Letter to Shareholders

Cheong Choong Kong
Chairman

David Conner
Chief Executive Officer

The economic environment in 2005 was generally positive for Singapore banks, with the domestic economy recording healthy GDP growth of 6.4%, following a strong 8.7% expansion the year before. Nevertheless, loans in the banking sector as a whole grew only 2.2% during the year, and treasury income for most banks was adversely affected by the flat interest rate yield curve. Against this backdrop, we are pleased that OCBC continued to deliver satisfactory results.

PERFORMANCE REVIEW

Our Group net profit grew by 13% to S$1,298 million in 2005, from S$1,148 million in 2004. Excluding the one-time gains of S$97 million from the divestment of non-core assets booked in 2004, our net profit growth in 2005 would have been a stronger 24%. Return on equity improved from 11.3% in 2004 (10.3% excluding the divestment gains) to 11.4% in 2005.

The earnings growth was contributed by higher operating profit, lower loan allowances as well as the discontinuation of goodwill amortisation under new accounting rules. Our operating profit before allowances for loans and other assets rose by 6% to S$1,742 million, helped by the consolidation of Bank NISP's results as a subsidiary from April 2005, and a full year's consolidation of Great Eastern Holdings ("GEH") compared to seven months' consolidation in 2004.

Growth in interest earning assets and the contribution from Bank NISP lifted our net interest income by 5% to S$1,597 million. Our loans grew by 6% during the year, driven largely by growth in Malaysia and the addition of Bank NISP's loans. However, our net interest margin fell from 1.91% to 1.84%, reflecting the sharp rise in the domestic cost of funds and the lack of gapping opportunities as a result of a flat yield curve. Our non-interest income streams performed better, achieving broad-based growth of 16% (32% if we exclude the 2004 divestment gains) to S$1,289 million. The growth came from higher insurance income, fees and commissions and dividend income, as well as improved contributions from dealings in securities and derivatives and disposal of investment securities.

Our operating expenses increased by 16% to S$1,145 million, the result largely of the consolidation effects of GEH and Bank NISP. Excluding the two subsidiaries' expenses, our expenses grew by 4%, reflecting higher staff costs due to increases in headcount and salaries. Our cost-to-income ratio was 39.6% in 2005, largely unchanged from 2004 if divestment gains were excluded.

Allowances for loans and other assets fell significantly for the third consecutive year, from S$77 million to S$12 million, as we continued to manage portfolio risks well and realise good recoveries from our non-performing loans ("NPLs") and loan-related securities. Our NPL ratio improved from 5.0% to 4.1%, and overall allowance coverage of NPLs strengthened further from 83% to 88%.

We achieved particularly strong results in Malaysia. OCBC Bank (Malaysia) Berhad's net profit surged by 53% to RM415 million (S$182 million), driven by an 18% growth in total revenue and a reduction in allowances for loans and other assets. Our Malaysia loans grew by a broad-based 10% while our net interest margin improved from 2.23% to 2.39%.

Continuing our policy to actively manage our capital, we commenced a second S$500 million share buyback programme in July 2005; as of 31 January 2006, we have utilised S$333 million under this programme. To further improve our capital structure, we raised S$400 million of Tier 1 hybrid preference share capital in Singapore, while OCBC Malaysia raised RM400 million from its maiden issue of Tier 1 preference shares, the first rated preference share offering in Malaysia.

The Board is pleased to recommend a final dividend of 12 cents per share for ordinary shareholders, bringing the total distribution for financial year 2005 to 23 cents per share. This is a significant increase of 45% over the 15.8 cents (adjusted) paid for financial year 2004. The estimated total net dividends of S$574 million for 2005 represent 44% of our core net profit, which exceeds our dividend policy's minimum payout of 35%.

THREE-YEAR NEW HORIZONS ACHIEVEMENTS

2005 marked the last year of our three-year New Horizons strategy, which sought to deliver international growth via a build-and-transfer approach, and build a high performance bank through a balanced business scorecard discipline. Our focused efforts in executing this strategy have been fruitful, and most of our objectives have been met. At this point, it is appropriate to take stock and highlight the major achievements over the last three years.

Overseas Expansion

The key overseas expansion objectives we sketched in early 2003 – to grow our Malaysia business rapidly, establish ourselves in a third major market (Indonesia), and be poised to add a fourth market (China) – have been met. Our overseas earnings contribution has also grown significantly from 23% in 2002 to 36% in 2005, with Malaysia accounting for 30% and others 6%.

We have invested significant resources to grow our Malaysia businesses, including increased hirings and enhancements to hard and soft infrastructure. These efforts contributed to the 115% increase in OCBC Malaysia's net profit from 2002 to 2005. Cumulative loans growth was 24%, and we remain one of the top three largest foreign banks in Malaysia by loans. The growth segments in Malaysia include housing loans (66% increase over three years), credit cards (250% increase in card base), SME business (market penetration among SMEs doubled), wealth management, treasury, trade finance and Islamic Banking.

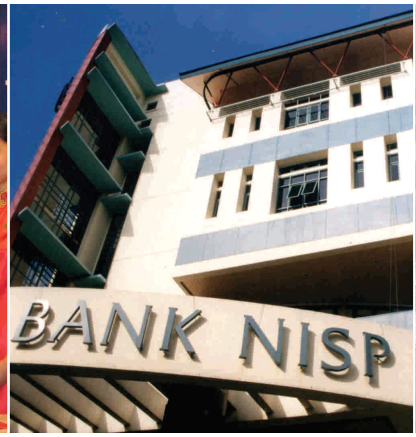
Following the acquisition of an initial 22.5% stake in Indonesia's Bank NISP in 2004, we increased our shareholding to 72.3% by the end of 2005, investing a total of approximately S$531 million. We intend to make Bank NISP a top-tier nationwide bank focused on SMEs and consumers by 2010. We achieved several milestones in 2005 in our collaboration with Bank NISP, including a joint ATM link-up in the two countries, helping Bank NISP launch a local version of our award winning *Velocity@ocbc* cash management platform, and sales of Great Eastern products through Bank NISP's branch network.

Early this year, we announced an agreement to acquire a 12.2% stake in China's Ningbo Commercial Bank ("NCB") for RMB 570 million or approximately S$120 million. We expect this transaction to be completed in mid-2006. In terms of assets, NCB is the 8th largest of the 113 city commercial banks in China, and is rated highly for its asset quality and capital strength. As with Bank NISP, we intend to work closely with NCB to support the growth of their SME and consumer businesses. As part of the acquisition agreement, OCBC will be providing technical assistance to NCB through a structured training and development programme that will initially focus on consumer banking, treasury, risk management, IT and internal audit.

Customers

Over the past three years, our consumer banking customers in Singapore and Malaysia increased by a compounded average of 7% per annum, while the number of SME customers increased by 8% per annum.

Increasing our shareholding in GEH through a voluntary offer in 2004, thereby making it a subsidiary, has further strengthened our market position in Singapore and Malaysia, as GEH is the largest life insurance player in both countries. Including the insurance business, OCBC is now one of the top three consumer financial services providers in the combined Singapore-Malaysia market. Our credit card referral programme through GEH's 20,000 agents in Malaysia was piloted in 2004 and rolled out nationwide in 2005, achieving a strong response from GEH's policyholders. This referral programme and other initiatives with GEH contributed around one third of the increase in our Malaysia credit card base in 2005.



(from left) Signing ceremony for OCBC's proposed stake in China's Ningbo Commercial Bank; Bank NISP's office in Indonesia; Official opening of Menara OCBC, Kuala Lumpur, graced by the Malaysian Prime Minister.

In 2004, we clinched an exclusive, collaborative agreement with NTUC Link to offer a broad range of financial services to more than 440,000 NTUC union members and the wider working community. Our *NTUC-OCBC Credit Card* base has since crossed 100,000, and we have also launched tailored deposit accounts and financial planning seminars for union members.

In the SME segment, we introduced 28 new SME lending programmes in Singapore and Malaysia over the past three years, offering asset-based financing products and targeting specific industry segments. Our average cross-sell ratio for our SME customers almost tripled. As with our consumer customers, we also conducted extensive customer satisfaction surveys for SME customers, both in Singapore and Malaysia, to better understand and meet their needs.

Products

We launched more than 200 new products over the past three years, with new products accounting for 16% of our revenues in 2005, up from 6% in 2003. Our *Velocity@ocbc* cash management and internet banking platform for corporates and SMEs won us recognition from *Global Finance* for Best Corporate/Institutional Internet Bank in both Singapore and Malaysia. We were also named Best Trade Finance Bank in Singapore.

Our wealth management sales in Singapore and Malaysia jumped 160% from 2002 to S$10.1 billion in 2005, and we maintained our number one position in bancassurance distribution in Singapore. Our treasury team saw a tripling of their structured products sales volume from 2003 to 2005. In Investment Banking, we were ranked number one in the Singapore syndicated loans league table in 2004 and 2005.

Last year, we merged the operations of our former subsidiary, OCBC Asset Management with GEH's Straits Lion Asset Management, to form Lion Capital Management, now one of the largest asset management companies in Singapore and the region with more than S$31 billion in assets under management.

Risk Management

We have revamped our credit processes extensively over the past three years, including credit process training, independent credit risk reviews, establishment of a special asset management unit, and streamlined credit approvals. These efforts and the improving economy have resulted in our NPL ratio improving from 8.1% to 4.1%. Allowances for loans and other assets fell sharply from S$501 million in 2002 to S$12 million in 2005, while allowances coverage of NPLs improved from 62% to 88%. In the last two years our credit ratings were also upgraded one notch by two ratings agencies – S&P in 2004 (to A+) and Fitch in 2005 (to AA-).

Productivity

We achieved an average unit cost reduction of 10% per annum across seven product processing factories from 2003 to 2005. In 2004 we completed centralisation of the back-office operations of our 25 Malaysia branches in three locations, freeing up more than 20% capacity at these branches for sales and service. We are also on track in our cross-border hubbing project to create cross-border processing hubs in Singapore and Malaysia for selected operations and technology functions. This initiative will boost our processing capacity, further lower our unit costs and, at the same time, provide for business continuity back-ups between our two key markets.

As part of our drive to inculcate a quality culture and achieve better business results through process innovation, we have to-date executed 19 cross-functional process improvement projects, resulting in significant productivity gains and improved customer service. Two of these projects – letter of credit issuance in Singapore and the mortgage loan application process in Malaysia – garnered the Asian Banking Awards for Operational Efficiency.

People

29% of our Bank's employees are now OCBC shareholders or potential shareholders, attributable largely to the implementation of a *Deferred Share Plan* in 2003 and *Employee Share Purchase Plan* in 2004. Compared to just 6% employee shareholding three years ago, a significant proportion of our employees now benefit directly from OCBC's shareholder value generation and their interests are more aligned with shareholders. We have expanded our staff learning and career development programmes extensively and introduced a flexible benefits programme which gives our employees more choices in managing their benefits to meet their individual needs. Average training man-days per employee rose 35% from 2002 to 6.8 man-days in 2005, well above our target of 5 man-days. The engagement score from our Bank-wide annual *OCBC Employee Survey*, introduced in 2002, has improved by 52% over three years.

Shareholder Value

All the key measures of our financial performance and shareholder returns showed significant improvement from 2002 to 2005:

- Net profit almost doubled from S$667 million to S$1,298 million, while ROE improved from 7.4% to 11.4%.

- Earnings per share increased by 86% from 22 cents to 40 cents, averaging 23% per annum.
- Gross dividends per share increased by 176% from 8.3 cents to 23 cents, while our dividend payout increased from 30% to 44% of core net profit.
- Our share price rose by 67% and, including the net dividends received, cumulative shareholder return over the three years was 80%, the best performance among the three local banks.

In addition to the S$1.2 billion of ordinary dividends paid for financial years 2003 to 2005, we also returned approximately S$2.5 billion of excess capital to shareholders, through a special dividend, two selective capital reductions and two share buyback programmes.

Last year we declared a S$1.3 billion one-off bonus dividend in combination with a 1-for-5 rights issue, with an election option to use the bonus dividend to fully pay for the rights entitlement. Shareholders who exercised the election option in effect received a free OCBC share for every five shares held. This exercise, and the 2-for-1 stock split which followed, served to enhance the affordability of OCBC shares on a per lot basis for smaller investors and to increase our shares' trading liquidity over time. It was also a way for us to pass on substantial Section 44 tax credits to shareholders before those credits expire at the end of 2007.

In line with our aim of achieving a more efficient Tier 1 capital mix and lowering our cost of capital, we have, in the last three years, raised a total of S$1.3 billion in Tier 1 non-cumulative non-convertible preference shares. This amount constituted 14% of our total Tier 1 capital as at the end of 2005.

We have also progressively unlocked value for shareholders by divesting our non-core investments and properties, not merely to meet regulatory requirements but as a stated policy of "swapping" these non-core assets for core financial services assets. To-date, six major divestments of non-core assets were completed, with another pending completion (the divestment of a stake in Straits Trading). We have effectively "swapped" the total gains of S$301 million from these divestments into core financial businesses through our acquisitions of Bank NISP and Ningbo Commercial Bank.

Despite the substantial increase in dividends, return of excess capital, and two key acquisitions during the three-year period, our capital adequacy ratios remained the strongest among the local banks, with total CAR of 17.3% and Tier 1 ratio of 13.2% as at 31 December 2005.

NEW HORIZONS II: CONTINUING THE JOURNEY

New Horizons II encapsulates our strategic direction and goals for the next five years from 2006 to 2010. Retaining the previous name suggests continuity – after all, the first New Horizons strategy served us well, so there is no compelling reason to change the overall strategy significantly. What we have done is to refine the emphasis in our overseas expansion, set some new targets and identify new capabilities to be developed in order to drive our revenues going forward.

The key strategic thrusts of New Horizons II are as follows:

Focused Overseas Expansion

In pursuing international growth, we will shift our emphasis from adding more countries to focusing on deepening our market penetration in Malaysia, Indonesia and China. We may however explore opportunities to establish strategic partnerships in Indochina.

In Malaysia, we will continue expanding our market share rapidly in the consumer and SME segments.

We will grow our consumer and SME businesses in Indonesia and China by transferring successful business models and product solutions to our branches and alliances in those two countries. In Indonesia, we will help broaden Bank NISP's product offering, including wealth management, credit cards, cash management and trade services, to rapidly grow its customer base. Indonesia is expected to be a major growth engine for OCBC. In China, we will leverage on our strategic partnerships and experiment with customer and product solutions through our partners to grow our consumer and SME customer franchise. We will also build capabilities to take on larger growth opportunities that may become available with regulatory changes.

Continuation of Balanced Business Scorecard

We will continue with our balanced business scorecard discipline to further improve our performance in the areas of customers, products, risk management, productivity, people and shareholder value.

There are no major changes in our shareholder value targets and capital management philosophy. The key financial objectives are to deliver EPS growth of 10% per annum, and to achieve and sustain an ROE of above 12%. Our dividend policy remains at 35% minimum payout (of core earnings), but we will periodically review this minimum target. Share buybacks remain our preferred way of returning excess capital to shareholders. We will continue to divest our non-core assets at opportune times and at optimal prices, and reinvest these gains in core financial services businesses.

PROSPECTS FOR 2006

According to the latest official forecast, the Singapore economy is expected to grow by 4 – 6% this year. In Malaysia, the government expects GDP growth of around 5.5%, while in Indonesia, the central bank forecasts GDP growth of 5.0 – 5.7%. The consensus is that steady and healthy growth should continue in the world's major economies – the US, Europe, Japan, and in particular, Asia's growth engines of China and India. We sense a more upbeat mood among our business and consumer customers in Singapore, Malaysia and Indonesia regarding the economy and overall business and employment prospects.

We continue to expect stronger revenue growth coming from our Malaysia and Indonesia operations as compared to the saturated banking market in Singapore. With the hard work and investments we have put in over the past several years to build our capabilities, and the strategic direction we have set for ourselves going forward, we are optimistic that OCBC is well placed to capitalise on growth opportunities in the region, and to deal with the occasional macroeconomic upheavals that one can expect from time to time.

ACKNOWLEDGEMENTS

Our Honorary Life President, Tan Sri Tan Chin Tuan, who devoted more than 50 years of an extraordinary career to OCBC Bank from 1925 to 1983, passed away in November last year. On behalf of all staff, management and directors, both past and present, we pay tribute to a man who was an excellent mentor, a far-sighted leader and a generous individual. His steadfast contributions and high standards of integrity have left an enduring legacy, helping to make OCBC a household name in Singapore and Malaysia as a bank with a reputation for being "solid as a rock".

We also take this opportunity to thank our fellow Board members for contributing their invaluable time, counsel and guidance. Finally, our appreciation goes to all staff and management of OCBC for their dedicated service and teamwork, and to our shareholders and customers for their continuing support.

Cheong Choong Kong
Chairman

David Conner
Chief Executive Officer

28 February 2006