loans	12,313	25	11,174	21
Others	4,605	9	4,672	10
	49,782	100	52,849	100

**NON-PERFORMING LOANS**

By grading, security coverage and countries

	Total NPLs <sup>(1)</sup> 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 <sup>(2)</sup> %
<b>Malaysia</b>						
31 Dec 2002	1,199	831	183	186	70.7	14.2
30 Jun 2002	1,137	851	181	105	75.8	15.7
31 Dec 2001	1,176	856	168	152	70.2	16.1
<b>Other Four Regional Countries</b>						
31 Dec 2002	208	23	156	28	28.4	34.1
30 Jun 2002	229	25	175	29	28.2	36.2
31 Dec 2001	259	98	125	36	17.4	39.1
<b>Total Regional Countries</b>						
31 Dec 2002	1,407	854	339	214	64.5	15.8
30 Jun 2002	1,366	875	356	134	67.8	17.4
31 Dec 2001	1,435	954	293	188	60.6	18.0
<b>Singapore</b>						
31 Dec 2002	2,646	1,952	502	192	69.9	7.3
30 Jun 2002	3,306	2,020	497	789	58.1	8.9
31 Dec 2001	3,440	2,349	619	472	60.9	8.6
<b>Others</b>						
31 Dec 2002	304	148	96	61	32.9	3.5
30 Jun 2002	307	127	118	62	24.3	4.1
31 Dec 2001	308	151	149	8	25.0	5.4
<b>Group Total</b>						
31 Dec 2002	4,356	2,953	936	467	65.6	8.1
30 Jun 2002	4,979	3,023	971	985	58.7	9.6
31 Dec 2001	5,183	3,454	1,061	668	58.7	9.7

<sup>(1)</sup> Comprise non-bank loans, debt securities and contingent facilities

<sup>(2)</sup> Excluding debt securities

The Group's NPLs were reduced by S\$827 million or 16% to S\$4,356 million as at 31 December 2002. During the year, the amount of recoveries, repayments and upgrades of NPLs more than offset the amount of new NPLs. In addition, as part of its policy to manage NPLs more proactively, the Group wrote off approximately S\$1 billion of loss loans which had been fully provided for and were regarded as uncollectable. Most of the write-offs were for NPLs relating to Business Banking customers in Singapore.

Singapore NPLs of S\$2,646 million accounted for 61% of the Group's total NPLs while Malaysia NPLs of S\$1,199 million made up 28%. Of the total NPLs, 68% were in the substandard category (31 December 2001: 67%) while 65.6% were secured by collateral (31 December 2001: 58.7%).

The Group's NPL ratio (non-bank NPLs over non-bank loans) fell from 9.7% as at 31 December 2001 to 8.1% as at 31 December 2002. The Singapore NPL ratio decreased from 8.6% to 7.3% while the Malaysia NPL ratio fell from 16.1% to 14.2%.

**NON-PERFORMING LOANS (continued)**

	31 Dec 2002		31 Dec 2001	
	Amount S\$m	As % of Gross Customer Loans	Amount S\$m	As % of Gross Customer Loans
<b>By industry</b>				
Agriculture, mining & quarrying	39	8.9	38	7.6
Transport, storage and communication	72	4.1	139	5.0
Building and construction	756	10.1	996	10.9
Manufacturing	680	19.7	679	18.4
Financial institutions, investment and holding companies	768	8.5	1,139	11.6
General commerce	539	16.8	666	18.6
Professionals and individuals	582	7.7	618	8.2
Housing loans	227	1.8	336	3.0
Others	379	8.2	508	10.9
Sub-total	4,042	8.1	5,119	9.7
Debt securities	314		64	
<b>Total</b>	<b>4,356</b>	<b>8.8</b>	<b>5,183</b>	<b>9.8</b>
	<b>Amount</b>	<b>As % of</b>	<b>Amount</b>	<b>As % of</b>
	<b>S\$m</b>	<b>Total NPLs</b>	<b>S\$m</b>	<b>Total NPLs</b>
<b>By period overdue</b>				
Over 180 days	2,339	54	3,168	61
Over 90 days to 180 days	567	13	582	11
30 days to 90 days	267	6	331	6
Less than 30 days	208	5	229	4
No overdue	975	22	873	17
	<b>4,356</b>	<b>100</b>	<b>5,183</b>	<b>100</b>

**CUMULATIVE PROVISIONS**

	Total cumulative provisions <sup>(1)</sup>	Specific provisions	General provisions	Specific provisions as % of total NPLs	Cumulative provisions as % of total NPLs	Cumulative provisions as % of unsecured NPLs
	S\$m	S\$m	S\$m	%	%	%
<b>Malaysia</b>						
<b>31 Dec 2002</b>	<b>743</b>	<b>377</b>	<b>366</b>	<b>31.5</b>	<b>62.0</b>	<b>211.9</b>
30 Jun 2002	669	303	367	26.6	58.8	242.8
31 Dec 2001	721	346	375	29.5	61.3	205.6
<b>Other Four Regional Countries</b>						
<b>31 Dec 2002</b>	<b>415</b>	<b>171</b>	<b>244</b>	<b>82.6</b>	<b>200.1</b>	<b>279.4</b>
30 Jun 2002	434	190	244	82.9	189.7	264.3
31 Dec 2001	463	192	271	74.1	178.9	216.5
<b>Total Regional Countries</b>						
<b>31 Dec 2002</b>	<b>1,159</b>	<b>549</b>	<b>610</b>	<b>39.0</b>	<b>82.4</b>	<b>232.0</b>
30 Jun 2002	1,103	492	611	36.0	80.7	250.9
31 Dec 2001	1,184	538	646	37.5	82.5	209.7
<b>Singapore</b>						
<b>31 Dec 2002</b>	<b>1,301</b>	<b>800</b>	<b>502</b>	<b>30.2</b>	<b>49.2</b>	<b>163.6</b>
30 Jun 2002	1,949	1,442	508	43.6	59.0	140.8
31 Dec 2001	1,889	1,378	511	40.1	54.9	140.4
<b>Others</b>						
<b>31 Dec 2002</b>	<b>253</b>	<b>158</b>	<b>95</b>	<b>52.0</b>	<b>83.2</b>	<b>124.0</b>
30 Jun 2002	315	224	91	72.9	102.6	135.6
31 Dec 2001	282	193	89	62.6	91.3	121.6
<b>Group Total</b>						
<b>31 Dec 2002</b>	<b>2,713</b>	<b>1,506</b>	<b>1,206</b>	<b>34.6</b>	<b>62.3</b>	<b>181.0</b>
30 Jun 2002	3,368	2,158	1,210	43.3	67.6	163.8
31 Dec 2001	3,355	2,109	1,246	40.7	64.7	156.6

<sup>(1)</sup> Include provisions for debt securities

Total cumulative specific and general provisions decreased by S\$642 million or 19.1% in 2002 to S\$2.71 billion as at 31 December 2002 mainly due to write-off of loans. These represent 62.3% of NPLs (31 December 2001: 64.7%). Cumulative specific provisions covered 100.5% of unsecured NPLs (31 December 2001: 98.5%). Cumulative general provisions were 2.5% (31 December 2001: 2.4%) of total non-bank loans (net of specific provisions).

**EXPOSURE TO THE FIVE REGIONAL COUNTRIES, HONG KONG AND CHINA**

	Loans and debt securities			Investments	Total Gross Exposure	Less: Loans to and investments in subsidiaries/branches	Net Exposure	
	Bank	Central Bank and Government	Non-bank				Total	% of Group assets
	S\$m	S\$m	S\$m	S\$m	S\$m	S\$m	S\$m	%
<b>Malaysia</b>								
31 Dec 2002	1,259	2,823	7,078	590	11,750	1,229	10,522	12.5
30 Jun 2002	1,260	2,698	6,941	624	11,523	1,230	10,293	12.3
31 Dec 2001	1,631	1,950	6,977	650	11,208	1,390	9,818	11.5
<b>Indonesia</b>								
31 Dec 2002	181	105	356	50	692	49	643	0.8
30 Jun 2002	194	132	374	40	740	53	687	0.8
31 Dec 2001	269	60	422	42	793	39	754	0.9
<b>Thailand</b>								
31 Dec 2002	74	33	108	0	215	58	157	0.2
30 Jun 2002	124	34	128	0	286	78	208	0.2
31 Dec 2001	133	30	141	1	305	85	220	0.3
<b>Korea</b>								
31 Dec 2002	228	35	102	0	364	27	337	0.4
30 Jun 2002	212	35	152	0	399	27	372	0.4
31 Dec 2001	301	0	52	0	353	22	331	0.4
<b>Philippines</b>								
31 Dec 2002	25	17	28	5	74	5	69	0.1
30 Jun 2002	33	1	44	5	83	0	83	0.1
31 Dec 2001	22	1	52	6	81	6	75	0.1
<b>Total Regional Countries</b>								
31 Dec 2002	1,767	3,012	7,671	645	13,095	1,367	11,727	14.0
30 Jun 2002	1,823	2,900	7,639	669	13,031	1,388	11,643	13.9
31 Dec 2001	2,356	2,041	7,644	699	12,740	1,542	11,198	13.1
<b>Hong Kong</b>								
31 Dec 2002	528	29	1,312	23	1,892	9	1,883	2.2
30 Jun 2002	214	29	1,430	34	1,707	9	1,698	2.0
31 Dec 2001	209	31	1,660	21	1,921	9	1,912	2.2
<b>China</b>								
31 Dec 2002	476	16	1,002	9	1,503	345	1,158	1.4
30 Jun 2002	497	2	1,003	11	1,513	390	1,123	1.3
31 Dec 2001	487	2	1,081	7	1,577	422	1,155	1.4
<b>Total</b>								
31 Dec 2002	2,770	3,057	9,985	677	16,489	1,721	14,768	17.6
30 Jun 2002	2,534	2,931	10,072	714	16,251	1,787	14,464	17.3
31 Dec 2001	3,052	2,074	10,385	727	16,238	1,973	14,265	16.7

The Group's net exposure to the five regional countries – Malaysia, Indonesia, Thailand, the Philippines and South Korea – increased by 4.7% to S\$11.73 billion as at 31 December 2002, representing 14% of the Group's total assets. The increase came mainly from Malaysia, which accounted for 12.5% of Group assets. The Group's exposure to Hong Kong and China decreased by a marginal 1% to S\$3.04 billion, accounting for 3.6% of Group assets.

**DEPOSITS**

	31 Dec 2002 S\$m	31 Dec 2001 S\$m	+ / (-) %
Deposits of non-bank customers	53,948	54,675	(1.3)
Deposits and balances of banks	12,621	14,051	(10.2)
	66,569	68,726	(3.1)

Loans-to-deposits ratio (net non-bank loans/non-bank deposits) **87.6%** 90.7%

Total deposits declined by S\$2.16 billion or 3.1% to S\$66.57 billion as at 31 December 2002. Both non-bank customer deposits and bank borrowings registered decline, decreasing by 1.3% and 10.2% respectively. Non-bank customer deposits accounted for 81.0% of total deposits.

The Group's loans-to-deposits ratio (net non-bank loans over non-bank deposits) fell from 90.7% to 87.6%, reflecting the sharper decline in loans relative to deposits during the year.

	31 Dec 2002		31 Dec 2001		+ / (-) %
	S\$m	%	S\$m	%	
<b>Non-Bank Deposits By Product</b>					
Fixed deposits	36,176	67	37,441	68	(3.4)
Savings deposits	10,802	20	10,837	20	(0.3)
Current account	5,294	10	5,057	9	4.7
Others	1,676	3	1,340	2	25.1
	53,948	100	54,675	100	(1.3)

**DIVIDENDS**

	2002		2001	
	cents/share	S\$m	cents/share	S\$m
Interim dividend	5	50	5	49
Proposed final dividend <sup>(1)</sup>	15	151	13	131
Total Dividend <sup>(1)</sup>	20	201	18	180
Payout ratio	30.2%		23.1%	

<sup>(1)</sup> The final dividend for 2002 does not include the proposed one-off cash dividend of S\$0.4975 per share announced on 19 March 2003

The Board has recommended a final dividend of 15 cents per share, bringing the total dividends per share for 2002 to 20 cents. The total dividends of S\$201 million net of tax represent a higher dividend payout ratio of 30.2% compared to 23.1% for 2001.



**CAPITAL ADEQUACY RATIOS**

	31 Dec 2002 S\$m	31 Dec 2001 S\$m
<b>Tier 1 Capital</b>		
Paid-up ordinary shares	1,290	1,287
Disclosed reserves/others	7,803	7,432 <sup>(1)</sup>
Less: Goodwill	2,199	2,325 <sup>(1)</sup>
	<b>6,894</b>	6,394
<b>Tier 2 Capital</b>		
Asset revaluation reserves <sup>(2)</sup>	1,121	1,374
Cumulative general provisions	597	600
Hybrid (debt / equity) capital instruments	3,879	3,875 <sup>(3)</sup>
Less: Capital deductions for private equity and venture capital investments	5	14
	<b>5,592</b>	5,835
<b>Total Capital</b>	<b>12,486</b>	12,229
Risk weighted assets including market risk	59,884	61,986
Tier 1 ratio	11.5%	10.3% <sup>(4)</sup>
Total capital adequacy ratio	20.9%	19.7% <sup>(4)</sup>

<sup>(1)</sup> The figures as at 31 December 2001 have been restated following the adoption of SAS 12

<sup>(2)</sup> After discount of 55% based on BIS guidelines

<sup>(3)</sup> Subsequent to 30 June 2002, the S\$3.88 billion subordinated term notes were re-classified as a hybrid debt capital instrument which under the BIS guidelines, qualifies fully as Tier 2 capital

<sup>(4)</sup> As a result of (1) and (3), the total capital adequacy ratio as at 31 December 2001 was restated from 18.8% to 19.7%

The Group's total capital adequacy ratio (CAR), calculated in accordance with the Basel Committee on Banking Supervision guidelines, increased to 20.9% as at 31 December 2002. This is more than twice the minimum requirement of 8% stipulated by the Bank of International Settlements (BIS), reflecting the Group's strong capital position. Tier 1 capital ratio was 11.5% after deducting the goodwill associated with the acquisition of KCH.

Subsequent to the financial year-end, OCBC Bank issued S\$500 million of Tier 1 non-cumulative non-convertible preference shares in January 2003. The increase in Tier 1 capital will further strengthen the Bank's capital base in preparation for future expansion and growth, and will also pave the way for a more efficient management of its capital structure.

**VALUATION SURPLUS**

	31 Dec 2002			31 Dec 2001		
	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	1,360	2,901	1,542	1,469	3,129	1,660
Equity securities	1,431	2,911	1,480	1,620	3,522	1,902
Debt securities*	12,050	12,301	252	11,844	11,872	28
Total investments	<b>14,840</b>	<b>18,114</b>	<b>3,273</b>	14,933	18,523	3,590

\* Include government treasury bills and securities

The Group's unrealised valuation surplus amounted to S\$3.27 billion as at 31 December 2002, a decline of S\$317 million from 2001. This was due largely to lower market valuations for equity securities. Properties accounted for S\$1.54 billion or 47.1% of the surplus while equity securities accounted for S\$1.48 billion or 45.2%.

**FINANCIAL DERIVATIVES**

In S\$'000	Contractual or principal notional amount	Trading		31 December 2002		
		Positive Fair value	Negative Fair value	Contractual or principle notional amount	Positive Fair value	Negative Fair value
<b>Foreign exchange derivatives</b>						
Forwards	214,036	2,105	1,910	1,864,486	14,026	9,706
Swaps	60,449,074	725,817	590,418	668,313	12,011	35,682
OTC options – bought and sold	193,101	400	316	19,358	87	48
Sub-total	60,856,211	728,322	592,644	2,552,157	26,124	45,436
<b>Interest rate derivatives</b>						
Forwards	30,674,000	17,812	18,139	–	–	–
Swaps	70,651,982	402,210	396,665	12,321,788	179,389	335,443
OTC options – bought and sold	60,000	–	378	213,394	1,001	385
Exchange traded futures – bought and sold	446,073	14	228	–	–	–
Sub-total	101,832,055	420,036	415,410	12,535,182	180,390	335,828
<b>Other derivatives</b>						
Options written	15,704	165	–	–	–	–
Options purchased	–	–	–	130,868	250	198
Credit default swaps	17,352	–	158	69,408	984	92
Sub-total	33,056	165	158	200,276	1,234	290
Total	162,721,322	1,148,523	1,008,212	15,287,615	207,748	381,554

Fair value of trading derivatives included in other assets and other liabilities

1,148,523 1,008,212

The above table analyses the contractual or underlying principal amounts of derivative financial instruments entered into with third parties for trading and non-trading purposes as at 31 December 2002. In addition, it also indicates the corresponding gross positive and negative fair values by instrument type. In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the positive and negative fair values are reflected in "Other assets" and "Other liabilities" respectively.

