Letter to Shareholders

OCBC had an active and fruitful year in 2004. We made further progress towards achieving the goals set in our New Horizons strategy. We capitalised on the economic rebound to expand our customer base, deepen customer relationships, and invest further in systems, processes, products and people. At the same time, we executed several key strategic initiatives that will position OCBC for healthy growth in the future.

Record Earnings Our Group achieved another year of strong earnings growth. Net profit reached S$1,162 million in 2004, an increase of 22% compared to S$954 million in 2003. This is the first time in our history that earnings crossed the S$1 billion mark. Return on equity also improved from 10.0% in 2003 to 11.4% in 2004.

More encouragingly, our earnings growth was driven by an increase in top-line revenue, in addition to lower provisions. Operating profit before provisions rose by 25% to S$1,669 million, as our revenue grew 21%, outpacing the expenses growth of 14%.

Our net interest income increased by 6% to S$1,518 million as we grew our customer loans by 5% and kept our net interest margin stable, in the face of very keen price competition in Singapore. Our fee and commission income showed a broad-based expansion of 24% to S$464 million, with a particularly strong performance in sales of wealth management products including bancassurance, structured deposits and unit trusts. Provisions for loans and other assets fell from S$225 million in 2003 to S$77 million in 2004, reflecting our improved credit processes and asset quality, as well as the economic recovery.

In June 2004, we increased our shareholding in Great Eastern Holdings ("GEH") from 49% to 81% in a general offer. Consequently, GEH's results were consolidated as a subsidiary from June 2004, whereas previously GEH was equity accounted as an associated company. For 2004 as a whole, GEH's total contribution to our net profit was S$189 million, up from S$163 million in 2003.

We divested two non-core assets in 2004, namely, Raffles Investments and Whitesands Shopping Mall, reaping a total net gain of S$97 million, as compared to divestment gains of S$126 million in 2003. Excluding these gains, our core net profit showed even stronger growth of 29%, from S$828 million in 2003 to S$1,065 million in 2004.

We are pleased that our asset quality continues to show significant improvement, with our non-performing loans ratio declining from 6.9% to 4.9%, its lowest level since December 1997. Overall provision coverage of NPLs strengthened from 67% to 83%.

Our increased focus on our Malaysia operations is also beginning to pay off. OCBC Bank (Malaysia) Berhad achieved a 35% rise in net profit to RM276 million (S$123 million), driven by higher non-interest income and Islamic Banking income, as well as lower provisions. Our Malaysia loans grew by a robust

14%. In addition, we were awarded Multi-media Super Corridor status for our processing subsidiary, e2 Power Sdn. Bhd., and we made good progress centralising the operations of our 25 branches throughout the country so as to realise significant productivity gains.

Much was accomplished on the capital management front over the past year. As part of the GEH transaction, we bought back and cancelled 6.3% of our share capital that was held by GEH, for a cash consideration of S$991 million. We also announced a S$500 million on-market share buyback programme in August 2004, and as of 31 January 2005 we have completed S$394 million of the programme. The net result is that the issue of new OCBC shares for the GEH offer was largely offset by these share buybacks, such that our earnings per share grew 20% to 86 cents, slightly less than our net profit growth of 22%. In addition, as part of our continuing efforts to achieve a more efficient Tier 1 capital mix by utilising lower-cost capital, we successfully raised S$400 million of hybrid Tier 1 preference shares in January 2005.

Higher Dividends The Board has recommended a final dividend of 19 cents per share for ordinary shareholders, bringing the total distribution for 2004 to 38 cents per share. This is a 65% increase over the 23 cents paid for 2003.

Following the reduction in the minimum Tier 1 capital requirement for Singapore banks announced in May 2004, we revised our target minimum dividend payout ratio from 25% to 35% of the Group's core earnings. Consistent with this policy, the estimated net dividends of S$403 million for 2004 represent 38% of our core net profit of S$1,065 million.

Strategic Initiatives We continued to make good progress in the second year of our New Horizons strategy. The full report card of our achievements in the respective areas of customers, products, risk management, productivity, people, shareholders and overseas expansion, can be found in the "New Horizons" section of this annual report. Here we wish to focus on three strategic initiatives accomplished last year which have profound and positive implications for OCBC's long term growth.

- **Closer Alliance with Great Eastern Holdings** Our most important corporate development in 2004 was the acquisition of an increased stake in our long-standing strategic partner GEH, the largest insurance group in Singapore and Malaysia. Through a general offer involving the exchange of 976 OCBC shares for every 1,000 GEH shares, we raised our stake in GEH from 49% to 81%, thereby making GEH a major subsidiary of OCBC.

  This move transforms OCBC into a much bigger and stronger financial services group, boosting our total assets by 42% to S$120 billion as at the end of 2004. More importantly, OCBC is now the largest financial institution in terms of assets in the combined Singapore and Malaysia markets, thereby fulfilling one of our key New Horizons objectives. Our combined bank and agency sales force of more than 20,000 is also the largest among financial institutions in the two countries, and our customer accounts have doubled to more than four million.

  Beyond the benefits of increased size, we believe that forging a closer alliance with GEH makes strategic sense. It strengthens our wealth management franchise, and enables us to offer customers even more choices from a complete suite of financial products and services. By leveraging on our combined customer base and distribution channels, we can also increase cross-sell opportunities and reap revenue synergies. Overseas, we see opportunities to work together with GEH in pursuing regional expansion outside of Singapore and Malaysia.

The cross-sell potential has been validated by the encouraging results we have seen in two pilot projects in East Malaysia, which involved referrals by GEH agents of OCBC's credit cards and housing loan products to their policyholders. These pilots together with other initiatives with GEH accounted for one fifth of the 90% surge in our Malaysian credit card base in 2004. We are confident that closer collaboration with GEH will enhance our market positions in our two key markets of Singapore and Malaysia.

- **Expanding into Indonesia** We made significant headway last year in our stated goal of establishing a substantial presence in a third major market by 2005. In April 2004, we acquired a 22.5% stake in Bank NISP, the 12th largest bank by assets in Indonesia, for S$119 million. This was followed in December 2004 by our proposed acquisition of an additional 28.5% stake, which will bring our shareholding to a majority stake of 51%. This increased shareholding is currently in the process of receiving requisite approvals from regulatory authorities and Bank NISP's shareholders. Upon its completion, OCBC will be required to make a tender offer for the remaining shares in Bank NISP, which we expect to complete by the first half of 2005.

  We have chosen Indonesia as our third major market, and Bank NISP as our partner, after careful consideration. Indonesia is an attractive market for OCBC given its size, growth potential, proximity and economic links with Singapore, and just as importantly, its similarities with the Malaysian market where we have a significant presence and relevant experience. Bank NISP's business focus directly complements our strengths and target growth segments, as it has a successful SME franchise and is seeking to grow its consumer banking business. Bank NISP also has a strong management team, solid financials and a proven track record of profitability, having weathered the Asian financial crisis without any assistance from the government.

  Our objective is to help build Bank NISP into one of the leading banks in Indonesia. Several joint initiatives are now underway to boost cooperation. In the consumer segment, we plan to leverage our proven abilities in sales distribution, customer relationship management and wealth management to strengthen Bank NISP's existing business. In the SME arena, we will work with Bank NISP to augment their product range, for example, in cash management, and to help improve their risk management and credit processes.

- **Collaboration with NTUC Link** Last September we signed an exclusive, collaborative agreement with NTUC Link to offer a broad range of financial services with greater benefits and rewards to more than 440,000 union members and the wider working community. This initiative reaffirms our role as a community bank, serving the mass consumer market. It ties in with our strategy to build a successful mass consumer business that will serve us well when we expand into regional markets like Indonesia and China.

  The first initiative launched under this partnership with NTUC Link was the co-branded NTUC-OCBC VISA Credit and Debit Cards. These cards offer NTUC members greater payment convenience at a larger number of merchant outlets, access to OCBC's card privileges programme, and opportunities to redeem rewards at a faster rate. More than 40,000 card applications were received in the four months after the launch. We also achieved a good response rate to our time deposit promotion for NTUC members.

Looking Forward The general consensus is that the global economy should see moderate growth in 2005. The Government has projected Singapore's GDP growth to slow to 3 – 5% this year, from an estimated 8.1% in 2004. For Malaysia, most economists are projecting 5 – 6% growth, compared to an estimated 7.2% in 2004.

Given this benign outlook, and barring major upheavals, we expect to continue to deliver growth and to make further progress towards achieving our 12% ROE target. We will seek to achieve balanced growth, building our consumer and SME banking businesses, and growing both our interest and non-interest income. As always, managing the intense competition, margin and cost pressures in the mature Singapore market will pose challenges. We will have to be efficient in our operations and processes, innovative in our product offerings, better than our competitors in providing excellent customer service, and disciplined in controlling our costs. We will also have to look increasingly to Malaysia and other overseas markets for growth.

Following the investments we made last year in GEH and Bank NISP, we expect to be actively engaged in 2005 in seeking ways to leverage on these partnerships to deliver revenue synergies. For our collaboration with NTUC Link, we will be looking to launch more customised products to benefit union members.

Under regulatory guidelines, we are required to reduce the Group's shareholding in Straits Trading Company and Robinson and Company to below 10% by July 2006. We will continue to divest our other non-core assets at opportune times and at optimal prices, and reinvest the gains in core financial services businesses. Efficient capital management remains an important objective, and we will continue to evaluate our capital needs and options.

Acknowledgements Our appreciation goes to our fellow Board members for contributing their invaluable time and expertise to steer OCBC on the right course. Datuk Fong Weng Phak has stepped down from the Board in January 2005 after three years of service. We thank him for his contributions and wish him the best in his future endeavours. We welcome two new Board members, Mr Giam Chin Toon and Professor Neo Boon Siong, whose extensive knowledge and experience will further strengthen our Board.

We also want to thank the management team and all our colleagues for their dedication, commitment and teamwork in building OCBC into a high performance bank. Last but not least, we thank all our customers and shareholders for their continued support and confidence in OCBC.

CHEONG CHOONG KONG
Chairman

14 February 2005

DAVID CONNER
Chief Executive Officer