

Directors' Report

for the financial year ended 31 December 2003

The directors present their report to the members together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2003 and the balance sheet of the Bank at 31 December 2003.

DIRECTORS

The directors of the Bank in office at the date of this report are:

Cheong Choong Kong	Chairman
Michael Wong Pakshong	Vice Chairman
David Philbrick Conner	Chief Executive Officer
Fong Weng Phak	
Lee Seng Wee	
Lee Tih Shih (appointed on 4 April 2003)	
Nasruddin Bin Bahari	
Tsao Yuan, also known as Lee Tsao Yuan	
David Wong Cheong Fook	
Wong Nang Jang	
Patrick Yeoh Khwai Hoh	

Dr Cheong Choong Kong, Datuk Fong Weng Phak and Col (Ret) David Wong Cheong Fook retire by rotation under Articles 107 and 108 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

Mr Lee Seng Wee and Mr Michael Wong Pakshong retire pursuant to section 153 of the Companies Act, Cap. 50. Resolutions will be proposed for their reappointment under section 153(6) of the said Act to hold office until the next annual general meeting of the Bank.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose object was to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than as disclosed in this report.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

(a) According to the register of directors' shareholdings, the directors holding office at the end of the financial year had interest in the share capital of the Bank as follows:

	Holdings registered in the name of directors or in which directors have a direct interest		Holdings in which directors are deemed to have an interest	
	As at 1.1.2003 (or date of appointment)	As at 31.12.2003	As at 1.1.2003 (or date of appointment)	As at 31.12.2003
Ordinary stock units of \$1 each				
Cheong Choong Kong	30,923	30,923	Nil	Nil
Michael Wong Pakshong	45,053	45,053	22,958	22,958
David Conner	Nil	121,000	63,000 ⁽¹⁾	70,526⁽²⁾
Fong Weng Phak	29,782	29,782	Nil	Nil
Lee Seng Wee	1,338,157	1,338,157	1,185,710	1,185,710
Lee Tih Shih (appointed on 4 April 2003)	461,232	461,232	Nil	Nil
Nasruddin Bin Bahari	Nil	Nil	Nil	Nil
Tsao Yuan	Nil	Nil	390	390
David Wong Cheong Fook	3,000	3,000	Nil	Nil
Wong Nang Jang	76,432	76,432	42,743	42,743
Patrick Yeoh Khwai Hoh	Nil	Nil	Nil	Nil

Directors' Report

for the financial year ended 31 December 2003

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	Holdings registered in the name of directors or in which directors have a direct interest		Holdings in which directors are deemed to have an interest	
	As at 1.1.2003 (or date of appointment)	As at 31.12.2003	As at 1.1.2003 (or date of appointment)	As at 31.12.2003
4.2% non-cumulative non-convertible Class G preference shares of \$0.01 each				
Cheong Choong Kong	Nil	15,000	Nil	Nil
Michael Wong Pakshong	Nil	22,000	Nil	Nil
David Conner	Nil	50,000	Nil	Nil
Fong Weng Phak	Nil	14,891	Nil	Nil
Lee Seng Wee	Nil	800,000	Nil	600,000
Lee Tih Shih (appointed on 4 April 2003)	Nil	240,000	Nil	Nil
Nasruddin Bin Bahari	Nil	Nil	Nil	Nil
Tsao Yuan	Nil	Nil	Nil	7,000
David Wong Cheong Fook	Nil	Nil	Nil	Nil
Wong Nang Jang	Nil	38,216	Nil	21,372
Patrick Yeoh Khwai Hoh	Nil	Nil	Nil	Nil

(1) Deemed interest arising from contractual entitlement of 63,000 ordinary stock units pursuant to employment contract.

(2) Comprises deemed interest over 28,526 ordinary shares pursuant to an award granted under the OCBC Deferred Share Plan; and contractual entitlement of 42,000 ordinary stock units pursuant to employment contract. 21,000 ordinary stock units (out of the contractual entitlement of 63,000 ordinary stock units) were vested at the end of the financial year.

None of the directors have direct or deemed interest in the 4.5% non-cumulative non-convertible Class E preference shares of \$0.01 each.

(b) According to the register of directors' shareholdings, certain of the directors holding office at the end of the financial year had interest in the options to subscribe for ordinary shares of the Bank pursuant to the OCBC Share Option Schemes as set out below and under the heading "Share Options" in this report:

	Options held by directors in their own name		Options in which directors are deemed to have an interest	
	As at 1.1.2003	As at 31.12.2003	As at 1.1.2003	As at 31.12.2003
	(Number of unissued ordinary shares of \$1 each)		(Number of unissued ordinary shares of \$1 each)	
David Conner	300,000	600,000	Nil	Nil
Wong Nang Jang	319,796	394,796	Nil	Nil

Save as aforesaid, the directors did not hold any interest in shares in, or debentures of, the Bank or any related corporation either at the beginning or end of the financial year.

The directors' interests in shares and share options in the Bank as at 21 January 2004 were the same as that as at 31 December 2003.

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive benefits required to be disclosed by section 201(8) of the Companies Act, Cap. 50 save as disclosed in this report and in the financial statements.

Directors' Report

for the financial year ended 31 December 2003

SHARE OPTIONS

(a) OCBC Share Option Schemes

(i) OCBC Executives' Share Option Scheme 1994

The OCBC Executives' Share Option Scheme 1994 ("1994 Scheme") in respect of the grant of options to subscribe for ordinary shares of \$1 each in the Bank was approved at an extraordinary general meeting on 11 June 1994. Options were granted to executives of the Bank and OCBC Bank (Malaysia) Berhad, a wholly-owned subsidiary of the Bank, of the rank of Assistant Manager and above. The 1994 Scheme was terminated on 3 August 2001 and replaced by the OCBC Share Option Scheme 2001.

Outstanding options under the 1994 Scheme will remain valid until their respective dates of expiration of the options. Particulars of the 1995 Replacement Options, 1996 Replacement Options, 1997 Replacement Options, 1998 Options, 1998 Replacement Options, 1999 Options, 1999 Replacement Options, 2000 Options and 2001 Options were set out in the directors' reports for the financial years ended 31 December 1998 to 2001. The 1998 Options and 1999 Options expired on 21 January 2003 and 9 December 2003 respectively.

(ii) OCBC Share Option Scheme 2001

The OCBC Share Option Scheme 2001 ("2001 Scheme") in respect of the grant of options to subscribe for ordinary shares of \$1 each in the Bank was approved at an extraordinary general meeting on 17 May 2001, to replace the 1994 Scheme. Executives of the Group of the rank of Assistant Manager and above, including executive directors, as well as non-executive directors, are eligible to participate in the 2001 Scheme.

Particulars of the 2002 Options, 2002A Options and 2002B Options were set out in the directors' report for the financial year ended 31 December 2002.

The Schemes are administered by the Remuneration Committee and the members as at the date of this report are as follows:

- Michael Wong Pakshong (Chairman)
- Cheong Choong Kong
- David Conner
- Nasruddin Bin Bahari
- Tsao Yuan

David Conner did not participate in any deliberation or decision in respect of options granted to him.

(b) Share options issued during the financial year

During the financial year, in consideration of the payment of \$1 for each option issued, options to subscribe for 10,423,167 ordinary shares of \$1 each were granted pursuant to the 2001 Scheme (hereinafter called the "2003 Options") to 2,059 officers of the Group which included options granted to the following directors of the Bank:

Name	Designation at the time of granting the options	Number of options	Offering price per \$1 share	Exercise period
David Conner	Chief Executive Officer	300,000	\$ 9.76	28.3.2004 to 26.3.2013
Wong Nang Jang	Non-executive director	75,000	\$ 9.76	28.3.2004 to 26.3.2008

No options have been granted to controlling shareholders or their associates. No participant has received 5% or more of the total number of options available under the schemes. No options were granted at a discount during the financial year.

Statutory and other information regarding the 2003 Options are as follows:

- (i) Options issued on 27 March 2003 ("2003 Options") to Group executives (including executive directors) will expire on 26 March 2013. The exercise period is 28 March 2004 to 26 March 2013, both dates inclusive. The option may be exercised by notice in writing accompanied by a remittance for the full amount of the offering price, which is \$9.76 per ordinary share of \$1 each.
- (ii) Options issued on 27 March 2003 ("2003 Options") to a non-executive director will expire on 26 March 2008. The exercise period is 28 March 2004 to 26 March 2008, both dates inclusive. The option may be exercised by notice in writing accompanied by a remittance for the full amount of the offering price, which is \$9.76 per ordinary share of \$1 each.

Directors' Report

for the financial year ended 31 December 2003

SHARE OPTIONS (continued)

(b) Share options issued during the financial year (continued)

- (iii) The offering price was equal to the average of the last dealt price of the stock of the Bank on the Singapore Exchange Securities Trading Limited over five consecutive trading days immediately prior to the date when an offer to grant an option was made to a grantee.
- (iv) Based on the current rules of the 2001 Scheme, options granted to executives including executive directors are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 10th anniversary of the respective dates of grant. Options granted to non-executive directors are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 5th anniversary of the respective dates of grant or, if applicable laws permit, on such later date as the Remuneration Committee may determine.
- (v) In accordance with the vesting schedule adopted by the Remuneration Committee, the percentage of shares over which an option is exercisable is as follows:

On or before the 1st anniversary of the date of grant	Nil
After the 1st anniversary but on or before the 2nd anniversary of the date of grant	33%
After the 2nd anniversary but on or before the 3rd anniversary of the date of grant	33%
After the 3rd anniversary but on or before the date of expiry of the exercise period	34%
- (vi) Unexercised options will lapse by reason of Rule 7.3 of the 2001 Scheme relating to the cessation of employment of the grantee unless otherwise determined by the Remuneration Committee.
- (vii) The number of shares which may be acquired by a grantee or the offering price or both are subject to adjustment, as confirmed by the auditors of the Bank that such adjustment is fair and reasonable, by reason of any variation in the issued ordinary share capital of the Bank (whether by way of rights issue or capitalisation of profits or reserves or otherwise) while an option remains unexercised.
- (viii) The persons to whom these options have been issued have no right to participate by virtue of these options in any share issue of any other company.

(c) Options outstanding

During the financial year, changes in the number of unissued shares under options granted to directors were as follows:

Name of director	Options granted during the financial year	Aggregate options granted since commencement of Schemes to end of financial year	Aggregate options exercised since commencement of Schemes to end of financial year	Aggregate options outstanding as at end of financial year
David Conner	300,000 (2003 Options)	600,000	—	600,000
Wong Nang Jang	75,000 (2003 Options)	454,171	59,375	394,796

Directors' Report

for the financial year ended 31 December 2003

SHARE OPTIONS (continued)

(c) Options outstanding (continued)

The options on ordinary shares of the Bank outstanding at the end of the financial year are as follows:

	Number of options outstanding as at end of financial year	Offering price per \$1 share	Exercise period
1995 Replacement Options	197,478	\$7.810	25.5.1999 to 1.2.2005
1996 Replacement Options	688,259	\$8.150	25.5.1999 to 29.1.2006
1997 Replacement Options	1,139,735	\$7.603	30.1.2000 to 29.1.2007
1998 Replacement Options	1,147,746	\$6.419	22.1.2001 to 21.1.2008
1999 Replacement Options	2,088,002	\$7.533	10.12.2001 to 9.12.2008
2000 Options	4,563,789	\$10.900	6.12.2002 to 5.12.2009
2001 Options	5,914,098	\$12.880	5.12.2003 to 4.12.2010
2002 Options	7,493,700	\$13.780	9.4.2003 to 8.4.2012
2002A Options	300,000	\$13.660	23.4.2003 to 22.4.2012
2002B Options	100,000	\$10.480	24.10.2003 to 23.10.2012
2003 Options	75,000	\$9.76	28.3.2004 to 26.3.2008
2003 Options	9,817,167	\$9.76	28.3.2004 to 26.3.2013
	33,524,974		

Notes:

- (1) 1998 Options and 1999 Options expired on 21 January 2003 and 9 December 2003 respectively.
- (2) A total number of 75,976,248 options have been granted since the commencement of the 1994 and 2001 schemes to the end of the financial year under review.

ISSUE OF SHARES PURSUANT TO OPTION SCHEMES

During the financial year, the Bank issued the following ordinary shares of \$1 each fully paid up in cash and converted into ordinary stock pursuant to the OCBC Share Option Schemes upon the exercise of options:

- (i) 150,872 ordinary shares of \$1 each at a price of \$7.810 per share for the 1995 Replacement Options;
- (ii) 119,707 ordinary shares of \$1 each at a price of \$8.150 per share for the 1996 Replacement Options;
- (iii) 305,233 ordinary shares of \$1 each at a price of \$7.603 per share for the 1997 Replacement Options;
- (iv) 33,600 ordinary shares of \$1 each at a price of \$6.419 per share for the 1998 Options;
- (v) 395,112 ordinary shares of \$1 each at a price of \$6.419 per share for the 1998 Replacement Options;
- (vi) 11,600 ordinary shares of \$1 each at a price of \$7.533 per share for the 1999 Options;
- (vii) 611,031 ordinary shares of \$1 each at a price of \$7.533 per share for the 1999 Replacement Options; and
- (viii) 288,361 ordinary shares of \$1 each at a price of \$10.900 per share for the 2000 Options.

OCBC DEFERRED SHARE PLAN

During the financial year, the Bank implemented the OCBC Deferred Share Plan ("DSP"), a stock-based plan administered by the Remuneration Committee in accordance with the rules governing the DSP. The DSP is a discretionary incentive and retention award program extended to executives of the Group of the rank of Vice President and above at the absolute discretion of the Remuneration Committee. The awards are granted at no cost to the grantees, on a deferred basis as part of their performance bonus. Such awards shall lapse by reason of cessation of service but may be preserved at the absolute discretion of the Remuneration Committee. The DSP does not involve the issue of new shares. Instead, existing stock units will be purchased from the market for release to participants at the end of the respective vesting periods.

During the financial year, total awards of 466,777 ordinary shares (including an award of 28,526 ordinary shares granted to an executive director of the Bank) were granted to eligible executives under the DSP.

Directors' Report

for the financial year ended 31 December 2003

AUDIT COMMITTEE

The members of the Audit Committee at the date of this report are as follows:

Michael Wong Pakshong, Chairman

Fong Weng Phak

David Wong Cheong Fook

The Audit Committee performs the functions specified in the Companies Act, Cap. 50. It meets with the Bank's external auditors and the internal auditors, and reviews the audit plans, the internal audit programme, the results of their examination and findings on their evaluation of the system of internal controls, the scope and results of the internal audit procedures and the response from the Bank's management and the assistance given by the officers of the Bank to the auditors. It also reviews interested person transactions and the Bank's relationship with the external auditors, including their independence and objectivity. The Audit Committee reviews the financial statements of the Bank and the consolidated financial statements of the Group and the auditors' report thereon and submits them to the Board of Directors. The Audit Committee has full access to and the cooperation of the management and has been given the resources required for it to discharge its functions. The Audit Committee has full discretion to invite any Director and executive officer to attend its meetings.

The Audit Committee has nominated PricewaterhouseCoopers for reappointment as auditors of the Bank at the Annual General Meeting.

AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to accept reappointment as auditors.

On behalf of the Board of Directors,

CHEONG CHOONG KONG

Director

DAVID PHILBRICK CONNER

Director

Singapore

11 February 2004

Statement by Directors
for the financial year ended 31 December 2003

In the opinion of the directors,

- (a) the balance sheet of the Bank and the financial statements of the Group as set out on pages 80 to 155 are drawn up so as to give a true and fair view of the state of affairs of the Bank and of the Group at 31 December 2003 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
11 February 2004

Auditors' Report

to the members of Oversea-Chinese Banking Corporation Limited

We have audited the balance sheet of Oversea-Chinese Banking Corporation Limited and the consolidated financial statements of the Group for the financial year ended 31 December 2003 set out on pages 80 to 155. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the accompanying balance sheet of the Bank and consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 ("the Act") and Singapore Financial Reporting Standards, so as to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2003, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records (excluding registers) required by the Act to be kept by the Bank and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports of all the subsidiaries of which we have not acted as auditors, being financial statements included in the consolidated financial statements. The subsidiaries audited by other member firms of the PricewaterhouseCoopers Global Organisation are stated in Note 34 to the financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of subsidiaries incorporated in Singapore did not include any comment made under section 207(3) of the Act.

PricewaterhouseCoopers
Certified Public Accountants

Singapore
11 February 2004

Consolidated Income Statement

for the financial year ended 31 December 2003

	Note	2003 \$'000	2002 \$'000
Interest income	3	2,380,646	2,729,376
Less: Interest expense	4	945,650	1,219,889
Net interest income		1,434,996	1,509,487
Fees and commissions	5	372,827	374,022
Dividends	6	74,778	33,684
Rental income		63,539	76,605
Other income	7	246,885	227,833
Non-interest income		758,029	712,144
Income before operating expenses		2,193,025	2,221,631
Less: Staff costs		477,850	464,765
Other operating expenses		376,778	384,493
Total operating expenses	8	854,628	849,258
Operating profit before provisions and amortisation of goodwill		1,338,397	1,372,373
Less: Amortisation of goodwill	36	126,644	126,995
Provisions for possible loan losses and diminution in value of other assets	9	224,959	500,608
Operating profit after provisions and amortisation of goodwill		986,794	744,770
Add: Share of profits less losses of associated companies		234,865	160,822
Profit before tax		1,221,659	905,592
Less: Tax	10	210,763	199,726
Share of tax of associated companies		55,137	37,028
		265,900	236,754
Profit after tax		955,759	668,838
Less: Minority interests		1,635	2,130
Profit attributable to shareholders		954,124	666,708
Earnings per ordinary share (cents)	11		
Basic		72	52
Diluted		72	52

The accompanying notes form an integral part of these financial statements.

Balance Sheets

as at 31 December 2003

		Group		Bank	
	Note	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Shareholders' Equity					
Share Capital					
Authorised	13	2,010,838	2,000,000	2,010,838	2,000,000
Issued and fully paid	13	1,284,084	1,290,299	1,284,084	1,290,299
Reserves					
Capital reserves	14	2,329,076	1,505,515	2,205,333	1,395,457
Statutory reserves	15	1,854,303	1,936,244	1,528,700	1,464,200
Revenue reserves	16	4,591,450	4,492,164	3,177,056	2,865,742
Total shareholders' equity		10,058,913	9,224,222	8,195,173	7,015,698
Minority Interests		19,879	18,928	—	—
Liabilities					
Deposits of non-bank customers	17, 38.5	53,459,680	53,947,536	45,673,695	43,944,085
Deposits and balances of banks	17, 38.5	12,480,794	12,621,149	11,910,339	12,076,240
Deposits of subsidiary companies		—	—	1,268,267	1,168,228
Deposits of associated companies		1,457,708	1,454,366	878,968	976,602
Bills payable		185,233	177,164	102,478	115,698
Current tax	18	327,667	321,765	292,216	244,671
Deferred tax	18	76,043	133,498	55,482	106,206
Other liabilities	19	2,421,286	2,140,546	1,796,542	1,758,904
Debt securities	20	4,010,223	4,012,214	3,882,473	3,879,214
Total liabilities and shareholders' equity		84,497,426	84,051,388	74,055,633	71,285,546
Assets					
Cash and placements with central banks	21	4,035,863	2,858,403	2,604,863	1,453,919
Singapore government treasury bills and securities	22	6,151,111	5,966,732	6,002,069	5,636,843
Other government treasury bills and securities	23	1,054,618	984,145	203,599	131,026
Dealing securities	24	235,541	173,076	134,929	147,950
Placements with and loans to banks	25, 38.5	9,649,818	14,458,968	8,874,153	13,875,891
Bills receivable	26–29, 38.5	428,195	296,562	218,965	119,762
Loans to customers	26–29, 38.5	49,726,922	47,070,651	42,675,233	38,006,482
Investment securities	30	6,294,827	5,310,085	5,310,599	4,489,327
Deferred tax	18	53,670	70,416	—	—
Other assets	31	2,182,934	2,044,580	1,759,742	1,767,475
		79,813,499	79,233,618	67,784,152	65,628,675
Associated companies	33	1,177,137	1,047,441	107,617	101,238
Subsidiary companies	34	—	—	3,427,270	2,957,443
Property, plant and equipment	35	1,434,736	1,571,646	748,439	823,053
Goodwill	36	2,072,054	2,198,683	1,988,155	1,775,137
Total assets		84,497,426	84,051,388	74,055,633	71,285,546
Off-Balance Sheet Items					
Contingent liabilities	40	—	—	—	—
Commitments	41	5,829,577	5,848,394	5,010,352	4,968,375
Financial derivatives	42	27,261,292	28,288,944	23,637,732	24,174,734
	43	191,246,606	184,769,732	189,829,605	182,644,281
		224,337,475	218,907,070	218,477,689	211,787,390

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

for the financial year ended 31 December 2003

	Share capital \$'000	Capital reserves \$'000	Statutory reserves \$'000	Revenue reserves \$'000	Total \$'000
Balance at 1 January 2003	1,290,299	1,505,515	1,936,244	4,492,164	9,224,222
Profit attributable to shareholders	–	–	–	954,124	954,124
Foreign currency translation gains not recognised in the income statement	–	–	–	8,555	8,555
Total recognised gains for the financial year	–	–	–	962,679	962,679
Transfers	–	13,685	(81,941)	68,256	–
Class E preference shares issued for cash	50	499,950	–	–	500,000
Class E preference dividends paid	–	–	–	(20,096)	(20,096)
Class G preference shares issued for cash	1,865	184,877	–	–	186,742
Class G preference shares issued in lieu of special cash dividends	2,093	206,171	–	(208,264)	–
Class G preference dividends paid	–	–	–	(7,242)	(7,242)
Expenses relating to the issue of preference shares	–	(1,648)	–	–	(1,648)
Final dividends paid to ordinary stockholders	–	–	–	(151,081)	(151,081)
Interim dividends paid to ordinary stockholders	–	–	–	(110,811)	(110,811)
Special dividends paid in cash to ordinary stockholders	–	–	–	(434,155)	(434,155)
Selective capital reduction	(12,139)	(92,620)	–	–	(104,759)
Shares issued under Share Option Schemes	1,916	13,146	–	–	15,062
Balance at 31 December 2003	1,284,084	2,329,076	1,854,303	4,591,450	10,058,913
Comprise:					
Share of reserves of associated companies	–	20,691	–	1,021,463	1,042,154
Balance at 1 January 2002	1,286,606	1,911,490	1,889,924	3,744,204	8,832,224
Profit attributable to shareholders	–	–	–	666,708	666,708
Foreign currency translation losses not recognised in the income statement	–	–	–	(96,834)	(96,834)
Total recognised gains for the financial year	–	–	–	569,874	569,874
Transfers	–	(429,693)	46,320	383,373	–
Adjustment in reserves of an associated company	–	–	–	(24,167)	(24,167)
Final dividends paid to ordinary stockholders	–	–	–	(130,803)	(130,803)
Interim dividends paid to ordinary stockholders	–	–	–	(50,317)	(50,317)
Shares issued under Share Option Schemes	3,693	23,718	–	–	27,411
Balance at 31 December 2002	1,290,299	1,505,515	1,936,244	4,492,164	9,224,222
Comprise:					
Share of reserves of associated companies	–	19,232	–	877,250	896,482

Analysis of the movements in each component within 'Share capital', 'Capital reserves', 'Statutory reserves' and 'Revenue reserves' is presented in Notes 12 to 16.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the financial year ended 31 December 2003

	Note	2003 \$'000	2002 \$'000
Cash flows from operating activities			
Operating profit before provisions and amortisation of goodwill		1,338,397	1,372,373
Adjustments for non-cash items			
Amortisation of computer software costs		20,248	10,863
Depreciation of property, plant and equipment		81,421	72,890
Gains on disposal of investment securities		(92,406)	(46,709)
Gains on disposal of a subsidiary company		–	(305)
Gains on disposal of interests in associated companies		–	(9,677)
(Gains)/losses on disposal of property, plant and equipment		(45,883)	991
Operating profit before changes in operating assets and liabilities		1,301,777	1,400,426
Increase/(decrease) in operating liabilities			
Deposits of non-bank customers		(484,514)	(513,908)
Deposits and balances of banks		(140,355)	(1,429,849)
Bills payable and other liabilities		292,678	94,723
(Increase)/decrease in operating assets			
Dealing securities		(62,269)	180,451
Placements with and loans to banks		4,809,150	(31,700)
Loans to customers and bills receivable		(2,944,192)	2,091,613
Other assets		(140,762)	(249,455)
Cash provided by operating activities		2,631,513	1,542,301
Income tax paid		(246,041)	(226,991)
Net cash provided by operating activities		2,385,472	1,315,310
Cash flows from investing activities			
Acquisition of additional interest in subsidiary companies		(288)	(10,148)
Capital return from an associated company		1,000	9,000
Dividends from associated companies		51,170	35,837
Decrease in associated companies		5,727	5,173
Purchase of investment securities		(2,435,285)	(2,064,132)
Purchase of long-term Singapore government securities		(544,013)	–
Purchase of property, plant and equipment		(46,536)	(67,053)
Net cash outflow from disposal of a subsidiary company		–	(1,980)
Proceeds from disposal of interests in associated companies		–	2,806
Proceeds from disposal of investment securities		1,526,826	1,370,992
Proceeds from disposal of property, plant and equipment		69,444	8,143
Net cash used in investing activities		(1,371,955)	(711,362)
Cash flows from financing activities			
(Decrease)/increase in debt securities		(5,250)	133,000
Dividends paid		(723,385)	(181,120)
Net proceeds from issue of preference shares		685,094	–
Proceeds from issue of ordinary shares		15,062	27,411
Selective capital reduction		(104,759)	–
Change in minority interests and dividends paid to minority interests		(535)	(1,659)
Net cash used in financing activities		(133,773)	(22,368)
Net foreign currency translation adjustments		8,555	(96,834)
Net change in cash and cash equivalents		888,299	484,746
Cash and cash equivalents as at 1 January		9,809,280	9,324,534
Cash and cash equivalents as at 31 December	45	10,697,579	9,809,280

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2003

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

The Bank is incorporated and domiciled in Singapore and is listed on the Singapore Exchange. The address of its registered office is 65 Chulia Street #29-02/04, OCBC Centre, Singapore 049513.

The Bank is principally engaged in the business of banking including the operation of an Asian Currency Unit under the terms and conditions specified by the Monetary Authority of Singapore.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of accounting

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain treasury instruments to market value.

Pursuant to the Singapore Companies (Amendment) Act 2002, with effect from financial year commencing on or after 1 January 2003, Singapore-incorporated companies are required to prepare and present their statutory accounts in accordance with the Singapore Financial Reporting Standards ("FRS"). Hence, these financial statements, including the comparative figures, have been prepared in accordance with FRS.

Previously, the Bank and the Group prepared their statutory accounts in accordance with Singapore Statements of Accounting Standard. The adoption of FRS does not have material impact on the accounting policies and figures presented in the statutory accounts for financial year ended 31 December 2002.

2.2 Recognition of income

2.2.1 Interest income is recognised on an accrual basis.

2.2.2 Fee income relating to loans and guarantees is recognised over the period during which the related service is provided or credit risk is undertaken. When a fee is charged in lieu of interest, such fee is amortised over the same period as the related interest income is recognised.

2.2.3 Dividends from dealing securities are recognised when received. Dividends from investment securities are recognised when the right to receive dividends is established.

2.2.4 Rental income on tenanted areas of the buildings owned by the Group is recognised on an accrual basis in accordance with the substance of the relevant agreements.

2.3 Basis of consolidation

2.3.1 Subsidiary companies

Subsidiary companies are entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiary companies. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary company acquired is recorded as goodwill. Please refer to Note 2.8 for the accounting policy on goodwill.

Intercompany balances, transactions and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency with those of the Group.

Notes to the Financial Statements

for the financial year ended 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

2.3.2 Associated companies

Associated companies are entities in which the Group generally has between 20% and 50% of the voting rights, and over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting.

Equity accounting involves recognising the Group's share of the results of associated companies in the consolidated income statement and the Group's share of post-acquisition movements in reserves in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of investment. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associated companies to ensure consistency with those of the Group. The results of associated companies are taken from audited financial statements or unaudited management accounts of the companies concerned, made up to dates not more than six months prior to the financial year end of the Group.

The Group's investments in associated companies are stated in the balance sheet at an amount that reflects its share of the net assets of the associated companies and includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has assumed obligations or guaranteed obligations in respect of the associated company.

2.3.3 Special purpose entities

Special Purpose Entities ("SPE") are consolidated when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE, in accordance with the Interpretation of Financial Reporting Standard ("INT FRS") 12 on "Consolidation – Special Purpose Entities". The details of a SPE included in the consolidated financial statements are disclosed in Note 34.2.

2.3.4 Transaction costs

External costs directly attributable to an acquisition is included as part of the cost of acquisition.

2.4 Foreign currency translation

2.4.1 Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("the measurement currency"). The consolidated financial statements and balance sheet of the Bank are presented in Singapore dollars, which is the measurement currency of the Bank.

2.4.2 Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign currency monetary assets and liabilities are translated into Singapore dollars at exchange rates prevailing at the balance sheet date. Exchange differences arising from such translation are taken to income statement.

2.4.3 Consolidated accounts

The assets and liabilities of foreign branch operations and subsidiary companies are translated into Singapore dollars at the rates of exchange prevailing at the balance sheet date whilst the income and expense items are translated at the average exchange rates for the financial year. Exchange differences arising from such translation are taken directly to reserves. Similarly, the net assets of foreign associated companies are translated into Singapore dollar at the rates of exchange prevailing at the balance sheet date whilst the share of the results of the associated companies are translated at the average exchange rates for the financial year. Exchange differences arising from such translation are taken directly to reserves. On disposal, accumulated translation differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Notes to the Financial Statements

for the financial year ended 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Basis of valuation of assets

2.5.1 Loans

Loans are stated net of unearned interest and provision for loan losses. Provision for loan losses comprise specific provision against certain loans, interest-in-suspense and general provision. Specific provision and suspension of interest are based on the borrower's debt servicing ability and adequacy of security. Known bad debts are written off. In addition, an allowance of general provision is made in respect of possible losses which, although not specifically identified, is known from experience to be present in the portfolio of loans.

2.5.2 Government securities

Singapore government securities, other than those held as long-term investments, are stated at the lower of cost and market value on a portfolio basis. Long-term government securities are stated at cost adjusted for the amortisation of premium or discount less provision for diminution in value considered to be other than temporary on a line-by-line basis.

Other government securities are stated at the lower of cost and market value on a portfolio basis.

2.5.3 Dealing securities

Dealing securities are stated at the lower of cost and market value on a portfolio basis.

2.5.4 Investment securities

Investment securities include equity and debt securities intended to be held for long term or to maturity. Equity securities are stated at cost and a provision is made for any diminution in value considered to be other than temporary on a line-by-line basis. Debt securities are stated at cost adjusted for the amortisation of premium or discount less provision for diminution in value considered to be other than temporary on a line-by-line basis.

2.5.5 Other assets

Specific provisions are made against other assets not covered above so as to write them down to their estimated net realisable values.

2.6 Computer software costs

Computer software costs are capitalised and recognised as an asset when it is probable that the costs will generate economic benefits beyond one year and the costs are associated with identifiable software products controlled by the Group. Computer software costs are amortised on the straight-line basis over the estimated useful lives of the software ranging from 3 to 5 years. Where an indication of impairment exists, the carrying amount is assessed and written down to its recoverable amount.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When an indication of impairment exists, the carrying amount of the asset is assessed and written down to its recoverable amount.

Property, plant and equipment are depreciated or amortised on the straight-line basis over their estimated useful lives. Freehold land and leasehold land, with leases of more than 100 years to expiry, are not amortised. Other leasehold land are amortised over 50 years or the period of the lease, whichever is shorter. The estimated useful lives of property, plant and equipment are:

Freehold and leasehold buildings	– 50 years or less
Furniture and fixtures	– 5 to 10 years
Office equipment	– 5 to 10 years
Computer equipment	– 3 to 5 years
Renovation	– 3 to 5 years
Motor vehicles	– 5 years

Costs incurred in developing properties, including interest on borrowings to finance the development of such properties during the period of time that is required to complete and prepare each property for its intended use or sale, are capitalised and included in the carrying amount of the asset. All other borrowing costs are expensed.

Notes to the Financial Statements

for the financial year ended 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

Repair and maintenance costs are taken to the income statement during the financial period in which they are incurred. The costs of major renovation and restorations is included in the carrying amount of an asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the Group, and depreciated over the remaining life of the asset.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and recognised in the income statement.

2.8 Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of identifiable net assets of business, subsidiaries or associated companies at the date of acquisition. Goodwill is amortised on the straight-line basis, through the income statement (in the case of acquisition of business) and consolidated income statement (in the case of acquisition of subsidiaries and associated companies), over its estimated economic useful life up to a maximum of 20 years. Goodwill assessed as having no continuing economic value is written off to the income statement.

In the consolidated income statement, the gain or loss on disposal of a subsidiary or associated company is determined by comparing the proceeds with the carrying value of net assets of the subsidiary or associated company disposed of. The carrying value includes the unamortised balance of goodwill relating to the subsidiary or associated company disposed of and, for pre 1 January 2001 acquisitions, the goodwill taken to offset against reserves.

At each balance sheet date, the Group assesses whether there is an indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of goodwill is recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

2.9 Financial derivatives

Off-balance sheet financial derivatives including forwards, swaps, futures and options are valued at market prices if they are for trading purposes and the resultant gains and losses are taken to the income statement. Transactions entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the item being hedged.

Offsetting financial instruments

Financial assets and liabilities are offset and stated on a net basis on the balance sheet when there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, provisions for loan losses, provisions for pensions and other retirement benefits and tax losses carried forward; and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax bases. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiary companies and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

for the financial year ended 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.11 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received.

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

These provisions do not include provisions for loan losses and diminution in value of other assets which, despite the use of the term "provisions", are in the nature of adjustments to the carrying value of assets.

2.12 Employee benefits

Compensation package for staff comprises basic salary, allowances, variable cash performance bonus, contractual entitlement of shares, long-term share option schemes and deferred share plan. Further details of the share option schemes and deferred share plan are disclosed in Note 13.3 and Note 13.4 respectively.

Under the OCBC Share Option Scheme 2001 ("2001 Scheme"), share options are granted to Group executives of the rank of Assistant Manager and above as well as to non-executive directors. Under the 2001 Scheme, the Remuneration Committee has the discretion to grant share options to non-executive directors in recognition of their contributions. Options granted to Group executives have a validity period of up to 10 years from the date of grant, while options granted to non-executive directors have a validity period of 5 years. If the options granted are exercisable at the market price of the shares at the date of the grant, no compensation cost is recognised. If the options granted are exercisable at a price reflecting a discount to the market price at the date of the grant, a compensation cost is recognised in the income statement based on that discount. When the options are exercised, the proceeds received net of any transaction costs are taken to share capital (par value) and share premium.

Under the OCBC Deferred Share Plan, shares of the Bank are granted to executive directors and officers of the rank of Vice President and above. A trust is set up to administer the shares purchased under the plan. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period. The remuneration expense is amortised and recognised in the income statement on the straight-line basis over the vesting period.

2.13 Repurchase and reverse repurchase agreements ("Repos" and "reverse repos")

Repos are treated as collateralised borrowing and the amount borrowed is shown as a liability, included in deposits and balances of banks (Note 17). The securities sold under repos are treated as pledged assets and continue to be recognised as an asset, included in Singapore Government treasury bills and securities (Note 22), other government treasury bills and securities (Note 23), placements with and loans to banks (Note 25) and investment securities (Note 30). Reverse repos are treated as collateralised lending and the amount lent is shown as an asset, included in cash and placements with central banks (Note 21) and placements with and loans to banks (Note 25). The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively.

3. INTEREST INCOME

	Group	
	2003 \$'000	2002 \$'000
Loans to customers	1,791,417	2,046,318
Placements with and loans to banks	267,055	320,535
Other interest-earning assets	322,174	362,523
	2,380,646	2,729,376

Notes to the Financial Statements

for the financial year ended 31 December 2003

4. INTEREST EXPENSE

	2003 \$'000	Group 2002 \$'000
Deposits of non-bank customers	681,294	895,500
Deposits and balances of banks	158,330	209,685
Other borrowings	106,026	114,704
	945,650	1,219,889

5. FEES & COMMISSIONS

	2003 \$'000	Group 2002 \$'000
Fee and commission income	414,049	401,829
Fee and commission expense	(41,222)	(27,807)
Net fees and commissions	372,827	374,022
Analysed by major sources:		
Bancassurance	32,846	35,177
Credit card	29,603	26,774
Fund management	19,246	17,247
Futures broking and stockbroking	62,126	57,342
Guarantees	17,578	18,219
Investment banking	11,734	13,706
Loans-related	73,525	68,014
Service charges	53,231	50,087
Trade-related	30,308	31,704
Unit trust distribution	35,023	44,292
Others	7,607	11,460
	372,827	374,022

6. DIVIDENDS

	2003 \$'000	Group 2002 \$'000
Quoted investments	66,729	29,041
Unquoted investments	8,049	4,643
	74,778	33,684

Notes to the Financial Statements

for the financial year ended 31 December 2003

7. OTHER INCOME

	2003 \$'000	Group 2002 \$'000
Net (losses)/gains arising from:		
Dealing in securities and derivatives		
– Net proceeds less cost	(19,175)	55,384
– (Provisions)/writeback (Note 32)	(212)	5,716
	(19,387)	61,100
Dealing in foreign exchange	60,903	48,030
Disposal of investment securities	92,406	46,709
Disposal of a subsidiary company	–	305
Disposal of interests in associated companies	–	9,677
Disposal of plant and equipment	(1,314)	(1,146)
Disposal of property	47,197	155
Computer-related services income	30,733	31,528
Property-related income	14,524	11,422
Hotel-related income	3,050	3,233
Others	18,773	16,820
	246,885	227,833

8. STAFF COSTS AND OTHER OPERATING EXPENSES

	2003 \$'000	Group 2002 \$'000
8.1 Staff costs		
Salaries and other costs	422,391	412,282
Provident fund contributions	45,904	42,386
	468,295	454,668
Directors' emoluments:		
– Remuneration of Bank's directors	4,337	4,861
– Remuneration of directors of subsidiaries	4,419	4,537
– Fees of Bank's directors	669	630
– Fees of directors of subsidiaries	130	69
	9,555	10,097
Total staff costs	477,850	464,765

Notes to the Financial Statements

for the financial year ended 31 December 2003

8. STAFF COSTS AND OTHER OPERATING EXPENSES (continued)

	2003 \$'000	Group 2002 \$'000
8.2 Other operating expenses		
Property, plant and equipment:		
Depreciation		
– Bank premises and other property	25,056	23,219
– Computer and office equipment, furniture and fixtures	56,365	49,671
	81,421	72,890
Amortisation of computer software costs	20,248	10,863
Maintenance and hire of property, plant and equipment	36,264	24,360
Rental expenses	18,229	22,023
Others	68,537	62,158
	224,699	192,294
Auditors' remuneration:		
– Payable to PwC@ Singapore	1,260	1,344
– Payable to other member firms of the PwC Global Organisation	976	1,039
– Payable to non-PwC firms	6	3
	2,242	2,386
Other fees:		
– Payable to PwC Singapore	136	202
– Payable to other member firms of the PwC Global Organisation	–	–
	136	202
Other integration costs	175	14,068
Others	149,526	175,543
Total other operating expenses	376,778	384,493
Staff costs and other operating expenses	854,628	849,258
@ PricewaterhouseCoopers		

	2003	Group 2002
8.3 Number of employees		
Average for the year	7,350	7,777
End of the year	7,424	7,477

9. PROVISIONS FOR POSSIBLE LOAN LOSSES AND DIMINUTION IN VALUE OF OTHER ASSETS

	2003 \$'000	Group 2002 \$'000
Specific provision for loan losses (Note 28)	193,682	364,704
Writeback of general provision for loan losses (Note 29)	(25,603)	(27,372)
Specific provision for diminution in value of investment securities and other assets (Note 32)	56,880	163,276
Charge to income statements	224,959	500,608

Notes to the Financial Statements

for the financial year ended 31 December 2003

10. TAX

	2003 \$'000	Group 2002 \$'000
Current tax (Note 18)	255,050	242,042
Deferred tax (Note 18)	(41,002)	(36,753)
	214,048	205,289
Over provision in prior years (Note 18)	(3,285)	(5,563)
Charge to income statements	210,763	199,726

The tax on the operating profit differs from the theoretical amount that would arise using the Singapore basic tax rate as follows:

	2003 \$'000	Group 2002 \$'000
Operating profit after provisions and amortisation of goodwill	986,794	744,770
Prima facie tax calculated at a tax rate of 22.0% (2002: 22.0%)	217,095	163,849
Effect of different tax rates in other countries	6,457	11,016
Losses of subsidiaries and foreign branches not offset against taxable income of other entities	2,109	19,057
Income not assessable for tax	(24,593)	(25,245)
Income taxed at concessionary rate	(22,558)	(13,760)
Non-deductible expenses and provisions:		
– Amortisation of goodwill	27,862	27,737
– Others	7,676	19,371
Tax on foreign income to be remitted to Singapore	–	3,264
	214,048	205,289

11. EARNINGS PER ORDINARY SHARE

\$'000	2003	Group 2002
Profit attributable to shareholders	954,124	666,708
Less: Preference dividends paid	(27,338)	–
Profit attributable to shareholders after adjustment of preference dividends	926,786	666,708
Weighted average number of ordinary shares in issue ('000)		
For basic earnings per ordinary share	1,287,986	1,289,331
Adjustment for assumed conversion of share options	2,138	2,873
For diluted earnings per ordinary share	1,290,124	1,292,204
Earnings per ordinary share (cents)		
– Basic	72	52
– Diluted	72	52

Basic earnings per ordinary share is calculated by dividing the profit attributable to shareholders after preference dividends by the weighted average number of ordinary shares in issue during the financial year.

For purposes of calculating diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from the exercise of all outstanding share options granted to employees where such shares would be issued at a price lower than the fair value (average share price during the financial year). The difference between the number of ordinary shares to be issued at the exercise prices under the options and the number of ordinary shares that would have been issued at the fair value based on the assumed proceeds from the issue of these ordinary shares is treated as ordinary shares issued for no consideration. The number of such shares issued for no consideration is added to the number of ordinary shares outstanding in the computation of diluted earnings per ordinary share.

Notes to the Financial Statements

for the financial year ended 31 December 2003

12. UNAPPROPRIATED PROFIT

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Profit attributable to shareholders	954,124	666,708	1,281,699	951,496
Add: Unappropriated profit At 1 January	3,059,474	1,838,020	1,966,383	1,244,007
Total amount available for appropriation	4,013,598	2,504,728	3,248,082	2,195,503
Dealt with as follows:				
In respect of the financial year ended 31 December 2001:				
– Final dividend of 13 cents for every \$1 ordinary stock unit less Singapore income tax at 22%	–	(130,803)	–	(130,803)
In respect of the financial year ended 31 December 2002:				
– Interim dividend of 5 cents for every \$1 ordinary stock unit less Singapore income tax at 22%	–	(50,317)	–	(50,317)
– Final dividend of 15 cents for every \$1 ordinary stock unit less Singapore income tax at 22%	(151,081)	–	(151,081)	–
In respect of the financial year ended 31 December 2003: *				
– Special dividend of 63.78 cents for every \$1 ordinary stock unit less Singapore income tax at 22%	(642,419)	–	(642,419)	–
– Class E preference dividends of 4.5 per cent per annum (net of tax)	(20,096)	–	(20,096)	–
– Class G preference dividends of 4.2 per cent per annum (net of tax)	(7,242)	–	(7,242)	–
– Interim dividend of 11 cents for every \$1 ordinary stock unit less Singapore income tax at 22%	(110,811)	–	(110,811)	–
Transfer from/(to):				
Capital reserves (Note 14)	(13,685)	262,668	–	–
Statutory reserves (Note 15)	81,941	(44,450)	(64,500)	(48,000)
General reserves (Note 16)	93,064	517,648	–	–
	(770,329)	554,746	(996,149)	(229,120)
At 31 December (Note 16)	3,243,269	3,059,474	2,251,933	1,966,383

* At the Annual General Meeting to be held, a final dividend of 12 cents per \$1 ordinary stock unit less Singapore income tax at 22% in respect of 2003, amounting to a total dividend of \$119.8 million will be proposed. These financial statements do not reflect these dividends payable, which will be accounted for in shareholders' equity as a distribution of unappropriated profit in the year ending 31 December 2004.

Notes to the Financial Statements

for the financial year ended 31 December 2003

13. SHARE CAPITAL OF OVERSEA-CHINESE BANKING CORPORATION LIMITED

13.1 Authorised share capital

	Group and Bank	
	2003	2002
	\$'000	\$'000
2,000,000,000 ordinary shares of \$1 each	2,000,000	2,000,000
1,075,000,000 preference shares comprising:		
– 12,500,000 non-cumulative non-convertible Class A shares of \$0.01 each	125	–
– 12,500,000 non-cumulative non-convertible Class B shares of \$0.01 each	125	–
– 12,500,000 non-cumulative non-convertible Class C shares of \$0.01 each	125	–
– 12,500,000 non-cumulative non-convertible Class D shares of US\$0.01 each	213	–
– 12,500,000 non-cumulative non-convertible Class E shares of \$0.01 each	125	–
– 12,500,000 non-cumulative non-convertible Class F shares of \$0.01 each	125	–
– 1,000,000,000 non-cumulative non-convertible Class G shares of \$0.01 each	10,000	–
	2,010,838	2,000,000

On 8 January 2003, the Bank increased its authorised share capital from \$2,000,000,000 to \$2,000,625,000 and US\$125,000 through the creation of Class A to Class F non-cumulative non-convertible preference shares of 62,500,000 shares of \$0.01 par value each and 12,500,000 shares of US\$0.01 par value each.

On 14 May 2003, the Bank increased its authorised share capital from \$2,000,625,000 and US\$125,000 to \$2,010,625,000 and US\$125,000 through the creation of Class G non-cumulative non-convertible preference shares of 1,000,000,000 shares of \$0.01 par value each.

13.2 Issued share capital

	Group and Bank	
	2003	2002
	\$'000	\$'000
1,280,075,893 (2002: 1,290,299,292) ordinary shares of \$1 each	1,280,076	1,290,299
5,000,000 (2002: Nil) non-cumulative non-convertible Class E preference shares of \$0.01 each and with a liquidation preference of \$100 each	50	–
395,830,884 (2002: Nil) non-cumulative non-convertible Class G preference shares of \$0.01 each and with a liquidation preference of \$1 each	3,958	–
	1,284,084	1,290,299

	Number of shares	
	2003	2002
Shares held by associated companies of the Group		
Ordinary shares	85,701,610	85,701,610
Class E preference shares	752,500	–
Class G preference shares	29,092,653	–
	115,546,763	85,701,610

- (a) On 28 January 2003, the Bank issued 5,000,000 non-cumulative non-convertible Class E preference shares ("Class E Preference Shares") of par value \$0.01 each at an issued price of \$100 each for cash, amounting to \$498,836,506 net proceeds. The issue is for working capital purpose, including the maintenance of required minimum capital adequacy ratios. The Class E Preference Shares have a fixed dividend rate of 4.5 per cent per annum (net), payable semi-annually in arrears on 20 June and 20 December, subject to the directors' approval. The preference shares may be redeemed at the option of the Bank.

Notes to the Financial Statements

for the financial year ended 31 December 2003

13. SHARE CAPITAL OF OVERSEA-CHINESE BANKING CORPORATION LIMITED (continued)

13.2 Issued share capital (continued)

- (b) On 14 July 2003, the Bank issued 209,310,207 non-cumulative non-convertible Class G preference shares ("Class G Preference Shares") of par value \$0.01 each to stockholders who have elected to receive Class G Preference Shares in lieu of the one-off special cash dividend of \$0.4975 (net) per stock unit. On the same day, the Bank issued 36,520,677 Class G Preference Shares to stockholders who applied for excess shares at par value \$0.01 each at an issued price of \$0.995 each for cash, amounting to \$36,338,074. The Class G Preference Shares have a fixed dividend rate of 4.2 per cent per annum (net), payable semi-annually in arrears on 20 June and 20 December, subject to the directors' approval. The preference shares may be redeemed at the option of the Bank.

On 6 August 2003, the Bank issued 150,000,000 additional new Class G Preference Shares of par value \$0.01 each at an issued price of \$1.0027 each for cash, amounting to \$149,919,054 net proceeds. The issue is for working capital purpose, including the maintenance of required minimum capital adequacy ratios.

- (c) On 17 September 2003, pursuant to a selective capital reduction exercise proposal ("OCBC Selective Capital Reduction") approved at an Extraordinary General Meeting held on 28 July 2003, the Bank cancelled 12,138,915 ordinary shares of \$1 each held by Fraser and Neave, Limited ("F&N") and made a cash distribution of \$104,758,836 or \$8.63 per share to F&N.
- (d) During the financial year, pursuant to the Bank's Share Option Schemes, the Bank issued 1,915,516 (2002: 3,692,988) ordinary shares of \$1 each for cash, upon the exercise of the options granted.

All issued shares are fully paid and newly issued shares rank pari passu in all respects with the previously issued shares, except for the Class E and Class G Preference Shares' voting rights which are set out in the Articles of Association of the Bank.

13.3 Share option schemes

The Bank offers share options under the OCBC Share Option Scheme 1994 and 2001 to Group executives, of the rank of Assistant Manager and above, including executive directors and to non-executive directors. Movements in the number of options to subscribe for ordinary shares of \$1 each exercisable at any time up to their respective expiration dates were as follows:

2003	At 1 January	Granted	Exercised	Lapsed	At 31 December	Offering price per \$1 share	Date of expiration
1995 RO *	365,997	—	(150,872)	(17,647)	197,478	\$7.810	1 February 2005
1996 RO *	838,017	—	(119,707)	(30,051)	688,259	\$8.150	29 January 2006
1997 RO *	1,451,881	—	(305,233)	(6,913)	1,139,735	\$7.603	29 January 2007
1998 Options	33,700	—	(33,600)	(100)	—	\$6.419	21 January 2003
1998 RO *	1,543,458	—	(395,112)	(600)	1,147,746	\$6.419	21 January 2008
1999 Options	29,240	—	(11,600)	(17,640)	—	\$7.533	9 December 2003
1999 RO *	2,705,862	—	(611,031)	(6,829)	2,088,002	\$7.533	9 December 2008
2000 Options	5,170,450	—	(288,361)	(318,300)	4,563,789	\$10.900	5 December 2009
2001 Options	6,586,411	—	—	(672,313)	5,914,098	\$12.880	4 December 2010
2002 Options	8,211,433	—	—	(717,733)	7,493,700	\$13.780	8 April 2012
2002A Options [#]	300,000	—	—	—	300,000	\$13.660	22 April 2012
2002B Options	100,000	—	—	—	100,000	\$10.480	23 October 2012
2003 Options [@]	—	75,000	—	—	75,000	\$9.760	26 March 2008
2003 Options	—	10,348,167	—	(531,000)	9,817,167	\$9.760	26 March 2013
	27,336,449	10,423,167	(1,915,516)	(2,319,126)	33,524,974		

Notes to the Financial Statements

for the financial year ended 31 December 2003

13. SHARE CAPITAL OF OVERSEA-CHINESE BANKING CORPORATION LIMITED (continued)

13.3 Share option schemes (continued)

2002	At 1 January	Granted	Exercised	Lapsed	At 31 December	Offering price per \$1 share	Date of expiration
1995 RO *	534,334	—	(164,743)	(3,594)	365,997	\$7.810	1 February 2005
1996 RO *	1,256,406	—	(418,389)	—	838,017	\$8.150	29 January 2006
1997 Options	46,384	—	(46,384)	—	—	\$7.603	29 January 2002
1997 RO *	2,019,686	—	(567,525)	(280)	1,451,881	\$7.603	29 January 2007
1998 Options	53,500	—	(19,800)	—	33,700	\$6.419	21 January 2003
1998 RO *	2,202,887	—	(659,429)	—	1,543,458	\$6.419	21 January 2008
1999 Options	49,715	—	(20,475)	—	29,240	\$7.533	9 December 2003
1999 RO *	4,509,765	—	(1,796,243)	(7,660)	2,705,862	\$7.533	9 December 2008
2000 Options	5,629,850	—	—	(459,400)	5,170,450	\$10.900	5 December 2009
2001 Options	7,161,392	—	—	(574,981)	6,586,411	\$12.880	4 December 2010
2002 Options	—	8,538,961	—	(327,528)	8,211,433	\$13.780	8 April 2012
2002A Options#	—	300,000	—	—	300,000	\$13.660	22 April 2012
2002B Options	—	100,000	—	—	100,000	\$10.480	23 October 2012
	23,463,919	8,938,961	(3,692,988)	(1,373,443)	27,336,449		

* Replacement Options

Share options granted to an executive director of the Bank

@ Share options granted to a non-executive director of the Bank

During the financial year ended 31 December 2003, the number of share options that was granted to the directors of the Bank was 375,000 (2002: 300,000). The share options were granted on the same terms and conditions as those offered to other employees of the Group, except for options granted to a non-executive director, which will expire on 26 March 2008. As at 31 December 2003, the aggregate outstanding number of share options granted to the directors of the Bank was 994,796 (2002: 619,796).

13.4 Deferred share plan

The Group implemented the OCBC Deferred Share Plan ("DSP"), a stock-based plan, during the financial year. The DSP is a discretionary incentive and retention award program that provides eligible officers of the rank of Vice President and above with an award of deferred ordinary shares of the Bank. During the financial year, 466,777 deferred ordinary shares were granted free to eligible staff as part of their performance bonus, of which 28,526 deferred ordinary shares were granted to an executive director of the Bank.

14. CAPITAL RESERVES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Share premium	2,160,782	1,350,906	2,160,782	1,350,906
Capital redemption reserve	3,721	3,721	3,721	3,721
Other capital reserves	164,573	150,888	40,830	40,830
	2,329,076	1,505,515	2,205,333	1,395,457

Notes to the Financial Statements

for the financial year ended 31 December 2003

14. CAPITAL RESERVES (continued)

14.1 Share premium

	Group and Bank	
	2003 \$'000	2002 \$'000
At 1 January	1,350,906	1,327,188
Issue of Class E Preference Shares [Note 13.2(a)]	499,950	—
Issue of Class G Preference Shares [Note 13.2(b)]	391,048	—
OCBC Selective Capital Reduction [Note 13.2(c)]	(92,620)	—
Ordinary shares issued under Share Option Schemes [Note 13.2(d)]	13,146	23,718
Expenses relating to the issue of preference shares	(1,648)	—
At 31 December	2,160,782	1,350,906

14.2 Other capital reserves

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	150,888	580,581	40,830	40,830
Transfer from/(to) unappropriated profit (Note 12)	13,685	(262,668)	—	—
Transfer to general reserves (Note 16)	—	(167,025)	—	—
At 31 December	164,573	150,888	40,830	40,830

15. STATUTORY RESERVES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	1,936,244	1,889,924	1,464,200	1,416,200
Transfer (to)/from unappropriated profit (Note 12)	(81,941)	44,450	64,500	48,000
Transfer from general reserves (Note 16)	—	1,870	—	—
At 31 December	1,854,303	1,936,244	1,528,700	1,464,200

The statutory reserves represent reserves, which are required by laws and regulations to be set aside by the banking and stockbroking corporations within the Group. These reserves are non-distributable.

16. REVENUE RESERVES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Unappropriated profit (Note 12)	3,243,269	3,059,474	2,251,933	1,966,383
General reserves	1,579,715	1,672,779	976,000	976,000
Foreign currency translation reserves	(231,534)	(240,089)	(50,877)	(76,641)
	4,591,450	4,492,164	3,177,056	2,865,742

Notes to the Financial Statements

for the financial year ended 31 December 2003

16. REVENUE RESERVES (continued)

16.1 General reserves

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	1,672,779	2,049,439	976,000	976,000
Transfer to unappropriated profit (Note 12)	(93,064)	(517,648)	—	—
Transfer from capital reserves (Note 14)	—	167,025	—	—
Transfer to statutory reserves (Note 15)	—	(1,870)	—	—
Adjustment in reserves of an associated company	—	(24,167)	—	—
At 31 December	1,579,715	1,672,779	976,000	976,000

16.2 Foreign currency translation reserves

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	(240,089)	(143,255)	(76,641)	(54,245)
Net adjustment	8,555	(96,834)	25,764	(22,396)
At 31 December	(231,534)	(240,089)	(50,877)	(76,641)

The foreign currency translation reserves relate to translation differences arising from the use of exchange rates as at balance sheet date versus historical rates in translating the net assets of overseas branches, subsidiaries and associated companies.

17. DEPOSITS AND BALANCES OF NON-BANK CUSTOMERS AND BANKS

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current accounts	6,108,421	5,293,790	5,214,109	4,602,311
Savings deposits	11,131,117	10,801,597	10,425,679	10,151,654
Term deposits	34,272,427	36,175,794	28,987,562	28,173,672
Certificate of deposits issued	392,099	553,090	378,447	534,141
Other deposits	1,555,616	1,123,265	667,898	482,307
Deposits of non-bank customers	53,459,680	53,947,536	45,673,695	43,944,085
Deposits and balances of banks	12,480,794	12,621,149	11,910,339	12,076,240
	65,940,474	66,568,685	57,584,034	56,020,325

Notes to the Financial Statements

for the financial year ended 31 December 2003

17. DEPOSITS AND BALANCES OF NON-BANK CUSTOMERS AND BANKS (continued)

Analysed by currency

17.1 Deposits of non-bank customers

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore dollar	33,981,763	34,159,178	33,901,387	31,608,408
US dollar	7,441,154	8,167,228	7,310,414	7,999,882
Malaysian ringgit	7,495,563	7,138,478	—	—
Japanese yen	77,175	125,085	75,764	64,829
Hong Kong dollar	309,063	425,788	309,063	424,233
British pound	1,082,474	1,028,513	1,077,343	1,022,099
Australian dollar	1,923,499	1,625,895	1,906,649	1,606,222
Euro	512,242	662,592	510,941	658,919
Others	636,747	614,779	582,134	559,493
	53,459,680	53,947,536	45,673,695	43,944,085

17.2 Deposits and balances of banks

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore dollar	2,846,247	5,041,676	2,837,242	5,014,586
US dollar	6,691,858	6,149,478	6,445,965	5,736,644
Malaysian ringgit	293,222	85,289	—	—
Japanese yen	160,926	135,465	160,713	135,363
Hong Kong dollar	528,156	488,342	528,156	488,342
British pound	378,944	291,061	377,690	291,061
Australian dollar	681,451	113,886	680,692	113,386
Euro	368,812	86,176	368,812	85,941
Others	531,178	229,776	511,069	210,917
	12,480,794	12,621,149	11,910,339	12,076,240

18. CURRENT TAX AND DEFERRED TAX

18.1 Current tax

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	321,765	315,404	244,671	102,730
Foreign currency translation adjustments	(522)	(3,127)	825	1,210
Arising from scheme/merger with subsidiaries	—	—	28,078	105,206
Income tax paid	(246,041)	(226,991)	(374,603)	(169,428)
Charge to income statements (Note 10)	255,050	242,042	394,654	206,067
Over provision in prior years (Note 10)	(3,285)	(5,563)	(1,409)	(1,114)
Transfer from deferred tax	700	—	—	—
At 31 December	327,667	321,765	292,216	244,671

Notes to the Financial Statements

for the financial year ended 31 December 2003

18. CURRENT TAX AND DEFERRED TAX (continued)

18.2 Deferred tax

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	63,082	98,649	106,206	27,603
Foreign currency translation adjustments	993	1,186	—	—
Arising from scheme/merger with subsidiaries	—	—	(18,736)	103,200
Credit to income statements (Note 10)	(41,002)	(36,753)	(31,988)	(24,597)
Transfer to current tax	(700)	—	—	—
At 31 December	22,373	63,082	55,482	106,206

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets. The deferred tax assets and liabilities are to be recovered and settled after one year.

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deferred tax liabilities	76,043	133,498	55,482	106,206
Deferred tax assets	(53,670)	(70,416)	—	—
	22,373	63,082	55,482	106,206

18.3 Analysis of deferred tax balance

The movements in the Group's and Bank's deferred tax assets and liabilities (prior to offsetting within the same tax jurisdiction) are attributable to the following items:

Group	Accelerated tax depreciation \$'000	Unremitted income \$'000	Others \$'000	Total \$'000
Deferred tax liabilities				
At 1 January 2003	133,275	24,263	2,722	160,260
Foreign currency translation adjustments	(28)	—	(34)	(62)
(Credit)/charge to income statement	(16,002)	(24,263)	1,586	(38,679)
Reclassification	(185)	—	(774)	(959)
Transfer to current tax	(700)	—	—	(700)
At 31 December 2003	116,360	—	3,500	119,860

Group	Provisions for assets \$'000	Pension and other retirement benefits \$'000	Tax losses \$'000	Total \$'000
Deferred tax assets				
At 1 January 2003	(97,093)	(26)	(59)	(97,178)
Foreign currency translation adjustments	1,056	(1)	—	1,055
(Credit)/charge to income statement	(2,389)	66	—	(2,323)
Reclassification	1,047	(88)	—	959
At 31 December 2003	(97,379)	(49)	(59)	(97,487)

Notes to the Financial Statements

for the financial year ended 31 December 2003

18. CURRENT TAX AND DEFERRED TAX (continued)

18.3 Analysis of deferred tax balance (continued)

Bank	Accelerated tax depreciation \$'000	Unremitted income \$'000	Total \$'000
Deferred tax liabilities			
At 1 January 2003	103,029	24,263	127,292
Arising from scheme with a subsidiary company	874	–	874
Credit to income statement	(7,725)	(24,263)	(31,988)
At 31 December 2003	96,178	–	96,178
Bank	Provisions for assets \$'000	Others \$'000	Total \$'000
Deferred tax assets			
At 1 January 2003	(21,017)	(69)	(21,086)
Arising from scheme with a subsidiary company	(19,368)	(242)	(19,610)
At 31 December 2003	(40,385)	(311)	(40,696)

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. Unutilised tax losses carried forward for which no deferred income tax has been recognised as at 31 December 2003 of the Group amounted to \$161.9 million (31 December 2002: \$156.6 million) and that for the Bank amounted to \$139.7 million (31 December 2002: \$134.6 million).

Deferred income tax liabilities are not established for the withholding tax and other taxes that would be payable on the remittance of earnings retained at certain overseas entities as such amounts are permanently reinvested. Such unremitted earnings including amounts permanently reinvested totalled \$1,482.7 million for the Group (31 December 2002: \$1,305.8 million) and \$1,129.0 million for the Bank (31 December 2002: \$807.9 million) as at 31 December 2003.

19. OTHER LIABILITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Financial derivatives at fair value (Note 43)	1,101,163	1,008,212	1,101,968	1,006,945
Interest payable	351,199	434,233	301,958	372,124
Sundry creditors	719,242	486,467	159,000	184,044
Others	249,682	211,634	233,616	195,791
	2,421,286	2,140,546	1,796,542	1,758,904

20. DEBT SECURITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Subordinated term notes (unsecured)	3,857,473	3,879,214	3,882,473	3,879,214
Collateralised debt securities (secured)	152,750	133,000	–	–
	4,010,223	4,012,214	3,882,473	3,879,214

Notes to the Financial Statements

for the financial year ended 31 December 2003

20. DEBT SECURITIES (continued)

20.1 Subordinated term notes (unsecured)

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
EUR 400 million 7.25% fixed rate note 2011	615,070	614,428	615,070	614,428
SGD 975 million (Bank: SGD 1 billion) 5% fixed rate note 2011	969,968	994,311	994,968	994,311
USD 1.25 billion 7.75% fixed rate note 2011	2,272,435	2,270,475	2,272,435	2,270,475
	3,857,473	3,879,214	3,882,473	3,879,214

The subordinated fixed rate term notes are long-term debts that have a lower priority claim over the Group's assets in the event of default or liquidation. These notes were issued on 6 July 2001 and mature on 6 September 2011. Interest is payable semi-annually in arrears at the fixed interest rates for the SGD and USD notes and annually in arrears at the fixed interest rate for the EUR notes. For the purpose of capital adequacy ratio computation, these notes are included as Tier 2 capital.

In January 2003, KTF Limited, a wholly-owned subsidiary of the Bank, purchased \$25 million of the SGD fixed rate subordinated term note.

The Bank has entered into interest rate and currency swaps to manage the interest rate and exchange rate risks of the subordinated term notes. The average interest rate for the notes incorporating the effects of these derivative instruments was 2.68% (2002: 2.94%).

20.2 Collateralised debt securities (secured)

The collateralised debt securities issued are short-dated fixed rate notes issued by Pioneer Funding Ltd, a special purpose entity (details are disclosed in Note 34.2). Details of the short-dated fixed rate notes issued are:

Group	Issue date	Maturity date	Interest rate (%)	Amount \$'000
31 December 2003				
Commercial mortgaged backed series 1 notes	24/11/2003	23/02/2004	1.300	42,750
	01/12/2003	23/02/2004	1.300	11,750
	22/12/2003	26/01/2004	1.100	23,250
Commercial mortgaged backed series 2 notes	26/11/2003	25/02/2004	1.300	21,000
Premium series 1 notes	08/12/2003	08/03/2004	0.875	13,750
Premium series 3 notes	29/12/2003	29/03/2004	1.250	15,750
Premium series 6 notes	29/12/2003	27/01/2004	1.100	9,250
	29/12/2003	29/03/2004	1.250	15,250
				152,750
31 December 2002				
Commercial mortgaged backed series 1 notes	22/11/2002	24/02/2003	1.300	50,000
	05/12/2002	24/02/2003	1.300	4,500
	23/12/2002	22/01/2003	1.375	23,250
Commercial mortgaged backed series 2 notes	23/11/2002	25/02/2003	1.250	10,000
Premium series 1 notes	03/12/2002	25/02/2003	1.350	5,000
Premium series 3 notes	09/12/2002	10/03/2003	1.000	14,500
Premium series 6 notes	27/12/2002	27/03/2003	1.550	6,500
	27/12/2002	27/01/2003	1.420	8,000
	27/12/2002	27/03/2003	1.550	11,250
				133,000

Notes to the Financial Statements

for the financial year ended 31 December 2003

21. CASH AND PLACEMENTS WITH CENTRAL BANKS

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash in hand	250,798	262,823	212,045	216,569
Balances with central banks	1,533,762	1,635,395	1,162,580	1,237,350
Money market placements and reverse repos	2,251,303	960,185	1,230,238	—
	4,035,863	2,858,403	2,604,863	1,453,919

Balances with central banks include mandatory reserve deposits of \$1,277.6 million (31 December 2002: \$1,390.1 million) and \$1,011.4 million (31 December 2002: \$1,079.7 million) for the Group and Bank respectively. These funds are not available to finance the day-to-day operations of the Group and Bank.

22. SINGAPORE GOVERNMENT TREASURY BILLS AND SECURITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Long-term investments, at cost adjusted for premium and discount	544,013	—	394,972	—
Others	5,607,098	5,966,732	5,607,097	5,636,843
	6,151,111	5,966,732	6,002,069	5,636,843
Market value:				
Long-term investments	508,125	—	358,950	—
Others	5,644,256	6,056,152	5,644,256	5,710,950
	6,152,381	6,056,152	6,003,206	5,710,950

23. OTHER GOVERNMENT TREASURY BILLS AND SECURITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cost, adjusted for premium and discount	1,054,697	984,240	203,678	131,121
Less: Provision for diminution in value (Note 32)	(79)	(95)	(79)	(95)
Net book value	1,054,618	984,145	203,599	131,026
Market value	1,071,319	1,020,418	215,833	145,038

Notes to the Financial Statements

for the financial year ended 31 December 2003

24. DEALING SECURITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity	14,728	13,292	2,740	626
Debt	220,969	166,347	132,301	154,011
	235,697	179,639	135,041	154,637
Less: Provision for diminution in value (Note 32)	(156)	(6,563)	(112)	(6,687)
Net book value	235,541	173,076	134,929	147,950
Market value	237,572	173,298	136,202	147,950
Analysed by issuer				
Public sector	35,530	35,600	35,530	35,600
Banks	26,652	7,122	26,652	7,122
Corporations	173,515	136,917	72,859	111,915
	235,697	179,639	135,041	154,637

Dealing securities comprise securities which are listed on stock exchanges and those quoted over the counter.

25. PLACEMENTS WITH AND LOANS TO BANKS

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Placements with and loans to banks	7,994,386	11,660,400	7,649,820	11,281,843
Negotiable certificates of deposit purchased	1,338,304	1,365,779	1,107,790	1,273,601
Market bills purchased	200,831	112,714	246	372
Reverse repos	116,297	1,320,075	116,297	1,320,075
	9,649,818	14,458,968	8,874,153	13,875,891
Analysed by currency				
Singapore dollar	2,357,453	3,318,135	2,342,945	3,301,203
US dollar	3,723,622	7,973,713	3,674,030	7,779,417
Malaysian ringgit	667,995	248,104	140	250
Japanese yen	621,212	757,851	605,936	706,662
Hong Kong dollar	116,176	118,643	105,200	111,834
British pound	898,264	665,498	898,018	664,806
Australian dollar	346,272	546,084	339,619	542,048
Euro	321,581	364,359	318,519	307,806
Others	597,243	466,581	589,746	461,865
	9,649,818	14,458,968	8,874,153	13,875,891

Notes to the Financial Statements

for the financial year ended 31 December 2003

26. LOANS TO AND BILLS RECEIVABLE FROM CUSTOMERS

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Gross loans	52,588,876	49,884,031	44,886,775	39,990,481
Less: Specific provision (Note 28)	(1,250,762)	(1,306,276)	(955,667)	(940,383)
General provision (Note 29)	(1,182,997)	(1,210,542)	(1,036,910)	(923,854)
Net loans	50,155,117	47,367,213	42,894,198	38,126,244
Net loans comprise:				
Bills receivable	428,195	296,562	218,965	119,762
Loans	49,726,922	47,070,651	42,675,233	38,006,482
	50,155,117	47,367,213	42,894,198	38,126,244

Included in loans is an amount of \$1.17 billion (31 December 2002: \$1.14 billion) pledged as collateral for credit default swaps where the Bank acts as the protection seller. The obligations arising from such credit default swaps are included in Note 41.

26.1 Analysed by currency

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore dollar	34,575,493	32,465,426	34,365,583	29,424,667
US dollar	7,489,594	7,255,041	6,445,819	6,433,181
Malaysian ringgit	6,248,176	5,984,153	27	30
Japanese yen	793,046	789,500	653,547	777,630
Hong Kong dollar	776,815	948,110	774,984	947,489
British pound	601,924	617,050	601,458	616,896
Australian dollar	1,504,247	1,177,808	1,478,389	1,161,867
Euro	264,944	278,333	243,198	276,522
Others	334,637	368,610	323,770	352,199
	52,588,876	49,884,031	44,886,775	39,990,481

26.2 Analysed by industry

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Agriculture, mining and quarrying	519,058	437,235	150,317	139,152
Manufacturing	3,264,701	3,454,693	1,963,463	1,949,148
Building and construction	7,302,389	7,452,586	6,516,386	6,523,120
Housing	15,382,054	12,312,729	13,299,913	9,841,655
General commerce	3,065,039	3,208,119	2,686,970	2,525,088
Transport, storage and communication	1,525,285	1,753,468	1,271,074	1,604,263
Financial institutions, investment and holding companies	8,923,914	9,047,463	8,427,179	8,144,913
Professionals and individuals	8,128,668	7,612,563	7,561,311	6,146,900
Others	4,477,768	4,605,175	3,010,162	3,116,242
	52,588,876	49,884,031	44,886,775	39,990,481

Notes to the Financial Statements

for the financial year ended 31 December 2003

26. LOANS TO AND BILLS RECEIVABLE FROM CUSTOMERS (continued)

26.3 Analysed by product

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Overdrafts	5,685,842	6,994,335	4,028,539	5,132,963
Short term loans	3,497,612	3,837,045	3,496,113	3,779,257
Revolving credit	3,584,424	3,522,714	2,969,412	2,855,629
Long term loans	12,817,987	12,649,834	10,393,354	10,511,252
Housing loans	15,278,244	12,380,022	13,257,121	9,781,727
Commercial property loans	2,365,971	2,459,365	2,365,971	2,091,841
Car loans	2,955,112	2,220,962	2,955,112	1,263,356
Syndicated loans	2,543,065	2,240,890	2,372,691	2,039,486
Transferable loan certificates	977,851	979,395	977,851	979,395
Trade finance	830,780	889,183	571,325	662,895
Credit card receivables	401,318	384,233	320,024	308,196
Loans under government loan schemes	191,882	264,172	167,493	81,236
Block discounting, leasing and factoring receivables	223,760	199,457	212,903	—
Hire purchase loans (exclude car loans)	70,533	72,426	15,239	—
Share margin financing	203,724	115,944	—	—
Staff loans	102,809	115,205	54,648	66,417
Others	857,962	558,849	728,979	436,831
	52,588,876	49,884,031	44,886,775	39,990,481

26.4 Analysed by geographical sector

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore	38,243,682	36,097,765	38,012,998	33,035,715
Malaysia	7,978,457	7,001,332	608,160	295,214
Other ASEAN	398,628	493,411	297,568	368,029
Greater China	1,881,821	2,100,623	1,881,761	2,100,623
Other Asia Pacific	1,118,293	1,520,924	1,118,293	1,520,924
North America	1,747,334	1,502,340	1,747,334	1,502,340
Rest of the World	1,220,661	1,167,636	1,220,661	1,167,636
	52,588,876	49,884,031	44,886,775	39,990,481

Loans to and bills receivable from customers by geographical sector risk concentration are determined based on where the credit risk resides regardless of where the transactions are booked.

Notes to the Financial Statements

for the financial year ended 31 December 2003

26. LOANS TO AND BILLS RECEIVABLE FROM CUSTOMERS (continued)

26.5 Analysed by interest rate sensitivity

	2003		2002	
	Fixed \$'000	Variable \$'000	Fixed \$'000	Variable \$'000
Group				
Singapore	16,067,115	24,189,371	13,735,091	24,759,827
Malaysia	686,921	7,139,230	610,831	6,283,650
Other ASEAN	696	166,285	1,452	208,016
Greater China	725	1,466,419	967	1,722,501
Other Asia Pacific	84,804	1,327,144	212,524	1,025,397
North America	—	882,170	—	803,326
Rest of the World	2,863	575,133	3,474	516,975
	16,843,124	35,745,752	14,564,339	35,319,692
Bank				
Singapore	16,065,549	23,928,311	11,699,943	23,725,388
Malaysia	27	487,612	30	195,823
Other ASEAN	378	65,640	1,233	82,900
Greater China	725	1,466,419	967	1,722,501
Other Asia Pacific	84,804	1,327,144	212,524	1,025,397
North America	—	882,170	—	803,326
Rest of the World	2,863	575,133	3,474	516,975
	16,154,346	28,732,429	11,918,171	28,072,310

The analysis by interest rate sensitivity is based on where the loans and bills receivable are booked.

27. NON-PERFORMING LOANS ("NPLs") AND DEBT SECURITIES

Non-performing loans and debt securities are those classified as Substandard, Doubtful and Loss in accordance with MAS Notice 612.

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Total classified loans to customers				
Substandard	2,502,030	2,814,060	1,912,451	1,916,858
Doubtful	728,627	863,132	697,356	766,098
Loss	395,460	364,854	168,784	117,345
	3,626,117	4,042,046	2,778,591	2,800,301
Total classified debt securities				
Substandard	94,118	138,975	76,486	96,371
Doubtful	76,752	73,198	76,752	73,198
Loss	37,485	101,709	—	54,036
	208,355	313,882	153,238	223,605
Total classified assets	3,834,472	4,355,928	2,931,829	3,023,906
Specific provision made for classified assets				
Substandard	240,591	166,972	223,651	151,618
Doubtful	724,784	795,449	692,920	718,751
Loss	387,063	484,446	119,101	183,615
	1,352,438	1,446,867	1,035,672	1,053,984

Notes to the Financial Statements

for the financial year ended 31 December 2003

27. NON-PERFORMING LOANS ("NPLs") AND DEBT SECURITIES (continued)

27.1 Analysed by period overdue

	Group		Bank	
	2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
Over 180 days	2,223	2,339	1,680	1,585
Over 90 days to 180 days	302	567	263	439
30 days to 90 days	242	267	188	173
Less than 30 days	136	208	132	200
No overdue	931	975	669	627
	3,834	4,356	2,932	3,024

27.2 Analysed by collateral type

	Group		Bank	
	2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
Property				
– Residential	553	618	460	485
– Commercial/Industrial	1,258	1,593	828	916
– Hotel	204	163	155	149
– Budget Hotel/Boarding School	14	3	14	3
	2,029	2,377	1,457	1,553
Fixed deposit				
– In same currency as loan	18	37	18	33
– In different currency	5	1	5	1
	23	38	23	34
Stock and shares	188	309	168	219
Motor vehicles	70	33	70	13
Others	141	102	116	87
Unsecured				
– Clean	763	846	478	555
– Corporate and other guarantees	620	651	620	563
	1,383	1,497	1,098	1,118
	3,834	4,356	2,932	3,024

27.3 Analysed by industry

	Group		Bank	
	2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
Agriculture, mining and quarrying	33	39	15	21
Manufacturing	517	736	312	449
Building and construction	783	761	584	516
Housing	223	227	193	162
General commerce	463	539	372	432
Transport, storage and communication	133	92	121	81
Financial institutions, investment and holding companies	684	965	579	693
Professionals and individuals	600	581	575	491
Others	398	416	181	179
	3,834	4,356	2,932	3,024

Notes to the Financial Statements

for the financial year ended 31 December 2003

27. NON-PERFORMING LOANS ("NPLs") AND DEBT SECURITIES (continued)

27.4 Analysed by geographical sector

Group \$ million	Singapore	Malaysia	Other ASEAN	Greater China	Rest of the World	Total
31 December 2003						
Substandard	1,725	699	17	50	105	2,596
Doubtful	498	126	100	70	11	805
Loss	166	243	24	—	—	433
	2,389	1,068	141	120	116	3,834
Specific provisions	(767)	(397)	(110)	(70)	(8)	(1,352)
	1,622	671	31	50	108	2,482
31 December 2002						
Substandard	1,952	831	23	97	50	2,953
Doubtful	502	183	156	72	23	936
Loss	192	186	28	7	54	467
	2,646	1,200	207	176	127	4,356
Specific provisions	(774)	(374)	(147)	(78)	(74)	(1,447)
	1,872	826	60	98	53	2,909

Non-performing loans ("NPLs") and debt securities by geographical sector risk concentration are determined based on where the credit risk resides regardless of where the transactions are booked.

27.5 Restructured loans

The table below is an analysis of restructured loans into loan classification and the related specific provisions. The restructured NPLs as a percentage of total NPLs is 23.8% (31 December 2002: 18.8%) and 26.6% (31 December 2002: 23.3%) for the Group and the Bank respectively.

	2003		2002	
Group	Amount \$ million	Provision \$ million	Amount \$ million	Provision \$ million
Substandard	580	79	507	78
Doubtful	329	247	256	135
Loss	2	1	56	57
	911	327	819	270
Bank				
Substandard	509	78	450	78
Doubtful	270	227	247	131
Loss	2	1	7	7
	781	306	704	216

Notes to the Financial Statements

for the financial year ended 31 December 2003

28. SPECIFIC PROVISION FOR LOAN LOSSES AND INTEREST-IN-SUSPENSE

Movements in specific provision for loan losses and interest-in-suspense are as follows:

	Specific provision \$'000	2003 Interest-in- suspense \$'000	Total \$'000	Specific provision \$'000	2002 Interest-in- suspense \$'000	Total \$'000
Group						
At 1 January	1,131,721	174,555	1,306,276	1,608,705	384,568	1,993,273
Foreign currency translation adjustments	(4,044)	(1,259)	(5,303)	(37,360)	(1,301)	(38,661)
Bad debts written off	(230,497)	(78,619)	(309,116)	(724,372)	(249,807)	(974,179)
Recovery of amounts previously provided	(38,983)	–	(38,983)	(19,804)	–	(19,804)
Provision made	232,665	–	232,665	384,508	–	384,508
Net charge to income statement (Note 9)	193,682	–	193,682	364,704	–	364,704
Net interest suspended	–	65,590	65,590	–	88,408	88,408
Transfer from/(to) other assets	8,461	2,939	11,400	–	(41,379)	(41,379)
Transfer from general provisions (Note 29)	25	–	25	–	–	–
Transfer to provision for diminution in value of investment securities and other assets (Note 32)	(11,792)	–	(11,792)	(79,956)	(5,934)	(85,890)
At 31 December (Note 26)	1,087,556	163,206	1,250,762	1,131,721	174,555	1,306,276
Bank						
At 1 January	827,234	113,149	940,383	787,503	211,079	998,582
Foreign currency translation adjustments	1,593	(14)	1,579	(19,260)	(81)	(19,341)
Bad debts written off	(157,877)	(40,915)	(198,792)	(574,053)	(205,231)	(779,284)
Recovery of amounts previously provided	(26,920)	–	(26,920)	(14,284)	–	(14,284)
Provision made	146,906	–	146,906	245,848	–	245,848
Net charge to income statement	119,986	–	119,986	231,564	–	231,564
Net interest suspended	–	37,531	37,531	–	51,901	51,901
Transfer from/(to) other assets	8,461	–	8,461	–	(14,099)	(14,099)
Transfer from general provisions (Note 29)	25	–	25	–	–	–
Transfer to provision for diminution in value of investment securities and other assets (Note 32)	(11,420)	–	(11,420)	(70,882)	(5,117)	(75,999)
Arising from scheme/ merger with subsidiaries	43,752	14,162	57,914	472,362	74,697	547,059
At 31 December (Note 26)	831,754	123,913	955,667	827,234	113,149	940,383

Notes to the Financial Statements

for the financial year ended 31 December 2003

29. GENERAL PROVISIONS

Movements in general provisions including provisions for possible loan losses and other banking risks are as follows:

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
At 1 January	1,210,542	1,250,043	923,854	602,801
Foreign currency translation adjustments	(2,085)	(9,593)	664	(629)
Writeback to income statements (Note 9)	(25,603)	(27,372)	(29,780)	(29,029)
Transfer to specific provision for loan losses (Note 28)	(25)	–	(25)	–
Transfer to provision for diminution in value of investment securities and other assets (Note 32)	–	(2,536)	–	(2,536)
Transfer from other provisions	168	–	168	–
Arising from scheme/merger with subsidiaries	–	–	142,029	353,247
At 31 December (Note 26)	1,182,997	1,210,542	1,036,910	923,854

30. INVESTMENT SECURITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Quoted debt securities:				
Cost, adjusted for premium and discount	3,438,900	2,714,372	2,567,507	2,059,299
Less: Provision for diminution in value	(103)	(33,460)	(103)	(33,460)
Net book value	3,438,797	2,680,912	2,567,404	2,025,839
Quoted equity securities:				
Cost	322,884	402,184	249,344	306,289
Less: Provision for diminution in value	(76,496)	(83,798)	(73,578)	(69,664)
Net book value	246,388	318,386	175,766	236,625
Unquoted debt securities:				
Cost, adjusted for premium and discount	2,706,459	2,424,622	2,636,228	2,313,262
Less: Provision for diminution in value	(133,669)	(166,643)	(87,967)	(111,547)
Net book value	2,572,790	2,257,979	2,548,261	2,201,715
Unquoted equity securities:				
Cost	120,038	151,505	37,569	38,436
Less: Provision for diminution in value	(83,186)	(98,697)	(18,401)	(13,288)
Net book value	36,852	52,808	19,168	25,148
Total investment securities				
Cost or cost, adjusted for premium and discount	6,588,281	5,692,683	5,490,648	4,717,286
Less: Provision for diminution in value (Note 32)	(293,454)	(382,598)	(180,049)	(227,959)
Net book value	6,294,827	5,310,085	5,310,599	4,489,327
Market value of quoted securities				
Debt securities	3,499,804	2,749,596	2,640,014	2,090,698
Equity securities	691,694	657,266	535,204	483,137
	4,191,498	3,406,862	3,175,218	2,573,835

Notes to the Financial Statements

for the financial year ended 31 December 2003

30. INVESTMENT SECURITIES (continued)

Included in unquoted debt securities is an amount of \$0.60 billion (31 December 2002: \$0.49 billion) relating to credit linked notes pledged as collateral for credit default swaps where the Bank acts as the protection seller. The obligations under the credit default swaps are included in Note 41.

Included in quoted debt securities is an amount of \$153.4 million (31 December 2002: \$167.4 million) relating to Pioneer Funding Ltd, a special purpose entity (Note 34.2). These investment securities are pledged as collaterals for the debt securities issued by Pioneer Funding Ltd (Note 20.2).

30.1 Analysed by issuer

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Public sector	173,096	561,801	159,461	547,894
Banks	1,140,639	750,187	1,140,639	749,338
Corporations	5,274,546	4,380,695	4,190,548	3,420,054
	6,588,281	5,692,683	5,490,648	4,717,286

30.2 Analysed by industry

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Agriculture, mining and quarrying	16,145	14,977	15,309	—
Manufacturing	539,348	535,669	536,255	516,348
Building and construction	559,544	670,057	330,538	482,337
General commerce	34,045	105,734	18,242	90,065
Transport, storage and communication	594,992	527,143	458,453	428,431
Financial institutions, investment and holding companies	3,533,583	2,596,582	2,998,090	2,129,160
Others	1,310,624	1,242,521	1,133,761	1,070,945
	6,588,281	5,692,683	5,490,648	4,717,286

30.3 Analysed by geographical sector

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore	2,218,554	2,068,981	1,983,150	1,801,662
Malaysia	1,210,613	924,209	411,378	319,523
Other ASEAN	27,146	37,932	27,073	23,762
Greater China	222,153	215,388	221,906	215,136
Other Asia Pacific	764,926	453,296	764,926	453,296
North America	834,626	761,751	801,799	717,671
Rest of the World	1,310,263	1,231,126	1,280,416	1,186,236
	6,588,281	5,692,683	5,490,648	4,717,286

Notes to the Financial Statements

for the financial year ended 31 December 2003

31. OTHER ASSETS

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Financial derivatives at fair value (Note 43)	1,114,806	1,148,523	1,113,341	1,148,523
Interest receivable (net of interest-in-suspense)	377,835	481,224	344,264	436,026
Sundry debtors (net)	415,684	209,886	63,717	23,502
Others	274,609	204,947	238,420	159,424
	2,182,934	2,044,580	1,759,742	1,767,475

32. PROVISIONS FOR DIMINUTION IN VALUE OF DEALING AND INVESTMENT SECURITIES AND OTHER ASSETS

Movements in provisions for diminution in value of dealing and investment securities and other assets are as follows:

Group	Singapore government securities \$'000	Other government securities \$'000	Dealing securities \$'000	Investment securities \$'000	Property \$'000	Other assets \$'000	Total \$'000
2003							
At 1 January	—	95	6,563	382,598	132,882	43,270	565,408
Foreign currency translation adjustments	—	—	41	(2,079)	7	191	(1,840)
Amounts written off	—	—	(6,464)	(103,189)	(2,939)	(1,838)	(114,430)
Provisions for dealing securities for the year (Note 7)	—	—	212	—	—	—	212
(Writeback)/provisions for the year (Note 9)	—	(16)	—	684	49,054	7,158	56,880
Transfers from specific provisions for loan losses (Note 28)	—	—	—	11,792	—	—	11,792
Transfers from other assets	—	—	—	3,452	—	1,856	5,308
Transfers	—	—	(196)	196	—	—	—
At 31 December	—	79	156	293,454	179,004	50,637	523,330
		(Note 23)	(Note 24)	(Note 30)	(Note 35)		
2002							
At 1 January	7,148	58	25,747	221,490	49,403	46,601	350,447
Foreign currency translation adjustments	—	(4)	(636)	(10,168)	(303)	(1,073)	(12,184)
Amounts written off	—	—	(221)	(32,516)	—	(2,646)	(35,383)
Writeback of provisions for dealing securities for the year (Note 7)	—	—	(5,716)	—	—	—	(5,716)
(Writeback)/provisions for the year (Note 9)	(7,148)	41	—	87,044	83,782	(443)	163,276
Transfers from specific provisions for loan losses (Note 28)	—	—	—	85,890	—	—	85,890
Transfers from general provisions (Note 29)	—	—	488	1,217	—	831	2,536
Transfers from other assets	—	—	—	16,542	—	—	16,542
Transfers	—	—	(13,099)	13,099	—	—	—
At 31 December	—	95	6,563	382,598	132,882	43,270	565,408
		(Note 23)	(Note 24)	(Note 30)	(Note 35)		

Notes to the Financial Statements

for the financial year ended 31 December 2003

32. PROVISIONS FOR DIMINUTION IN VALUE OF DEALING AND INVESTMENT SECURITIES AND OTHER ASSETS (continued)

Bank	Other government securities \$'000	Dealing securities \$'000	Investment securities \$'000	Associated companies \$'000	Subsidiary companies \$'000	Property \$'000	Other assets \$'000	Total \$'000
2003								
At 1 January	95	6,687	227,959	37,298	107,789	102,316	39,535	521,679
Foreign currency translation adjustments	–	42	(622)	–	–	106	–	(474)
Amounts written off	–	(6,464)	(63,193)	(22,285)	(18)	–	(805)	(92,765)
Provisions for dealing securities (Writeback)/provisions for the year	(16)	(153)	–	–	–	–	–	(153)
Transfers from specific provisions for loan losses (Note 28)	–	–	837	(8,519)	(19,664)	38,914	762	12,314
Transfers from other assets	–	–	11,420	–	–	–	–	11,420
Arising from scheme with a subsidiary company	–	–	3,452	–	–	–	–	3,452
	–	–	196	–	–	301	–	497
At 31 December	79	112	180,049	6,494	88,107	141,637	39,492	455,970
	(Note 23)	(Note 24)	(Note 30)	(Note 33)	(Note 34)	(Note 35)		
2002								
At 1 January	58	19,497	63,341	30,291	42,579	4,773	716	161,255
Foreign currency translation adjustments	(4)	(492)	(5,383)	–	–	(68)	3	(5,944)
Amounts written off	–	(61)	(15,419)	–	–	–	(1,546)	(17,026)
Writeback of provisions for dealing securities	–	(2,705)	–	–	–	–	–	(2,705)
(Writeback)/provisions for the year	(331)	–	34,993	5,867	62,630	59,873	282	163,314
Transfers from specific provisions for loan losses (Note 28)	–	–	75,999	–	–	–	–	75,999
Transfers from general provisions (Note 29)	–	488	1,217	–	–	–	831	2,536
Transfers from subsidiary companies	372	(25)	53,128	1,140	2,580	37,738	39,249	134,182
Transfers from other assets	–	–	10,068	–	–	–	–	10,068
Transfers	–	(10,015)	10,015	–	–	–	–	–
At 31 December	95	6,687	227,959	37,298	107,789	102,316	39,535	521,679
	(Note 23)	(Note 24)	(Note 30)	(Note 33)	(Note 34)	(Note 35)		

Notes to the Financial Statements

for the financial year ended 31 December 2003

33. ASSOCIATED COMPANIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Quoted equity securities, at cost	97,429	97,455	94,843	94,843
Unquoted equity securities, at cost	28,757	52,570	19,268	43,068
	126,186	150,025	114,111	137,911
Less: Provision for diminution in value (Note 32)	—	—	(6,494)	(37,298)
Net book value	126,186	150,025	107,617	100,613
Share of post-acquisition reserves	1,042,154	896,482	—	—
	1,168,340	1,046,507	107,617	100,613
Amounts due from associated companies	8,797	934	—	625
	1,177,137	1,047,441	107,617	101,238
Market value of quoted associated companies	2,599,547	2,029,330	2,469,728	1,933,348

33.1 The principal activities of associated companies of the Group, their places of incorporation and the extent of the Group's interest in the associated companies are as follows:

			Group's interest		Cost of investment		
Principal activities			Country/ Place of incorporation	2003 %	2002 %	2003 \$'000	2002 \$'000
Quoted							
1.	British and Malayan Trustees Limited	Trustee services	Singapore	43	43	591	591
2.	Great Eastern Holdings Limited	Insurance	Singapore	49	49	9,774	9,774
3.	PacificMas Berhad	Investment holding	Malaysia	28	28	87,064	87,090
						97,429	97,455
Unquoted							
4.	Ace Net Financial Services Pte Ltd	Marketing and management services	Singapore	50	50	2,841	2,841
5.	Alverdine Private Limited (In voluntary liquidation)	Dormant	Singapore	50	50	–	20,000
6.	Asfinco Singapore Ltd	Investment holding	Singapore	26	26	5,100	5,100
7.	Central China International Leasing Company Limited	Leasing	People's Republic of China	25	25	2,648	2,648
8.	Clearing & Payment Services Pte Ltd	Utility services [Note 33.3]	Singapore	33	33	4,040	5,040
9.	iQB Pte Ltd	Application service provider	Singapore	49	49	5,000	5,000
10.	Malaysian Trustees Berhad	Trustee services	Malaysia	20	20	148	151
11.	Network For Electronic Transfers (Singapore) Pte Ltd	Electronic funds transfers	Singapore	33	33	5,718	5,718
12.	OCBC-Perdana Futures Sendirian Berhad	Futures and options broking	Malaysia	49	49	2,107	2,108

Notes to the Financial Statements

for the financial year ended 31 December 2003

33. ASSOCIATED COMPANIES (continued)

			Group's interest		Cost of investment		
Principal activities			Country/ Place of incorporation	2003 %	2002 %	2003 \$'000	2002 \$'000
Unquoted							
13.	OCBC Wearnes & Walden Management (S) Pte Ltd	Venture capital fund management	Singapore	25	25	45	45
14.	Raffles Investments Limited	Investment holding	Singapore	50	50	638	647
15.	Singapore Consortium Investment Management Limited	Unit trust fund management	Singapore	33	33	388	388
16.	Specialists' Services (Private) Limited	Management services	Singapore	40	40	84	84
17.	TX123 Pte Ltd	e-Procurement hub [Note 33.2]	Singapore	–	39	–	2,800
						28,757	52,570
At 31 December						126,186	150,025

33.2 On 16 June 2003, the Bank disposed of its entire stake of 39% equity interest or 2,800,000 ordinary shares, in TX123 Pte Ltd ("TX123") to Singapore Computer Systems Limited, for a nominal cash consideration of \$1. Following the completion of the sale, TX123 ceased to be an associated company of the Bank.

33.3 On 1 September 2003, Clearing & Payment Services Pte Ltd ("CLS") gave notice to the Bank for the redemption of 10,000 Redeemable Preference Shares ("RPS") of \$100 each held by the Bank in CLS. Subsequent to the redemption of RPS, the Bank's investment in CLS was reduced by \$1,000,000 to \$4,040,000.

34. SUBSIDIARY COMPANIES

	2003 \$'000	Bank 2002 \$'000
Unquoted equity securities, at cost	1,991,733	2,534,270
Less: Provision for diminution in value (Note 32)	(88,107)	(107,789)
Net book value	1,903,626	2,426,481
Amount due from subsidiary companies	1,523,644	530,962
	3,427,270	2,957,443

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

34.1 The principal activities of subsidiaries of the Group, their places of incorporation and the extent of the Group's interest in the subsidiaries are as follows:

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment	
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
1.	Asia Commercial Enterprise Pte Ltd	Dissolved [Note 34.4(a)]	Singapore	—	100	—	—	—	952
2.	Asia Commercial Investment (Private) Limited	Investment Holding	Singapore	67	67	33	33	2,000	2,000
3.	Asia Commercial Realty Co. Pte. Ltd.	Property holding	Singapore	100	100	—	—	1,383	1,500
@ 4.	Associated Investments & Securities Private Limited (In voluntary liquidation)	Dormant	Singapore	100 100(Pref)	100 100(Pref)	— —	— —	— —	1,006 2,979
5.	Bank of Singapore Limited	e-financial services	Singapore	98	98	2	2	93,287	93,287
6.	Bank of Singapore Nominees Private Limited	Nominee services	Singapore	100	100	—	—	10	10
7.	Banking Computer Services Private Limited	Computer banking services	Singapore	100 100(Pref)	100 100(Pref)	— —	— —	5,160 4,000	5,160 4,000
+ 8.	Bathurst Enterprises Limited	Investment holding	Hong Kong SAR, China	—	—	100	100	—	—
9.	BCS Information Systems Private Limited	Computer consultancy services	Singapore Malaysia #	100	100	—	—	105	105
@ 10.	BOS Venture Management Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
@ 11.	BOSA Limited (In voluntary liquidation)	Dormant	Australia	100	100	—	—	3,283	3,283
@ 12.	Bukit Investments Limited (In voluntary liquidation)	Dormant	Hong Kong SAR, China	—	—	100	100	—	—
13.	Church Street Properties Private Limited	Property development	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
14.	Eastern Developers Private Limited	Property development and rental	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
+ 15.	Eastern Holdings Limited	Investment holding	Hong Kong SAR, China	100	100	—	—	75,399	76,558

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment	
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
16.	Eastern Realty Company Limited	Investment holding and property development	Singapore Malaysia #	100	100	—	—	27,704	27,704
17.	Excel Holdings Private Limited	Investment holding and property rental	Singapore	100	100	—	—	200	200
18.	Federal Securities Private Limited	Investment holding	Singapore	100	100	—	—	9,000	9,000
19.	Focal Nominees Private Limited (formerly Focal Finance Nominees Private Limited)	Nominee services	Singapore	—	—	100	100	—	—
+ 20.	Four Seas Nominees (Hong Kong) Limited	Nominee services	Hong Kong SAR, China	—	—	100	100	—	—
21.	Four Seas Nominees Private Limited	Nominee services	Singapore	100	100	—	—	10	10
22.	FSB Holdings Limited	Dormant	Singapore	100	100	—	—	—	—
23.	General & Commercial Holdings Private Limited	Dissolved [Note 34.4(a)]	Singapore	—	100	—	—	—	155
++ 24.	Guangzhou Yangyi Property Technology Co Ltd	Dormant	People's Republic of China	—	—	60	60	—	—
25.	Hotel Phoenix Singapore Private Limited	Hotel	Singapore	—	—	100	100	—	—
@ 26.	iPropertyNet Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	57	57	—	—
27.	IP Technology Solutions Pte Ltd	Dormant [Note 34.4(b)]	Singapore	—	—	—	100	—	—
28.	KAC Holdings Limited	Investment holding	Singapore	100	100	—	—	19,028	19,028
29.	KB Nominees Pte Ltd	Nominee services	Singapore	100	100	—	—	*	*
@ 30.	KBF Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
31.	Keppel Capital Holdings Ltd	Investment holding [Note 34.3(c)]	Singapore	100	100	—	—	319,877	866,117

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment		
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000	
@	32.	Keppel Factors Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
	33.	KF Nominees Pte Ltd	Nominee services	Singapore	—	—	100	100	—	—
	34.	KIM Limited	Investment holding	Singapore	—	—	100	100	—	—
+	35.	Keppel Securities Hong Kong Ltd	Stockbroking	Hong Kong SAR, China	—	—	100	100	—	—
@	36.	Keppel Securities Nominees Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
@	37.	KS Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
	38.	KTB Limited	Dormant	Singapore	100	100	—	—	—	—
	39.	KTF Limited	Investment holding [Note 34.3(c)]	Singapore	100	100	—	—	199,989	##
	40.	Keppel TatLee Nominee (HK) Limited	Dissolved [Note 34.4(a)]	Hong Kong SAR, China	—	100	—	—	—	*
	41.	KF Limited	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—	—
	42.	KTB Investments Ltd	Dissolved [Note 34.4(a)]	Singapore	—	100	—	—	—	4,606
	43.	Kim Seng Properties Private Limited	Property development	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
	44.	Kismis Properties Private Limited	Property development	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
+	45.	Malaysia Nominees (Asing) Sendirian Berhad	Nominee services	Malaysia	—	—	100	100	—	—
+	46.	Malaysia Nominees (Tempatan) Sendirian Berhad	Nominee services	Malaysia	—	—	100	100	—	—
	47.	Mount Emily Properties Private Limited	Has not commenced operations	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
	48.	Myanmar Capital Management Private Limited	Dissolved [Note 34.4(a)]	Singapore	—	—	—	73	—	—

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment	
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
49.	OCBC Asset Management Limited	Investment management	Singapore	—	—	100	100	—	—
+	50.	OCBC Bank (Malaysia) Berhad	Banking	Malaysia	100	100	—	—	427,730
@	51.	OCBC Bullion & Futures Limited (In voluntary liquidation)	Dormant [Note 34.3(a)]	Singapore	100	100	—	—	9,000
	52.	OCBC Capital Investment Private Limited	Investment holding	Singapore	—	—	100	100	—
@	53.	OCBC Capital Management Singapore Private Limited (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—
	54.	OCBC Centre Private Limited	Investment holding and property rental	Singapore	100 100 ^(Pref)	100 100 ^(Pref)	— —	— —	20,000 40,000
+	55.	OCBC Credit Berhad	Leasing company	Malaysia	—	—	100	100	—
	56.	OCBC eVenture Fund I Pte Ltd	Investment holding	Singapore	—	—	100	100	—
	57.	OCBC eVenture Fund II Pte Ltd	Investment holding	Singapore	—	—	100	100	—
	58.	OCF Limited (formerly OCBC Finance Limited)	Investment holding [Note 34.3(c)]	Singapore	100	63	—	37	14,726
	59.	OCF Nominees Pte. Ltd. (formerly OCBC Finance Nominees Private Limited)	Nominee services	Singapore	—	—	100	100	—
	60.	OCBC Holdings Private Limited	Investment holding	Singapore	100	100	—	—	3,000
	61.	OCBC Land Private Limited	Investment holding	Singapore	—	—	100	100	—
	62.	OCBC Management Services Private Limited	Management services	Singapore	100	100	—	—	200
+	63.	OCBC Nominees (Australia) Pty. Limited	Nominee services	Australia	100	100	—	—	*
+	64.	OCBC Nominees (Hong Kong) Limited	Nominee services	Hong Kong SAR, China	100	100	—	—	2
+	65.	OCBC Nominees (London) Limited	Nominee services	United Kingdom	100	100	—	—	3

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

				Bank		Subsidiaries		Cost of Bank's Investment	
		Principal activities	Country/ Place of incorporation	2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
66.	OCBC Nominees (Malaysia) Sendirian Berhad	Dissolved [Note 34.4(a)]	Malaysia	—	100	—	—	—	10
67.	OCBC Nominees Singapore Private Limited	Nominee services	Singapore	100	100	—	—	10	10
68.	OCBC Properties Private Limited	Investment holding	Singapore	100 100(Pref)	100 100(Pref)	— —	— —	71,000 15,000	71,000 15,000
69.	OCBC Property Services Private Limited	Property management	Singapore	100	100	—	—	50	50
+ 70.	OCBC Provident (Australia) Pty. Limited	Trustee	Australia	100	100	—	—	*	*
71.	OCBC RealtyPrivate Limited	Investment holding	Singapore	100 100(Pref)	100 100(Pref)	— —	— —	124,993 60,000	124,993 60,000
+ 72.	OCBC Securities (Hong Kong) Limited	Stockbroking	Hong Kong SAR, China	—	—	100	100	—	—
+ 73.	OCBC Securities Philippines, Inc.	Dormant	Philippines	—	—	100	100	—	—
74.	OCBC Securities Private Limited	Futures broking & stockbroking [Note 34.3(a)]	Singapore	—	—	100	100	—	—
+ 75.	OCBC Securities Research Sendirian Berhad	Has not commenced operations	Malaysia	—	—	100	100	—	—
76.	OCBC Square Private Limited	Real estate owners and property rental	Singapore	100 100(Pref) 69 (Series 2 Pref)	100 100(Pref) 69 (Series 2 Pref)	— — 31 (Series 2 Pref)	— — 31 (Series 2 Pref)	20,000 10,000 59,100	20,000 10,000 59,100
77.	OCBC Trustee Limited	Trustee Services	Singapore Malaysia #	20	20	80	80	184	184
78.	OCF Investments Limited	Investment holding	Singapore	15	15	85	85	19	19
79.	Orient Holdings Private Limited	Investment holding	Singapore	100 100(Pref)	100 100(Pref)	— —	— —	3,400 132,000	3,400 132,000
+ 80.	OSPL Holdings Sendirian Berhad	Investment holding	Malaysia	—	—	100	100	—	—
81.	OSPL Nominees Private Limited	Nominee services	Singapore	—	—	100	100	—	—
82.	Oversea-Chinese Bank Nominees Private Limited	Nominee services	Singapore	100	100	—	—	10	10

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment	
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
+	83.	PT Bank Keppel TatLee Buana	Dissolved [Note 34.3(b); Note 34.4(a)]	Indonesia	—	99	—	—	4,046
+	84.	PT Bank OCBC Indonesia (formerly PT Bank OCBC-NISP)	Banking [Note 34.3(b)]	Indonesia	99	99	—	87,123	82,835
@	85.	PT OCBC Sikap Securities (In voluntary liquidation)	Dormant	Indonesia	—	—	70	70	—
	86.	Pasir Ris Properties Private Limited	Real estate owners and property rental	Singapore	—	—	55 55(Pref)	55 55(Pref)	—
@	87.	Phoenix Holdings Limited (In voluntary liquidation)	Dormant	Hong Kong SAR, China	—	—	100	100	—
	88.	Premier Investment Private Limited	Investment dealing	Singapore	100	100	—	—	9,243
	89.	Provident Securities Private Limited	Investment holding	Singapore	100	100	—	—	72,350
	90.	Reliable Credit Company Sendirian Berhad	Dissolved [Note 34.4(a)]	Malaysia	—	100	—	—	*
	91.	Select Executives Sendirian Berhad	Dissolved [Note 34.4(a)]	Malaysia	—	100	—	—	24
+	92.	Select Securities Limited	Investment holding	Hong Kong SAR, China	100	100	—	—	438
	93.	Seletar Properties Private Limited	Property development	Singapore	—	—	100	100	—
	94.	Singapore Building Corporation Limited	Investment holding and property rental	Singapore	100	100	—	—	19,384
	95.	Singapore Polyclinic Private Limited	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—
	96.	Specialists' Centre Private Limited	Investment holding and property rental	Singapore	—	—	100 100(Pref)	100 100(Pref)	—
	97.	Tat Lee Asset Management Limited	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—
	98.	Tat Lee Finance Nominees Pte Ltd	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

		Principal activities	Country/ Place of incorporation	Bank		Subsidiaries		Cost of Bank's Investment	
				2003 %	2002 %	2003 %	2002 %	2003 \$'000	2002 \$'000
99.	Tat Lee Property Development Pte Ltd	Property investment and development	Singapore	100	100	—	—	13,648	13,648
100.	Tat Lee Securities Holdings Ltd	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—	—
@ 101.	Tat Lee Securities Pte Ltd (In voluntary liquidation)	Dormant	Singapore	—	—	100	100	—	—
102.	Tat Lee Thomson Development Pte. Ltd.	Property investment and development	Singapore	100	100	—	—	12,599	12,869
103.	Tat Lee Warehousing Pte Ltd	Property investment	Singapore	—	—	100	100	—	—
@ 104.	TL Nominees Pte Ltd (In voluntary liquidation)	Dormant	Singapore	100	100	—	—	667	667
@ 105.	TL Provident Ltd (In voluntary liquidation)	Dormant	Singapore	100	100	—	—	13,600	13,600
106.	TLB Bullion & Futures Pte Ltd	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—	—
107.	TLB Management Services Pte. Ltd.	Dissolved [Note 34.4(a)]	Singapore	—	100	—	—	—	—
108.	TLF Limited	Dissolved [Note 34.4(a)]	Singapore	—	—	—	100	—	—
109.	Tanjong Rhu Properties Private Limited	Property development and rental	Singapore	— —	— —	100 100(Pref)	100 100(Pref)	— —	— —
110.	The Ho Hong Steamship Company (1932) Limited	Dissolved [Note 34.4(a)]	Singapore	—	100	—	—	—	—
++ 111.	Walden Malaysia Co II Ltd	Investment holding	British Virgin Islands	73	73	—	—	819	946
At 31 December								1,991,733	2,534,270

Notes:

* Amounts under \$500

Country/place of business in addition to the company's country/place of incorporation

The cost of investment in the subsidiary is included as part of the cost of investment in Keppel Capital Holdings Ltd

+ Audited by other member firms of the PwC Global Organisation

++ Not required to be audited by law in country of incorporation

@ Not required to be audited as these companies are in voluntary liquidation or to be dissolved

Pref Preference shares

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

34.2 Special purpose entities

The Group has consolidated the financial statements of a special purpose entity, Pioneer Funding Ltd ("PFL"). PFL was incorporated in Singapore in July 2001 as a special purpose company which issues notes and purchases designated assets and enters into agreements and other arrangements relating to the issuance of such notes and purchase of such assets. PFL is owned by a charitable trust.

The Bank was involved in the setting up of PFL and acts as an Arranger, Dealer and Manager to certain transactions carried out by PFL. Accordingly, the assets and liabilities of PFL have been included in the Group's consolidated financial statements in accordance with the Interpretation of Financial Reporting Standard ("INT FRS") 12: Consolidation - Special Purpose Entities. The assets and liabilities of PFL that have been included in the Group's consolidated financial statements are as follows:

Group	2003 \$'000	2002 \$'000
Assets		
Cash	—	413
Investment securities	153,398	167,377
Other assets	831	307
Liabilities		
Secured notes issued	152,750	133,000
Bank borrowings	—	20,000
Other liabilities	729	15,097

34.3 Group restructuring

(a) On 2 January 2003, a Scheme of Arrangement and Amalgamation ("Scheme") pursuant to sections 210 and 212 of the Companies Act, Cap. 50, for the merger of the Bank's subsidiary companies, OCBC Bullion & Futures Limited ("OBFL") and OCBC Securities Private Limited ("OSPL"), was sanctioned by the High Court and became effective on that date. Under the Scheme, the following events took place:

- All business undertakings, assets and liabilities, except for certain excluded assets and liabilities, were transferred to OSPL at their respective book values as at 2 January 2003. The consideration pursuant to the Scheme was satisfied wholly by a cash payment of \$25,192,124 to OBFL.
- As part of the Scheme, the capital of OBFL was reduced from \$10,000,000 to \$500,000, by the cancellation of 9,500,000 ordinary shares of \$1 each, held by the Bank.
- OBFL ceased operations as a licensed future broker on 2 January 2003 and will remain inactive.

(b) On 6 March 2003, pursuant to a sale and purchase agreement dated 30 August 2002, the Bank acquired the remaining 10 shares of Rp1000 each or 1% equity stake in PT Bank Keppel TatLee Buana ("PKTL") from PT Bank Buana Indonesia for a cash consideration of Rp1,239,035,460. On completion of the acquisition, PKTL became a wholly-owned subsidiary of the Bank.

On 6 March 2003, approval was obtained from the Ministry of Justice and Human Rights for the merger of the Bank's subsidiaries, PT Bank OCBC-NISP ("PTON") and PKTL. Pursuant to the merger, the following events took place:

- All business undertakings, assets and liabilities were transferred to PTON at their respective book values as at 17 March 2003 using the pooling of interest method of accounting. Total assets, liabilities and off-balance sheet items of PKTL as at 14 March 2003 amounting to Rp720,844.884 million, Rp606,518.293 million and Rp544,867.695 million were transferred to PTON as of that date.
- Following the merger, PKTL was legally dissolved without liquidation and PTON changed its name to PT Bank OCBC Indonesia on 17 March 2003.

Notes to the Financial Statements

for the financial year ended 31 December 2003

34. SUBSIDIARY COMPANIES (continued)

34.3 Group restructuring (continued)

- (c) On 3 November 2003, a Scheme of Arrangement and Amalgamation ("Scheme") pursuant to sections 210 and 212 of the Companies Act, Cap. 50, for the merger of the Bank's finance subsidiary, OCBC Finance Limited ("OFL") and the Bank, was sanctioned by the High Court and became effective on that date. Under the Scheme, the following events took place:
- All business undertakings, assets and liabilities, except for certain excluded assets and liabilities, were transferred to the Bank at their respective book values as at 3 November 2003. Total assets, liabilities and off-balance sheet items of \$2,683,111,375, \$2,067,175,878 and \$335,458,166 were transferred to the Bank. The consideration pursuant to the Scheme was satisfied wholly by a cash payment of \$615,935,497 to OFL.
 - As part of the Scheme, the capital of OFL was reduced from \$136,685,843 to \$7,850,000, by the cancellation of 128,835,843 ordinary shares of \$1 each, held by the Bank and its wholly-owned subsidiary company, Eastern Realty Company Limited. Total consideration of \$319,512,891 or \$2.48 per ordinary share was returned to the shareholders for each share cancelled.
 - OFL ceased to operate as a licensed finance company on 3 November 2003 and will remain inactive, except for the holding of investments in properties and subsidiary companies. Following the Scheme, OFL changed its name to OCF Limited.

Following the integration of the finance business into the Bank under the Scheme, the goodwill relating to the finance business from the acquisition of Keppel Capital Holdings Limited at 16 August 2001 of \$312,610,222 was transferred to the Bank.

On 24 December 2003, Eastern Realty Company Limited, a wholly-owned subsidiary of the Bank, transferred 2,926,198 ordinary shares of \$1 each in OFL at a book value of \$3,765,534 to the Bank. Following the transfer, OFL became a wholly-owned subsidiary of the Bank.

34.4 Disposal and dissolution of subsidiary companies

- (a) During the financial year, the following companies (in voluntary liquidation) were dissolved and ceased to be subsidiary companies of the Group:

Name of subsidiary company	Date of dissolution
Tat Lee Securities Holdings Ltd	29 January 2003
TLB Management Services Pte. Ltd.	29 January 2003
Singapore Polyclinic Private Limited	1 February 2003
The Ho Hong Steamship Company (1932) Limited	9 March 2003
TLB Bullion & Futures Pte Ltd	16 March 2003
PT Bank Keppel TatLee Buana	17 March 2003
KTB Investments Ltd	2 July 2003
Tat Lee Asset Management Limited	2 July 2003
TLF Limited	2 July 2003
General & Commercial Holdings Private Limited	10 October 2003
Tat Lee Finance Nominees Limited	10 October 2003
OCBC Nominees (Malaysia) Sendirian Berhad	4 December 2003
Reliable Credit Company Sendirian Berhad	4 December 2003
Select Executives Sendirian Berhad	4 December 2003
Myanmar Capital Management Private Limited	12 December 2003
Asia Commercial Enterprise Pte Ltd	15 December 2003
KF Limited	15 December 2003
Keppel TatLee Nominees (HK) Limited	17 December 2003

- (b) On 24 March 2003, iPropertyNet Pte Ltd ("iProp"), a subsidiary of the Bank, disposed of its 100% stake in IP Technology Solutions Pte Ltd ("ITS") for a nominal cash consideration of \$1. The disposal is part of iProp's ongoing winding-up process. Following the disposal, ITS ceased to be a subsidiary of the Bank.

Notes to the Financial Statements

for the financial year ended 31 December 2003

35. PROPERTY, PLANT AND EQUIPMENT

Group	Property \$'000	2003 Others \$'000	Total \$'000	Property \$'000	2002 Others \$'000	Total \$'000
Cost						
At 1 January	1,704,501	555,424	2,259,925	1,707,534	519,717	2,227,251
Foreign currency translation adjustments	(1,809)	(1,128)	(2,937)	(18,637)	(6,778)	(25,415)
Additions, at cost	7,586	38,950	46,536	17,273	69,576	86,849
Disposals, at cost	(29,396)	(41,713)	(71,109)	(2,584)	(26,176)	(28,760)
Transfers	(163)	163	–	915	(915)	–
At 31 December	1,680,719	551,696	2,232,415	1,704,501	555,424	2,259,925
Accumulated depreciation						
At 1 January	(211,711)	(343,686)	(555,397)	(189,280)	(307,306)	(496,586)
Foreign currency translation adjustments	214	987	1,201	820	4,496	5,316
Disposals	8,744	28,446	37,190	659	18,967	19,626
Depreciation charge (Note 8)	(25,056)	(76,613)	(101,669)	(23,219)	(60,534)	(83,753)
Transfers	127	(127)	–	(691)	691	–
At 31 December	(227,682)	(390,993)	(618,675)	(211,711)	(343,686)	(555,397)
Provision for diminution in value						
At 1 January	(132,882)	–	(132,882)	(49,403)	–	(49,403)
Foreign currency translation adjustments	(7)	–	(7)	303	–	303
Amount written off	2,939	–	2,939	–	–	–
Provisions charged to income statements	(49,054)	–	(49,054)	(83,782)	–	(83,782)
At 31 December (Note 32)	(179,004)	–	(179,004)	(132,882)	–	(132,882)
Net book value, at 31 December	1,274,033	160,703	1,434,736	1,359,908	211,738	1,571,646
Net book value						
Freehold property	413,232			455,298		
Leasehold property	860,801			904,610		
	1,274,033			1,359,908		
Current valuation of property	2,663,641			2,901,444		

Notes to the Financial Statements

for the financial year ended 31 December 2003

35. PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	Property \$'000	2003 Others \$'000	Total \$'000	Property \$'000	2002 Others \$'000	Total \$'000
Cost						
At 1 January	839,412	304,455	1,143,867	149,635	233,191	382,826
Foreign currency translation adjustments	167	795	962	(1,252)	(519)	(1,771)
Additions, at cost	7,134	30,281	37,415	1,572	45,457	47,029
Disposals, at cost	(4,670)	(32,906)	(37,576)	(770)	(8,467)	(9,237)
Arising from scheme/merger with subsidiaries	3,968	427	4,395	690,227	34,793	725,020
At 31 December	846,011	303,052	1,149,063	839,412	304,455	1,143,867
Accumulated depreciation						
At 1 January	(54,189)	(164,309)	(218,498)	(20,096)	(132,077)	(152,173)
Foreign currency translation adjustments	51	(694)	(643)	234	584	818
Disposals	—	21,579	21,579	201	7,038	7,239
Depreciation charge	(12,268)	(47,792)	(60,060)	(10,435)	(32,234)	(42,669)
Arising from scheme/merger with subsidiaries	(1,014)	(351)	(1,365)	(24,093)	(7,620)	(31,713)
At 31 December	(67,420)	(191,567)	(258,987)	(54,189)	(164,309)	(218,498)
Provision for diminution in value						
At 1 January	(102,316)	—	(102,316)	(4,773)	—	(4,773)
Foreign currency translation adjustments	(106)	—	(106)	68	—	68
Provisions charged to income statements	(38,914)	—	(38,914)	(59,873)	—	(59,873)
Arising from scheme/merger with subsidiaries	(301)	—	(301)	(37,738)	—	(37,738)
At 31 December (Note 32)	(141,637)	—	(141,637)	(102,316)	—	(102,316)
Net book value, at 31 December	636,954	111,485	748,439	682,907	140,146	823,053
Net book value						
Freehold property	107,129			108,058		
Leasehold property	529,825			574,849		
	636,954			682,907		
Current valuation of property	964,046			1,077,910		

As at 31 December 2003, included in property are investment property with net book value of \$928.5 million (31 December 2002: \$890.8 million) and \$390.3 million (31 December 2002: \$348.3 million) for the Group and Bank respectively. Based on valuations carried out by independent professional valuers, the estimated market values of these investment property as at 31 December 2003 were \$1,725.6 million (31 December 2002: \$1,811.7 million) and \$602.8 million (31 December 2002: \$596.3 million) for the Group and Bank respectively. The excess of the market value over the net book value of property was not recognised in the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2003

36. GOODWILL

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cost				
At 1 January	2,377,164	2,376,009	1,855,392	—
Arising from Scheme with OFL [Note 34.3(c)]	—	—	312,610	—
Arising from merger with a subsidiary	—	—	—	1,855,392
Acquisition of additional interests in subsidiaries	15	1,155	—	—
At 31 December	2,377,179	2,377,164	2,168,002	1,855,392
Accumulated amortisation				
At 1 January	(178,481)	(51,486)	(80,255)	—
Amortisation charged to income statements	(126,644)	(126,995)	(99,592)	(80,255)
At 31 December	(305,125)	(178,481)	(179,847)	(80,255)
Net book value, at 31 December	2,072,054	2,198,683	1,988,155	1,775,137

The goodwill related to the finance business in the acquisition of Keppel Capital Holdings Limited ("KCH") on 16 August 2001 was transferred from the cost of investment in KCH to the goodwill account upon integration of the finance business into the Bank under a Scheme of Arrangement and Amalgamation sanctioned by the High Court and effective on 3 November 2003.

Notes to the Financial Statements

for the financial year ended 31 December 2003

37. SEGMENTAL INFORMATION

37.1 Business segments

\$ million	Consumer Banking	Business Banking	Global Treasury	Others	Group
Financial year ended 31 December 2003					
Segment income before operating expenses	832	903	238	308	2,281
Elimination					(88)
Income before operating expenses					2,193
Profit before tax and goodwill amortisation	310	599	183	22	1,114
Less: Tax	(65)	(117)	(45)	16	(211)
Net profit before goodwill amortisation	245	482	138	38	903
Less: Goodwill amortisation					(127)
Profit after tax					776
Add: Share of profits of associated companies (net of tax)					180
Less: Minority interests					(2)
Profit attributable to shareholders					954
31 December 2003					
Segment assets	25,781	35,236	17,888	5,546	84,451
Associated companies' assets					1,042
Unallocated assets					2,124
Elimination					(3,120)
Total assets					84,497
Segment liabilities	30,346	28,552	13,292	4,945	77,135
Unallocated liabilities					404
Elimination					(3,120)
Total liabilities					74,419
Other information					
Loans	24,400	28,033	–	156	52,589
Investment securities:					
– Debt	6	5,460	500	179	6,145
– Equity	6	28	–	409	443
	12	5,488	500	588	6,588
NPLs and debt securities:					
– Substandard	543	2,053	–	–	2,596
– Doubtful	168	637	–	–	805
– Loss	171	262	–	–	433
	882	2,952	–	–	3,834
Specific provision	(274)	(1,078)	–	–	(1,352)
	608	1,874	–	–	2,482
Financial year ended 31 December 2003					
Capital expenditure	12	3	–	32	47
Depreciation of property, plant and equipment	12	9	1	59	81
Amortisation of software	5	1	–	14	20

Notes to the Financial Statements

for the financial year ended 31 December 2003

37. SEGMENTAL INFORMATION (continued)

37.1 Business segments (continued)

\$ million	Consumer Banking	Business Banking	Global Treasury	Others	Group
Financial year ended 31 December 2002					
Segment income before operating expenses	872	950	273	187	2,282
Elimination					(60)
Income before operating expenses					2,222
Profit before tax and goodwill amortisation	430	380	235	(173)	872
Less: Tax	(99)	(97)	(37)	33	(200)
Net profit before goodwill amortisation	331	283	198	(140)	672
Less: Goodwill amortisation					(127)
Profit after tax					545
Add: Share of profits of associated companies (net of tax)					124
Less: Minority interests					(2)
Profit attributable to shareholders					667
31 December 2002					
Segment assets	22,756	35,969	19,311	5,054	83,090
Associated companies' assets					896
Unallocated assets					2,269
Elimination					(2,204)
Total assets					84,051
Segment liabilities	30,892	27,258	11,240	7,167	76,557
Unallocated liabilities					455
Elimination					(2,204)
Total liabilities					74,808
Other information					
Loans	21,342	28,413	1	128	49,884
Investment securities:					
– Debt	–	4,949	–	190	5,139
– Equity	6	28	–	520	554
	6	4,977	–	710	5,693
NPLs and debt securities:					
– Substandard	623	2,330	–	–	2,953
– Doubtful	153	783	–	–	936
– Loss	100	367	–	–	467
	876	3,480	–	–	4,356
Specific provision	(260)	(1,187)	–	–	(1,447)
	616	2,293	–	–	2,909
Financial year ended 31 December 2002					
Capital expenditure	15	3	2	67	87
Depreciation of property, plant and equipment	14	4	1	54	73
Amortisation of software	4	1	–	5	10

Notes to the Financial Statements

for the financial year ended 31 December 2003

37. SEGMENTAL INFORMATION (continued)

37.1 Business segments (continued)

OCBC Group is organised along four groupings covering customers, products, support functions and geography. Customer, product and support function heads have global responsibility for their respective areas, while geographic heads have stewardship responsibility.

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

Consumer Banking

– Consumer Banking comprises the full range of products and services offered to individuals, including savings and fixed deposits, checking accounts, consumer loans such as housing loans and other personal loans, unit trusts, bancassurance products and credit cards.

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 enterprises. The products and services offered include long-term loans such as project financing, short-term credit such as overdrafts and trade financing, and fee-based services such as cash management, capital markets, corporate finance, trustee and custodian services.

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.

Others

– The "Others" segment include asset management, property development and investment holding, support units, other investments and unallocated items including one-time divestment gains and provisions for diminution in value of investments and other assets.

The business segment information is prepared based on internal management reports, which are used by senior management for decision-making and performance management.

The following management reporting methodologies are adopted:

- revenues and expenses are attributable to each segment based on the internal management reporting policies,
- in determining the segment results, balance sheet items are internally transfer priced, and
- transactions between business segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation.

Where there are material changes in the organisational structure and management reporting methodologies, segment information for prior periods is restated to allow comparability.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as corporate tax and borrowings.

Capital expenditure comprises additions to property, plant and equipment.

Notes to the Financial Statements

for the financial year ended 31 December 2003

37. SEGMENTAL INFORMATION (continued)

37.2 Geographical segments

\$ million	Income before operating expenses	Profit before tax	Capital expenditure	Total assets	Total liabilities
2003					
Singapore	1,706	983	43	65,267	58,723
Malaysia	332	150	4	11,579	8,921
Other ASEAN	18	12	—	347	160
Greater China	70	35	—	2,954	2,733
Other Asia Pacific	30	16	—	1,775	1,227
North America	19	14	—	961	777
Rest of the World	18	12	—	1,614	1,878
	2,193	1,222	47	84,497	74,419
2002					
Singapore	1,710	692	72	66,552	60,119
Malaysia	332	103	13	10,016	8,316
Other ASEAN	21	2	2	353	173
Greater China	101	71	—	3,035	2,703
Other Asia Pacific	25	16	—	1,476	966
North America	16	11	—	817	707
Rest of the World	17	11	—	1,802	1,824
	2,222	906	87	84,051	74,808

The Group's operations are in six main geographical areas:

- (a) Singapore, the home country of the Bank where the primary business segments are located.
- (b) Malaysia, mainly comprise the operations of the Group's banking subsidiary, OCBC Bank (Malaysia) Berhad.
- (c) Other ASEAN, include business activities of branches and subsidiaries in Indonesia, the Philippines, Thailand and Vietnam.
- (d) Greater China, include business activities of branches and subsidiaries in Hong Kong, China and Taiwan.
- (e) Other Asia Pacific, includes business activities of branches and subsidiaries in Australia, Japan, Korea and India.
- (f) North America, comprise branch operations in United States.
- (g) Rest of the World, comprise mainly branch operations in United Kingdom.

With the exception of Singapore and Malaysia, no other individual country contributed more than 10% of consolidated income before operating expenses and total assets.

The geographical information is prepared based on the country in which the transactions are booked. It would not be materially different if it is based on the country in which the counterparty or assets are located.

Income before operating expenses, profit before tax, total assets and total liabilities are stated after elimination of intra-group transactions and balances.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION

38.1 Strategy in using financial instruments

Managing risks is central to the Group's business strategy. The Group's activities involve the extensive use of financial instruments including derivatives, which expose the Group to the risk of loss due to change in the values of these financial instruments.

The Group adopts a comprehensive approach to risk management that seeks to manage its risk profile within pre-defined limits, limit earnings volatility and to protect the Group against severe losses from unlikely but plausible stress events. Various risk management committees have been set up to manage specific areas of risks as outlined in the sections below.

38.2 Credit risk management

Credit risk is the risk of loss due to borrower or counterparty default on payment. Such risk arises from lending, underwriting, trading and other activities undertaken by the Group. The Credit Risk Management Committee ("CRMC") is the principal senior management committee that supports the Chief Executive Officer ("CEO") and the Board in general credit risk management oversight. The CRMC reviews and recommends credit risk policies for the approval by the CEO or the Board. It is also responsible for ensuring that sound credit risk methodologies and effective credit risk management processes are established and adhered to.

The CRMC includes representatives from major business units, where credit risk is generated, as well as independent credit risk controlling units. This joint effort in setting risk policy seeks to ensure understanding of, and commitment to, the credit risk management process.

The CRMC is supported by the Credit Risk Management ("CRM") departments within Group Risk Management Division. Dedicated CRM units perform the roles of developing risk policies, guidelines and procedures and putting in place the monitoring, reporting and control systems.

New Product Approval

A New Product Approving Committee ("NPAC") has been formed in 2003 to review and approve all new products including credit programmes. The NPAC consists of senior representatives from the Bank's business, support and risk management units. The representation of key stakeholders in the membership of the NPAC is to ensure objectivity and independence in, and to inject functional expertise into, the decision-making process. The NPAC is also reviewing existing programmes on a regular basis.

Country risk

A framework for managing country risk is in place, covering the assessment and rating of countries, country review frequency, as well as the maximum cross-border transfer risk limit that can be granted to any one country based on its risk rating. Cross-border transfer risk covers all cross-border transactions including onshore non-local currency transactions. Limits are allocated into maturity time bands and vary according to the risks rating of the country concerned and the political and economic outlook.

Credit concentration

Limits are set on specific customer or industry segments to avoid over-concentration of credit risks. Prudent limits have also been placed on exposures to single customer groups.

Problem loans

(a) Loan classification

The Group classifies its loans in accordance with MAS Notice 612 and internal loan classification policies. Performing loans are categorised as 'Passed' or 'Special Mention', while non-performing loans are categorised as 'Substandard', 'Doubtful' or 'Loss' based on the following guidelines:

- Passed – Interest and principal payments are fully up-to-date, and orderly repayment and/or timely settlement in the future is without doubt.
- Special Mention – Currently protected but potentially weak. Borrower exhibits some deteriorating trends which, if not addressed or corrected, could jeopardise the timely repayment of interest and principal.
- Substandard – Timely repayment and/or settlement is at risk. Well-defined weakness is evident.
- Doubtful – Full repayment and/or settlement is improbable.
- Loss – The outstanding debt is regarded as uncollectable.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.2 Credit risk management (continued)

Problem loans (continued)

(b) Restructured loans

A restructured loan refers to one where the original contractual terms and conditions have been modified upon mutual agreement between the Group and the borrower. Where a loan is restructured because a borrower is facing severe financial difficulties and where it is probable that the account will have to be downgraded to non-performing status without the restructuring, the restructured loan will be classified as NPL. Once classified as an NPL, a restructured loan can only be upgraded after a reasonable period (typically six months) of sustained performance under the restructured terms.

(c) Provisioning policies

Provision for estimated loan losses in the loan book is made up of two parts which are a specific provision against each NPL and a general provision that cannot be specifically applied and reflects the potential risk embodied in the loan portfolio. In determining the level of general provision, reference is made to country conditions, the composition of the portfolio and industry practices.

The specific provision against each NPL is based on the individual circumstances of each account after considering:

- The underlying business and financial viability of the borrower
- The cash flow sources of the borrower
- The quality and realisable value of the collateral and guarantee supporting the loan
- The existence of a valid and enforceable legal right of recourse against the borrower

(d) Write-offs

Write-offs of debts are made when recovery action has been instituted and the loss can be reasonably determined. For unsecured consumer loan programmes, the general policy is to write-off overdue debts after 180 days after the first default.

(e) Interest accrual on non-performing loans

Interest accrual on non-performing loans is not recognised as income in the income statement until received. It is reported as interest-in-suspense and is netted against interest receivable under other assets (Note 31) for all loans except for overdrafts where interest is capitalised due to the nature of the product.

(f) Value and nature of collateral held against NPLs

The major type of collateral backing for the Group's NPLs is real estate in Singapore. The realisable value of the real estate collateral is used to evaluate the adequacy of the collateral coverage. Proceeds from sale of collateral pledged for a particular loan cannot be applied to other classified loans unless the accounts are related and cross-collateralisation of the facilities is contractually provided for.

Credit risk information

Credit risk-related information is set out in the following notes:

- Note 26 Loans to and bills receivable from customers
- Note 27 Non-performing loans and debt securities
- Note 28 Specific provision for loan losses and interest-in-suspense
- Note 30 Investment securities
- Note 37 Segmental information
- Note 39 Country risk

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.3 Market risk management

Market risk refers to the risk arising from uncertainty in the future values of financial instruments, resulting from movements in factors such as interest rates, foreign exchange rates, and equity prices. The Group's primary exposure to market risk is associated with the maturity and re-pricing mismatches of assets and liabilities arising from its core banking business. Trading activities, involving both derivative and non-derivative instruments, are used to complement the banking business. To manage the market risk from its trading activities, a framework of market risk policies and operational limits is in place. A Value-at-Risk (VaR) methodology is adopted to quantify the risk arising from the trading activities. VaR measures the potential losses that could arise from adverse movements in interest rates, foreign exchange rates, equity prices and volatility that could affect the value of the financial instruments over a specific period. In addition to VaR limits, factor sensitivity measures, such as present value per basis point and Greeks, are used as risk monitoring mechanism on a daily basis. To manage abnormal market behaviour, stress tests and scenario analyses are used to quantify the market risk arising from low probability, abnormal market movements.

The Market Risk Management Committee ("MRMC") is the principal senior management group that supports the Board and Chief Executive Officer in managing market risk. The committee comprises senior managers from both the business and support units.

38.4 Operational risk management

Operational risk is the potential risk arising from a breakdown in internal processes and systems, deficiencies in people and management, or operational failure arising from external events. The objective of managing operational risk is to minimise unexpected and catastrophic losses and manage expected losses. This enables new business opportunities to be pursued in a risk controlled manner.

The Bank has an overall framework with the required environment and organisational components for managing operational risk in a structured, systematic and consistent manner.

A comprehensive strategy has been formulated to provide a group-wide integrated solution encompassing the roll-out of qualitative and quantitative tools and methodologies which will position the Group to qualify for the more proactive risk management approaches recommended by the Basel Committee.

38.5 Asset and liability management

Asset and liability management involves managing funding liquidity, interest rate and foreign exchange rate risks arising from the core banking business. The Group's policy is to manage the earnings volatility arising from the effects of movements in interest rates and foreign exchange rates which are inherent in the Group's non-trading activities, while maintaining a prudent level of liquidity to meet financial obligations at all times. A senior management forum, the Asset and Liability Management Committee ("ALCO"), reviews these risks on a monthly basis.

Interest rate risk

The Group's main market risk is the interest rate risks arising from the maturity and re-pricing mismatches of its assets and liabilities from its banking business. The Group's lending activities are funded largely by demand, savings and fixed deposits, resulting in natural mismatch positions. A system is in place to manage the interest rate mismatches arising from these activities. The mismatches are monitored against defined sensitivity limits and net interest income changes.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate re-pricing risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

31 December 2003 \$ million	Less than 7 days	1 week to 1 month	Over 1 month to 3 months	Over 3 months to 12 months	Over 1 year to 3 years	Over 3 years	Non- interest sensitive	Total
Assets								
Cash and placement with central banks	824	941	314	432	—	—	1,525	4,036
Singapore government treasury bills and securities	159	784	1,828	1,486	564	1,330	—	6,151
Other government treasury bills and securities	96	—	84	310	314	251	—	1,055
Dealing securities	87	—	—	16	24	93	15	235
Placement with and loans to banks	2,078	1,955	3,491	2,046	60	—	20	9,650
Loans to customers ⁽¹⁾	13,806	10,337	6,690	9,080	8,454	2,964	(1,176)	50,155
Investment securities	70	500	1,401	453	1,818	1,817	236	6,295
Deferred tax	—	—	—	—	—	—	54	54
Other assets	—	—	—	—	—	—	2,182	2,182
Associated companies	—	9	—	—	—	—	1,168	1,177
Property, plant and equipment	—	—	—	—	—	—	1,435	1,435
Goodwill	—	—	—	—	—	—	2,072	2,072
Total assets	17,120	14,526	13,808	13,823	11,234	6,455	7,531	84,497
Liabilities								
Deposits of non-bank customers	21,339	14,306	5,796	7,704	601	312	3,402	53,460
Deposits and balances of banks	3,897	3,434	3,638	1,496	16	—	—	12,481
Deposits of associated companies	419	406	197	220	85	—	131	1,458
Bills payable	—	—	—	—	—	—	185	185
Current tax	—	—	—	—	—	—	327	327
Deferred tax	—	—	—	—	—	—	76	76
Other liabilities	—	—	—	—	—	—	2,421	2,421
Debt securities	—	33	120	—	—	3,857	—	4,010
Total liabilities	25,655	18,179	9,751	9,420	702	4,169	6,542	74,418
Minority interests	—	—	—	—	—	—	20	20
Equity	—	—	—	—	—	—	10,059	10,059
Total liabilities and equity	25,655	18,179	9,751	9,420	702	4,169	16,621	84,497
On-balance sheet								
interest sensitivity gap	(8,535)	(3,653)	4,057	4,403	10,532	2,286	(9,090)	—
Off-balance sheet								
interest sensitivity gap	355	(519)	3,664	(848)	(3,970)	1,318	—	—
Net interest sensitivity gap	(8,180)	(4,172)	7,721	3,555	6,562	3,604	(9,090)	—

⁽¹⁾ The negative balance represents mainly general provisions for possible loan losses.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Interest rate risk (continued)

31 December 2002 \$ million	Less than 7 days	1 week to 1 month	Over 1 month to 3 months	Over 3 months to 12 months	Over 1 year to 3 years	Over 3 years	Non- interest sensitive	Total
Assets								
Cash and placement with central banks	278	673	131	7	—	—	1,769	2,858
Singapore government treasury bills and securities	109	677	1,914	516	1,654	1,097	—	5,967
Other government treasury bills and securities	108	29	59	150	504	134	—	984
Dealing securities	12	—	—	5	4	139	13	173
Placement with and loans to banks	2,126	3,185	4,087	5,018	38	2	3	14,459
Loans to customers ⁽¹⁾	12,839	10,138	7,038	6,876	8,515	3,172	(1,211)	47,367
Investment securities	84	362	1,133	560	1,112	1,632	427	5,310
Deferred tax	—	—	—	—	—	—	70	70
Other assets	—	—	—	—	—	—	2,045	2,045
Associated companies	—	—	—	—	—	—	1,047	1,047
Property, plant and equipment	—	—	—	—	—	—	1,572	1,572
Goodwill	—	—	—	—	—	—	2,199	2,199
Total assets	15,556	15,064	14,362	13,132	11,827	6,176	7,934	84,051
Liabilities								
Deposits of non-bank customers	19,630	13,733	7,480	8,737	689	436	3,243	53,948
Deposits and balances of banks	2,863	4,592	4,429	712	25	—	—	12,621
Deposits of associated companies	118	665	250	273	14	—	134	1,454
Bills payable	—	—	—	—	—	—	177	177
Current tax	—	—	—	—	—	—	322	322
Deferred tax	—	—	—	—	—	—	133	133
Other liabilities	—	—	—	—	—	—	2,141	2,141
Debt securities	—	31	102	—	—	3,879	—	4,012
Total liabilities	22,611	19,021	12,261	9,722	728	4,315	6,150	74,808
Minority interests	—	—	—	—	—	—	19	19
Equity	—	—	—	—	—	—	9,224	9,224
Total liabilities and equity	22,611	19,021	12,261	9,722	728	4,315	15,393	84,051
On-balance sheet								
interest sensitivity gap	(7,055)	(3,957)	2,101	3,410	11,099	1,861	(7,459)	—
Off-balance sheet								
interest sensitivity gap	81	103	(1,398)	856	(1,053)	1,411	—	—
Net interest sensitivity gap	(6,974)	(3,854)	703	4,266	10,046	3,272	(7,459)	—

⁽¹⁾ The negative balance represents general provisions for possible loan losses.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Interest rate risk (continued)

The table below summarises the effective average interest rate by major currencies for financial assets and liabilities:

31 December 2003	SGD %	USD %	MYR %
Assets			
Placement with central banks	0.77	0.01	2.87
Placement with and loans to banks	0.71	1.27	2.96
Loans to customers	3.23	2.14	5.78
Securities and other interest-earning assets	1.52	4.04	3.76
Liabilities			
Deposits and balances of banks	0.60	1.17	2.89
Deposits and other accounts of non-bank customers	0.55	0.80	2.85
Debt securities	2.68	—	—
31 December 2002	SGD %	USD %	MYR %
Assets			
Placement with central banks	—	0.63	2.91
Placement with and loans to banks	0.84	1.91	2.56
Loans to customers	4.17	2.61	6.78
Securities and other interest-earning assets	2.86	4.22	3.76
Liabilities			
Deposits and balances of banks	0.79	1.58	2.07
Deposits and other accounts of non-bank customers	0.72	1.14	3.04
Debt securities	2.94	—	—

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Liquidity risk

The Group's policy of liquidity management is to ensure that there are sufficient funds to meet the Group's financial obligations as they become due.

Liquidity risk is managed through a combination of static financial ratios, cash flow projections and stress tests. Static ratios monitor and ensure adequate diversification in the Group's funding sources. This restricts the dependency on particular sources of funds and exposure to any particular group of lenders. Projections for each of the next 30 days are closely monitored based on the contractual and actuarial patterns of the cash flow. The movements are analysed under both a business-as-usual and stressed scenarios and monitored against a set of cumulative maximum outflow limits. Stress tests assumptions are applied to ensure that the Group has the ability to withstand sudden and heavy cash outflows.

The table below analyses assets and liabilities of the Group into maturity time bands based on the remaining time to contractual maturity as at balance sheet date.

31 December 2003 \$ million	Less than 7 days	1 week to 1 month	Over 1 month to 3 months	Over 3 months to 12 months	Over 1 year to 3 years	Over 3 years	Total
Assets							
Cash and placement with central banks	2,088	941	314	432	—	261	4,036
Singapore government treasury bills and securities	159	784	1,828	1,486	564	1,330	6,151
Other government treasury bills and securities	96	—	84	310	314	251	1,055
Dealing securities	102	—	—	16	24	93	235
Placement with and loans to banks	2,095	1,941	3,386	2,077	151	—	9,650
Loans to customers	7,015	3,037	3,128	5,245	9,686	22,044	50,155
Investment securities	12	20	432	514	2,897	2,420	6,295
Deferred tax	—	—	—	—	54	—	54
Other assets	1,463	518	51	125	22	3	2,182
Associated companies	—	9	—	—	—	1,168	1,177
Property, plant and equipment	—	—	—	—	—	1,435	1,435
Goodwill	—	—	—	—	—	2,072	2,072
Total assets	13,030	7,250	9,223	10,205	13,712	31,077	84,497
Liabilities							
Deposits of non-bank customers	24,591	14,460	5,793	7,590	601	425	53,460
Deposits and balances of banks	3,900	3,438	3,627	1,500	16	—	12,481
Deposits of associated companies	550	406	197	220	85	—	1,458
Bills payable	123	62	—	—	—	—	185
Current tax	1	4	—	320	2	—	327
Deferred tax	—	—	—	—	76	—	76
Other liabilities	1,592	550	36	127	110	6	2,421
Debt securities	—	33	120	—	—	3,857	4,010
Total liabilities	30,757	18,953	9,773	9,757	890	4,288	74,418
Minority interests	—	—	—	—	—	20	20
Equity	—	—	—	—	—	10,059	10,059
Total liabilities and equity	30,757	18,953	9,773	9,757	890	14,367	84,497
Net liquidity gap	(17,727)	(11,703)	(550)	448	12,822	16,710	—

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Liquidity risk (continued)

31 December 2002 \$ million	Less than 7 days	1 week to 1 month	Over 1 month to 3 months	Over 3 months to 12 months	Over 1 year to 3 years	Over 3 years	Total
Assets							
Cash and placement with central banks	1,814	673	131	7	—	233	2,858
Singapore government treasury bills and securities	109	677	1,914	516	1,654	1,097	5,967
Other government treasury bills and securities	108	29	59	150	504	134	984
Dealing securities	25	—	—	5	4	139	173
Placement with and loans to banks	2,130	3,108	4,006	4,819	355	41	14,459
Loans to customers	7,982	3,630	3,077	5,026	8,206	19,446	47,367
Investment securities	—	18	75	573	2,515	2,129	5,310
Deferred tax	—	—	—	—	70	—	70
Other assets	1,344	487	54	52	108	—	2,045
Associated companies	—	—	1	—	—	1,046	1,047
Property, plant and equipment	—	—	—	—	—	1,572	1,572
Goodwill	—	—	—	—	—	2,199	2,199
Total assets	13,512	8,622	9,317	11,148	13,416	28,036	84,051
Liabilities							
Deposits of non-bank customers	22,872	13,734	7,478	8,739	689	436	53,948
Deposits and balances of banks	2,843	4,592	4,302	859	25	—	12,621
Deposits of associated companies	252	665	250	273	14	—	1,454
Bills payable	131	46	—	—	—	—	177
Current tax	2	2	13	305	—	—	322
Deferred tax	—	—	—	—	133	—	133
Other liabilities	1,293	662	78	99	7	2	2,141
Debt securities	—	31	102	—	—	3,879	4,012
Total liabilities	27,393	19,732	12,223	10,275	868	4,317	74,808
Minority interests	—	—	—	—	—	19	19
Equity	—	—	—	—	—	9,224	9,224
Total liabilities and equity	27,393	19,732	12,223	10,275	868	13,560	84,051
Net liquidity gap	(13,881)	(11,110)	(2,906)	873	12,548	14,476	—

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued)

Currency risk

The banking activities of providing financial products and services to corporate and retail customers expose the Group to foreign exchange risk. Foreign exchange risk is centrally managed by Group Treasury against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group by major currencies, which are mainly in the Singapore dollar, the US dollar and the Malaysian ringgit. The "Others" foreign exchange risks include mainly exposure to the Australian dollar, the Euro, the Japanese yen, the Sterling pound and the Hong Kong dollar.

31 December 2003 \$ million	SGD	USD	MYR	Others	Total
Assets					
Cash and placement with central banks	2,445	8	1,321	262	4,036
Singapore government treasury bills and securities	6,151	—	—	—	6,151
Other government treasury bills and securities	—	86	851	118	1,055
Dealing securities	85	61	89	—	235
Placement with and loans to banks	2,358	3,724	668	2,900	9,650
Loans to customers	32,851	7,257	5,869	4,178	50,155
Investment securities	1,852	2,729	787	927	6,295
Deferred tax	5	—	49	—	54
Other assets	1,625	422	54	81	2,182
Associated companies	1,063	—	114	—	1,177
Property, plant and equipment	1,210	—	83	142	1,435
Goodwill	2,072	—	—	—	2,072
Total assets	51,717	14,287	9,885	8,608	84,497
Liabilities					
Deposits of non-bank customers	33,983	7,441	7,496	4,540	53,460
Deposits and balances of banks	2,847	6,692	293	2,649	12,481
Deposits of associated companies	776	32	567	83	1,458
Bills payable	97	5	82	1	185
Current tax	313	1	9	4	327
Deferred tax	76	—	—	—	76
Other liabilities	1,277	908	98	138	2,421
Debt securities	4,010	—	—	—	4,010
Total liabilities	43,379	15,079	8,545	7,415	74,418
On-balance sheet open position	8,338	(792)	1,340	1,193	10,079
Off-balance sheet open position	(158)	948	(441)	(349)	—
Net open position	8,180	156	899	844	10,079
Of which:					
Net investments in overseas operations	—	129	905	823	1,857

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.5 Asset and liability management (continued) Currency risk (continued)

31 December 2002 \$ million	SGD	USD	MYR	Others	Total
Assets					
Cash and placement with central banks	1,485	9	1,239	125	2,858
Singapore government treasury bills and securities	5,967	—	—	—	5,967
Other government treasury bills and securities	—	36	853	95	984
Dealing securities	150	11	12	—	173
Placement with and loans to banks	3,318	7,974	248	2,919	14,459
Loans to customers	30,664	6,978	5,628	4,097	47,367
Investment securities	1,692	2,439	606	573	5,310
Deferred tax	23	—	47	—	70
Other assets	1,562	348	63	72	2,045
Associated companies	939	—	108	—	1,047
Property, plant and equipment	1,349	—	95	128	1,572
Goodwill	2,199	—	—	—	2,199
Total assets	49,348	17,795	8,899	8,009	84,051
Liabilities					
Deposits of non-bank customers	34,159	8,167	7,138	4,484	53,948
Deposits and balances of banks	5,042	6,149	85	1,345	12,621
Deposits of associated companies	982	27	413	32	1,454
Bills payable	110	6	61	—	177
Current tax	300	1	18	3	322
Deferred tax	133	—	—	—	133
Other liabilities	1,529	437	83	92	2,141
Debt securities	4,012	—	—	—	4,012
Total liabilities	46,267	14,787	7,798	5,956	74,808
On-balance sheet open position	3,081	3,008	1,101	2,053	9,243
Off-balance sheet open position	4,327	(2,831)	(61)	(1,435)	—
Net open position	7,408	177	1,040	618	9,243
Of which:					
Net investments in overseas operations	—	131	1,044	614	1,789

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.6 Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at the balance sheet date.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's financial instruments, including loans and advances to customers, where such market prices are not available, various methodologies are used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's financial instruments, including loans and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group could realise in a sales transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group as a going concern.

Fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of Financial Reporting Standard 32 ("FRS 32") which requires fair value information to be disclosed. These include property, plant and equipment, intangibles such as long-term relationships with depositors and insurance contracts.

Except for loans to and bills receivable from customers, the following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair values. In respect of loans to and bills receivable from customers, the Group has computed the fair values taking into account the relevant market interest rates and credit spread and noted that the total fair value is not materially different from the total carrying amount at year end.

\$ million	2003		2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Assets for which fair value approximates carrying value	15,868	15,868	19,460	19,460
Dealing securities	235	238	173	173
Government securities	7,206	7,223	6,951	7,076
Investment securities	6,295	6,911	5,310	5,814
Financial liabilities				
Liabilities for which fair value approximates carrying value	35,668	35,668	33,934	33,934
Non-bank customer term deposits	34,273	34,272	36,176	36,380
Debt securities issued and other borrowed funds	4,402	5,032	4,565	5,026

Note:

The fair value is determined without deducting the transaction costs that would be incurred to exchange or settle the underlying financial instrument. The costs are expected to be insignificant and will not have any material impact on the fair value.

Notes to the Financial Statements

for the financial year ended 31 December 2003

38. RISK MANAGEMENT INFORMATION (continued)

38.6 Fair values of financial assets and liabilities (continued)

The fair values are based on the following methodologies and assumptions:

Assets for which fair value approximates carrying value

Fair value of certain financial assets carried at cost, including cash and placements with central banks, placements with and loans to banks, interest and other short term receivables are expected to approximate their carrying value due to their short tenor.

Loans and advances to non-bank customers

The carrying value of loans and advances is the principal outstanding net of specific and other provisions for impairment. Fair value of loans and advances are computed after taking into account the relevant market interest rates and credit spread by product types as at balance sheet date.

Securities

Fair value of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair value of equity securities are estimated using a number of methods, including earnings multiples and discounted cash flow analysis. These securities may be subjected to restrictions, for example, consent of other investors that, may limit the Group's ability to realise the estimated fair value. Accordingly, current estimates of fair value and the ultimate realisation of these instruments may differ.

Liabilities for which fair value approximates carrying value

Fair value of certain financial liabilities, which include mainly customer deposits with no stated maturity, interbank borrowings and borrowings under repurchase agreements, are expected to approximate their carrying value due to their short tenor.

Non-bank customer term deposits

For non-bank customer deposits with maturities of less than three months, the carrying amount is a reasonable estimate of their fair value. For deposits with maturities of three months or more, fair values are estimated using discounted cash flows based on market rates.

Debt securities issued and other borrowed funds

The aggregate fair values of the Bank's fixed rate subordinated term notes are based on quoted market prices. The difference between the fair value and the carrying amount of the subordinated term notes will be largely offset by the corresponding fair value of the hedging interest rate and currency swaps entered into by the Bank. Fair values of other borrowed funds are obtained from independent broker offer prices.

Notes to the Financial Statements

for the financial year ended 31 December 2003

39. COUNTRY RISK

At 31 December 2003, the countries where OCBC's cross-border transfer risk exceeded 1% of assets were Malaysia, Hong Kong SAR, United Kingdom, Cayman Islands, China and Japan and consisted mainly of placements with banks due within one year. Cross-border transfer risk covers all cross-border transactions including onshore non-local currency transactions. In this context, total assets amounted to \$84,497 million (2002: \$84,051 million) as shown in the consolidated balance sheet at 31 December 2003.

Cross-border transfer risk exposure exceeding 1% of assets:

	Banks \$ million	Government and official institutions \$ million	Financial institutions, private sector and individuals \$ million	Total \$ million	As % of total assets %
2003					
Malaysia	3,034	615	1,095	4,744	5.61
Hong Kong SAR	1,099	—	753	1,852	2.19
United Kingdom	1,312	—	55	1,367	1.62
Cayman Islands	—	—	1,090	1,090	1.29
China	644	—	360	1,004	1.19
Japan	927	—	19	946	1.12
2002					
Malaysia	2,220	416	604	3,240	3.85
United Kingdom	2,250	—	158	2,408	2.86
Hong Kong SAR	1,339	48	664	2,051	2.44
Japan	1,533	—	34	1,567	1.86
Germany	1,517	—	—	1,517	1.80
Cayman Islands	—	—	1,075	1,075	1.28
United States	350	—	715	1,065	1.27
Indonesia	285	16	573	874	1.04
China	451	—	415	866	1.03

40. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, commitments and financial derivative instruments which are matched by corresponding obligations of counter-parties that are banks and other financial institutions and customers.

Notes to the Financial Statements

for the financial year ended 31 December 2003

41. CONTINGENT LIABILITIES

The banking and finance corporations in the Group conduct businesses involving acceptances, guarantees, documentary credits and other similar transactions. Acceptances are undertakings by the Group to pay on bills of exchange drawn on customers. Guarantees are issued by the Group to guarantee the performance of customers to third parties. Documentary credits commit the Group to make payments to third parties on production of documents.

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Acceptances and endorsements	544,211	587,465	56,450	87,577
Guarantees and standby letters of credit	4,724,914	4,808,521	4,520,851	4,565,514
Documentary credits and other short term trade-related transactions	505,923	393,567	433,051	315,284
Others	54,529	58,841	—	—
	5,829,577	5,848,394	5,010,352	4,968,375

Included in guarantees and standby letters of credit is an amount of \$1.17 billion (31 December 2002: \$1.14 billion) relating to credit default swaps entered into by the Bank which are collateralised on long-term loans granted by the Bank of an equivalent amount (Note 26) and an amount of \$0.60 billion (31 December 2002: \$0.49 billion) relating to credit default swaps entered into by the Bank which are collateralised on credit linked notes held by the Bank of an equivalent amount (Note 30).

41.1 Analysed by geographical sector

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore	4,503,965	4,665,317	4,567,257	4,614,153
Malaysia	1,054,941	851,570	174,241	51,048
Other ASEAN	14,760	34,192	5,022	6,292
Greater China	124,794	154,876	132,502	154,443
Other Asia Pacific	25,314	41,153	25,314	41,153
North America	41,507	41,476	41,720	41,476
Rest of the World	64,296	59,810	64,296	59,810
	5,829,577	5,848,394	5,010,352	4,968,375

41.2 Analysed by industry

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Agriculture, mining and quarrying	25,049	31,241	213	2,187
Manufacturing	751,404	850,326	321,862	370,291
Building and construction	835,420	1,010,761	898,693	946,872
Housing	18	47	—	—
General commerce	608,143	676,128	488,611	522,165
Transport, storage and communication	211,368	188,886	196,123	155,923
Financial institutions, investment and holding companies	2,343,431	2,464,687	2,339,452	2,416,308
Professionals and individuals	89,896	129,138	89,777	125,187
Others	964,848	497,180	675,621	429,442
	5,829,577	5,848,394	5,010,352	4,968,375

Notes to the Financial Statements

for the financial year ended 31 December 2003

42. COMMITMENTS

Commitments comprise mainly agreements to provide credit facilities to customers. Such commitments can either be made for a fixed period, or have no specific maturity but are cancellable by the Group, subject to notice requirements.

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
42.1 Credit commitments				
Undrawn credit facilities:				
– Original term to maturity of one year or less	20,146,688	22,809,389	18,114,455	20,356,982
– Original term to maturity of more than one year	5,705,254	4,205,886	4,229,772	2,597,118
	25,851,942	27,015,275	22,344,227	22,954,100
Undrawn note issuance and revolving underwriting facilities	270,070	90,269	191,740	72,005
Forward asset purchases/sales	1,065,179	1,096,962	1,065,179	1,096,962
	27,187,191	28,202,506	23,601,146	24,123,067
42.2 Other commitments				
Operating lease commitments:				
– Within 1 year	13,528	9,640	12,370	7,335
– After 1 year but within 5 years	13,980	17,095	13,801	16,582
– Over 5 years	813	1,415	813	1,415
	28,321	28,150	26,984	25,332
Capital expenditure authorised and contracted	45,780	58,288	9,602	26,335
	74,101	86,438	36,586	51,667
42.3 Total commitments	27,261,292	28,288,944	23,637,732	24,174,734

42.4 Analysed by geographic sector

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore	21,496,521	23,071,237	21,904,793	22,539,119
Malaysia	4,412,789	3,539,163	404,326	16,899
Other ASEAN	120,898	141,208	73,495	79,951
Greater China	447,370	594,530	471,076	595,959
Other Asia Pacific	275,553	231,359	275,881	231,359
North America	382,951	397,764	382,951	397,764
Rest of the World	125,210	313,683	125,210	313,683
	27,261,292	28,288,944	23,637,732	24,174,734

Notes to the Financial Statements

for the financial year ended 31 December 2003

43. FINANCIAL DERIVATIVES

Financial derivatives are off-balance sheet financial instruments, which include forward contracts for the purchase and sale of foreign currencies, interest rate and currency swaps, financial futures and option contracts. These instruments allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks. The following outlines the nature and terms of the most common types of derivatives used:

Foreign exchange derivatives are exchange rate related contracts, mainly forward foreign exchange contracts, currency swaps and currency options.

Forward foreign exchange contracts are agreements to exchange a specified amount of one currency for another on a future date at an agreed rate.

Currency swaps are agreements that involve the exchange or notional exchange of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options are contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying currency at a certain price on or before an agreed future date. As the seller (option writer) has a duty to buy or sell at the agreed price should the purchaser exercise his right, he generally receives a premium payable at the start of the option period. Some currency options purchased from customers are usually embedded in deposits for an enhanced yield return.

Interest rate derivatives are interest rate related contracts undertaken by the Group, which include interest rate swaps, forward rate agreement ('FRA'), caps, floors, collars, futures and swaptions.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

In a forward rate agreement, two parties agree to fix the interest rate on a specified notional principal amount for a defined period commencing at a specified date in the future. The buyer of a FRA is the party wishing to protect itself against a future rise in the relevant interest rate. The seller is the party wishing to protect itself against a future fall in the relevant interest rate.

Caps, floors and collars are different types of interest rate options transactions designed to hedge interest rate exposures. A cap is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium or a series of annuity payments, the difference between a reference rate and an agreed strike rate when the reference rate exceeds the strike rate. A floor is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium, the difference between a reference rate and an agreed strike rate should the strike rate exceed the reference rate. A collar is the simultaneous purchase of an out-of-the-money cap and sale of an out-of-the-money floor. The seller of the collar agrees to limit the buyer's floating interest rate to a band limited by a specified cap rate and floor rate.

A futures contract is an agreement to buy or sell a standard quantity of a specific financial instrument at a pre-determined future date and at a price agreed between the parties on an organised exchange.

Swaptions are over-the-counter options on swap contracts, which give the buyer the right, but not the obligation, to enter into an interest rate swap as either the payer or receiver of the fixed side of the swap. An interest rate call swaption gives the purchaser the right to receive a specified fixed rate, the strike rate, in a swap and to pay the floating rate for a stated time period. An interest rate put swaption gives the buyer the right to pay a specific fixed interest rate in a swap, and to receive the floating rate for a stated time period.

Equity derivatives are equity convertible deposits whereby an equity option is embedded in deposits placed with the Bank. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

Credit derivatives are contracts between a holder of an asset (the buyer of protection) and a third party called the seller of credit. It is an arrangement whereby the reference credit, credit risk of a risky asset (the reference asset, could be a loan or bond issued by a company) is transferred from the buyer to the seller of protection. The term credit risk refers to the failure of the borrower to perform his part of the contract, which can arise due to a variety of reasons ranging from bankruptcy, losses, distress or other events.

Notes to the Financial Statements

for the financial year ended 31 December 2003

43. FINANCIAL DERIVATIVES (continued)

The financial derivatives shown in the following tables are held for both trading and hedging purposes. The contractual or underlying principal amounts of these financial derivatives and their corresponding gross positive (assets) and negative (liabilities) fair values at balance sheet date are analysed below. Changes in fair values of futures contracts below which are exchange traded are subject to daily settlement and the margins relating to these futures contracts are included in balances with banks and other financial institutions.

Group	Contractual or principal notional amount \$'000	Fair value – assets \$'000	Fair value – liabilities \$'000
31 December 2003			
Foreign exchange derivatives			
Forwards	3,206,356	34,054	25,595
Swaps	53,374,342	709,772	596,079
OTC options – bought and sold	759,216	3,065	6,462
	57,339,914	746,891	628,136
Interest rate derivatives			
Forwards	18,703,100	6,419	6,085
Swaps	107,645,204	966,529	763,192
OTC options – bought and sold	1,985,168	2,793	6,397
Exchange traded futures – bought and sold	5,534,326	1,532	2,036
	133,867,798	977,273	777,710
Equity derivatives			
Futures	218	–	4
Options bought	10,785	1	81
	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
	19,386	37	284
Total	191,246,606	1,724,202	1,407,449
Fair value of trading derivatives included in other assets and other liabilities		1,114,806	1,101,163
		(Note 31)	(Note 19)

Notes to the Financial Statements

for the financial year ended 31 December 2003

43. FINANCIAL DERIVATIVES (continued)

Group	Contractual or principal notional amount \$'000	Fair value – assets \$'000	Fair value – liabilities \$'000
31 December 2002			
Foreign exchange derivatives			
Forwards	3,272,815	28,922	27,299
Swaps	64,013,947	824,813	632,044
OTC options – bought and sold	305,570	716	484
	67,592,332	854,451	659,827
Interest rate derivatives			
Forwards	30,674,000	17,812	18,139
Swaps	85,642,770	1,012,072	732,108
OTC options – bought and sold	326,096	1,172	839
Exchange traded futures – bought and sold	446,073	14	228
	117,088,939	1,031,070	751,314
Equity derivatives			
Futures	824	–	6
Options bought	759	15	2
	1,583	15	8
Credit derivatives			
Credit default swaps	86,760	984	250
Other derivatives			
Gold forwards – bought and sold	118	1	1
Total	184,769,732	1,886,521	1,411,400
Fair value of trading derivatives included in other assets and other liabilities		1,148,523	1,008,212
		(Note 31)	(Note 19)

Notes to the Financial Statements

for the financial year ended 31 December 2003

43. FINANCIAL DERIVATIVES (continued)

Bank	Contractual or principal notional amount \$'000	Fair value – assets \$'000	Fair value – liabilities \$'000
31 December 2003			
Foreign exchange derivatives			
Forwards	2,238,855	26,077	15,386
Swaps	52,596,517	708,458	596,875
OTC options – bought and sold	759,216	3,065	6,462
	55,594,588	737,600	618,723
Interest rate derivatives			
Forwards	18,703,100	6,419	6,085
Swaps	107,986,006	977,131	763,241
OTC options – bought and sold	1,985,168	2,793	6,397
Exchange traded futures – bought and sold	5,534,326	1,532	2,036
	134,208,600	987,875	777,759
Equity derivatives			
Options bought	10,785	1	81
Credit derivatives			
Credit default swaps	8,505	–	1,234
Other derivatives			
Gold forwards – bought and sold	7,025	–	–
Silver forwards – bought and sold	102	–	–
	7,127	–	–
Total	189,829,605	1,725,476	1,397,797
Fair value of trading derivatives included in other assets and other liabilities		1,113,341	1,101,968
		(Note 31)	(Note 19)

Notes to the Financial Statements

for the financial year ended 31 December 2003

43. FINANCIAL DERIVATIVES (continued)

Bank	Contractual or principal notional amount \$'000	Fair value – assets \$'000	Fair value – liabilities \$'000
31 December 2002			
Foreign exchange derivatives			
Forwards	1,774,160	15,585	9,520
Swaps	63,205,159	825,880	632,044
OTC options – bought and sold	305,570	716	484
	65,284,889	842,181	642,048
Interest rate derivatives			
Forwards	30,674,000	17,812	18,139
Swaps	85,825,704	1,021,774	732,119
OTC options – bought and sold	326,096	1,172	839
Exchange traded options – bought and sold	446,073	14	228
	117,271,873	1,040,772	751,325
Equity derivatives			
Options bought	759	15	2
Other derivatives			
Credit default swaps	86,760	984	250
Total	182,644,281	1,883,952	1,393,625
Fair value of trading derivatives included in other assets and other liabilities		1,148,523	1,006,945
		(Note 31)	(Note 19)

As noted in the above tables, the notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instrument and, therefore, do not indicate the Group's exposure to credit or price risks. The fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable and unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Notes to the Financial Statements

for the financial year ended 31 December 2003

44. ASSETS PLEDGED

In addition to the information shown elsewhere in these financial statements, the assets of the Group and the Bank that have been mortgaged or pledged to secure the borrowings are:

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Singapore government treasury bills and securities	150,658	272,775	150,658	272,775
Other government treasury bills and securities	268,847	209,809	—	—
Investment securities	345,497	298,733	—	—
Total securities pledged	765,002	781,317	150,658	272,775
Others	391,782	86,316	149,033	—
	1,156,784	867,633	299,691	272,775

45. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated cash flow statement, cash equivalents are liquid assets readily convertible into cash.

	Group	
	2003 \$'000	2002 \$'000
Cash and placements with central banks	4,035,863	2,858,403
Singapore government securities excluding long-term investments (Note 22)	5,607,098	5,966,732
Other government securities	1,054,618	984,145
	10,697,579	9,809,280

46. MINIMUM LEASE RENTAL RECEIPTS

The future minimum lease rental receipts under non-cancellable operating leases by remaining period to lease expiry are as follows:

	Group	
	2003 \$'000	2002 \$'000
Less than 1 year	44,083	35,629
Over 1 year to 5 years	45,685	58,040
Over 5 years	3,876	4,300
	93,644	97,969

Notes to the Financial Statements

for the financial year ended 31 December 2003

47. CURRENT ASSETS AND LIABILITIES

	Group		Bank	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current Assets				
Cash and placements with central banks	4,035,863	2,858,403	2,604,863	1,453,919
Singapore government treasury bills and securities	4,257,739	3,215,984	4,257,739	3,094,386
Other government treasury bills and securities	490,017	345,553	86,424	28,902
Dealing securities	235,541	173,076	134,929	147,950
Placements with and loans to banks	9,499,071	14,062,719	8,723,406	13,481,643
Loans to and bills receivable from customers	18,425,319	19,715,453	15,359,378	15,832,861
Investment securities	978,047	666,422	781,176	455,066
Other assets	2,157,499	1,936,667	1,757,988	1,528,103
Loans to associated companies	8,799	935	–	625
Loans to subsidiary companies	–	–	1,353,544	530,963
	40,087,895	42,975,212	35,059,447	36,554,418
Current Liabilities				
Deposits of non-bank customers	52,434,245	52,822,722	45,162,854	43,566,611
Deposits and balances of banks	12,464,856	12,595,995	11,910,339	12,076,240
Deposits of associated companies	1,372,440	1,440,527	878,968	976,479
Deposits of subsidiary companies	–	–	1,268,267	1,168,228
Bills payable	185,233	177,164	102,478	115,698
Current tax	327,667	321,765	292,216	244,671
Other liabilities	2,305,308	2,132,181	1,699,097	1,574,362
Debt securities	152,750	133,000	–	–
	69,242,499	69,623,354	61,314,219	59,722,289

48. RELATED PARTY TRANSACTIONS

In addition to the related party information shown elsewhere in the financial statements, the related party balances and transactions during the financial year are as follows:

	2003 \$ million	2002 \$ million
(a) Loans and advances		
– Associated companies engaged in financial activities	9	–
– Associated companies engaged in non-financial activities	#	1
– Directors-related parties	2,240	2,598
(b) Deposits		
– Associated companies engaged in financial activities	1,417	1,372
– Associated companies engaged in non-financial activities	41	82
– Directors-related parties	910	1,006
(c) Off-balance sheet credit facilities ⁽¹⁾		
– Associated companies engaged in financial activities	1	5
– Associated companies engaged in non-financial activities	–	–
– Directors-related parties	340	284
(d) Interest income		
– Associated companies engaged in financial activities	#	#
– Associated companies engaged in non-financial activities	–	–
– Directors-related parties	51	54

Notes to the Financial Statements

for the financial year ended 31 December 2003

48. RELATED PARTY TRANSACTIONS (continued)

	2003 \$ million	2002 \$ million
(e) Interest expense		
– Associated companies engaged in financial activities	12	9
– Associated companies engaged in non-financial activities	#	1
– Directors-related parties	4	3
(f) Rental income		
– Associated companies engaged in financial activities	#	#
– Associated companies engaged in non-financial activities	#	#
– Directors-related parties	4	4
(g) Fee and commission income and other income		
– Associated companies engaged in financial activities	26	31
– Associated companies engaged in non-financial activities	#	#
– Directors-related parties	3	2

⁽¹⁾ Off-balance sheet credit facilities refer to transaction-related and trade-related contingencies.

⁽²⁾ # refers to amount less than \$500,000.

Related parties included in this note are:

(a) Associated companies in which the Group holds interest of between 20% and 50% in the entities and includes subsidiary companies of these entities.

(b) Directors-related parties:

- (i) Immediate family members of the Bank's directors, being individuals who may be influenced by or be influenced by the directors of the Bank in their dealings with the Group;
- (ii) Companies that are majority-owned by the Director or family members;
- (iii) Companies in which the Director or family members control the composition of the board of directors;
- (iv) Associated companies of the Director;
- (v) Any individual, company or firm guaranteed by the Director; and
- (vi) Companies, other than group-related companies, in which the Bank's directors serve as directors.

All transactions with related parties are conducted on an arm's length basis. Loans to and deposits from related parties are not treated any differently from loans to and deposits from other customers of the Bank and Group. Credit facilities granted are subject to the same credit evaluation, approval, monitoring and reporting processes. Credit exceptions, if any, pertaining to the conduct of related parties' accounts are reported to the Board of Directors at regular intervals.

49. SUBSEQUENT EVENT

Subsequent to the financial year end, on 9 February 2004, OCBC Securities (Hong Kong) Limited, held through the Bank's wholly-owned subsidiary company, Provident Securities Private Limited, ceased its securities business activities. This will not have any material impact on the Group's results.

50. AUTHORISATION OF FINANCIAL STATEMENTS

The Board of Directors of Oversea-Chinese Banking Corporation Limited authorised these financial statements for issue on 11 February 2004.