

Letter to Shareholders

“OCBC has emerged strong and fit from the crisis and global recession, a testimony to the resilience and strengths of our business, customer relationships, people and processes. We are well positioned for the growth opportunities as well as challenges in the year ahead.”

A year ago the global economy was in recession and financial markets remained in turmoil. The near unanimous view then was that the outlook was bleak. In our letter last year, we warned shareholders that our earnings in 2009 were likely to be negatively impacted.

We are pleased that we were wrong. Not only did the OCBC Group weather the crisis better than we had expected, 2009 also turned out to be a record year for our core net profit (i.e. excluding gains from non-core activities such as divestments of non-core assets). We achieved core net profit of S\$1,962 million, exceeding the previous high of S\$1,878 million in 2007.

Clearly we cannot claim all the credit for this outcome. We are fortunate to be situated in Asia, where the banking system, government finances and macroeconomic fundamentals are generally healthy, largely due to actions taken after the painful lessons from the Asian financial crisis in the late 1990s. So our key markets – Singapore, Malaysia, Indonesia and Greater China – were not hit as hard as Europe and North America. In addition, it was fortunate that the financial markets substantially recovered after the first quarter of 2009, thanks to globally coordinated central bank intervention and concerted stimulus packages. Also, the Singapore government's Resilience Package firmly underpinned the local economy and MAS' deposit guarantee boosted confidence in banks operating here.

Still, it is not entirely inappropriate to attribute a significant portion of our performance to the actions we had taken in the past, which we mentioned last year – strengthening our balance sheet, building ample liquidity and excess capital, improving our risk management capabilities and credit processes, focusing on our customers and investing in our people. In particular, we are pleased that our credit portfolios fared well against the real “stress tests” of this crisis, such that our credit losses were nowhere as high as during the Asian financial crisis. Of course, we are not being complacent, and we need to keep working hard to maintain and improve our performance.

At a time when many depositors and investors worldwide are questioning the financial soundness of banks, we are also pleased to have been named as one of the World's 50 Safest Banks 2009 by *Global Finance*, and to be voted number one in financial reputation among Singapore companies in the *Wall Street Journal Asia 200 Survey*.

PERFORMANCE REVIEW

For the financial year 2009, our Group net profit grew by 12% to S\$1,962 million, compared to S\$1,749 million in 2008. Adjusting for the one-off divestment gains and tax refunds of S\$263 million in the 2008 numbers, core earnings growth in 2009 was actually higher at 32%. Based on core earnings, our return on equity improved from 9.9% to 12.2%, and earnings per share rose 29% to 59.4 cents.

Net interest income grew 2% to S\$2,825 million, contributed by growth in interest-earning assets, while our net interest margin narrowed by 4 basis points to 2.23%. Loans declined during the first nine months of the year in the sluggish economic environment, but recovered during the fourth quarter, placing the full year growth at 1%.

Non-interest income (excluding the divestment gains in 2008) rose 37% to S\$1,990 million, driven by higher insurance profits and strong trading results, which were helped by the recovery in financial markets. Fee and commission income however fell 6% to S\$730 million because of lower wealth management, fund management and credit card income.

Operating expenses for the year declined by 3% to S\$1,796 million, reflecting the success of the cost control measures we had put in place since late 2008 – for example, reducing discretionary expenses, including travel, entertainment and employee events, and optimising workforce levels and resources to do more with less. We also benefited from the government's jobs credit and training schemes. Accordingly, our cost-to-income ratio fell from 43.7% (excluding the divestment gains in 2008) to 37.3%.



Our prudent risk management and active portfolio reviews helped to keep our credit costs at a slightly lower level than in 2008. Net allowances for loans and other assets were S\$429 million, down from S\$447 million previously. Increased specific loan allowances were offset by lower allowances for other assets. The Group's non-performing loans ratio peaked at 2.1% in the second quarter, and improved to 1.7% by year-end, which was slightly higher than the 1.5% at the end of 2008. Allowance coverage remained strong, with cumulative allowances representing 102% of total non-performing assets and 249% of unsecured non-performing assets.

Our key subsidiaries reported positive results. Great Eastern Holdings' ("GEH") net profit, which had been adversely impacted by weak equity and bond markets in 2008, recovered by 90% in 2009 to reach S\$517 million. This was contributed by higher profits from the Non-Participating and Investment-linked Funds as a result of more favourable market conditions, as well as lower expenses. Life assurance new business sales fell 20% for the year, due to sluggish demand in the first half, but sales recovered by 50% in the second half. GEH's contribution to our Group core net profit, after tax and minority interests, was S\$412 million, up from S\$160 million in 2008.

Operating profit at OCBC Bank (Malaysia) Berhad increased by 6%, led by higher net interest income and Islamic Banking income. Net profit however declined marginally by 1% to RM 608 million (S\$250 million) as allowances were higher than in 2008, which had the benefit of significant recoveries. Bank OCBC NISP in Indonesia recorded a 38% increase in net profit to IDR 436 billion (S\$61 million), underpinned by 23% growth in net interest income due to assets growth and improved interest margins.

Our capital position continued to strengthen as a result of retained earnings, the use of the Scrip Dividend Scheme, and two issuances of Lower Tier 2 subordinated notes during the year. As at 31 December 2009, our Tier 1 capital adequacy ratio ("CAR") was

15.9%, and total CAR was 16.4%, compared to 14.9% and 15.1%, respectively, at end-2008. These ratios remain well above the regulatory minimum of 6% and 10% respectively. Core Tier 1, which excludes perpetual and innovative preference shares, improved from 11.0% to 12.0%.

DIVIDENDS

The Board has recommended a one-tier final tax-exempt dividend of 14 cents per share, bringing the full year 2009 dividend to 28 cents, unchanged from 2008. The dividend payout represents 46% of core earnings, which is in line with our target minimum of 45%.

Shareholders responded positively to the Scrip Dividend Scheme applied to our previous two dividend payments. Approximately 75% of the 2008 final dividend payment, and 81% of the 2009 interim dividend payment, were in the form of new shares. For the 2009 final dividend, shareholders will again have the choice to opt for shares instead of cash, with the price of the new shares to be set at a 10% discount to the reference share price (the average closing price from the ex-dividend date to the books closure date).

CREATING ASIA'S GLOBAL PRIVATE BANK: THE BANK OF SINGAPORE

We executed a major strategic initiative last year. In October 2009, we announced the acquisition of ING Asia Private Bank and its subsidiaries (together, "IAPB"). The transaction was completed on 29 January 2010. We paid US\$1,446 million or approximately S\$2,024 million in cash for IAPB, around 17 times its normalised 2008 net profit of US\$88 million.

Backed by our strong capital position, we seized a rare opportunity – emanating from the global financial crisis – to acquire a high quality, Singapore-based private bank that has been consistently ranked among the Top 5 private banks in Asia by *Asiamoney*. IAPB is a well known private bank with a solid combination of an experienced senior management team, seasoned relationship

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managers, loyal customers, extensive product capabilities and an efficient technology platform. It has 150 relationship managers, more than 5,000 clients, and assets under management (“AUM”) of approximately US\$16 billion. IAPB serves clients from South East Asia, India, Greater China, Japan and Korea, enjoying a leading position in many of its clients’ countries. Its range of private banking services includes investment services (advisory and discretionary portfolio management), loans, alternative investments and estate planning. Over the last few years, IAPB has achieved stable and sustained growth in AUM, with a compounded annual growth rate of 24% from 2002 to 2009.

Strategically, this acquisition marks a transformational step in our goal of becoming a leading player in private banking and wealth management, as articulated in our New Horizons II Strategy. It gives OCBC a much stronger presence in the high net worth customer segment, complementing our already solid position in the mass and mass affluent segments. The addition of IAPB roughly triples the scale of our private banking business – we now have combined AUM of US\$23 billion, more than 7,000 clients across Asia and a dedicated team of 200 relationship managers. OCBC is now in a strong position to compete with the best in the industry, and we believe this is an industry that will continue to grow for many years to come, supported by Asia’s exceptional economic growth and wealth creation.

On completion of the acquisition in January, IAPB was renamed as Bank of Singapore Limited, which now operates as a wholly-owned subsidiary of OCBC Bank. We chose this name as it reflects the private bank’s strategic home base in Singapore, and it leverages on Singapore’s powerful brand image as a world-class financial hub that is internationally known for its efficiency, transparency and best-in-class services. This is particularly important because Singapore is a rapidly growing private banking hub, attracting private wealth from throughout Asia and, increasingly, from the Middle East and Europe. Bank of Singapore will occupy a unique position as the only dedicated private bank that is headquartered in Singapore.

The existing private banking business of OCBC Bank will be integrated into Bank of Singapore over the next few months. We are excited about the improved capabilities we can achieve through this combination. Existing OCBC private bank customers will benefit from Bank of Singapore’s open architecture product platform and proprietary research, while former IAPB customers will benefit from the access to OCBC’s extensive network and products and services that were previously not available to them, such as property financing, brokerage, insurance, retail and SME banking products and services. We are committed to investing more in this franchise and to better serve the needs of our high net worth customers across all our key markets.

EXPANDING OUR OVERSEAS NETWORK

Our overseas expansion continued on track despite the economic downturn last year. We added new branches to our network and launched new services to better serve our customers.

In Malaysia, our wholly-owned Islamic banking subsidiary, OCBC Al-Amin Bank, opened four new branches, following the opening of its first branch in December 2008. OCBC Al-Amin achieved 30% growth in assets and a 38% increase in customer deposits in its first full year of operations. New products launched include Shariah-compliant cash management solutions for SMEs, and unit trust and home financing products for individuals.

Under a financial services liberalisation package announced by Malaysia in April 2009, the restriction on bancassurance tie-ups was removed. Consequently, OCBC Malaysia launched its full-fledged bancassurance partnership with Great Eastern Life Assurance (Malaysia) Berhad in July 2009, with Great Eastern’s bancassurance products now offered at all our 29 conventional bank branches. Another benefit of the liberalisation is that as a locally-incorporated foreign bank, we will be able to open up to four new branches in 2010.

In Indonesia, as part of its network strategy to acquire more deposits and support its micro banking business, Bank OCBC NISP added 18 new branches and 15 new ATMs, bringing its total network to 382 branches and 552 ATMs. It also added three new Premier Banking centres, and launched Islamic banking services with the support of OCBC Al-Amin. More bancassurance products were also launched in partnership with Great Eastern Indonesia.

In China, we opened two new branches to bring our network to a total of 11 main and sub-branches in eight major Chinese cities. One new main branch was added in Chongqing, expanding our foothold in the Western region. We also strengthened our presence in the Yangtze River Delta by opening a new sub-branch in Shanghai’s Jiading industrial district. This is our first full-service business banking branch in China, modelled after our successful Ubi Business Banking Centre in Singapore. In July 2009, OCBC became the first Singapore bank to participate in China’s pilot programme of settling cross border trade using Renminbi. This new service helps support our Singapore network customers who have trade transactions with their China counterparts.

We continue to deepen collaboration with our Chinese partner bank, Bank of Ningbo, in various areas, including product development and talent development. We also intend to invest S\$347 million to increase our strategic stake in Bank of Ningbo from 10.0% to 13.7%, through our participation in a proposed share placement exercise. The transaction is expected to be completed later this year.

As we expand our overseas network, we are not neglecting our home market. Along with service innovations and new product offerings, we have added three new branches in Singapore, including a Premier Banking Centre at the new shopping destination, ION Orchard. We now have one of the largest premium banking service networks among banks in Singapore, with a total of 12 OCBC Premier Banking centres. Our popular full-service Sunday Banking offering has been extended from 15 to 18 branches, and we increased our ATM fleet across the island by 20%.

OUTLOOK

For the year ahead, while we remain watchful of the ongoing developments and macroeconomic concerns surrounding the US and Europe, we are cautiously optimistic for a gradual recovery in Asia's economies and in our key markets. Singapore's economy is projected to grow by between 4.5% and 6.5%, following a 2% contraction in 2009. In Malaysia and Indonesia, growth forecasts for 2010 are in the range of 4% to 6%. Across our key markets, the general feedback from our customers is that the worst is over, and business is picking up, although there is still lingering uncertainty about the strength of the recovery.

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Chairman
19 February 2010

well positioned for the growth opportunities as well as challenges in the year ahead.

ACKNOWLEDGEMENTS

Mr Wong Nang Jang and Mr Giam Chin Toon, having served on the Board of Directors for 11 and five years respectively, have indicated that they will not seek re-election. We thank them for their valuable contributions over the years. Mr Wong was also a long-serving member of senior management from 1979 to 2000.

We would also like to thank our other fellow Board members for contributing their time, counsel and guidance. Our appreciation goes to all staff and management of OCBC for their dedicated service and for delivering a commendable performance in 2009, and also to our customers and shareholders for their continuing support.

**DAVID CONNER**

Chief Executive Officer