



GROUP FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

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Certain figures in this section may not add up to the relevant totals due to rounding.

Certain comparative figures have been restated to conform with the current year's presentation.

The figures for 2002 have been restated for impact of the change in accounting policy for investments following the revision of Notice to Banks, MAS 605 – Revaluation of Assets.

Review of Financial Performance

Highlights and performance indicators

	2003	2002	Variance (%)	
Key indicators				
Net interest income (NII) (\$ million)	2,071	2,128	-	2.7
Non-interest income (Non-NII) (\$ million)	1,089	906	+	20.2
Total income (\$ million)	3,160	3,034	+	4.1
Total expenses (\$ million)	1,095	1,074	+	2.0
Operating profit before goodwill amortisation and provisions (\$ million)	2,064	1,960	+	5.3
Net profit after tax				
Including goodwill amortisation (\$ million)	1,202	1,006	+	19.5
Excluding goodwill amortisation (\$ million)	1,404	1,201	+	16.8
Income mix				
NII/Total income (%)	65.5	70.1	-	4.6% points
Non-NII/Total income (%)	34.5	29.9	+	4.6% points
Profit (before tax and goodwill amortisation) contribution	100.0	100.0		-
Onshore (including ACU) (%)	75.6	78.0	-	2.4% points
Offshore (%)	24.4	22.0	+	2.4% points
Return on average shareholders' funds (ROE)	100.0	100.0		-
Including goodwill amortisation (%)	9.3	7.9	+	1.4% points
Excluding goodwill amortisation (%)	10.9	9.5	+	1.4% points
Basic earnings per share				
Including goodwill amortisation (cents)	76.5	64.0	+	19.5
Excluding goodwill amortisation (cents)	89.3	76.5	+	16.7
Return on average total assets (ROA)				
Including goodwill amortisation (%)	1.10	0.91	+	0.19% point
Excluding goodwill amortisation (%)	1.29	1.09	+	0.20% point
NII/Average interest bearing assets (%)	2.25	2.22	+	0.03% point
Expense/Income ratio (%)	34.7	35.4	-	0.7% point
Dividend rates (%)				
Interim	20.0	15.0	+	5.0% points
Special dividend in specie	-	18.8	-	18.8% points
Final	40.0	25.0	+	15.0% points

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	2003	2002	Variance (%)	
Other indicators				
Customer loans (net) (\$ million)	59,297	58,884	+	0.7
Customer deposits (\$ million)	69,863	67,919	+	2.9
Loans/Deposits ratio* (%)	84.9	86.7	-	1.8% points
Non-performing loans (NPLs) (\$ million)	5,160	5,679	-	9.1
Cumulative provisions (\$ million)	3,332	3,504	-	4.9
NPLs*/Gross customer loans (%)	8.1	9.0	-	0.9% point
Cumulative provisions/NPLs (%)	64.6	61.7	+	2.9% points
Total assets (\$ million)	113,446	107,430	+	5.6
Shareholders' funds (\$ million)	13,282	12,613	+	5.3
Unrealised revaluation surplus# (\$ million)	1,464	1,186	+	23.4
Net asset value (NAV) per share (\$)	8.45	8.03	+	5.2
Revalued NAV per share (\$)	9.38	8.78	+	6.8
Net tangible asset backing per share (\$)	6.23	5.68	+	9.7
Capital adequacy ratios (BIS) (%)				
Tier 1 capital	12.8	12.2	+	0.6% point
Total capital	18.2	15.3	+	2.9% points
Manpower (number)	10,547	10,320	+	227 number

* Loans refer to net customer loans while deposits refer to customer deposits.

+ Excluding debt securities.

Refers to revaluation surplus on properties and investment securities which was not incorporated into the financial statements.

Review of Group performance

The Group recorded a net profit after tax (NPAT) of \$1,202 million for 2003, an increase of 19.5% over the \$1,006 million registered for 2002. The growth in NPAT was mainly due to higher non-interest income and lower provision charges, partly offset by lower net interest income.

The Group's operating profit before goodwill amortisation and provisions rose 5.3% to \$2,064 million for 2003 compared to \$1,960 million for 2002. The increase was driven principally by a growth of 4.1% in total income to \$3,160 million, from \$3,034 million for 2002.

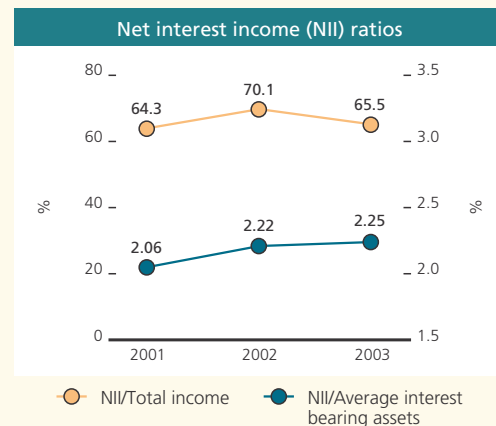
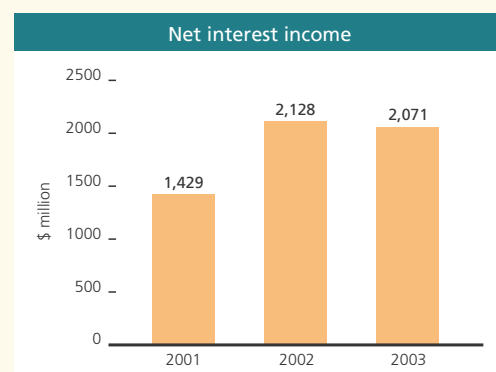
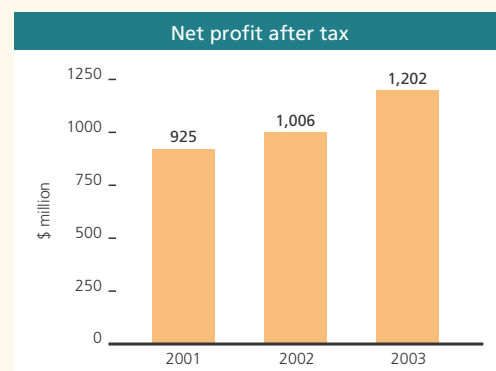
The Group's total operating expenses, comprising staff and other operating expenses, increased 2.0% to \$1,095 million for 2003 compared to \$1,074 million for 2002. Staff expenses decreased 0.9% to \$532 million, while other operating expenses increased 4.8% to \$564 million.

The Group's provision charges decreased 22.2% to \$362 million for 2003 against \$465 million for 2002, while share of profit of associates (before tax) declined 13.1% to \$107 million for 2003.

Net interest income

Net interest income of the Group declined 2.7% to \$2,071 million for 2003 compared to \$2,128 million for 2002. The decrease was largely due to lower contributions from inter-bank money market activities as a result of the low and flat interest rate yield curve. Net interest income continued to be the major contributor of total income, accounting for 65.5% (2002: 70.1%) of total income.

The average interest margin of 2.25% for 2003 was 3 basis points higher than the 2.22% for 2002. The increase was mainly due to the lower cost of funds.



GROUP FINANCIAL REVIEW

Average interest rates and margin

	2003			2002		
	Average balance \$ million	Interest \$ million	Average interest rate %	Average balance \$ million	Interest \$ million	Average interest rate %
Assets						
Interest bearing						
Customer loans	58,865	2,533	4.30	60,221	2,811	4.67
Inter-bank balances and balances with central banks	20,784	410	1.97	22,589	546	2.42
Government securities	8,607	167	1.93	10,049	199	1.98
Dealing and investment securities	3,783	185	4.89	2,931	156	5.32
Total interest bearing assets	92,039	3,294	3.58	95,790	3,711	3.87
Non-interest bearing						
Cash and balances with central banks	3,017			2,273		
Investments in associates	1,269			1,631		
Fixed assets	1,779			1,688		
Goodwill	3,586			3,756		
Other assets	4,209			3,589		
Total non-interest bearing assets	13,860			12,937		
Total assets	105,899			108,727		
Liabilities						
Interest bearing						
Customer deposits	68,016	796	1.17	68,646	1,066	1.55
Inter-bank balances	17,695	293	1.65	20,255	396	1.96
Debts issued	3,293	135	4.09	3,221	121	3.76
Total interest bearing liabilities	89,004	1,224	1.37	92,122	1,583	1.72
Total non-interest bearing liabilities	4,042			3,725		
Total liabilities	93,046			95,847		
Net interest income		2,071			2,128	
Average interest margin*			2.25			2.22

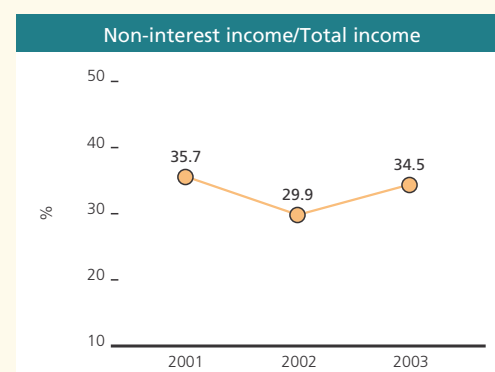
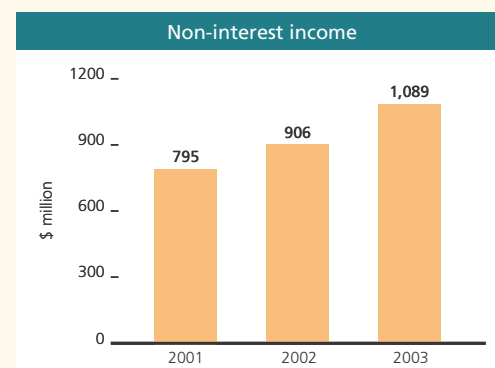
* Average interest margin represents net interest income as a percentage of total interest bearing assets.

Analysis of changes in net interest income

	2003			2002		
	Volume change \$ million	Rate change \$ million	Net change \$ million	Volume change \$ million	Rate change \$ million	Net change \$ million
Interest bearing assets						
Customer loans	(63)	(215)	(278)	1,243	(616)	627
Inter-bank balances and balances with central banks	(44)	(92)	(136)	(10)	(396)	(406)
Government securities	(28)	(4)	(32)	97	(93)	4
Dealing and investment securities	45	(16)	29	73	–	73
Total interest bearing assets	(90)	(327)	(417)	1,403	(1,105)	298
Interest bearing liabilities						
Customer deposits	(10)	(261)	(271)	516	(769)	(253)
Inter-bank balances	(50)	(53)	(103)	157	(373)	(216)
Debts issued	3	11	14	87	(19)	68
Total interest bearing liabilities	(57)	(303)	(360)	760	(1,161)	(401)

Non-interest income

Total non-interest income of the Group grew 20.2% to \$1,089 million for 2003 compared to \$906 million for 2002. The growth was primarily driven by higher fee and commission income derived largely from investment-related, loan-related and trade-related activities, higher net profit from dealing securities, government securities and derivatives, as well as higher foreign exchange profits. The Group's non-interest income for 2003 accounted for 34.5% (2002: 29.9%) of total income.



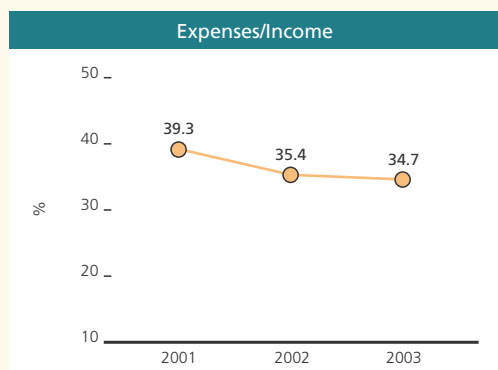
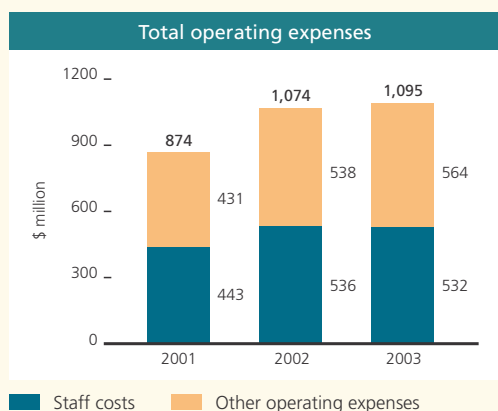
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Composition of non-interest income

	2003 \$ million	2002 \$ million	Variance %
Fee and commission income			
Credit card	94	96	(2.3)
Fund management	78	74	4.6
Futures broking and stockbroking	35	49	(27.5)
Investment-related	98	29	235.9
Loan-related	97	86	12.0
Service charges	49	44	12.0
Trade-related	111	101	10.3
Other	26	21	23.8
	588	501	17.4
Dividend and rental income	115	110	3.9
Other operating income			
Net profit from:			
Dealing securities, government treasury bills and securities, and derivatives	142	54	165.0
Foreign exchange dealings	111	82	35.2
Disposal of investment securities and associates	54	78	(31.2)
Disposal and liquidation of subsidiaries	0*	0*	NM
Disposal of fixed assets	19	12	61.3
Other	60	70	(13.8)
	387	296	30.8
Total non-interest income	1,089	906	20.2

* Less than \$500,000.

NM denotes 'Not Meaningful'.



Operating expenses

Total operating expenses amounted to \$1,095 million for 2003, which was 2.0% higher than the \$1,074 million incurred in 2002. The increase was attributable to higher other operating expenses which were partly offset by lower staff costs. As a result of the higher growth in total income compared to the increase in total operating expenses, the expense to income ratio of the Group improved to 34.7% for 2003 from 35.4% for 2002.

Other operating expenses of \$564 million were 4.8% higher compared to \$538 million for 2002. The increase was mainly due to higher advertising and marketing costs, as well as higher commissions paid. These were partly offset by lower rental expenses and lower depreciation charges on fixed assets.

	2003 \$ million	2002 \$ million	Variance %
Wages and salaries	450	450	–
Employer's contribution to defined contribution plans, including Central Provident Fund	49	52	(5.3)
Other staff-related costs	33	34	(5.0)
Staff costs	532	536	(0.9)
Other operating expenses	564	538	4.8
Total operating expenses [#]	1,095	1,074	2.0
[#] Total operating expenses included:			
IT-related expenses	199	199	–
IT-related expenses as % of total operating expenses	18.2%	18.6%	(0.4)% point

Provisions charged to Income Statement

Total provision charges of \$362 million for 2003 were 22.2% lower than the \$465 million made for 2002. The decrease was largely attributable to lower specific provisions for loans which were in tandem with the decline in NPLs, as well as lower specific provisions for diminution in the value of investment securities.

	2003 \$ million	2002 \$ million	Variance %
Specific provisions/(write-back of provisions) for loans			
Five Regional Countries*	(38)	33	(216.9)
Greater China ⁺	(3)	(39)	92.3
Singapore and other countries	387	428	(9.7)
	345	422	(18.1)
General provisions/(write-back of provisions)			
Five Regional Countries*	1	(2)	NM
Greater China ⁺	1	(2)	NM
Singapore and other countries	(2)	4	(147.5)
	–	–	–
Specific provisions for diminution in value/impairment of investments, fixed assets and other assets	16	43	(62.4)
Total provisions	362	465	(22.2)

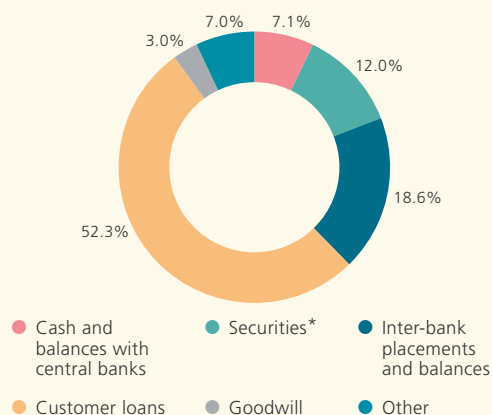
* The Five Regional Countries comprise Malaysia, Indonesia, the Philippines, Thailand and South Korea.

⁺ Greater China comprises China, Hong Kong and Taiwan.

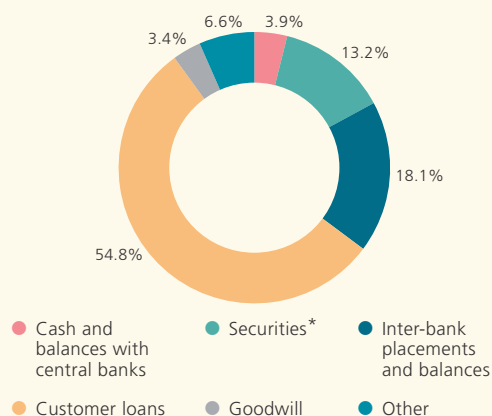
NM denotes 'Not Meaningful'.

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Assets mix – 2003



Assets mix – 2002



Overview of Balance Sheet

Total assets

The Group's total assets as at 31 December 2003 grew to \$113,446 million, an increase of 5.6% over the \$107,430 million recorded as at 31 December 2002. Higher cash and balances with central banks as well as higher inter-bank placements and balances accounted for a large part of the increase.

Assets mix

	2003		2002	
	\$ million	%	\$ million	%
Cash and balances with central banks	8,035	7.1	4,213	3.9
Securities*	13,609	12.0	14,120	13.2
Inter-bank placements and balances	21,122	18.6	19,426	18.1
Customer loans	59,297	52.3	58,884	54.8
Goodwill	3,466	3.0	3,666	3.4
Other	7,917	7.0	7,120	6.6
Total assets	113,446	100.0	107,430	100.0

* Comprising Singapore and other government treasury bills and securities, dealing and investment securities.

Securities

Total securities as at 31 December 2003 amounted to \$13,609 million. This was 3.6% lower compared to the \$14,120 million registered as at 31 December 2002. The decrease was primarily attributable to reduced holdings in government treasury bills and securities which were partly offset by increased holdings in investment securities issued by financial institutions.

Total securities

	2003 \$ million	2002 \$ million
Trading, at fair value	1,028	804
Non-trading		
At cost adjusted for premium and discount	12,713	13,427
Provision for diminution in value	(131)	(111)
	12,582	13,316
Total securities	13,609	14,120

Securities analysed by issuer type

	2003		2002	
	Trading \$ million	Non-trading \$ million	Trading \$ million	Non-trading \$ million
Government	503	7,159	181	9,370
Public sector	11	4	2	6
Bank	64	1,498	21	631
Corporate	426	3,702	564	2,973
Other	24	350	36	447
Total securities	1,028	12,713	804	13,427

Securities analysed by industry

	2003		2002	
	\$ million	%	\$ million	%
Transport, storage and communication	401	3.1	559	4.2
Building and construction	236	1.9	321	2.4
Manufacturing	561	4.4	606	4.5
Financial institutions	2,613	20.6	1,321	9.8
General commerce	150	1.2	72	0.5
Government	7,159	56.3	9,370	69.8
Other	1,593	12.5	1,178	8.8
Non-trading securities	12,713	100.0	13,427	100.0

Customer loans

Net loans and advances to customers as at 31 December 2003 totalled \$59,297 million. This represented an increase of 0.7% compared to \$58,884 million as at 31 December 2002. The increase was primarily due to growth in the housing loans and trade financing portfolios which were partly offset by lower overdrafts.

Customer loans analysed by product group

	2003		2002	
	\$ million	%	\$ million	%
Housing loans	14,789	23.6	13,841	22.2
Term loans	35,033	56.0	35,253	56.5
Trade financing	3,397	5.4	2,915	4.7
Overdrafts	9,362	15.0	10,330	16.6
Total gross customer loans	62,581	100.0	62,339	100.0
General provisions	(1,422)		(1,425)	
Specific provisions	(1,862)		(2,030)	
Total net customer loans	59,297		58,884	

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Customer loans analysed by industry

	2003		2002	
	\$ million	%	\$ million	%
Transport, storage and communication	2,104	3.4	2,058	3.3
Building and construction	7,320	11.7	9,148	14.7
Manufacturing	5,846	9.4	5,392	8.6
Non-bank financial institutions	10,408	16.6	10,809	17.3
General commerce	6,143	9.8	6,200	10.0
Professionals and private individuals	9,653	15.4	9,335	15.0
Housing loans	14,789	23.6	13,841	22.2
Other	6,318	10.1	5,556	8.9
Total gross customer loans	62,581	100.0	62,339	100.0

Gross customer loans analysed by fixed/variable rates and currency

	2003		2002	
	\$ million	%	\$ million	%
Fixed rate				
Singapore dollar	8,987	14.4	9,570	15.4
US dollar	960	1.5	712	1.1
Malaysian ringgit	204	0.3	166	0.3
Hong Kong dollar	35	0.1	40	0.1
Thai baht	948	1.5	534	0.8
Other	1,066	1.7	1,059	1.7
Total fixed rate gross customer loans	12,200	19.5	12,081	19.4
Variable rate				
Singapore dollar	31,777	50.8	31,799	51.0
US dollar	6,948	11.1	7,426	11.9
Malaysian ringgit	6,110	9.8	5,762	9.2
Hong Kong dollar	966	1.5	1,426	2.3
Thai baht	599	0.9	501	0.8
Other	3,981	6.4	3,344	5.4
Total variable rate gross customer loans	50,381	80.5	50,258	80.6
Total gross customer loans	62,581	100.0	62,339	100.0

Gross customer loans analysed by remaining maturity

	2003		2002	
	\$ million	%	\$ million	%
Within 1 year	30,256	48.3	29,394	47.2
Over 1 year but within 3 years	9,668	15.5	10,045	16.1
Over 3 years but within 5 years	5,386	8.6	6,627	10.6
Over 5 years	17,271	27.6	16,273	26.1
Total gross customer loans	62,581	100.0	62,339	100.0

For a breakdown of credit facilities to related parties, please refer to Note 28(f) to the financial statements.

Deposits

Total deposits of \$88,702 million as at 31 December 2003 represented a 1.7% rise from the \$87,221 million recorded as at 31 December 2002. The increase was due to higher savings and other deposits which were partly offset by lower bankers' deposits and lower customer fixed deposits.

As at 31 December 2003, customer deposits accounted for 78.8% of total deposits.

Deposits analysed by product group

	2003		2002	
	\$ million	%	\$ million	%
Bankers' deposits	18,839	21.2	19,302	22.1
Customer deposits				
Fixed deposits	45,801	51.7	47,287	54.2
Savings and other deposits	24,062	27.1	20,632	23.7
	69,863	78.8	67,919	77.9
Total deposits	88,702	100.0	87,221	100.0

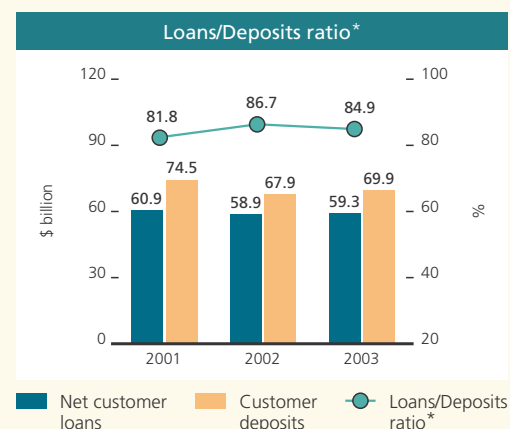
Deposits analysed by remaining maturity

	2003		2002	
	\$ million	%	\$ million	%
Within 1 year	87,450	98.6	86,324	99.0
Over 1 year but within 3 years	703	0.8	743	0.8
Over 3 years but within 5 years	434	0.5	80	0.1
Over 5 years	115	0.1	74	0.1
Total deposits	88,702	100.0	87,221	100.0

Loans/Deposits ratio*

With the 2.9% increase in customer deposits outpacing the 0.7% increase in net customer loans, the loans to deposits ratio decreased 1.8% points to 84.9% as at 31 December 2003.

* Loans refer to net customer loans while deposits refer to customer deposits.



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Shareholders' funds

Shareholders' funds as at 31 December 2003 stood at \$13,282 million against \$12,613 million as at 31 December 2002. The increase of 5.3% was largely due to retained profits.

Unrealised revaluation surplus on properties and investment securities amounted to \$1,464 million as at 31 December 2003. The revaluation surplus was not incorporated into the financial statements.

	2003 \$ million	2002 \$ million
Shareholders' funds per book	13,282	12,613
Add: Revaluation surplus*	1,464	1,186
Shareholders' funds including revaluation surplus	14,746	13,799
NAV per book per share (\$)	8.45	8.03
Revaluation surplus per share (\$)	0.93	0.75
Revalued NAV per share (\$)	9.38	8.78

* Refers to revaluation surplus on properties and investment securities which was not incorporated into the financial statements.



Capital Adequacy Ratios

The Capital Adequacy Ratios (CAR) of the Group were computed in accordance with the guidelines issued by the Basel Committee on Banking Supervision. The Group's capital management policy is to maintain a strong capital position to support its growth, both organically and through acquisitions.

As at 31 December 2003, the Group's CAR of 18.2%, as computed under the Bank for International Settlements (BIS) guidelines, was more than twice the minimum requirement of 8% set by BIS. The increase by 2.9% points from the CAR of 15.3% as at 31 December 2002 was mainly attributable to the issue of US\$1 billion 4.50% Subordinated Notes in June 2003.

	2003 \$ million	2002 \$ million
Capital		
Tier 1 – Core capital		
Share capital	1,572	1,572
Disclosed reserves	11,542	10,956
Minority interests	155	150
Deduction of Goodwill	(3,483)	(3,684)
	9,786	8,994
Tier 2 – Supplementary capital		
Revaluation reserves on investments and properties*	380	349
General loan loss provisions ⁺	952	920
Subordinated notes	2,991	1,294
	4,323	2,563
Deductions against Capital [#]	(211)	(337)
Total capital	13,898	11,220
Risk-weighted assets (including market risk)	76,163	73,574
Capital adequacy ratios		
Tier 1	12.8%	12.2%
Total capital	18.2%	15.3%

* After discount of 55% in accordance with BIS guidelines.

⁺ Excluding specific and earmarked provisions.

[#] Including capital deductions for certain investments.