Letter to Shareholders

"While the financial crisis kept us on alert throughout the year, it did not detract us from continuing to invest in our service initiatives and delivery channels to better serve our customers and to provide a differentiated customer experience."

The past year was truly an economic *annus horribilis*. What began as a US sub-prime housing crisis in 2007 became a full-blown global financial crisis in 2008, resulting in an unprecedented liquidity and credit crunch, extreme upheavals in financial markets, numerous failed institutions, forced bank mergers and massive government intervention. The effects on the real economy began to show up world-wide in the fourth quarter of 2008, with most of the OECD world now in recession and many developing countries either in recession or facing dramatic declines in their GDP growth. It is clear that none of us have seen anything like the current global downturn in our professional lifetimes.

PERFORMANCE REVIEW

It is against this grim backdrop that we saw our core earnings decline after posting six consecutive years of growth. Our Group core net profit, which excludes non-recurring items, fell 21% to S$1,486 million in 2008, from S$1,878 million in 2007. Earnings were dragged down mainly by lower insurance, investment and trading income, and increased allowances. Including gains from the divestment of our remaining stakes in Straits Trading and Robinson & Company, and tax refunds and writebacks, our reported Group net profit was higher at S$1,749 million, although down 16% from the previous year's record of S$2,071 million.

Core net profit contribution from our insurance subsidiary Great Eastern Holdings (GEH) fell significantly from S$449 million to S$160 million, hurting the Group's consolidated profit. Excluding GEH, our core net profit showed a smaller decline of 7%. GEH's earnings were adversely affected by the weak and volatile equity and bond markets, which resulted in mark-to-market losses, lower investment profits and higher impairment provisions. However, its underlying insurance business remains healthy. New business premiums rose 32% for the year, and GEH maintained its leadership position, in terms of market share, in the life insurance business in Singapore and Malaysia, and in the bancassurance market in Singapore.

Our net interest income increased by 24% to S$2,783 million, driven by growth in interest earning assets and better margins. Loans grew 12% to S$81.3 billion, led by growth in business loans in Singapore as well as in overseas markets. Net interest margin widened from 2.10% to 2.27%, an eight-year high, as a result of higher loan spreads and lower funding costs, partially driven by strong growth in low cost deposits.

Non-interest income (excluding divestment gains) fell 25% to S$1,458 million, due mainly to lower insurance, investment and trading income. Fee and commission income held up reasonably well, falling 4% to S$774 million, as lower stockbroking, wealth management and fund management income was mitigated by growth in other fee-based businesses, in particular loan-related and trade-related income.

Our operating expenses rose 10% to S$1,854 million. Approximately 42% of this increase was due to the Group's overseas expansion, particularly in China, and the first-time consolidation of expenses from PacificMas Berhad, which became a subsidiary in April 2008. Our business-as-usual expenses increased by 7%, contributed mainly by higher base salaries, an increase in headcount, and higher depreciation, rental and business promotion costs.

Deterioration in credit markets and economic conditions resulted in a substantial increase in net allowances for loans and other assets to S$447 million, from S$36 million in 2007. This amount comprises S$185 million for loans (including portfolio allowances of S$20 million), S$87 million for CDOs (collateralised debt obligations) and S$175 million for other assets, mainly bonds. As at the end of 2008, our outstanding CDO investment exposure was S$453 million, of which 81% were covered by cumulative allowances and mark-to-market losses through the income statement, and another 15% covered through negative fair value adjustments in equity reserves.

Our non-performing loans (NPL) and NPL ratio fell steadily during the first nine months of the year but rose during the last quarter. At year-end, non-performing loans amounted to S$1,348 million, marginally below the end-2007 level, while the NPL ratio improved from 1.7% to 1.5%. Our allowance coverage ratio remains healthy, with cumulative allowances amounting to 125% of non-performing loans, up from 116%.

Our Malaysia and Indonesia banking subsidiaries performed well. OCBC Bank (Malaysia) Berhad grew its net profit by 20% to RM617 million (S$256 million), underpinned by higher net interest income, Islamic Banking income and non-interest income. Bank OCBC NISP in Indonesia achieved a 27% increase in net profit to IDR317 billion (S$40 million), driven by growth in net interest and non-interest income and a moderation in expense growth.

DIVIDENDS

The Board has recommended a final one-tier tax exempt dividend of 14 cents per share for ordinary shareholders, bringing the total distribution for 2008 to 28 cents, unchanged from 2007. The Board's decision takes into account the Group's strong capital position and anticipated capital needs, and its stated objective of maintaining, as far as possible, a steady dividend quantum to provide greater predictability to investors. The 2008 payout represents 58% of core net profit, above our target minimum of 45%.

We propose to reactivate our Scrip Dividend Scheme, which was approved by shareholders in 1996, to give shareholders the option of receiving their dividend in the form of shares instead of cash. This is subject to certain alterations being made to the scheme so that it conforms to the current SGX scrip dividend rules. For shareholders who elect to receive the final dividend in scrip, the issue price for the new shares to be alloted is proposed to be set at a 10% discount to the reference share price (the average closing price of OCBC shares from the ex-dividend date to the books closure date). The reason for offering the scrip option is to provide shareholders with a convenient way to re-invest their dividends in OCBC shares with minimal transaction costs.

CONTINUING TO INVEST FOR GROWTH

While the financial crisis kept us on alert throughout the year, it did not detract us from continuing to invest in our service initiatives and delivery channels to better serve our customers and to provide a differentiated customer experience.

Through our branch transformation initiative, we have to-date remodeled 26 of our branches in Singapore, including our main OCBC Centre, and nine branches in Malaysia. These branches now display our new branch design and layout which offers an enhanced level of service, convenience and interaction with our customers. In Singapore, we doubled our Premier Banking Centres from 5 to 10, opened a new service centre for our Private Bank clients, and extended our popular full-service Sunday Banking from 10 to 15 branches. In Malaysia, our wholly-owned Islamic Banking subsidiary, OCBC Al-Amin Bank Berhad, commenced operations in December 2008 with its first branch at Petaling Jaya. And in Hong Kong, we opened our first Premier Banking Centre.

Several key initiatives were launched in Singapore and across the region as part of our continuing focus on service innovation and excellence. In partnership with China Unionpay, we introduced *EasiRemit*, the first cross-border remittance service from Singapore to China that uses mobile phones and ATMs. *SmartChange* is a first-in-Asia save-as-you-spend feature which allows OCBC debit and credit cardmembers to save the small change on their card purchases in a designated OCBC savings account, matched by an equal contribution from OCBC for the first three months and a modest percentage thereafter. For our SME customers, we introduced *OCBC BizExpress* in Singapore, a free document collection service in industrial locations, and *Easi-Cash Collect* in Malaysia, a bulk cash collection service. Our first full-service Business Banking Centre was opened in Ubi, Singapore, dedicated to servicing the banking needs of companies in the industrial estate.

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Worthy of pride was the selection of OCBC as one of two agent banks to manage the Children Development Accounts (CDA) under Singapore's Baby Bonus Scheme. More than 75% of parents moved their CDA accounts to OCBC, which clearly demonstrates the success of our family-centric initiatives such as the *OCBC Mighty Savers™* programme and our full-service Sunday Banking.

In China, our expansion plans are proceeding on track and are showing good results. OCBC China, which was incorporated in August 2007, achieved revenue growth of 78% in 2008, driven by growth in loans and deposits, and increased contributions from the treasury and financial institutions businesses. We added two new main branches in Guangzhou and Beijing and a second sub-branch in Chengdu, bringing our China network to nine branches and sub-branches in six cities. In tandem with the business expansion, our China staff strength more than doubled during the year. We have also commenced our retail RMB business, widening our product range to include mortgages, home equity loans, bancassurance and a children's savings programme. During the year we also launched Internet Banking for retail customers, and our cash management platform *Velocity@ocbc* for business customers.

In Indonesia, Bank NISP changed its name and logo to Bank OCBC NISP in December 2008, and launched a major transformation programme in conjunction with its brand positioning as a "Partner for Life" to its customers. The name change is a significant event that reflects the forging of closer ties between the two banks and our commitment to help transform Bank OCBC NISP into a top-tier bank in Indonesia. The bank added 24 new branches and 45 ATMs during the year, bringing its total network size to 370 branches and 537 ATMs. We also increased our stake in Bank OCBC NISP from 72.4% to 74.7%.

We are making good progress in our collaboration efforts with our partner banks, Bank of Ningbo in China and VP Bank in Vietnam, in areas such as risk management, product development and training. These partnerships remain important in complementing and supporting our organic growth ambitions in both markets. In October 2008, we increased our shareholding in VP Bank from 10% to 15%.

LOOKING AHEAD

It is clear that 2009 will remain a difficult year for businesses and individuals around the world. The official forecast is that the Singapore economy will shrink between 2% and 5%, following a meagre 1.2% growth in 2008. Likewise, the economic prognosis around the world is negative.

While there is much uncertainty and debate over the timing and shape of any recovery, we take some comfort in the things that we do know. Unlike during the Asian financial crisis, the region is not at the epi-center of the current financial storm. Asia's financial systems are generally healthy. The S$20.5 billion Resilience Package announced by the Singapore Government will certainly help the economy and provide some assistance to businesses and individuals. The Jobs Credit scheme in particular should help corporate cash flows and bolster employment levels, both of which will be important to us in keeping overall credit provisions down. And despite the budget deficit, Singapore is fortunate to be spending its own surpluses, rather than taking on more public debt that could burden future generations. Finally, we should be glad that inflation, a key concern a year ago, is now falling, and expected to be zero to negative in 2009.

OCBC has made great strides in recent years and we are fortunate to have excess liquidity, ample capital and a strong balance sheet. As at the end of 2008, we have S$14.3 billion in Tier 1 capital, and our Tier 1 capital adequacy ratio of 14.9% is high relative to most other banks globally. Importantly, we have strengthened our risk management capabilities and credit processes considerably following the lessons learnt from the Asian financial crisis of 1997-98 and the recession in 2001-2002. Going into this downturn, we believe we can manage our portfolio and overall risks better compared to previous downturns. Nevertheless, as weak consumer sentiment persists, unemployment rises and more businesses get into trouble, our earnings are likely to be negatively impacted in the year ahead.

In this environment, it is appropriate that we become more careful with our expenses. Therefore we will endeavour to keep our business-as-usual expenses flat relative to 2008. To do so we have tightened policies on discretionary expenses, including travel, entertainment, employee events and rewards programmes. We are also optimising our workforce levels and resources to do more with less. For example, we are moving colleagues from areas where volumes are down to where business is holding up well. While we will limit new hiring, there is currently no plan for retrenchment and we have announced to staff that we will only consider retrenchment as a last resort after other cost saving measures are implemented. Furthermore, we intend to maintain our training budget, continuing to invest in our people to improve their skills and help them develop their careers.

We also intend to continue to invest prudently to position ourselves for future growth. However, we will pace our investments and capability building projects in the year ahead, and slow down our investments in non-essential IT capability building projects.

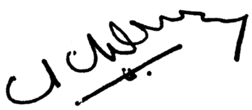
Despite these difficult times, we will remain customer centric. This is perhaps more important now than in good times. Commercial banking is largely about customer relationships and building trust in lean times is fundamental to building lasting bonds. We intend to work closely with all our customers through this trying period so that we can strengthen relationships for the longer term and help those customers who cooperate with us to emerge as stronger players. For example, OCBC is already among the leading financial institutions participating in the various government loan assistance schemes for SMEs, and we will continue to take a very active role in supporting the latest programmes to ensure that credit continues to flow to worthy borrowers.

ACKNOWLEDGEMENTS

The Board extends a warm welcome to two new Directors who joined us in November 2008: Mrs Fang Ai Lian, who is also the Chairman of Great Eastern Holdings, and Mr Colm McCarthy, a former career banker with the Bank of America. We look forward to their contribution and the sharing of their views and expertise.

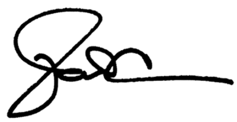
We would like to thank our fellow Board members for their valuable input and wise counsel, and our customers and shareholders for their continued support. Above all, we want to acknowledge the commitment and dedication of our staff. We are grateful for their deep sense of responsibility, and we know we can count on all of our colleagues to pull together to sustain our performance in the challenging year ahead.

Two Directors, Mr David Wong and Dr Tsao Yuan, have indicated that they do not wish to present themselves for re-election at the 2009 Annual General Meeting, having each served a total of nine and six years respectively. We thank them for their very useful contributions to the business of the Board during their terms of office and wish them well.



CHEONG CHOONG KONG
Chairman

18 February 2009



DAVID CONNER
Chief Executive Officer