Letter to Shareholders

"We are working relentlessly to differentiate OCBC from our competitors by focusing on two aspects of service excellence. One is quality; making sure that we deliver with zero defects, on time, all the time. The other involves ensuring the customer experience at OCBC is an exceptional one, which we call "building emotional engagement" with our customers."

Business and market sentiments changed dramatically during the course of 2007. The upbeat economic and market conditions in the first half gave way to widespread market turbulence and uncertainties in the second half, as the US sub-prime mortgage crisis emerged and spread its contagion around the globe. Singapore banks were not spared, as parts of their investments in collateralised debt obligations ("CDOs") contained exposures to the sub-prime assets, but these exposures were relatively small and manageable compared to the problems faced by several US and European financial institutions.

In spite of these events, OCBC Group managed to achieve another year of record earnings and robust revenue growth, supported by the healthy economic growth in our key markets. Excluding non-recurring gains, our Group core net profit increased by 30.1% to S$1,878 million, from S$1,443 million in 2006. This was our fastest earnings growth since 1999. Return on ordinary shareholders' equity, based on core earnings, improved from 11.8% to 13.4%, the highest ROE we have achieved since 1994, and above our New Horizons II target of 12%.

PERFORMANCE REVIEW

Including a gain of S$90 million from the divestment of an office property, and tax refunds of S$104 million received during the year, Group net profit attributable to shareholders was S$2,071 million. This was marginally above the previous year's net profit of S$2,002 million, which had included larger divestment gains of S$559 million.

Net interest income increased 25.1% to S$2,244 million, supported by growth in interest earning assets and improved interest margins. Our loan book expanded by 19.0% to S$72.8 billion, boosted by growth in corporate and SME loans in Singapore and overseas markets. Our housing loans in Singapore also picked up during the second half. Our net interest margin improved by 10 basis points to 2.10% as our cost of funds in Singapore and Indonesia fell faster than asset yields. Non-interest income, excluding divestment gains, grew 34.3% to S$1,944 million, with broad-based contributions from fee-based activities, life assurance, foreign exchange dealing and the sale of investment securities.

Our operating expenses increased by 26.2% to S$1,680 million. Approximately 41% of the expense increase was associated with the Group's overseas business expansion, particularly in Indonesia and China, as well as business volume-related and performance incentive compensation costs. Total staff costs rose 31.1% to S$946 million on account of higher base salaries, increased variable bonus accruals in tandem with the Group's better performance, and an increase in Group headcount of 18%. Because our revenue grew at a faster rate, our cost-to-income ratio (excluding divestment gains) was 40.1%, slightly lower than the 41.1% in 2006.

As a Group, we provided total allowances of S$231 million for our investments in collateralised debt obligations ("CDOs") in 2007. Allowances of S$226 million (US$153 million) were made for the Bank's US$181 million investment in asset-backed securities ("ABS") CDOs, which have some exposure to US sub-prime mortgage assets, reducing the carrying value of the portfolio by 85% to S$41 million (US$28 million) as at end-2007. Great Eastern Holdings ("GEH") provided an allowance of S$5 million for the CDOs invested under their shareholders' funds, reducing their carrying value to S$13 million as at end-2007.

Loan recoveries, repayments, and upgrades resulted in a net write-back of S$108 million in specific allowances for loans, and there was also a net reversal of S$87 million in allowances for other assets, mainly office properties in Singapore. As a result, our Group's net allowances for the year remained low at S$36 million, compared to S$2 million in 2006.

Our non-performing loans declined by 26% during the year to S$1,354 million, representing 1.7% of total loans, an improvement from 3.0% in the previous year. Cumulative allowances cover 116.1% of non-performing loans, up from 100.9%.

Our key subsidiaries reported healthy results for 2007. GEH achieved 14.7% increase in its net profit to S$547 million, underpinned by steady insurance underwriting results in Singapore and Malaysia, strong investment gains and increased contributions from Lion Capital Management. GEH contributed a significant S$449 million or 23.9% to our Group core earnings, after deducting amortisation of intangible assets and minority interests. OCBC Bank (Malaysia) Berhad grew its net profit by 18.8% to RM512 million, led by growth in net interest income, Islamic Banking income and fees and commissions. Bank NISP's net profit grew at a moderate 5.5% to IDR 250 billion, as strong revenue growth was offset to some extent by higher allowances and increased expenses related to its rapid network expansion and manpower increase.

DIVIDENDS

The Board is pleased to recommend a final tax-exempt dividend of 14 cents per share for ordinary shareholders, bringing the total distribution for financial year 2007 to 28 cents, up from 23 cents paid for 2006. The dividend payout of S$864 million for the year represents 46% of our core net profit, in line with our target minimum of 45%.

Shareholders will be offered the option of receiving the final dividend in cash, or in the form of convertible Tier-2 subordinated notes which will pay an attractive interest coupon and are convertible to OCBC ordinary shares. We are offering this scheme, which is subject to regulatory approvals, for two main reasons:

- It will help to replace part of our surplus Tier 1 capital with Tier 2 capital. Our capital mix is currently heavily weighted towards Tier 1 capital, the most expensive form of capital from a shareholder perspective. As at 31 December 2007, our total capital adequacy ratio was 12.4% compared to the MAS minimum requirement of 10%, while our Tier 1 ratio was 11.5%, almost double the MAS minimum requirement of 6%.
- It will give shareholders an option to reinvest their dividends in an instrument offering reasonable interest rates, with the right to convert these into ordinary shares at a fixed price.

We expect to announce the interest coupon rate and conversion price for these subordinated notes towards the end of April 2008, and despatch the election forms to shareholders in May 2008.

OVERSEAS EXPANSION ON TRACK

While Malaysia still accounts for the bulk of our 35% overseas pre-tax earnings contribution in 2007, our new investments towards growing our Indonesia, China and Vietnam businesses will be important for the Group's longer term growth.

In Indonesia, Bank NISP is expanding its network rapidly to gain nationwide coverage, so that it can grow to become a much larger SME and consumer banking player. With 93 new branches/offices and 148 ATMs added across Indonesia in 2007, Bank NISP had 352 branches and offices and 494 ATMs by year-end, which is triple its network size in 2004 when we first acquired a stake.

In 2007, Bank NISP successfully established a consumer wealth management platform, complete with financial planning tools and a comprehensive suite of wealth products. An exclusive partnership was formed with Great Eastern Indonesia to provide customised bancassurance solutions. These developments contributed to a two-fold increase in its wealth management fee income in 2007. We also continued to help improve the service culture at Bank NISP, rolling out our customer engagement training to more than 3,500 of their staff.

In China, our locally incorporated and wholly-owned subsidiary, OCBC Bank (China) Ltd ("OCBC China"), officially commenced business on 1 August 2007, marking a new growth phase in our long and uninterrupted presence in the country since 1925. With local incorporation, OCBC Bank's branches in Shanghai, Chengdu, Tianjin and Xiamen have become branches of OCBC China. Headquartered in Shanghai and capitalized at RMB3.5 billion (S$698 million), our team at OCBC China plans to introduce new products and services denominated in Renminbi and major foreign currencies in phases, aiming to facilitate more seamless cross-border transactions for both individuals and businesses. A first sub-branch in Chengdu was opened in September 2007, and a new main branch in Guangzhou will be operational in the first half of 2008. In addition to the expansion of the branch network, we plan to launch internet banking and an ATM network in 2008.

Even as we pursue organic growth in China, our strategic partnership with Bank of Ningbo ("BoN") remains an important part of our two-pronged China growth strategy. The partnership complements our other activities in China as we endeavour to leverage on BoN's local market knowledge and experience to grow OCBC China. Moreover our initial expenditure of S$119 million to purchase a share in BoN has turned out to be a great investment, following the successful IPO of BoN on the Shenzhen Stock Exchange in July 2007. Our 10.0% stake was valued at S$1,078 million as at end-2007, contributing S$959 million of unrealised gains to our fair value reserves.

In Vietnam, we worked closely with VP Bank to launch its Platinum EMV MasterCard in July 2007, the first credit and debit card issued by the bank. We also initiated several training and technical assistance programmes for them in consumer banking, risk management and technology. With the introduction of new regulations allowing foreign banks to increase their ownership in domestic banks to 15%, we are in discussions with VP Bank to exercise our option to raise our shareholding beyond the current 10%.

DIFFERENTIATION THROUGH CUSTOMER SERVICE

We are working relentlessly to differentiate OCBC from our competitors by focusing on two aspects of service excellence. One is quality; making sure that we deliver with zero defects, on time, all the time. The other involves ensuring the customer experience at OCBC is an exceptional one, which we call "building emotional engagement" with our customers.

Re-thinking the way we do our business has led to significant investments in product and service improvements to meet the needs of our customers and to create a better customer experience at all our customer touch points. In 2007, we launched supermarket banking, partnering NTUC Fairprice, the largest supermarket chain in Singapore. More than 80,000 *FairPrice Plus* accounts were opened within the first six months after the launch. We also doubled our full service Sunday Banking branches to 10, and we are seeing a much higher level of transactions and account opening on Sundays as compared to weekdays. For small and medium enterprises, we launched an easy-to-open business account with minimum documentation and instant cheque book issuance. As a result, the number of business accounts opened almost doubled from 2006. We have also started to transform our branches with a new design and layout that will enable us to offer a higher level of service, convenience and comfort, and improve the interaction with our customers.

LOOKING AHEAD

OCBC's core earnings have nearly tripled over the past five years, from S$667 million in 2002 to S$1,878 million in 2007, representing an annual compounded growth rate of 23%. Our five-year New Horizons II strategy from 2006 to 2010 targets earnings per share growth at 10% per annum, and we are pleased to have exceeded this target in 2006 and 2007, with core earnings per share growth of 13% and 32% respectively.

The growth outlook for 2008, however, will be more challenging. The sub-prime crisis and subsequent credit turmoil has not abated, with financial markets remaining volatile and stock markets correcting sharply at the beginning of the year. While Asian economies are generally in good shape and not significantly exposed to the sub-prime and credit problems, they have not decoupled from the US and cannot escape unscathed from any significant slowdown or recession in the world's largest economy. Another concern is rising inflation, fuelled by higher commodity prices, which poses challenges for central banks around the world.

Against this uncertain outlook, our shareholders can take some comfort from OCBC's strong financial position and our ability to weather such upheavals. We have a solid capital base and enjoy one of the highest credit ratings among Asian banks. Our liquidity and funding position is sound, and we have strengthened our credit processes and risk management capabilities considerably over the years.

Barring a severe recession in the US economy, our key markets are expected to maintain good growth this year, with the Singapore economy projected to expand by 4.0 – 6.0%, Malaysia by 6.0 – 6.5% and Indonesia by 6.0 – 7.0%. The Singapore economy should remain fairly resilient, given the record 237,000 jobs created last year, the solid pipeline of property, infrastructure and integrated resorts projects, the strong inflows of foreign direct investments, and the rising number of tourists and immigrants.

Notwithstanding the external uncertainties ahead, we intend to press on, executing our growth strategy with determination and hard work, as we seek to strengthen our businesses and grow our market share in Singapore and overseas markets.

ACKNOWLEDGEMENTS

Two of our long serving Directors have decided to retire from the Board and will not be seeking re-appointment at the forthcoming Annual General Meeting. Mr Michael Wong has served as a Director since 1989, and as Vice Chairman of the Board since 2002, while Tan Sri Dato Nasruddin Bin Bahari has been a Director since 2000. Tan Sri Nasruddin will continue to serve the Group as Chairman of OCBC Malaysia. On behalf of the Board, we wish to express our deep appreciation to both gentlemen for their distinguished service and many contributions to the Group. Their wisdom and guidance will be greatly missed.

We also wish to commend our management and staff for their commitment and team-work in delivering the Group's strong performance in 2007. Equally important, we thank our customers for their continued patronage, and our business partners and shareholders for their ongoing support.

Cheong Choong Kong
Chairman

David Conner
Chief Executive Officer

21 February 2008