Management Discussion and Analysis

FINANCIAL SUMMARY

	2007	2006	% chg
Selected Income Statement Items (S$m)			
Net interest income	**2,244**	1,794	25
Non-interest income	**1,944**	1,448	34
Total core income	**4,188**	3,242	29
Operating expenses	**(1,680)**	(1,331)	26
Operating profit before allowances and amortisation	**2,509**	1,911	31
Amortisation of intangible assets	**(46)**	(44)	6
Allowances and impairment for loans and other assets	**(36)**	(2)	NM
Operating profit after allowances and amortisation	**2,426**	1,864	30
Share of results of associates and joint ventures	**21**	14	53
Profit before income tax	**2,447**	1,878	30
Core net profit attributable to shareholders	**1,878**	1,443	30
Divestment gains (net of tax)	**90**	559	(84)
Tax refunds	**104**	–	NM
Reported net profit attributable to shareholders	**2,071**	2,002	3
Cash basis net profit attributable to shareholders [1]	**2,117**	2,046	3
Selected Balance Sheet Items (S$m)			
Ordinary equity	**14,782**	12,508	18
Total equity (excluding minority interests)	**15,678**	13,404	17
Total assets	**174,607**	151,220	15
Assets excluding life assurance fund investment assets [2]	**133,471**	113,607	17
Loans and bills receivable (net of allowances)	**71,316**	59,309	20
Deposits of non-bank customers	**88,788**	75,115	18
Per Ordinary Share Data – Based on Core Earnings			
Basic earnings (cents) [5]	**59.7**	45.4	32
Basic cash earnings (cents) [5]	**61.2**	46.8	31
Diluted earnings (cents) [5]	**59.3**	45.2	31
Net asset value (S$)			
Before valuation surplus	**4.79**	4.07	18
After valuation surplus	**6.46**	5.55	16
Key Financial Ratios – Based on Core Earnings (%)			
Return on equity [3][5]	**13.4**	11.8	
Return on equity – Cash basis [3][5]	**13.7**	12.2	
Return on assets [4]	**1.51**	1.38	
Return on assets – Cash basis [4]	**1.55**	1.42	
Net interest margin	**2.10**	2.00	
Non-interest income to total income	**46.4**	44.7	
Cost to income	**40.1**	41.1	
Loans to deposits	**80.3**	79.0	
NPL ratio	**1.7**	3.0	
Total capital adequacy ratio	**12.4**	15.8	
Tier 1 ratio	**11.5**	13.1	

(1) Excludes amortisation of intangible assets.
(2) 2006 comparatives have been restated for the reclassification of life assurance fund's property, plant and equipment from life assurance fund investment assets.
(3) Preference equity and minority interests are not included in equity in the computation of return on equity.
(4) The computation for return on assets does not include life assurance fund investment assets.
(5) In computing return on equity and earnings per share, preference dividends paid and estimated to be due as at the end of the financial period are deducted from core earnings.
"NM" denotes not meaningful.

Management Discussion and Analysis

Group net profit attributable to shareholders ("net profit") for the financial year ended 31 December 2007 increased by 3% to S$2,071 million, from S$2,002 million in 2006. Core net profit, which excludes gains from the divestment of non-core assets and tax refunds, grew by 30% to S$1,878 million, driven by broad-based revenue growth across the Group's key markets and subsidiaries, particularly Great Eastern Holdings ("GEH"). Net interest income grew 25% and non-interest income rose 34%, while operating expenses increased 26%.

Core earnings in 2007 exclude a S$90 million gain from the sale of an office property and S$104 million in tax refunds received during the year. In 2006, divestment gains were significantly higher at S$559 million, derived from the sale of a residential property as well as shareholdings in Robinson and Company Limited, The Straits Trading Company, Southern Bank Berhad and Raffles Holdings Limited.

Return on equity, based on core earnings, improved from 11.8% in 2006 to 13.4% in 2007. The Group's equity in the second half of 2007 was boosted by about S$1 billion mark-to-market gain on its 10% stake in Bank of Ningbo, which was listed in July 2007. Excluding this effect, adjusted return on equity would have been higher at 13.8% for 2007. Core earnings per share for 2007 grew by 32% to 59.7 cents.

The Group's net interest income grew 25% to S$2,244 million, supported by growth in interest earning assets and improved interest margins. Loans grew by 19%, contributed mainly by growth in corporate and SME loans in Singapore, Malaysia and other overseas markets. Housing loans in Singapore also picked up during the second half of the year. Net interest margin improved from 2.00% to 2.10%, largely due to better margins in Singapore and Indonesia as the cost of funds fell faster than asset yields.

Non-interest income, excluding divestment gains, grew 34% to S$1,944 million, accounting for 46.4% of the Group's core revenue. Growth was driven by strong contributions from fee-based activities, higher profit from life assurance, as well as higher gains from the sale of investment securities.

Operating expenses increased by 26% to S$1,680 million in 2007. 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.

The Group made total allowances of S$231 million for its investments in collateralised debt obligations ("CDOs") in 2007. Allowances of S$226 million were made for the Bank's investment in asset-backed securities ("ABS") CDOs, reducing the carrying value of the portfolio by 85% to S$41 million as at end-2007. GEH provided an allowance of S$5 million for the CDOs invested under its 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. In addition, there was a net reversal of S$87 million in allowances for other assets, mainly office properties in Singapore. As a result, the Group's net allowances for the year remained low at S$36 million, although this was higher than the S$2 million in 2006.

Key subsidiaries of the Group reported healthy results for 2007. GEH achieved 15% 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 the Group's core earnings, after deducting amortisation of intangible assets and minority interests.

OCBC Bank (Malaysia) Berhad's net profit rose 19% to RM512 million, led by growth in net interest income, Islamic Banking income and fees and commissions. Bank NISP's net profit grew by 5% to IDR250 billion, as strong revenue growth was offset to some extent by higher allowances and increased expenses related to its network and headcount expansion.

The Board of Directors is recommending a final tax-exempt dividend of 14 cents per share, bringing the full year dividend to 28 cents per share, up 22% from 23 cents in 2006 and representing a payout of 46% of the Group's core earnings.

Management Discussion and Analysis

NET INTEREST INCOME

Average Balance Sheet

	2007			2006		
	Average Balance S$m	Interest S$m	Average Rate %	Average Balance S$m	Interest S$m	Average Rate %
Interest earning assets						
Loans and advances to non-bank customers	**63,811**	**3,535**	**5.54**	55,782	3,109	5.57
Placements with and loans to banks	**22,441**	**863**	**3.84**	17,655	744	4.22
Other interest earning assets [1]	**20,643**	**868**	**4.20**	16,371	663	4.05
Total	**106,895**	**5,265**	**4.93**	89,808	4,516	5.03
Interest bearing liabilities						
Deposits of non-bank customers	**82,080**	**2,175**	**2.65**	68,062	1,966	2.89
Deposits and balances of banks	**12,831**	**569**	**4.44**	10,722	473	4.41
Other borrowings [2]	**5,543**	**277**	**5.00**	5,810	283	4.87
Total	**100,454**	**3,021**	**3.01**	84,594	2,722	3.22
Net interest income/margin [3]		**2,244**	**2.10**		1,794	2.00

(1) Comprise corporate debt securities and government securities.
(2) Comprise mainly debts issued, including Tier 2 subordinated debt.
(3) Net interest margin is net interest income as a percentage of interest earning assets.

Net interest income grew 25% to S$2,244 million, supported by growth in interest earning assets and improved interest margins. Average interest earning assets grew 19% as loans, interbank placements and securities increased. Net interest margin improved from 2.00% in 2006 to 2.10% in 2007, largely due to better margins in Singapore and Indonesia where the cost of funds fell faster than asset yields.

Volume and Rate Analysis

Increase/(decrease) for 2007 over 2006	Volume S$m	Rate S$m	Net change S$m
Interest income			
Loans and advances to non-bank customers	447	(22)	426
Placements with and loans to banks	202	(83)	119
Other interest earning assets	173	32	205
Total	822	(73)	749
Interest expense			
Deposits of non-bank customers	405	(196)	209
Deposits and balances of banks	93	3	96
Other borrowings	(13)	7	(5)
Total	485	(186)	299
Net interest income	337	113	450

Management Discussion and Analysis

NON-INTEREST INCOME

	2007 S$m	2006 S$m	+/(-) %
Fees and commissions			
Brokerage	**136**	72	89
Wealth management	**163**	129	27
Fund management	**86**	72	20
Credit card	**56**	48	17
Loan-related	**124**	81	53
Trade-related and remittances	**115**	92	25
Guarantees	**23**	24	(5)
Investment banking	**41**	31	34
Service charges	**44**	33	34
Others	**19**	16	20
Sub-total	**808**	597	35
Dividends	**55**	77	(28)
Rental income	**62**	78	(20)
Profit from life assurance	**509**	376	35
Premium income from general insurance	**65**	59	9
Other income			
Net dealing income:			
Foreign exchange	**186**	144	29
Securities and derivatives	**(12)**	1	NM
Net gains from investment securities	**202**	46	343
Net gains from disposal of properties	**5**	8	(41)
Net loss from disposal of subsidiaries	**–**	(6)	NM
Others	**63**	67	(6)
Sub-total	**444**	260	71
Total core non-interest income	**1,944**	1,448	34
Divestment gains	**92**	598	(85)
Total non-interest income	**2,036**	2,045	–
Fees and commissions/Total income [1]	**19.3%**	18.4%	
Non-interest income/Total income [1]	**46.4%**	44.7%	

[1] Excludes divestment gains.

Non-interest income, excluding divestment gains, grew 34% to S$1,944 million in 2007. The robust growth was driven by strong contributions from fee-based activities, higher profit from life assurance, as well as higher gains from the sale of investment securities.

Fees and commissions rose 35% to S$808 million in 2007, with the increase led by stock-broking, wealth management, loan-related and trade-related activities. Profit from life assurance was 35% higher, due mainly to healthy underwriting results in Singapore and Malaysia and strong investment gains. Foreign exchange income rose 29% to S$186 million, while net gains from investment securities increased from S$46 million to S$202 million. Securities and derivatives dealing registered a net loss of S$12 million in 2007, attributable to mark-to-market losses of S$18 million on credit default swaps linked to the Bank's synthetic corporate CDO portfolio.

Non-interest income accounted for 46.4% of the Group's total core income in 2007, compared to 44.7% in 2006.

Management Discussion and Analysis

OPERATING EXPENSES

	2007 S$m	2006 S$m	+/(-) %
Staff costs	**946**	722	31
Property and equipment			
Depreciation	**104**	104	–
Maintenance and hire	**66**	61	7
Rental expenses	**30**	24	25
Others	**101**	88	15
	301	277	9
Other operating expenses	**433**	332	30
Total operating expenses	**1,680**	1,331	26
Group staff strength			
Period end	**18,676**	15,858	18
Average	**17,431**	15,270	14
Cost to income ratio (1)	**40.1%**	41.1%	

(1) Excludes divestment gains from income.

Operating expenses increased by 26% to S$1,680 million in 2007. 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% to S$946 million in 2007, due to higher base salaries, increased bonus accruals in tandem with the Group's better performance, and increased headcount. Group headcount rose 18% year-on-year, with more than 80% of the increase occurring in overseas markets, including Malaysia, Indonesia and China. During the year, Bank NISP opened 93 additional branches and offices in Indonesia, while the Group's locally-incorporated banking subsidiary in China commenced operations.

Premises and equipment costs increased 9% to S$301 million, due mainly to higher IT hardware and software costs and premises rental costs. Other operating expenses rose 30% to S$433 million, contributed by increases in business promotion expenses, volume-related brokerage and processing fees, and legal and professional fees. Business promotion expenses increased as the Group embarked on several thematic and service improvement projects such as the "Q" advertising campaign, credit card promotions and Sunday Banking.

As revenue growth of 29% exceeded expenses increase of 26%, the cost-to-income ratio for 2007 fell slightly to 40.1%, from 41.1% in 2006.

ALLOWANCES FOR LOANS AND OTHER ASSETS

	2007 S$m	2006 S$m	+/(-) %
Specific allowances/(write-back) for loans			
Singapore	**(58)**	(1)	NM
Malaysia	**(12)**	22	(155)
Others	**(38)**	#	NM
	(108)	21	(608)
Allowances for CDOs	**231**	–	NM
Allowances and impairment charges/(write-back) for other assets	**(87)**	(19)	363
Net allowances and impairment	**36**	2	NM

Amount less than S$0.5 million.

Management Discussion and Analysis

ALLOWANCES FOR LOANS AND OTHER ASSETS (CONTINUED)

The Group made total allowances of S$231 million for its investments in CDOs in 2007, of which S$221 million were taken in the third quarter and S$10 million in the fourth quarter. Allowances of S$226 million (US$153 million) were made for the Bank's US$181 million investment in ABS CDOs, which have some exposure to US sub-prime mortgage assets. The carrying value of the ABS CDO portfolio was reduced by 85% to S$41 million (US$28 million) as at end-2007. In addition, GEH made an allowance of S$5 million for the CDOs invested under its 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. In addition, there was a net reversal of S$87 million in allowances for other assets, mainly office properties in Singapore. As a result, net allowances for the year were S$36 million, compared to S$2 million in 2006.

LOANS AND ADVANCES

	2007 S$m	2006 S$m	+/(-) %
By Industry			
Agriculture, mining and quarrying	**1,116**	986	13
Manufacturing	**6,278**	5,043	24
Building and construction	**13,653**	9,332	46
Housing loans	**19,247**	18,149	6
General commerce	**6,943**	5,812	19
Transport, storage and communication	**3,922**	2,537	55
Financial institutions, investment and holding companies	**10,610**	8,416	26
Professionals and individuals	**7,385**	7,330	1
Others	**3,621**	3,528	3
	72,775	61,132	19
By Currency			
Singapore Dollar	**42,617**	37,114	15
United States Dollar	**9,417**	7,990	18
Malaysian Ringgit	**10,869**	9,044	20
Indonesian Rupiah	**2,402**	2,323	3
Others	**7,471**	4,662	60
	72,775	61,132	19
By Geographical Sector (1)			
Singapore	**45,311**	39,491	15
Malaysia	**12,102**	10,417	16
Other ASEAN	**4,446**	3,737	19
Greater China	**5,133**	3,103	65
Other Asia Pacific	**3,073**	1,866	65
Rest of the World	**2,710**	2,519	8
	72,775	61,132	19

(1) Loans by geographical sector are based on where the credit risks reside, regardless of where the transactions are booked.

The Group's loan book increased by 19% to S$72.8 billion as at 31 December 2007, boosted by growth in corporate and SME loans in Singapore, Malaysia and overseas markets. Housing loans in Singapore also picked up during the second half of the year. By industry, the increase in loans was broad-based, with the largest increases derived from the building and construction, non-bank financial institutions and investment holding companies, transport and communication and manufacturing sectors.

Management Discussion and Analysis

NON-PERFORMING LOANS

NPLs by Grading and Geography

	Total NPLs[1] S$m	Substandard NPLs S$m	Doubtful NPLs S$m	Loss NPLs S$m	Secured NPLs as % of total NPLs %	Non-bank NPLs as % of non-bank loans[2] %
Singapore						
2007	**512**	**185**	**185**	**141**	**66.6**	**1.1**
2006	951	382	336	233	60.6	2.4
Malaysia						
2007	**548**	**335**	**114**	**98**	**63.0**	**4.3**
2006	652	401	143	108	57.9	6.0
Others						
2007	**294**	**71**	**151**	**72**	**47.4**	**1.3**
2006	226	72	103	51	42.0	2.0
Group						
2007	**1,354**[3]	**592**	**450**	**312**	**60.9**	**1.7**
2006	1,829	854	583	392	57.3	3.0

(1) Comprises non-bank loans, debt securities and contingent facilities.
(2) Excludes debt securities.
(3) Include CDOs of S$86 million.

The Group's asset quality continued to improve. As at 31 December 2007, total non-performing loans ("NPLs") were S$1.35 billion, down 26% from 31 December 2006. Singapore NPLs amounted to S$0.51 billion, while Malaysia NPLs were S$0.55 billion. These accounted for 38% and 40% of total NPLs respectively. Of the total NPLs, 44% were in the substandard category while 61% were secured by collateral.

The Group's NPL ratio was 1.7% in December 2007, an improvement over 3.0% in December 2006.

	2007		2006	
	S$m	% of gross loans	S$m	% of gross loans
NPLs by Industry				
Loans and advances				
Agriculture, mining and quarrying	**12**	**1.0**	14	1.4
Manufacturing	**271**	**4.3**	365	7.2
Building and construction	**187**	**1.4**	251	2.7
Housing loans	**301**	**1.6**	380	2.1
General commerce	**146**	**2.1**	304	5.2
Transport, storage and communication	**22**	**0.6**	20	0.8
Financial institutions, investment and holding companies	**68**	**0.6**	155	1.8
Professionals and individuals	**170**	**2.3**	253	3.4
Others	**61**	**1.7**	63	1.8
Sub-total	**1,238**	**1.7**	1,804	3.0
Debt securities	**116**		25	
	1,354		1,829	

Management Discussion and Analysis

CUMULATIVE ALLOWANCES FOR LOANS

	Total cumulative allowances S$m	Specific allowances S$m	Portfolio allowances S$m	Specific allowances as % of total NPLs %	Cumulative allowances as % of total NPLs %
Singapore					
2007	**740**	**203**	**537**	**39.5**	**144.4**
2006	1,025	397	628	41.8	107.8
Malaysia					
2007	**422**	**232**	**190**	**42.3**	**77.1**
2006	472	310	163	47.5	72.5
Others					
2007	**410**	**177**	**233**	**60.4**	**139.5**
2006	348	178	170	78.6	153.7
Group					
2007	**1,571**	**612**(1)	**960**	**45.2**	**116.1**
2006	1,845	884	961	48.4	100.9

(1) Includes allowances of S$82 million for classified CDOs.

As at 31 December 2007, the Group's total cumulative allowances for loans amounted to S$1.57 billion, comprising S$0.61 billion in specific allowances, and S$0.96 billion in portfolio allowances. The cumulative specific allowances included S$82 million in allowances for classified CDOs. Total cumulative allowances were 116.1% of total NPLs at 31 December 2007, higher than the coverage of 100.9% at 31 December 2006.

Management Discussion and Analysis

DEPOSITS

	2007 S$m	2006 S$m	+/(-) %
Deposits of non-bank customers	**88,788**	75,115	18
Deposits and balances of banks	**14,726**	11,869	24
Total deposits	**103,514**	86,984	19
Non-Bank Deposits By Product			
Fixed deposits	**58,765**	50,197	17
Savings deposits	**12,999**	11,215	16
Current account	**12,538**	10,035	25
Others	**4,486**	3,668	22
	88,788	75,115	18
Non-Bank Deposits By Currency			
Singapore Dollar	**52,873**	46,018	15
United States Dollar	**11,473**	8,352	37
Malaysian Ringgit	**13,633**	11,957	14
Indonesian Rupiah	**2,903**	2,957	(2)
Others	**7,906**	5,831	36
	88,788	75,115	18
Loans to deposits ratio (net non-bank loans/non-bank deposits)	**80.3%**	79.0%	

As at 31 December 2007, total deposits were S$103.5 billion, an increase of 19% year-on-year. Non-bank customer deposits grew by 18% to S$88.8 billion, with increases of 17% in fixed deposits, 16% in savings deposits, and 25% in current account deposits. Deposits and balances of banks grew by 24% to S$14.7 billion.

The Group's loans to deposits ratio was 80.3% at 31 December 2007, higher than the 79.0% in December 2006.

Management Discussion and Analysis

PERFORMANCE BY BUSINESS SEGMENT

OCBC Group's businesses are presented in the following customer and product segments: Consumer Banking, Business Banking, Treasury and Insurance.

Revenue and Operating Profit by Business Segment

	Total Income			Operating Profit after allowances and amortisation		
	2007 S$m	**2006 S$m**	**+/(-) %**	**2007 S$m**	**2006 S$m**	**+/(-) %**
Consumer Banking	**1,209**	1,010	20	**631**	476	32
Business Banking	**1,373**	1,124	22	**998**	783	27
Treasury	**448**	260	72	**313**	176	77
Insurance (1)	**812**	606	34	**636**	462	38
Others (2)	**346**	242	43	**(152)**	(32)	NM
Group (1) (2)	**4,188**	3,242	29	**2,426**	1,864	30

(1) Excludes pre-tax divestment gains of S$53 million for 2006.
(2) Excludes pre-tax divestment gains of S$92 million for 2007 and S$545 million for 2006.

Consumer Banking

Consumer Banking comprises the full range of products and services offered to individuals, including deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards and wealth management products (unit trusts, bancassurance products and structured deposits).

For 2007, operating profit of the consumer segment increased 32% to S$631 million. The broad-based revenue growth in net interest income and fee income, coupled with lower loan allowances, more than offset the growth in expenses.

Business Banking

Business Banking provides a full range of financial services to business customers, ranging from large corporates and the public sector to small and medium enterprises. The products and services offered include long-term loans such as project financing, short-term credit such as overdrafts and trade financing, deposit accounts and fee-based services such as cash management, trustee and custodian services.

Business Banking's operating profit grew by 27% to S$998 million in 2007. The improved performance was driven by increase in net interest income due to strong loans and deposits growth, higher fee income, as well as higher recoveries from non-performing assets, partly offset by higher expenses.

Treasury

Treasury engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and also offers structured treasury products and financial solutions to meet customers' investment and hedging needs.

Treasury's operating profit rose 77% to S$313 million in 2007. The strong profit growth was driven by significantly higher net interest income and foreign exchange gains, partly offset by lower gains from dealing in securities and derivatives, and higher expenses.

Insurance

The Group's insurance business, including its fund management activities, is carried out by 86.9%-owned subsidiary GEH, which provides both life and general insurance products to its customers mainly in Singapore and Malaysia.

For 2007, operating profit from GEH increased 38% to S$636 million, driven by higher insurance income and gains from investment securities. After amortisation of intangible assets, minority interests and tax, GEH's contribution to Group net profit was S$449 million in 2007, an increase of 26% from S$357 million in 2006.

Others

The "Others" segment comprises Bank NISP, corporate finance, capital markets, property holding, stock brokerage and investment holding, support units, other investments and items not attributed to business segments.

Management Discussion and Analysis

PERFORMANCE BY GEOGRAPHY

	2007 S$m	%	2006 S$m	%
Total core income				
Singapore [1]	**2,717**	**65**	2,116	65
Malaysia	**961**	**23**	747	23
Other ASEAN	**315**	**8**	238	7
Asia Pacific	**157**	**4**	104	3
Rest of the World	**38**	**1**	36	1
	4,188	**100**	3,242	100
Profit before income tax				
Singapore [1]	**1,713**	**70**	1,244	66
Malaysia	**554**	**23**	498	27
Other ASEAN	**93**	**4**	71	4
Asia Pacific	**63**	**3**	42	2
Rest of the World	**24**	**1**	23	1
	2,447	**100**	1,878	100
Total assets				
Singapore	**117,833**	**67**	105,706	70
Malaysia	**36,309**	**21**	31,275	21
Other ASEAN	**5,940**	**4**	5,126	3
Asia Pacific	**10,951**	**6**	6,349	4
Rest of the World	**3,574**	**2**	2,764	2
	174,607	**100**	151,220	100

(1) Excludes pre-tax divestment gains of S$92 million for 2007 and S$598 million for 2006.

The geographical segment analysis is based on the location where the assets or transactions are booked. For 2007, Singapore accounted for 65% of total income and 70% of pre-tax profit, while Malaysia accounted for 23% of both total income and pre-tax profit. The 2007 pre-tax profit for Malaysia include the impact of allowances of S$117 million for the CDOs booked in Labuan. If the S$117 million allowances are classified under Singapore, the adjusted pre-tax contribution of Singapore and Malaysia would be 65% and 27% respectively.

Management Discussion and Analysis

CAPITAL ADEQUACY RATIO

	2007 S$m	2006 S$m
Tier 1 Capital		
Paid-up ordinary and preference shares	**5,520**	5,481
Disclosed reserves/others	**9,366**	8,136
Goodwill/others	**(3,455)**	(3,560)
	11,431	10,057
Upper Tier 2 Capital		
Cumulative portfolio allowances	**713**	704
Subordinated term notes	**2,426**	3,112
Revaluation surplus on equity securities	**247**	205
	3,386	4,021
Lower Tier 2 Capital	**225**	–
Tier 2 Capital	**3,611**	4,021
Tier 1 and Tier 2 Capital	**15,041**	14,078
Capital investments in insurance subsidiaries	**(2,506)**	(1,889)
Others	**(124)**	(85)
Eligible Total Capital	**12,411**	12,105
Risk weighted assets including marketing risk	**99,381**	76,514
Tier 1 ratio	**11.5%**	13.1%
Total capital adequacy ratio	**12.4%**	15.8%

The Group's total capital adequacy ratio ("CAR") was 12.4% and Tier 1 CAR was 11.5% in December 2007, down from 15.8% and 13.1% respectively, in December 2006. The declines were mainly due to the strong growth in risk weighted assets. In addition, total CAR was impacted by the annual amortisation of the Bank's Tier 2 subordinated debt issued in 2001. The Group raised additional S$225 million of Lower Tier 2 capital during the year.

In 2007, the Bank bought back approximately 5.0 million of its ordinary shares for S$43 million. Shares bought back are held as treasury shares. Under the third S$500 million share buyback programme which commenced in June 2006, S$269 million had been utilised as at end-2007.

VALUATION SURPLUS

	2007 S$m	2006 S$m
Properties (1)	**2,513**	1,600
Equity securities (2)	**2,654**	2,962
Total	**5,167**	4,562

(1) Includes properties classified as investment properties and assets held for sale.
(2) Comprises investments in associates and quoted subsidiaries.

The Group's unrealised valuation surplus amounted to S$5.17 billion as at 31 December 2007, an increase of 13% compared to 31 December 2006. The surplus for properties amounted to S$2.51 billion, up significantly from S$1.60 billion at end-2006 due mainly to the increase in property values in Singapore. The surplus of S$2.65 billion for equity securities was primarily from the Group's holding of GEH shares.